

## Completed acquisition of Lockwell Electrical Distributors Limited by Marlowe Holdings Investments Limited

**ME/6489/14**

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 19 February 2015. Full text of the decision published on 9 March 2015.

**Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.**

### **SUMMARY**

1. On 31 October 2014, Marlowe Holdings Investment Limited (**Marlowe**), parent of Edmundson Electrical Limited (**EEL**), acquired Lockwell Electrical Distributors Limited (**Lockwell**) (the **Merger**). Marlowe is also related through common shareholding to UK Electric Ltd (**UK Electric**).<sup>i</sup> EEL, UK Electric and Lockwell are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) considers that the Parties have ceased to be distinct and that the share of supply test is met. The four-month period for a decision has not yet expired. The CMA therefore considers that a relevant merger situation has been created.
3. The Parties overlap in the supply of electrical products to a variety of professional customers including commercial/domestic customers, industrial customers, panel builders, system integrators and original equipment manufacturers. The CMA has assessed the impact of the Merger in:
  - (a) the wholesale supply of electrical products to commercial/domestic customers in the local areas within 10 miles of each Lockwell branch, while also taking account of competitive constraints from outside these areas;

- (b) the wholesale supply of electrical products to industrial customers in the local areas within 10 miles of each Lockwell branch, while also taking account of competitive constraints from outside these areas; and
  - (c) the supply of panel building products nationally.
4. The CMA has found that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) in view of the relative lack of closeness of competition between the Parties and the constraint from competing suppliers that the Parties will continue to face. The CMA also notes that customers raised no concerns about the Merger and suggested that the Parties are not close competitors.
  5. The Merger will therefore **not be referred** under section 22(1) of the Enterprise Act 2002 (the **Act**).

## **ASSESSMENT**

### **Parties**

6. EEL is a wholesaler of electrical products through approximately 330 branches across the UK. EEL is also related, through common shareholding, to UK Electric, a distributor of heating ventilation and air conditioning and electrical & process control products, which owns a number of brands including HTE Controls, Electrical Trades Supply (**ETS**), GAP used by panel builders, original equipment manufacturers and system integrators. EEL's turnover in the financial year ending 31 December 2013 was around £1,093 million in the UK. UK Electric's turnover in the financial year ending 31 December 2013 was around £72.2 million in the UK.
7. Lockwell is a distributor of electrical products with 19 branches across England and Wales. Lockwell's turnover in the financial year ended 31 January 2014 was around £21.1 million.

### **Transaction**

8. Marlowe purchased the whole of the issued share capital of Lockwell from the existing shareholders and option holders on 31 October 2014.

### **Jurisdiction**

9. As a result of the Merger, the enterprises of EEL and Lockwell have ceased to be distinct.

10. In its EEL/Western Electrical decision,<sup>1</sup> the Office of Fair Trading (**OFT**, a predecessor to the CMA) established jurisdiction on a regional and local basis. This involved EEL identifying and estimating the per branch turnover of branch based electrical wholesalers in the UK, which was updated by the OFT with the actual turnover figures provided by third parties in the course of that investigation where possible.
11. The CMA has therefore considered the information gathered in late 2013 as part of the OFT's investigation of the EEL/Western Electrical transaction. Based on this information, EEL and Lockwell's estimated combined share of supply of electrical products by multi-product electrical wholesalers in the South West region is [25–30]% with Lockwell contributing an increment of [0–5]%.
12. Furthermore, the CMA believes that the increment provided by Lockwell would not differ significantly on more current estimates, and indeed could be expected to be higher as the turnover attributable to the three Lockwell branches present in the South West region for the financial year ending 2014 is considerably higher than that estimated by EEL for the purposes of EEL/Western Electrical.
13. Finally, the South West region can be reasonably described as a substantial part of the UK, considering the sizeable population of the region and that it includes major cities with substantial populations.
14. The CMA therefore considers that the share of supply test in section 23 of the Act is met.
15. The Merger completed on 31 October 2014 and the CMA was first informed about it on 22 October 2014. The CMA issued an initial enforcement order on 31 October 2014. The four-month deadline for a decision under section 24 of the Act is 28 February 2015, as no extensions have been made under sections 25(1) or 25(2) of the Act.
16. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
17. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 5 January 2015 and the statutory 40 working day deadline for a decision is therefore 27 February 2015.

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<sup>1</sup> [EEL/Western Electrical](#), OFT 10 March 2014.

## Counterfactual

18. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For completed mergers the CMA generally adopts the pre-merger conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it considers that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.<sup>2</sup>
19. In this case, there is no evidence supporting a different counterfactual, and EEL submitted that if the sale to Marlowe had not proceeded, Lockwell's shareholders would have persisted in trying to secure an alternative buyer for the business. Therefore, the CMA considers the pre-Merger conditions of competition to be the relevant counterfactual, as Lockwell would have remained an independent competitor to EEL and UK Electric.

## Frame of reference

20. The CMA considers that market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.<sup>3</sup>
21. The Parties overlap in the supply of electrical products<sup>4</sup> to a range of professional customers including electrical contractors, facilities managers, factories as part of maintenance, repair and operations (**MRO**) services,

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<sup>2</sup> [Merger assessment guidelines](#) (OFT1254/CC2), September 2010, paragraph 4.3.5 et seq. The [Merger assessment guidelines](#) have been adopted by the CMA (see [Mergers: Guidance on the CMA's jurisdiction and procedure](#), Annex D).

<sup>3</sup> [Merger assessment guidelines](#), paragraph 5.2.2.

<sup>4</sup> Electrical products include low voltage (**LV**) cable systems, wiring accessories, LV switchgear and circuit protection, lighting products, electrical heating products, ventilation and air conditioning, tools and test equipment, security and fire products, automation and control products, data networking equipment, electric water heating products and renewable energy products. This excludes white goods (fridges, freezers etc) and brown goods (small domestic appliances such as televisions and microwaves etc).

original equipment manufacturers (**OEMs**), panel builders<sup>5</sup> and system integrators across a number of localities in the UK.<sup>6</sup>

22. The OFT considered the wholesale supply of electrical products in its recent EEL/EC,<sup>7</sup> Rexel/Wilts<sup>8</sup> and EEL/Western Electrical decisions, using as its frame of reference the wholesale supply of electrical products to commercial/domestic customers (ie general electrical wholesaling), distinguishing this from industrial wholesaling. In all these previous decisions the OFT considered whether it was appropriate to segment the wholesale supply of electrical products by product category, type of supplier and type of customer. The CMA reconsidered these distinctions for the purposes of its investigation into the Merger.

### **Product scope**

#### *Segmentation by product category*

23. In EEL/EC and Rexel/Wilts the OFT noted that there was little scope for demand-side substitution between different electrical products and recognised that some customers purchased specific products from specialist distributors where a general wholesaler did not stock a specific product. However, it did not consider that segmentation by specific product category was necessary for a number of reasons, including the fact that customers often purchased bundles of products in a single transaction such that products would be in joint demand and that electrical wholesalers serving these customers typically stocked a similar range of products.
24. EEL noted the decisional practice in this regard but submitted that this analysis was given in the context of the wholesale supply to commercial/domestic customers, which have their own specific product and service requirements. EEL submitted that some distinction could be drawn between industrial and general electrical products by nature of the products themselves. It submitted that industrial products included, for example, control and automation products for machines, including programmable logic controllers, operator interfaces, AC and DC drives and starter motors as well as control gear such as relays, counters, timers, power supplies and transformers. However, it also noted that, although some products, such as

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<sup>5</sup> Panel builders construct (and sometimes design) the electric control panels used in industrial, commercial and domestic electrical installations.

<sup>6</sup> As noted above, UK Electric also supplies heating, ventilation and air conditioning products. As there is no competitive overlap with Lockwell in relation to these products, they are not considered further in the CMA's analysis.

<sup>7</sup> EEL/Electric Center (**EEL/EC**), OFT, 11 May 2012.

<sup>8</sup> [Rexel/Wilts](#), OFT, 13 November 2012.

control and automation products, were relatively straightforward to categorise as industrial rather than general electrical products, for other types of product this was more difficult as the product category would be the same but the specifications would vary depending on the intended end-use. For example, cables of a certain type and composition and certain types of lamp would be used only in an industrial environment.

25. Feedback from third parties supports the view that industrial products are a specialised subset of electrical products that tend to have a more highly technical specification and are designed to be used in specifically industrial environments. However, some products can be used in both types of environments. Moreover, responses from customers show that many customers tend to source bundles of both types of products to some degree.
26. The CMA therefore considers that there is some distinction between industrial electrical products and general electrical products. However, consistent with previous cases, and given the blurred distinction between the two categories, the CMA has not found it necessary to distinguish for the purposes of the frame of reference between specific product categories but rather has focussed on supplier and customer type, based on customer requirements and sourcing habits as explained further below.

#### *Segmentation by supplier/customer type*

27. EEL submitted that, as a result of customers' different product and service requirements, there are various categories of electrical products suppliers in the UK. In accordance with the 2009 AMA Report,<sup>9</sup> EEL identified a number of supplier categories, including:
  - (a) Electrical wholesalers – comprising, broadly, distributors of a wide range of electrical products. The 2009 AMA Report states that electrical wholesalers are: 'the main source of supply for contractors and installers. This channel also distributes to panel builders and OEMs and some companies deal with direct end users such as factory engineers and DIYers, but this is limited.'<sup>10</sup>
  - (b) Industrial product distributors – according to the 2009 AMA Report these businesses 'primarily supply the MRO sector'<sup>11</sup> EEL submitted they focus

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<sup>9</sup> *Distribution of Electrical Products in Building Applications – UK 2009-2013*, AMA Research Report 2009 (2009 AMA Report).

<sup>10</sup> 2009 AMA Report, page 20.

<sup>11</sup> *Idem*.

on servicing end-user industrial customers, ie factories, and supply more specialised industrial products than general electrical wholesalers.

(c) Specialist distributors – EEL submitted that they generally focus on a specific category of products (eg cable, cable trunking and conduit, wiring accessories, switchgear and circuit protection, lighting, security and fire, electrical testing equipment, control gear, data networking, space and water heating and ventilation and air conditioning and renewable energy products). The 2009 AMA report explains that they ‘focus on distribution to OEMs, systems integrators and [electrical and specialist] contractors.’<sup>12</sup>

28. EEL therefore submitted that Lockwell, EEL and UK Electric compete for different customers, with:

(a) EEL predominantly supplying electrical contractors;

(b) Lockwell predominantly supplying industrial end-users (eg factories) as part of an MRO service; and

(c) UK Electric predominantly supplying panel builders/system integrators and OEMs.

29. EEL submitted that from a supply-side perspective, it considered there was considerable degree of supply-side substitution between the general and industrial product segments. However, it noted that one potential barrier for a supplier to move to the industrial segment was the recruitment of managers and sales people with the technical skills required to support industrial products, which required more technical knowledge relating to the products and the relevant factory machinery. EEL therefore considered that it would be more difficult for a general electrical wholesaler to expand into supplying industrial products than vice versa.

30. In all its previous decisions, the OFT supported the distinction between industrial electrical wholesalers and general electrical wholesalers, stating in its EEL/EC decision that: ‘it is not appropriate to treat all electrical wholesalers as synonymous in terms of their product offering and customer profile’.<sup>13</sup> The OFT further noted that evidence indicated that industrial wholesalers could be considered as being distinct from general electrical wholesalers as industrial wholesalers served a different group of customers to that of general electrical wholesalers. Finally, some evidence suggested that specialist distributors did not compete with general electrical wholesalers.

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<sup>12</sup> Idem.

<sup>13</sup> EEL/EC, paragraph 29.

31. Consistent with its analysis in terms of different supplier types, the OFT also supported a distinction between customers by nature of their business as it found they differed in their product requirements and the way they purchased products. In EEL/EC and Rexel/Wilts the OFT identified a number of types of customers on the basis of third party feedback, internal documents and AMA research, including:
- (a) electrical and mechanical contractors, who install electrical products as part of new build projects or refurbishments, tending to serve commercial and domestic end-customers;
  - (b) OEMs who use electrical products in the manufacturing process of other products; and
  - (c) industrial customers who use electrical products in the servicing of industrial facilities.
32. The OFT ultimately concluded that only electrical wholesaling primarily focused on serving commercial/domestic customers was relevant for its product frame of reference.<sup>14</sup>
33. In the present case, feedback from customers based on their purchasing habits confirmed that many wholesalers can supply a range of customers to varying degrees. However, customer feedback also suggested that customers tended to look to certain wholesalers for certain products such that a wholesaler focusing on products for commercial/domestic customers may be a poor alternative for an industrially focused customer seeking predominantly industrial products. Similarly, a wholesaler focused on industrial customers would not necessarily meet the more specific industrial requirements of a panel building customer. For example, all the industrial customers who responded confirmed that they could not source all of their industrial requirements, both in terms of product and service, from commercial/domestic focused wholesalers and all of the UK Electric customers who responded named specialist suppliers with a narrow product focus or manufacturers as preferred supply sources for their main purchases.
34. From a supply-side perspective,<sup>15</sup> a number of competitors noted that it is not difficult to expand the product range stocked to suit a wider range of customers. However, a number also noted that there could be difficulties in

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<sup>14</sup> The OFT also considered the possibility of distinguishing between customers by size but left the precise customer segmentation open, considering the any impact as a result of customer size as part of its competitive assessment instead.

<sup>15</sup> See [Merger assessment guidelines](#), from paragraph 5.2.17.



acquiring the required volume of stock and highlighted the importance of having correctly trained staff to serve industrial customers.

35. As set out above, the CMA notes the precedent distinguishing between general electrical wholesaling and industrial electrical wholesaling, and third party feedback that is consistent with this precedent and also supports further possible distinction between industrial electrical wholesaling and the supply of electrical products to panel builders. The CMA has therefore, on a cautious basis, distinguished for the purposes of the frame of reference between the wholesale supply of electrical products to commercial/domestic customers, the wholesale supply of electrical products to industrial customers and the supply to panel builders/OEMs.

#### *Conclusion on product scope*

36. For the reasons set out above, on a cautious basis, the CMA has considered the impact of the Merger in the following product frames of reference:
- the wholesale supply of electrical products to commercial/domestic customers (**general electrical wholesaling**);
  - the wholesale supply of electrical products to industrial end-users such as factories, manufacturers etc (**industrial electrical wholesaling**); and
  - the supply of electrical products to panel builders and OEMs (**the supply of panel building products**).

#### *Geographic scope*

37. The OFT found in EEL/EC, Rexel/Wilts and EEL/Western Electrical that there was evidence to support national, regional and local dimensions to the geographic scope of the market for general electrical wholesaling, although it did not find it necessary to conclude. In the present case, responses from Lockwell's customers suggested that their focus was predominantly local so the CMA has focused on competition at a local level for the purposes of its assessment in relation to general and industrial electrical wholesaling.
38. For the purposes of its local assessment, the OFT applied a 10-mile radius around each of the acquired branches as an initial filter to identify local areas of potential concern. In the competitive assessment of each such local area, the OFT then also took into account competition from suppliers outside this area where appropriate.

39. In this case, EEL provided evidence indicating that the area in which 80% of a branch's customers are located is on average:<sup>16</sup>
- (a) 16.2 miles for Lockwell branches;
  - (b) 20.8 miles for EEL branches; and
  - (c) 90 miles for UK Electric branches.
40. EEL submitted that the geographic market for industrial wholesalers should be wider than that for general electrical wholesaling for a number of reasons, including:
- (a) Industrial distributors deliver most (approximately 95% of their products). This is higher than for general electrical products, where delivery is roughly 80% of sales and collection roughly 20%. The catchment area for deliveries is therefore generally wider than for collection, as suppliers may be willing to drive further than buyers.
  - (b) Industrial end-users are typically based at a single site, whereas general electrical contractors may be more mobile and move from site to site. Furthermore, there is much less over the counter trade for industrial electrical products.
  - (c) Industrial users purchase consignment stock in case of breakdown when they are located far away. The stock is left on the site of the user but is still owned by the wholesaler, and is only paid for when it is used.
41. However, EEL also submitted that the geographic market is likely to differ depending on the products and services offered, the number, density and location of branches and the types of customers. It noted that Lockwell offers a MRO service to customers, which would require them to be located relatively closely to send staff to the customers when required and which could mean that the geographic area for Lockwell is relatively small. UK Electric, on other hand, sells a narrower range of products to a set of customers that it does not engage with as much. Therefore, it is able to gain national coverage with only seven branches.
42. Third party views also support a narrow catchment area, with ranges of between 5 and 30 miles being suggested, with one industrial wholesaler suggesting that individual trade counters cover a distance of 20 miles. In particular, industrial end-users confirmed the preference for deliveries but

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<sup>16</sup> This was based on an analysis of customer invoice addresses at EEL's top five branches by customer number. EEL submitted that delivery postcode data was not available.

some also noted the importance of keeping delivery distances relatively short and establishing local relationships. UK Electric customers who responded on the other hand did not highlight locality as a factor relevant to their decision making.

43. Given that there is an EEL branch within 10 miles of each Lockwell branch and that UK Electric's catchment area overlaps with Lockwell's branches, choosing a wider radius would only alter the range of local competitors. Therefore, on a cautious basis, the CMA has used a 10 mile radius for the purposes of the geographic frame of reference in relation to general and industrial wholesaling. However, the CMA has had regard to the particular characteristics of each area as part of its competitive assessment and, as in previous decisions, taken account of competition from suppliers outside this area where appropriate. As regards the geographic frame of reference for the supply of panel building products, given UK Electric's catchment area and feedback from third parties, the CMA considers that a 10-mile radius is not supported by the evidence in this case.
44. Based on evidence that the range of supply options for panel building products is wider and includes manufacturers (see paragraph 87 below) and that UK Electric customers did not highlight locality as a relevant factor in sourcing decisions, the CMA has considered the competitive impact of the Merger in relation to the supply of panel building products on a national basis.

#### *Conclusion on geographic scope*

45. For the reasons set out above, on a cautious basis the CMA has considered the impact of the Merger on:
  - general and industrial electrical wholesaling using a 10-mile radius to identify any affected local areas, while also taking account of competition from suppliers outside this area where appropriate; and
  - the supply of panel building products on a national basis.

## **Competitive assessment**

### ***Horizontal unilateral effects***

46. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and

without needing to coordinate with its rivals.<sup>17</sup> Horizontal unilateral effects are more likely when the merger parties are close competitors. The CMA assessed whether the Merger may give rise to competition concerns in relation to unilateral horizontal effects in general electrical wholesaling, industrial electrical wholesaling and the supply of panel building products. The CMA will consider each in turn below.

### *General electrical wholesaling*

#### *Shares of supply*

47. EEL was only able to submit estimates of shares of supply on a national basis, as can be seen at Table 1 below, as EEL submitted that calculating local market shares would require an in-depth analysis of multi-branch wholesalers across a larger number of localities.

**Table 1: National shares of supply**

National shares of supply				
	EEL	UK Electric <sup>18</sup>	Lockwell	Combined
All	[15–25]%	[0–10]%	[0–10]%	<b>[15–25] %</b>
General	[15–25]%	[0–10]%	[0–10]%	<b>[15–25]%</b>
Industrial <sup>19</sup>	[5–15]%	[0–10]%	[0–10]%	<b>[5–15]%</b>

Source: EEL's estimates.

48. Given that the product frame of reference is locally focused, the CMA has put only limited weight on these estimates. The CMA has instead considered that the extent to which the Parties can be seen to closely compete and the remaining competitive constraint in local areas as more indicative of the impact of the Merger.

<sup>17</sup> [Merger assessment guidelines](#), from paragraph 5.4.1.

<sup>18</sup> Through sales of its HTE, ETS and GAP brands.

<sup>19</sup> EEL estimated that the national market for industrial electrical products at around £1.4 billion from a total electrical products market of £12 billion based on a 2009 AMA Report. EEL's estimates are also based on assumptions regarding the proportion of sales that can be considered 'industrial' and the proportion of each type of product that each type of customer buys.

### *Closeness of competition*

49. EEL submitted that the Parties are not close competitors in any market for a number of reasons, including:

(a) Previous precedent suggests that EEL and Lockwell are not close competitors in general electrical wholesaling. EEL cited in this regard, EEL/EC where the OFT stated:

The OFT's own market testing suggested that Lockwell and Routeco focus predominantly on industrial customers and are a weak competitor of the parties. This is partly supported by the customer segmentation analysis in internal documents provided by the parties, which identifies Lockwell and Routeco as key suppliers to industrial customers.<sup>20</sup>

(b) EEL and Lockwell predominantly supply different products to different markets. [redacted]% of EEL's turnover is from the sale of general electrical products whilst the figure for Lockwell is [redacted]%.<sup>21</sup>

(c) EEL and Lockwell predominantly supply different customers. [redacted]% of EEL's customers are electrical contractors compared to [redacted]% of Lockwell's customers, whereas [redacted]% of Lockwell's customers are factories/manufacturers compared to [redacted]% of EEL's.<sup>22</sup>

(d) EEL and Lockwell have few common customers. EEL estimated that [redacted]% of Lockwell customers are also customers of EEL and only [redacted]% of EEL customers are also customer of Lockwell.<sup>23</sup> EEL noted that only [redacted] common customers spend more than £[redacted] per annum with each firm and that to the extent that Lockwell do supply general electrical products, these are 'on the back' of its industrial sales.

(e) Based on EEL branch forecasts,<sup>24</sup> which were considered probative in recent OFT precedents, EEL does not view Lockwell as a direct competitor. Of the 51 EEL branches within 10 miles of a Lockwell branch, only five named Lockwell as one their top five competitors<sup>25</sup> and EEL

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<sup>20</sup> EEL/EC, paragraph 138(b).

<sup>21</sup> Based on analysis of sales by Lockwell's Coventry branch and EEL's Birmingham branch, which EEL submitted are representative of all Lockwell and EEL branches.

<sup>22</sup> Based on an EEL survey carried out for the EEL/Western Electrical investigation and an analysis of Lockwell customer lists using the same categorisations as the EEL survey.

<sup>23</sup> Based on an analysis of the customer lists of all Lockwell stores and all EEL stores within 10 miles of a Lockwell store.

<sup>24</sup> These are predictions by each EEL branch manager of who their top five competitors will be in the coming year.

<sup>25</sup> EEL submitted that, in its business model, its branches consider other EEL branches as competitors.

submitted that, there are many other general electrical wholesalers within 10 miles of each of these five EEL branches.

- (f) Historic diversion ratios from EEL to Lockwell are low. EEL pointed to the survey for the EEL/EC case, which shows low diversion ratios to Lockwell and also noted that in the EEL/Western Electrical case, the OFT stated: 'overall weighted and unweighted diversion to these alternative types of supplier is generally low (at between zero and two per cent for industrial suppliers...'.<sup>26</sup>
- (g) Lockwell does not compete with EEL on price. EEL submitted that as Lockwell's sales of general electrical products are derived from its sales of industrial electrical goods, it has limited incentive to compete with EEL on price in the market for general electrical products. In addition, many buyers of Lockwell's industrial goods source general electrical goods from general electrical wholesalers in order to obtain a better price, citing in support statements made by the OFT in the EEL/Western Electrical decision: 'Most third parties suggested that industrial suppliers were seen to offer specialised products and pricing was very rarely competitive against a wholesaler.'<sup>27</sup>
- (h) With regard to UK Electric, EEL did not make any further specific arguments. However, it implied that UK Electric has no significant presence in the supply of general electrical products, with only [X]% of its HTE, ETS and GAP sales going to electrical contractors.

- 50. Third party responses were supportive of the proposition that the Parties do not compete closely in general electrical wholesaling. The CMA also notes in this regard that no customers expressed concern regarding the Merger.
- 51. Specifically, none of the EEL customers named Lockwell as a source for their general electrical requirements and instead named other large electrical wholesalers, such as Rexel and CEF as alternatives to EEL.
- 52. Common customers also tended to cite large electrical wholesalers as alternatives for their general electrical requirements. Where Lockwell was named as an alternative source for general electrical items, this was on the basis of convenience and locality, and doubts were expressed as to whether Lockwell would meet all their requirements.
- 53. Lockwell customers were predominantly industrial end-users, though when queried on regarding supply sources for general electrical products, which

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<sup>26</sup> EEL/Western Electrical, paragraph 34.

<sup>27</sup> EEL/Western Electrical, paragraph 22.

represented a smaller share of their requirements, they mentioned large general electrical wholesalers such as EEL, CEF and Rexel.

54. No commercial/domestic or industrial customers who responded named UK Electric as a supplier of general electrical products or an alternative source for these types of products.
55. Competitors suggested that there might be competition between EEL and Lockwell in general electrical wholesaling. For instance, one competitor submitted that Lockwell had been increasing its presence in general electrical wholesaling and that 'industrial specialist suppliers saw no relevance with Lockwell', evidencing its shift to general electrical wholesaling. Many competitors also noted that supply-side substitution was a relatively straightforward prospect. However, the CMA notes that when asked to name their top competitors, none of the competitors who responded named both EEL and Lockwell.
56. Based on third party responses suggesting that customers would not switch from EEL to Lockwell for general electrical needs and the evidence provided by branch forecasts, the CMA considers that Lockwell does not constrain EEL substantially in general electrical wholesaling. This is consistent with previous findings of the OFT.
57. However, on a cautious basis, the CMA considers that EEL constrains Lockwell to some extent in general electrical wholesaling as some third parties sourcing general products from Lockwell named EEL as an alternative source and EEL itself submitted that some customers of Lockwell source general products from EEL for price reasons. This implies that for some price-sensitive customers EEL might exercise a constraint on Lockwell.

#### *Competitive constraints*

58. EEL submitted to the extent that there is any competition between the Parties in general electrical wholesaling, there are many competing electrical wholesalers who compete more directly with EEL, including CEF, the Rexel brands, YESSS and Electricbase as well as independent general electrical wholesalers on a national, regional and local basis.
59. In EEL/Western Electrical, the OFT found that Rexel, YESSS and CEF were credible competitors to EEL for the wholesale supply of general electrical products. The CMA also notes that in the course of the CMA's investigation Worcester Electrical and TN Robinson were also named by customers as

credible suppliers in certain local areas. All of the above are also identified in the 2011 AMA Report.<sup>28</sup>

60. EEL is present within 10 miles of each of Lockwell's 19 branches. Both Rexel and CEF are within 10 miles of each Lockwell branch, except for Frome. A further five areas have a Worcester Electrical branch, and four areas also have a TN Robinson branch. YESSS is present within 10 miles of six of the branches.
61. On a conservative basis, the CMA has also considered the extent to which other electrical wholesalers (ie excluding CEF, YESSS, Rexel and, where relevant, TN Robinson and Worcester Electrical) will be present after the Merger. The CMA's analysis of other electrical wholesalers present in these areas based on lists of provided by EEL<sup>29</sup> suggests that there will be no area with fewer than three other general electrical wholesalers remaining and only six with fewer than four: Bristol, Coventry, Frome, Leicester, Shrewsbury and Telford.
62. The CMA has used evidence submitted by EEL in the form of Competitor Profiles and the 2011 AMA Report to ascertain the extent of remaining competition in each area where there are fewer than four other electrical wholesalers remaining.
63. In Bristol, EEL listed seven other general electrical wholesaling competitors within 10 miles, in addition to Rexel and CEF. These include TLC, who according to the Competitor Profiles and the 2011 AMA Report have 25 branches, 16,000 product lines and fast local delivery.
64. In Coventry, EEL named ten other general electrical wholesaling competitors within 10 miles, in addition to Rexel and CEF. These include ERF, who according to the Competitor Profiles and the 2011 AMA Report offers a wide range of products from 11 branches to demanding delivery schedules.
65. In Frome, EEL named seven other general electrical wholesaling competitors within 10 miles, in addition to Rexel. These include Kew,<sup>30</sup> which according to the Competitor Profiles, is a key member of Fegime, a major European buying group for general electrical products, operates out of 20 branches and has a 'large local stock holding of major suppliers across the branches, so there is

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<sup>28</sup> *Electrical Wholesale Market Report UK 2011-2015 Analysis*, AMA, 2011 (**2011 AMA Report**).

<sup>29</sup> EEL provided the CMA with lists of all general electrical wholesalers within 10 miles of each Lockwell branch and all industrial electrical wholesalers within 50 miles of each Lockwell branch. EEL categorised these wholesalers according to information available on these competitors' profiles from public sources including their websites. EEL prepared profiles on key general and industrial competitors based on these sources (**Competitor Profiles**).

<sup>30</sup> The CMA notes that the OFT approved Kew as purchaser of the Wilts branches that Rexel offered to divest to avoid a reference in the [Rexel/Wilts](#) case.



same day stock availability'. The 2011 AMA Report confirms that in addition to a wide range of core electrical products, Kew also provides after sales support and a range of additional services.

66. In Leicester, EEL named seven other general electrical wholesaling competitors within 10 miles, in addition to Rexel and CEF. These include Eyre and Elliston, which, according to the Competitor Profiles and the 2011 AMA Report are independent wholesalers offering a wide range of electrical products to a range of customers from their 56 branches.
67. In Shrewsbury, EEL named five other general electrical wholesaling competitors within 10 miles, in addition to Rexel and CEF. These include Links Electrical, who are not mentioned in the AMA report but who according to the Competitor Profiles present themselves as able to supply a wide range of products.
68. In Telford, EEL listed six other general electrical wholesaling competitors within 10 miles, in addition to Rexel and CEF. These include Oak Electrical, who are not mentioned in the AMA report, but who according to the Competitor Profiles have a store in Telford and state that they offer customers free speedy same day delivery service for all ex-stock items, suggesting they are able to supply a wide range of products.
69. Therefore, the CMA considers that, although the extent of the constraint posed by competitors who are not CEF, Rexel or YESSS is not as clear-cut, the significant number of other competitors within 10 miles of each Lockwell branch and evidence from Competitor Profiles and the 2011 AMA Report regarding the service they provide, indicates that sufficient competition will remain in each area to constrain the Parties in general electrical wholesaling.

*Conclusion on horizontal unilateral effects regarding general electrical wholesaling*

70. Therefore, on the basis of customer feedback, in particular the lack of any customer complaints, precedent and evidence from EEL supporting that Lockwell does not substantially constrain EEL, and the extent of remaining competition around each Lockwell branch, the CMA concludes the Merger does not give rise to a realistic prospect of an SLC in general electrical wholesaling.

## *Industrial electrical wholesaling*

### *Shares of supply*

71. EEL's estimated shares of supply for industrial electrical wholesaling can be found at Table 1 above. However, again, the CMA considers that these shares of supply are only to a limited extent reflective of the Parties' positions across the relevant frames of reference. As explained above, EEL used a number of assumptions regarding product split across goods sold to estimate the shares of supply. In particular, as part of this analysis, EEL estimated that the proportion of EEL's industrial sales is low; however, because EEL is much larger than Lockwell, the absolute amount of industrial electrical products sold is higher than Lockwell's.<sup>31</sup> This is true at both national and local level, because EEL's branches are larger than Lockwells'. The CMA has therefore considered that the extent to which the Parties can be considered to closely compete and the remaining competitive constraint in local areas as more indicative of the impact of the Merger.

### *Closeness of competition*

72. EEL's submissions on closeness of competition summarised at paragraph 49 are equally relevant to the analysis in the context of the industrial electrical wholesaling.
73. Third parties were generally supportive of the view that the Parties do not compete closely in industrial electrical wholesaling. In particular:
- (a) Of 17 industrial customers who responded, only three stated that they would turn to EEL if Lockwell was unavailable or increased prices by 5%. Only one of these customers considered EEL could supply its entire industrial requirements, but even then it did not see EEL as its first port of call, having reservations regarding EEL's service as against Lockwell. This customer named at least three general electrical wholesalers they would prefer to go to ahead of EEL.
  - (b) Many customers, including customers common to both, noted that EEL and Lockwell had different offerings. For example, customers highlighted differences in product ranges, noted that Lockwell had better service and delivery than EEL and stated that they chose Lockwell because of 'industrial electrical knowledge and service'. In addition, a common customer of EEL and Lockwell, when asked if it would shop at EEL, stated

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<sup>31</sup> This is reflected by the turnover of the two branches used by EEL to estimate its product splits. EEL submitted that EEL Birmingham's sales of industrial products were around £[REDACTED] and Lockwell Coventry's were £[REDACTED].

'not likely, the industrial only products such as contactors, relays and control boxes are of a much higher standard at Lockwells' and another common customer stated that 'Edmunson's are not geared to selling industrial products, with small order charges and longer lead times it makes this option less likely'.

- (c) A competitor stated that: 'industrial customers usually rely on the Local main Wholesaler, who will have a large stockholding and very highly trained staff to support these complex products', and implied that EEL did not currently have this capability by stating that due to the Merger EEL 'could be able to obtain these specialist items and compete head-on on price.'
- (d) No industrial customers not focused on panel building/OEM named UK Electric as a supplier or an alternative to current suppliers.

74. Therefore, the CMA considers that third party responses support the view that the Parties do not compete closely in industrial electrical wholesaling. However, to the extent that they do compete, the CMA has analysed the extent of remaining competition in each of the 19 areas within 10 miles of a Lockwell branch.

*Competitive constraints*

75. Table 2 presents a summary count of the number of industrial electrical wholesalers, general electrical wholesalers and (including both of these) electrical wholesalers within 10 miles of each Lockwell branch.

**Table 2: Types of wholesaler within 10 miles of each Lockwell branch (excluding Parties)**

Lockwell branch	Count of electrical wholesalers within 10 miles	Count of industrial electrical wholesalers within 10 miles	Count of general electrical wholesalers within 10 miles
Antrincham	>7	4	>3
Barnsley	>5	2	>3
Brierley Hill	>7	4	>3
Bristol	>10	7	>3
Coalville	>4	1	>3
Coventry	>9	6	>3
Droitwich	>3	0	>3
Frome	>3	0	>3
Gateshead	>8	5	>3
Hereford	4	1	3
Middlewich	>3	0	>3
Nottingham	>6	3	>3
Runcorn	>5	2	>3
Shrewsbury	>4	1	>3
Stafford	>5	2	>3
Telford	>4	1	>3
Tewkesbury	>5	2	>3
Willenhall	>10	7	>3
Wrexham	>4	1	>3

76. The presence of at least three remaining industrial competitors in seven areas combined with the evidence suggesting that EEL and Lockwell do not compete closely, supports the conclusion that there is no realistic prospect of an SLC in these areas.
77. However, as can be seen from the above, there are 12 areas where there will be fewer than three industrial electrical wholesalers remaining. This leaves the possibility of an SLC within the 10 miles around the Lockwell branches in Barnsley, Coalville, Droitwich, Frome, Hereford, Middlewich, Runcorn, Shrewsbury, Stafford, Telford, Tewkesbury, and Wrexham.
78. As can also be seen from Table 2, there are at least three general electrical wholesalers within 10 miles of each Lockwell branch in each area. Some areas have many more than others. For example, Runcorn has 26 general electrical wholesalers within 10 miles of a Lockwell branch whilst Hereford has three. Therefore, the CMA has considered the extent to which these general electrical wholesalers compete for the wholesale supply of industrial electrical products.
79. Although only three industrial customers named EEL as a potential alternative to Lockwell, many named other general electrical wholesalers. Names that were mentioned across the 17 industrial customer responses were CEF (named by six), Worcester Electrical (named by three), and Rexel, QVS and Kew were also named. Table 3 shows the number of these named general electrical wholesalers in each area, and combines them with the industrial players. The CMA notes that there is also some further evidence that some general electrical wholesalers compete in the industrial market to some extent, in particular all general electrical wholesalers who responded stated that some (albeit frequently a low proportion) of their turnover is in the industrial sector.

**Table 3: General wholesalers able to supply industrial products in the 12 areas with three or fewer industrial competitors**

	CEF	Worcester Electrical	Rexel	QVS	Kew	Industrial players	Total
Barnsley	1	0	1	0	0	2	4
Coalville	1	0	1	0	0	1	3
Droitwich	1	1	1	0	0	0	3
Frome	0	0	1	1	1	0	3
Hereford	1	1	1	0	0	1	4
Middlewich	1	0	1	0	0	0	2
Runcorn	1	0	1	0	0	2	4
Shrewsbury	1	0	1	0	0	1	3
Stafford	1	0	1	0	0	2	4
Telford	1	0	1	0	0	1	3
Tewkesbury	1	1	1	0	0	2	5
Wrexham	1	1	1	0	0	1	4

80. If these general electrical wholesalers are included, then only one area remains with fewer than three competitors, Middlewich. However, the CMA notes in relation to this area that:
- (a) There are six industrial competitors within 20 miles, the closest being 12.3 miles away. Therefore, if the CMA's assessment is expanded beyond the cautious 10-mile radius to 20 miles in line with EEL's submissions and some third party input, then the remaining competitive constraint can be considered substantial.
  - (b) As explained at paragraph 79, customers have told the CMA that CEF and Rexel, generally offer them an alternative to Lockwell, albeit their comments were not specially focussed on Middlewich.
  - (c) There are 12 other general electrical wholesalers within 10 miles, although it is not possible to state with certainty the extent to which they can all compete in the industrial electrical market.
81. Given the lack of closeness of competition between the Parties in industrial electrical wholesaling, the proximity of other industrial wholesalers and/or general electrical wholesalers that customers named as being able to supply industrial electrical products, including, on balance, near Middlewich, the CMA concludes that there is sufficient competitive constraint remaining such that the Merger does not give rise to a realistic prospect of an SLC in industrial electrical wholesaling.

*Conclusion on horizontal unilateral effects regarding industrial wholesaling*

82. The CMA notes that EEL's estimated total turnover in industrial electrical wholesaling is similar to Lockwell's in absolute value, and some competitors submitted that EEL does compete to some extent in industrial electrical wholesaling.
83. However, based on input from third parties, particularly customers who were in the main very clear regarding the Parties differing offerings and had no complaints regarding the Merger; and that to the extent that the Parties do constrain each other, sufficient competitive constraint remains, the CMA considers that the Merger does not give rise to a realistic prospect of an SLC in relation to industrial electrical wholesaling.

*Supply of panel building products*

84. EEL did not provide estimates on the shares of supply in relation to the supply of panel building products or make any specific submissions regarding the

extent of competitive interaction between the Parties outside general and industrial electrical wholesaling. However, the CMA notes that both EEL and Lockwell supply panel building products. EEL estimated that panel building products make up [X]% of Lockwell's sales and only [X]% of EEL's sales, as opposed to [X]% of UK Electric's sales.

85. EEL submitted that UK Electric is a specialist wholesaler selling industrial electrical products predominantly to panel builders, system integrators and OEMs. Therefore, it submitted that the customers that are served are different from general electrical customers and also from less specialised industrial customers.
86. The UK Electric customers who responded to the CMA's market testing were unconcerned by the Merger. All considered that there was ample competition from other suppliers, including other specialist suppliers and direct from manufacturer. Other suppliers named included Schneider, ABB, Socomec, some Rexel brands (WF Senate and Wilts), Rayleigh Instruments, Stab Tran, Cablecraft, Cleveland Cable, AD Magnetics, Kew, Cribb and Sons, CEF, AN Supplies, Charter Controls, RH, Routeco, and Siemens. One customer mentioned that it does buy some goods from EEL and one mentioned that it had shopped at Lockwell in the past but that Lockwell would not be able to supply all of its panel building needs.
87. The CMA also notes the information provided in the 2012 AMA Report<sup>32</sup> on panel builders. The 2012 AMA Report states that by far the most important source of supply for panel building components is direct from manufacturers, with 70% of products being obtained through this route. The 2012 AMA Report further states that panel builders also obtain 14% from electrical wholesalers, which the 2012 AMA Report explains includes specialist wholesalers, including UK Electric.
88. Of these wholesalers, the 2012 AMA Report states that the electrical components segment is primarily supplied by two wholesalers, Premier Farnell and RS Components and six specialist suppliers, including UK Electric, Parmley Graham, IMO Precision Controls, Underwoods and AJ Hurst.
89. The 2012 AMA Report further indicates that Lockwell is not a significant supplier in this segment. Lockwell is only named in a secondary list of alternative suppliers and only after larger general electrical wholesalers including EEL, Wolseley, Rexel, Senate, Denmans, CEF, Routeco, and Maclean, suggesting that Lockwell is only in the same market as UK Electric

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<sup>32</sup> *Panel Builders Market Report UK 2012-2016 Analysis*, AMA, November 2012 (the 2012 AMA Report).

to the extent that any more general electrical wholesaler is ie they can supply some goods but not the specialist needs of panel builders.

90. The CMA also notes that UK Electric branch forecasts suggest that UK Electric does not consider Lockwell as a main national competitor.
91. On the basis of third party responses; the 2012 AMA Report; EEL's submissions on sales splits; and UK Electric branch forecasts, the CMA considers that UK Electric and Lockwell do not compete closely and that in any event sufficient competitive constraint remains from alternative suppliers. Therefore, the Merger does not give rise to a realistic prospect of an SLC in the supply of panel building products.

#### *Conclusion on horizontal unilateral effects*

92. For the reasons set out above, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to general electrical wholesaling, industrial electrical wholesaling and the supply of panel building products.

#### **Barriers to entry and expansion**

93. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no substantial lessening of competition. In assessing whether entry or expansion might prevent a substantial lessening of competition, the CMA considers whether such entry or expansion would be timely, likely and sufficient.<sup>33</sup>
94. However, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

#### **Third party views**

95. The CMA contacted customers and competitors of the Parties. A few competitors raised concerns regarding EEL's strengthening relationship with manufacturers placing pressure on their margins. The CMA notes that in many cases, an increase in buyer power is not likely to give rise to unilateral effects and as outlined in the competitive analysis above, it did not consider the circumstance in which that could be the case to arise as a result of the Merger.<sup>34</sup> No customers raised concerns about the Merger.

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<sup>33</sup> [Merger assessment guidelines](#), from paragraph 5.8.1.

<sup>34</sup> [Merger assessment guidelines](#), paragraph 5.4.19-5.4.21.

96. Third party comments have been taken into account where appropriate in the competitive assessment above.

## **Decision**

97. Consequently, the CMA does not believe that it is or may be the case that the Merger has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom.
98. The Merger will therefore **not be referred** under section 22(1) of the Act.

**Tim Geer**  
**Assistant Director, Mergers**  
**Competition and Markets Authority**  
**19 February 2015**

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<sup>i</sup> The CMA clarifies that there is no direct common shareholding between Marlowe and UK Electric.