

Completed acquisition by Assa Abloy Limited of Securistyle Limited

ME/5388/12

The OFT's decision on reference under section 22(1) given on 2 May 2012. Full text of decision published 15 May 2012

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

PARTIES

1. Assa Abloy Limited (**AA**) produces a range of door lock products from its manufacturing base at Willenhall in the West Midlands, including multi-point door locks (MPLs). It also produces relatively small volumes of window hinges and window locks (window handles are bought in from the Far East).
2. Securistyle Limited (**Securistyle**) primarily manufactures and supplies window hardware, specifically friction window hinges, window handles and window locks. In addition, Securistyle manufactures very small volumes of MPLs and purchases small volumes of own-branded MPLs from AA for resale. It also sells very small quantities of own-branded door handles and cylinders for its MPLs sourced from third party manufacturers.
3. Securistyle's UK turnover for the year to 31 December 2010 was approximately []. The remainder of its turnover ([]) represented export sales.

TRANSACTION

4. On 27 January 2012, AA acquired Securistyle for a consideration of []. The OFT commenced its own investigation into this acquisition and received a satisfactory submission from the parties on 2 March 2012.

Following an extension under section 25(2) of the Act, the statutory deadline is 29 May 2012. The administrative deadline is 2 May 2012.

JURISDICTION

5. As a result of this transaction AA and Securistyle have ceased to be distinct. The parties overlap in the supply of window hinges with a share of supply exceeding 25 per cent (see Table 1 – UK market shares by revenues below). The share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met. The OFT therefore believes that it is or may be the case that the transaction has resulted in the creation of a relevant merger situation.

MARKET DEFINITION

6. The parties' UK activities overlap in the production and sale of MPLs and window hardware (window hinges, locks and handles).
7. MPLs are a type of lock mechanism that have more than one locking point, typically activated by a cylinder. MPLs usually have a minimum of three locking points spread over the length of the door. They are often used on uPVC or composite doors due to the inherent flexibility of those materials (as opposed to wooden-framed doors).

Product scope

8. The OFT's approach to product market definition is generally to consider first if narrow candidate markets can be widened through substitution on the demand-side. If appropriate, the OFT then considers if substitution on the supply-side allows several products, which are not demand-side substitutes, to be aggregated into one wider market.¹

¹ See the OFT/CC *Merger Assessment Guidelines*, September 2010 (OFT1254), paragraphs 5.2.6 to 5.2.19.

MPLs

9. In the AA/Paddock (2010 Decision) merger,² the OFT adopted on a cautious basis MPLs as a distinct product frame. The results of its market review suggested that MPLs are in a separate market from other types of door lock.
10. In the 2010 Decision, from a demand-side perspective, the OFT found that door fabricators specifically require MPLs and not other types of locks. This is because MPLs appear to be the best (or in some case the only) type of locks which meet certain security standards. Final customers (that is, residential customers and local authorities) also appeared to demand MPLs because of their additional security specifications.
11. In the current case, the OFT has found no evidence to suggest that its conclusion on the product frame would differ today. The OFT therefore adopts on a cautious basis MPLs as a distinct product frame.

Window hinges

12. The merged parties manufacture different types of window hinges. Securistyle manufactures friction hinges. AA manufactures reversible hinges. Other manufacturers produce tilt and turn window hinges but neither of the merged parties produces this type of hinge. The merged parties considered that these three types of hinges are distinct product frames.
13. **Friction hinges** are the standard type of hinge used on aluminium, timber and uPVC casement windows. One of their main features is that they prevent the window, in an open position, from being blown open further or closed by the wind. They are commonly used in residential new build applications (private houses, some flats, social housing).
14. **Reversible hinges** allow the window to be pushed open and fully rotated to facilitate cleaning. They are typically fitted with a restrictor which will allow the window to be opened only by a small amount. They are typically used on timber framed windows, but not on uPVC.

² ME/4544/10 Proposed acquisition by Assa Abloy AB of Paddock Holdings Limited
www.offt.gov.uk/OFTwork/mergers/decisions/2010/assa-abloy

15. **Tilt and turn hinges** are typically used in high rise buildings (residential and commercial) and allow the user to open the window by a small amount by tilting the window either on its horizontal or vertical axis, so as to obtain ventilation, but without risk to safety.
16. From a demand-side perspective, the merged parties submitted that different types of hinges are not substitutable with each other because Original Equipment Manufacturers (OEMs) that fabricate windows have very specific requirements for hinges to suit the particular design of window, depending on the material being used to make the window frame, and the end use application. In addition, the parties submitted that most commercial/social housing business is awarded by tender, and OEMs will clearly indicate in the tender documentation what kinds of hinges they are seeking to procure.
17. Third-party responses corroborated the merged parties' arguments. They indicated that the different types of window hinges had different functions and were used in different types of windows. They stated that if the price of one type of hinge increased by around five per cent, the demand for other types of hinges would not increase.
18. Based on the above evidence, the OFT considers that friction hinges are in a separate market to reversible hinges. Since AA has historically focused only on reversible hinges, and Securistyle has focused only on friction hinges, it follows that there is no competitive overlap between the parties in relation to window hinges. Hence, window hinges are not discussed further in the decision.

Other window hardware

19. The parties overlap in the supply of window locks and handles. Securistyle additionally produces window restrictors,³ but AA does not. For window handles the merged parties argued it would not make sense to define separate markets for different types of handle. They stated that all window handles sold for use in new window installations serve the same basic

³ These prevent the window from opening beyond a certain point. They are compatible with Securistyle's friction window hinges.

function (to enable a window to be opened and closed). On the supply-side they stated that manufactures generally offer a wide range of products.

20. The OFT has found no evidence to suggest that the product market is narrower than window handles. One third party commented that there was less differentiation in window handles, supporting the parties' position. The OFT therefore considers window handles as a product frame.
21. With regard to window locks, the parties noted that the vast majority of window locks are multi-point window locks. They noted that these could be distinguished from 'other' window locks such as single point locks for new window installations, which neither of the parties manufactures.⁴ The OFT therefore considers on a cautious basis multi-point window locks as a separate product frame.
22. The OFT does not consider multi-point door locks to be in the same product frame as multi-point window locks as they are used in different final products. In addition, a typical multi-point door lock has around 46 components, compared with around seven for a typical multi-point window lock. This means there is little scope for supply-side substitution between multi-point window and door locks.

Customer segments

23. The OFT may sometimes define relevant markets for separate customer groups if the effects of the merger on competition to supply a targeted group of customers may differ from its effects on other groups of customers and require separate analysis.⁵
24. Door and window hardware are sold through two channels: either they are sold directly by hardware manufacturers to the OEMs; or they are sold to distributors (which in turn resell to OEMs). In the OFT's 2010 Decision, the OFT considered that it is possible that each of these sales channel is a distinct market.

⁴ AA produces a range of 'retrofit' window locks, which are sold as accessories to existing window installations, but Securistyle offers no comparable product.

⁵ See the OFT/CC *Merger Assessment Guidelines*, September 2010 (OFT1254), paragraph 5.2.28

25. At the time, the OFT noted that there were some limited exceptions but that the vast majority of evidence received from third parties (as well from the parties themselves) suggests that direct sales to door and window fabricators were in a separate market from sales to distributors. The OFT has found no evidence to suggest that this distinction would differ today in the supply of MPLs.
26. In relation to window hardware, the parties considered that the supply of window hardware is by manufacturers either selling through distributors or directly to OEM customers. This suggests that distributors may be a distinct customer from OEMs in the supply of window hardware. Distributors may be able to use their greater buyer power or command better prices or terms than OEMs.
27. On the basis of the above evidence and a cautious basis the OFT considers direct sales of MPLs and window hardware to OEMs and sales to distributors as distinct markets.

Geographic market

28. In the 2010 Decision, the OFT adopted a UK-wide geographic market on a cautious basis. The merged parties did not challenge this. They also submitted that for window locks and window handles the geographic market should probably be viewed as UK-wide (but no narrower than that). Third parties did not comment on this.
29. While there is some evidence that a few distributors import window hardware and MPLs, the OFT considers it cautious to adopt a UK geographic frame for the supply of MPL and window hardware. What matters for geographic market definition principally is whether customers import MPLs and window hardware, not suppliers. Other than some distributors, the OFT found little evidence that customers imported MPLs and window hardware into the UK. This suggests that suppliers need some sort of presence in the UK, such as a sales office.

Conclusion on market definition

30. The OFT adopts the following product frames:
 - Multi-point door locks (MPLs)

- Multi-point window locks
- Friction window hinges
- Reversible window hinges
- Window handles

31. The OFT distinguishes between direct sales to OEMs (window and door fabricators) and sales to distributors. The OFT adopts a UK-wide geographic frame.

HORIZONTAL ISSUES

32. Below the OFT considers the scope for both unilateral effects and conglomerate effects.

Unilateral effects

33. Table 1 below provides market share estimates of the merged parties in MPLs and window hardware. There are only three areas of overlap (highlighted in grey in the table): MPLs, window locks and window handles.

Table 1 – UK market shares by revenues (per cent)

Product market	AA	Securistyle	Combined
MPLs*	[30-40]	[0-5]	[30-40]
All window hinges	[0-5]	[20-30]	[30-40]
- Friction hinges	[0-5]	[30-40]	[30-40]
- Tilt and turn hinges	[0-5]	[0-5]	[0-5]
- Reversible hinges	[30-40]	[0-5]	[30-40]
Window restrictors	[0-5]	[30-40]	[30-40]
Multi-point window locks**	[5-10]	[5-10]	[10-20]
Window handles**	[0-5]	[10-20]	[10-20]

Sources: * OFT estimates based on the OFT's 2010 Decision and the merged parties' submission; ** Parties' estimates based on the Palmer Report.⁶

34. The merged parties do not overlap in the supply of window hinges. AA supplies reversible hinges, which are in a different product frame to

⁶ A summary report of the window, door and conservatory markets in housing in Great Britain, Palmer Market Research, 2011 Edition.

Securistyle's friction hinges. There is therefore no realistic prospect of unilateral effects in the supply of window hinges.

35. The merged parties' estimates of their combined share in multi-point window locks ([10-20] per cent) and window handles ([10-20] per cent) are low. The OFT notes that there is some uncertainty in these estimates, however, the OFT has no reason to believe that the parties' combined shares in multi-point window locks and window handles would be significantly higher than their estimates such that they would be cause for concern. This also holds true in the different customer segments (OEMs and distributors).
36. Other evidence also suggests that there is no realistic prospect of unilateral effects in multi-point window locks and window handles. In window locks, the merged parties face competition from a number of well-established suppliers including Maco, ERA, Seigenia, Mila, Kenrick, Roto, and Winkhaus. One third party commented that neither of the merged parties had strong brands in window locks and that Maco and Roto were the top two brands in window locks in the UK. In window handles, the increment from the merger is very small (AA only has a [0-five] per cent market share).
37. In the supply of MPLs the parties' combined share is close to [30-40] per cent. In addition, whilst there is some uncertainty in the estimates of the parties' combined market share, the increment from Securistyle in MPLs is very low (less than [0-five] per cent).
38. The merged parties will continue to face competition from a number of other MPL manufactures. The merged parties noted that their best estimates of their main competitors' shares at present were ERA with [10-20] per cent, Winkhaus with [10-20] per cent, Fuhr with [10-20] per cent, Fullex with [five-10] per cent and Avocet with [0-five] per cent.
39. Internal documents indicate that Securistyle forecasted large growth in its sales of MPLs. []; however, Securistyle would still only have a market share of just over [0-five] per cent.
40. Given the low increment in MPLs, the OFT considers there is no realistic prospect of unilateral effects in this market. There are no reliable share estimates by customer segment in MPLs, but on the basis of the low

overall increment, the OFT has no reason to believe that there would be competition concerns in the supply of MPLs to either OEMs or to distributors.

Conclusion

41. On the basis of the above evidence the OFT considers that there is no realistic prospect of any unilateral effects following the merger.

Conglomerate effects

42. One third party raised concerns of anti-competitive conglomerate effects. Another third party indicated that it was concerned about AA completing its casement window offering⁷ but did not explicitly state that this was a competition concern.
43. Conglomerate mergers can raise concerns that the merged firm might increase the selling price of one of its products when sold on a stand-alone basis, but might not do so if customers buy both the merged firm's products; this would give customers an incentive to buy the second product from the merged firm as well, putting rivals in the second product market at a disadvantage.⁸ In the longer term, this could lead to a weakening of competition. The OFT refers to this as conglomerate foreclosure.
44. The OFT's approach involves analysing the ability, incentive and the effect of this strategy. This takes into account the following factors: (i) whether customers have a demand for more than one of the products, and whether the products are complements; (ii) customer preferences for variety and one-stop shopping; and (iii) the costs to rivals of providing variety and one-stop shopping at a scale to enable them to compete effectively with the merged firm.⁹
45. In this instance, the most realistic anti-competitive conglomerate effect would involve AA and Securistyle selling together their window hardware products.

⁷ Casement windows typically use friction hinges, which Securistyle supplies.

⁸ *Merger Assessment Guidelines* (OFT1254), paragraph 5.6.13, third bullet.

⁹ *ibid*

46. The parties may have some limited ability to engage in conglomerate foreclosure, using their position in friction hinges to weaken rivals selling other types of windows hardware. However, the available evidence suggests that the merged parties would have little incentive to do this.
47. When products are economic complements, if the price of one falls, the demand for the other increases. This can create incentives to discount both products to boost demand. The OFT's merger review indicated that the economic complementarity between friction hinges and other types of window hardware is not strong enough to create incentives to discount bundles such that it would squeeze out their rivals.
48. The limited complementarity between Securistyle's friction hinges and AA's other window hardware (handles and locks) is supported by evidence from the merged parties as well as third-parties. This included the low cost of these components relative to the total cost of a window, the lack of discounted bundles and the fact that the customers like to 'cherry pick' window hardware from different manufacturers.
49. There is no realistic prospect of any discounting of such a bundle having a significant long-term effect on competition. Many of the merging parties' competitors manufacture a range of window hardware, which suggests they could respond by offering bundles at a discount as well. In addition, one third party indicated that it could respond to any aggressive bundling by partnering with other hardware manufacturers.
50. Other types of conglomerate foreclosure are not credible either. The parties do not have the ability to do this using their position in reversible hinges (where Table 1 suggests that AA has a relatively large market share). To have such ability, the parties would need a large pool of common customers that buy reversible hinges with other types of window hardware. However, this is not the case. Data from the Palmer Report¹⁰ suggest that only two per cent of windows in the housing market in Great Britain had fully reversible windows (which use reversible hinges).

¹⁰ A summary report of the window, door and conservatory markets in housing in Great Britain, Palmer Market Research, 2011 Edition.

51. Another possibility of conglomerate foreclosure, would be whereby AA bundles its MPLs for doors with Securistyle's window friction hinges. This is not plausible because MPLs for doors are not strong enough complements with window hardware, and because other competitors also supply both product ranges.

Conclusion

52. On the basis of the above evidence the OFT considers that there is no realistic prospect of any anti-competitive conglomerate effects following the merger.

BARRIERS TO ENTRY AND COUNTERVAILING BUYER POWER

53. The OFT has not found it necessary to conclude on barriers to entry and countervailing buyer power.
54. In window hardware, distributors could potentially increase supply by importing products from foreign manufacturers and supplying them under their own brands. Distributors may also exert a degree of buyer power on the merged parties as they are able to turn to imports from countries such as China. While new entry or expansion and countervailing buyer power may constrain any price rise, it is not clear from the evidence available to the OFT that this would be sufficient.

THIRD PARTY VIEWS

55. Third party views were sought and where relevant have been discussed above.

ASSESSMENT

56. The OFT considers that Securistyle's friction hinges are in a separate product frame from AA's reversible hinges. They are used in the fabrication of windows with different functions and third-parties indicated that there would be no demand-side or supply-side substitution between the two.
57. The OFT also considers distinct product frames for MPLs, multi-point window locks and window handles. The OFT distinguishes between direct sales to OEMs (window and door fabricators) and sales to distributors. On

a cautious basis, the OFT assesses the impact of the merger under a UK-wide geographic frame.

58. Where the parties overlap there is also no realistic prospect of unilateral effects. The parties' combined UK share in multi-point window locks and window handles are only around [10-20] per cent and [10-20] per cent respectively. While in the supply of MPLs the parties' combined UK share is around [30-40] per cent, the increment from acquiring Securistyle is less than [0-five] per cent.
59. The OFT has also assessed whether the merger could lead to anti-competitive conglomerate effects but considers that there would be no realistic prospect of this taking place.
60. Consequently, the OFT 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.

DECISION

61. This merger will therefore **not be referred** to the Competition Commission under section 22(1) of the Act.