Office of Fair Trading

Completed acquisition by Hunter Douglas of Faber and Benthin Companies

**ME/4612/10**

The OFT's decision on reference under section 22(1) given on 22 October 2010. Full text of decision published 9 November 2010.

**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. **Hunter Douglas NV** ('Hunter Douglas') is a Netherlands-based company which manufactures and supplies window blinds and components. In the UK its main brands are Luxaflex and Sunway.

2. **The Faber Group** ('Faber'), based in Denmark, operates across Europe. It manufactures and supplies window blinds. Its 2009 UK turnover was £8.1 million.

3. **The Benthin Group** ('Benthin') is based in Germany. Benthin manufactures and supplies components for all main blind types (with an emphasis on vertical and pleated blinds) and assembly machines. In the UK its components are distributed by Faber and therefore Benthin's UK turnover is incorporated in Faber's UK turnover, quoted above.

4. Prior to this merger both Faber and Benthin were owned by VKR Holding, a Danish company which specialises in the manufacture of roof windows and skylights, vertical windows, solar energy systems and ventilation systems.

## TRANSACTION

5. On 27 May 2010 Hunter Douglas acquired Faber and Benthin ('Faber-Benthin') from VKR Holding for €[ ] (approximately £[ ]). Hunter Douglas

acquired Faber-Benthin via various subsidiary companies[1] and the transaction included various Faber-Benthin companies.[2]

6. An internal document of Hunter Douglas describes the rationale for the transaction as being that it will:

- [ ]
- [ ]
- [ ]
- [ ], and
- [ ].

7. The Office of Fair Trading ('OFT') proactively sought to investigate this case following information gathered by its Mergers Intelligence Unit.

8. The statutory deadline in this case, pursuant to section 24 of the Enterprise Act 2002 (the Act) is 29 October 2010.

## JURISDICTION

9. As a result of this transaction the enterprises Hunter Douglas and Faber-Benthin have ceased to be distinct.

10. The parties overlap in the supply of components used in window blinds. The parties estimated that, combined, their share of supply of all components is a little under 25 per cent ([ ] per cent). OFT third party enquiries have indicated that on a narrower measure, the supply of components used for aluminium venetian blinds, the parties' combined share of supply is greater than 25 per cent. Therefore, the OFT believes that it is or may be the case that the share of supply test in section 23 of the Act is met and that a relevant merger situation has been created.

[1] Hunter Douglas Holding GmbH & Co, Hunter Douglas Polska SP zoo, Hunter Douglas Industries (Switzerland) GmbH, Industrie en Handelsonderneming Buismetaal BV, and Hunter Douglas Management AG.
[2] Faber A/S, Faber Denmark A/S, Faber Blinds UK Limited, Faber Polska SP zoo, Benthin GmbH, Benthin Technology GmbH, Benthin Systemes EURL, and Benthin A/S.

## MARKET DEFINITION

### PRODUCT SCOPE

11. The supply of blinds to consumers involves various participants in the supply chain. Manufacturers supply blind components and assembly machines to fabricators who can then make customised blinds. Traders also supply components to fabricators, sourcing the components from manufacturers (often from outside of the UK, for example East Asia). Fabricators then sell assembled blinds to wholesalers and retailers who sell to end consumers. However, vertical integration in the industry is common. For example, some component manufacturers and traders are also involved in fabrication, and some fabricators are also involved in the retail supply to end-users.

12. Hunter Douglas is vertically integrated from manufacture to retail sale. By contrast, Faber-Benthin is active only at the manufacture and fabricator levels of the supply chain. The parties submit the overlaps are in the:

- supply of assembled window blinds (that is, fabrication)
- supply of components used in window blinds, and
- supply of assembly machines.

13. The parties have submitted that different levels of the supply chain may form a single frame of reference. They submitted, for example, that fabricators can manufacture their own components. However, market testing did not support the assertion that fabricators are present, or can easily move, upstream to component manufacturing. More common is the move downstream by component manufacturers to also fabricate blinds, although this is far from usual.

14. The OFT has therefore considered whether component manufacture, fabrication, and the supply to retailers (and/or wholesalers) form separate frames of references for the purpose of assessing this transaction.

15. The overlaps between the parties occur only at the upstream segment of the supply chain (that is, the manufacture of components and system fabrication) which has provided the starting point for the OFT's investigation.

**The supply of assembled blinds**

16. To supply assembled blinds the supplier needs to assemble the blinds from the components (fabrication). The fabrication process involves different machinery and techniques for each broad blind system. For example, third parties told the OFT that vertical and roller blind fabrication is straightforward while the fabrication of pleated and venetian blinds tends to be less so, particularly if large volumes are required. Further, third parties said that venetian blinds, for example, require a specialist machine to cut the slat to the required size and punch holes in the required places.

17. Notwithstanding this, third parties told the OFT that fabricators generally supply all types of blind systems.

18. The OFT also investigated whether the supply of assembled blinds should be separated by customer group. There are two distinct end-users: the residential or retail sector; and the contract sector (who supply under contract for specific projects, for example offices, hospitals or schools).

19. The contract sector offers a far broader range of blind types than in the residential, or retail, sector. For example, the thicknesses of venetian blinds can extend across a considerably wider range than is commonly used in the residential sector which requires a different fabrication process.

20. There are other noticeable differences between fabricators of residential customised blinds and those in the contract sector. First, there is a need for scale with certain contracts requiring a certain fabricating capacity (such that all the contract suppliers, as a result, generally have significant spare capacity). The parties indicate that a large number of fabricators work only with hand tools and have limited capacity. Second, in some cases, residential suppliers are not able to meet the specification of the blinds demanded by the contract. Third, the contract sector involves tendering to contractors, while the residential sector involves sales staff selling to retailers. Indeed, often it is the project architect who will specify the blind type required in the contract sector. This involves very different customer and trade relationships.

21. Indeed, the OFT has found that there are different suppliers in each of the two sectors (although with some overlaps).

22. While it may be the case that suppliers to the contract sector constrain suppliers to the retail sector, the OFT has taken a cautious approach in this case and examined the merger on the basis of the supply of assembled blinds to each of the two sectors separately. However, the OFT has not found it necessary in this case to further delineate the supply of assembled blinds by blind type.

**The supply of components**

23. Blinds can generally be categorised into four blind systems: venetian, pleated, roller, and vertical. Venetian blinds are typically made from either aluminium or wood.

24. OFT questioning of third parties has found that components manufactured for a particular blind system are not able to be substituted for another blind system (that is to say, components for roller blinds cannot be substituted for components for vertical blinds). This also applies to components for either aluminium or wooden venetian blinds which cannot be substituted for each other.

25. As a result of the OFT's market testing the OFT has examined the supply of components separately for pleated blinds, vertical blinds, roller blinds, wooden venetian blinds and aluminium venetian blinds.

**The supply of assembly machines**

26. Third parties told the OFT that machines and equipment for the assembly of vertical and roller blinds were unnecessary. In pleated and venetian blinds, the parties submitted that machines form part of the same blind systems as components.

27. Given the outcome of the competition assessment does not depend on this the OFT has not found it necessary to conclude on the product market in this case. On a cautious basis the OFT has examined the supply of assembly machines separately from components and has considered assembly machines for each blind type.

## GEOGRAPHIC SCOPE

### The supply of assembled blinds

28. The vast majority of fabricators, in both the retail and contract sectors, are UK based and supply only to the UK. Third parties confirm there is little importing and exporting of fabricated products and such activity would be limited, even in the event of a price rise in the UK. In the absence of evidence to the contrary the OFT therefore has taken a cautious approach and considered the geographic frame for the purposes of the competitive assessment to be UK-wide, for both the retail and contract segments.

### The supply of components

29. Hunter Douglas, which accounts for the bulk of the supply to UK customers, supplies from within the UK. Faber-Benthin imports the majority of components for all systems into the UK from Germany, with some components sourced from East Asia. From this base in Germany sales are distributed across Europe, [ ] per cent of which are to the UK. Other component manufacturers also supply into the UK from Europe. For example, OFT market testing found components imported from Sweden, the Netherlands, and Eastern Europe.

30. A number of third party fabricators stated they source components from East Asia, especially China and Taiwan. However, some third parties expressed caution about sourcing from East Asia, indicating that minimum quantities were required to make such shipment financially viable, the time with which a shipment can take, and the purported variable quality of product (particularly for thin aluminium venetian blind slats) mean that these imports are not a strong constraint on components sourced within Europe. However, other third parties did not agree on this and thought there were either no problems sourcing from East Asia or that any problems could be overcome.

31. In the hypothetical scenario of prices rising, responses as to where fabricators would purchase their components were mixed. Some said that they would readily switch to components imported from East Asia while others were less clear on the feasibility of sourcing from outside Europe.

32. In this case the OFT has not found it necessary to conclude on the geographic scope of the market. While there is some evidence that the

geographic scope is wider than the UK - perhaps EU-wide or even worldwide - on a cautious basis the OFT has examined this merger on the basis of sales within the UK only.[3]

**The supply of assembly machines**

33. The parties submitted that the geographic scope for assembly machines is at least EEA-wide and perhaps worldwide.

34. The OFT notes that it is common for assembly machines used in the UK to be imported from European countries (such as Germany, Sweden and Italy). However, given the lack of competition concerns relating to the supply of assembly machines the OFT has not found it necessary to conclude on the geographic market in this case.

## HORIZONTAL ISSUES

### THE SUPPLY OF ASSEMBLED BLINDS TO RETAILERS

35. The parties submitted that their combined share in the supply of assembled blinds to retailers is less than 10 per cent (with an increment of less than one per cent).[4]

36. After the merger a large number of competitors will remain including Decora, Tropical and Hillarys (Arena), some of whom have equally high or higher UK sales than the combined merger parties.

37. On the basis of its investigation, therefore, the OFT does not believe that a realistic prospect of a substantial lessening of competition (SLC) arises as a result of the merger in the supply of assembled blinds to retailers.

[3] Regardless of whether the supplier is based in the UK. Joint OFT and Competition Commission guidance says that the authorities will consider whether domestic customers will increase their purchases from overseas suppliers in the event of price increases when such switching is easy, even if imports account for a small proportion of current consumption ('Merger Assessment Guidelines', September 2010, OFT1254/CC2 (revised), paragraph 5.2.26).

[4] Most of Faber-Benthin's UK turnover relating to assembled blinds is accounted for by the supply of MechoShade blinds, a US supplier of blinds, which Faber-Benthin supplies in the UK under license. Following the change of ownership of Faber-Benthin it may be the case that MechoShade's products will be sold by another party. However, the OFT is not in a position to judge the likelihood of that and therefore, on a cautious basis, has included the MechoShade products as a part of Faber-Benthin's activities in its merger decision.

## THE SUPPLY OF ASSEMBLED BLINDS TO CONTRACTORS

38. The parties submitted that their combined share in the supply of assembled blinds to contractors is around [five-15] per cent (with an increment of [0-five] per cent).

39. The merged entity will continue to face competition from Silent Gliss and Levolux, both significantly larger than the merged entity, as well as from a number of other competitors including GC Group, Pentel (Dearnleys), Decora and Hillarys (Arena).

40. The OFT does not believe that a realistic prospect of a SLC arises as a result of the merger in the supply of assembled blinds to contractors.

## THE SUPPLY OF COMPONENTS

41. The OFT's market investigation found that there are a range of alternative suppliers of pleated, vertical, roller, and wooden venetian blind components. Customers who the OFT spoke to could list around 12 to 15 suppliers from which they could source their requirements. Louvolite, in particular, was highlighted as being a particularly strong competitor. Louvolite stated their sales were around [ ] those of Hunter Douglas in roller blind components and much larger also in vertical blind components. In pleated blinds, the OFT was able to identify Louvolite, Irwins, Dutton and Gavin, Decora, Global, OPL and Silent Gliss as being viable alternate suppliers to the merged entity.

42. All competitors indicated they supply a broad range of component types and colour. Moreover, no manufacturer contacted indicated any capacity constraints.

43. The OFT therefore sees no realistic prospect of a SLC arising as a result of the merger in the supply of components for pleated, vertical, roller, or wooden venetian blind systems. The supply of components for aluminium venetian blinds is considered below.

## THE SUPPLY OF COMPONENTS FOR ALUMINIUM VENETIAN BLINDS

44. The OFT undertook extensive third party questioning with respect to the supply of components for aluminium venetian blinds. During the course of this questioning the OFT received a number of customer complaints about

the merger's effect on competition in the supply of components for aluminium venetian blinds. Customers were concerned about the loss of choice, possible price increases after the merger as well as a decline in the quality of components available after the merger.

45. Customers told the OFT that typically they acquire components for aluminium venetian blinds on a month-to-month or week-to-week basis. Long term contracts between fabricators and component suppliers are not common and turnaround times (between orders and delivery) tend to be one or two days.

46. Hunter Douglas has a strong position in the supply of components for aluminium venetian blinds in the UK. Some third parties estimated that Hunter Douglas' share was over 80 per cent.

47. Third parties, however, held mixed views as to the competitive strength of Faber-Benthin's offer before the merger. Several customers told the OFT that Faber-Benthin was not a significant supplier and therefore the merger did not change anything of consequence. Some of these customers said that the Faber-Benthin range was relatively narrow and that it was not price competitive. Other customers said that Faber-Benthin represented a significant alternate supplier to Hunter Douglas, especially for high quality components. Nevertheless, most of these customers conceded that Faber-Benthin did not add much additional competitive strength to Hunter Douglas in the supply of components for aluminium venetian blinds.

48. A Hunter Douglas internal document (analysing the merger) says that Faber-Benthin has been one of Hunter Douglas' key competitors in the supply of high-end venetian blind components.

49. As mentioned above paragraph 29, Hunter Douglas is the only domestic manufacturer and supplier of note located within the UK. Faber-Benthin imports its components from Germany where they are made. The competition to Hunter Douglas after the merger will come from other manufacturers of components who supply them directly to customers, and from traders or wholesalers who import components from third party manufacturers, typically (but not always) located in East Asia (for example, Decora and Global). Customers often differentiate between European made components and those from East Asia.

50. Some customers, for example, told the OFT that components imported from East Asia were often of a lower quality standard, or at least of a more variable quality standard, than components sourced from within Europe. Most concerns in this area centred on thin blind slats (of around 16 to 18 microns thickness).

51. The views of these customers were not consistent with those of other customers. For example, two UK customers told the OFT that they source all of their products directly from East Asia without any issues of substandard quality. Further, importers themselves disputed the possibility of supplying variable quality, contesting that they supply blind slats of 21 and 22 micron thickness, again without any issues surrounding quality. One such importer considered itself to be larger than Faber-Benthin was before the merger and was identified as being a feasible alternate supplier by a number of customers. Other third parties told the OFT that quality issues can be overcome and pointed to the increasing share of supply to UK customers accounted for by East Asian components as proof that the quality of these components has improved over recent years.

52. In general, the OFT has not seen evidence that customers of components for aluminium venetian blinds possess countervailing buyer power. Nevertheless, one customer suggested to the OFT that one way to insure against substandard quality was to form a type of working partnership with a supplier so that the supplier can better understand and meet the customer's requirements.

53. The OFT's investigation has found that there are no significant capacity constraints facing importers of components. Such suppliers could easily and relatively quickly (within 20 weeks) supply customers on the sort of scale which Faber-Benthin was supplying. Further, offering the range of components (and range of colours) was not a problem according to these alternate suppliers. Nor was offering the products on a price competitive footing, even accounting for transport costs (this was corroborated by customers).

54. In terms of European suppliers, OPL, based in Sweden, was cited most often by customers as an alternative choice to the merger parties. OPL is owned and operated by the former owner of Eclipse, which was sold to Hunter Douglas with a five-year non-compete clause which has since expired. It is seen by customers as being a high quality supplier which had

the range of components on offer to replace Faber-Benthin's offer. OPL has not been active in the UK very long but nevertheless has quickly built up its UK business to be on a similar scale to Faber-Benthin. Further, OPL told the OFT that [ ].

55. All customers who the OFT spoke to were able to identify at least two other viable alternatives to Hunter Douglas and Faber-Benthin.

56. The OFT does not consider that a realistic prospect of a SLC arises as a result of the merger in the supply of components for aluminium venetian blinds.

### THE SUPPLY OF ASSEMBLY MACHINES

57. The parties overlap in the supply of assembly machines. Assembly machines are used to fabricate components into assembled blind systems.

58. Suppliers of components also supply the relevant assembly machines. Therefore, the OFT considers that if there are no competition concerns in the supply of components it would be unlikely that competition concerns arise in the supply of assembly machines. Moreover, the OFT's merger investigation has identified a number of additional suppliers of assembly machines (for venetian and pleated blinds)[5] such as Micro Pneumatics and Techno System.

59. The OFT does not consider that a realistic prospect of a SLC arises as a result of the merger in the supply of assembly machines.

## VERTICAL ISSUES

60. The only vertical issue which arises in this case is in the supply of components (of any system of blind) to fabricators who are rivals to the merged entity in the supply of assembled blinds to either contractors or retailers. The OFT received one concern about this during its investigation. Namely, that after the merger Hunter Douglas would not supply components (or would increase the price of the components that it does supply) in order to make these customers less effective competitors in the downstream activity of the supply of assembled blinds to either contractors or retailers.

[5] Specialist machines are not required for vertical or roller blinds (paragraph 26).

61. The OFT does not consider that the merger itself raises vertical issues. As discussed above, Hunter Douglas will not become substantially stronger in the supply of components than it was before the merger, nor will it be substantially stronger in the supply of assembled blinds to contractors and/or retailers. Therefore, the merger will not materially alter either Hunter Douglas' ability or incentive to foreclose downstream rivals.

## THIRD PARTY VIEWS

62. A large number of third parties were contacted by the OFT in this case. The OFT did not receive any concerns relating to the supply of assembled blinds or in the supply of assembly machines.

63. The OFT did, however, received a number of complaints about the supply of components, particularly those components for use in aluminium venetian blinds. Most of these concerns relate to customers loss of choice as a result of the merger which may lead to an increase in price or a lowering of the quality of components on offer. The OFT received one complaint about vertical foreclosure. These issues have been discussed in this decision.

## ASSESSMENT

64. For the reasons given above the OFT does not consider that the merger gives rise to a realistic prospect of a SLC in the supply of assembled blinds (to either retailers or contractors) or in the supply of assembly machines.

65. The OFT did receive a number of complaints about the supply of components for aluminium venetian blinds and it focused its investigation on this area.

66. The OFT received widespread corroboration of the proposition that before the merger Hunter Douglas enjoyed a strong position in the supply of these components whereas Faber-Benthin was a considerably smaller supplier. The merger therefore represents only a small accretion to Hunter Douglas' existing market position.

67. Third party questioning by the OFT revealed that after the merger, OPL, based in Sweden, is able to replicate in terms of price and quality Faber-Benthin's offering. OPL itself told the OFT that [ ].

68. There was less consensus among customers surrounding the viability of components supplied by those traders who import the components from East Asia. Most customers did not express concern about the quality of these components and were able to point to a number of viable suppliers importing from this region. For those customers who are willing to purchase components imported from East Asia the OFT has found that there are few capacity constraints which would prevent these suppliers from supplying the requirements of Faber-Benthin customers.

69. Other customers did express concern about using components imported from East Asia. But overall, the OFT has found that all customers - regardless of their views on East Asian components - were able to identify several viable alternatives for the supply of their requirements of components for aluminium venetian blinds to act as a constraint on Hunter Douglas from raising prices or lower quality levels as a result of the merger.

70. Given the finding above, and for the reasons set out in paragraph 60, the OFT does not consider that vertical issues arise in this case.

71. 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

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