
Completed acquisition by Interfloor Limited of Stikatak Limited

The OFT's decision on reference under section 22(1) given on 23 July 2008.
Full text of decision published 31 July 2008.

PARTIES

1. **Interfloor Limited** (Interfloor) is primarily a supplier of carpet underlay but is also a manufacturer, importer and distributor of flooring accessories – mainly for carpet but also for vinyl, wood and laminate.
2. **Stikatak Limited** (Stikatak) is a manufacturer, importer and distributor of flooring accessories, primarily for carpet but also for other types of flooring including, vinyl, wood and laminate. Stikatak's turnover during the year ending December 2007 was £14.5 million.

TRANSACTION

3. Interfloor has acquired the entire issued share capital of Stikatak. The transaction completed on 7 April 2008. The parties notified the merger to the OFT on 15 May 2008. The extended administrative target date and the statutory deadline for the OFT's decision are 23 July 2008 and 11 August 2008 respectively.

JURISDICTION

4. As a result of this transaction Interfloor and Stikatak have ceased to be distinct. The parties' overlap in the UK supply of carpet gripper amounts to a combined share of around [75-85] per cent. Consequently 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 a relevant merger situation has been created.

MARKET DEFINITION

Product scope

5. The parties are both principally active in the manufacture, import and distribution of the following flooring (principally carpeting – but also vinyl, wood and laminate) accessories:
 - (1) **Flooring tapes:** products used for securing floor coverings (primarily carpet, carpet tiles, vinyl and lino)
 - (2) **Flooring tools:** a range of equipment used in the fitting of carpet and other floor coverings (For example, heat seam irons for seaming carpets and vinyl trimmers for trimming vinyl)
 - (3) **Carpet gripper:** strips of plywood with protruding pins that are nailed to the floor along the edges of a room and used for stretch-fitting and securing carpet, and
 - (4) **Metal edging:** pre-shaped aluminium strips used to form a transition between two adjacent floor surfaces – typically in internal doorways.
6. The parties submit that, since flooring accessories can be imported or purchased domestically, any company that is active in the supply of one type of flooring accessory can easily expand into the supply of another. In support of this proposition, they point to Stikatak itself which was initially active in the manufacture and supply of metal edgings but subsequently expanded into the supply of other types of flooring accessory. On such a basis, the parties argue that the relevant frame of reference is that for the overall supply of flooring accessories.
7. The evidence received during the course of the OFT's investigation fell short of suggesting a wider 'flooring accessories' market on the basis of supply-side considerations – while the OFT found evidence of suppliers moving towards (or already) offering a flooring accessory 'one-stop-shop', it also found evidence of specialist suppliers of limited product lines.

8. From a demand-side perspective, the parties identified alternative products that customers could theoretically switch to. However, comment from customers indicates that they would not switch from the flooring accessories listed in paragraph five to alternative products in the event of a five to ten per cent price increase in one of those categories.
9. This third party evidence is consistent with the approach taken by the OFT and Competition Commission (CC) in Duralay/Gates, the transaction out of which Interfloor was created.¹ In that case, the OFT and CC considered, without drawing any conclusions as to the exact product scope, the impact of that proposed merger on carpet underlay, carpet gripper and metal edgings separately.
10. The parties estimate that Interfloor's post merger shares of the supply of flooring tapes and flooring tools amount to less than 25 per cent in each case ([10-20] per cent and [15-25] per cent respectively). They also estimate that their combined share of supply in several other related products in which they overlap (such as carpet adhesives) is less than [5-15] per cent. Given also that, throughout the OFT's investigation, no competitive concerns were raised by customers or competitors with regard to any of these products, these segments are given no further consideration within the context of this assessment.
11. In summary, consistent with the approach taken by both the OFT and the CC in Duralay/Gates, the OFT's analysis in this case will focus on the impact of the merger on carpet gripper and on metal edgings.

Geographic scope

12. In Duralay/Gates, the CC found that only small quantities of carpet gripper were imported into the UK (between 5-8 per cent in 1999), and evidence from a UK manufacturer suggested that prices would have to rise a lot before US manufacturers would find it worthwhile exporting to the UK. Such evidence on relative prices and volume of trade led to the conclusion that the relevant geographic market for carpet gripper was the UK.

¹ Proposed acquisition by Duralay International Holdings Limited of Gates Consumer and Industrial – June 2001.

13. In the present case, the parties have provided estimates of import data for 2004-2007 showing that imports have increased significantly since 1999, and accounted for 53 per cent and 59 per cent of carpet grippers and metal edgings in 2007 respectively.
14. While this import data could be said to be indicative of a wider than national geographic market at the production level, the majority of customers (based at the retail and wholesale level) noted a need - principally on the basis of costs and logistics - for flooring accessories to be procured from a national supplier, regardless of whether such accessories were manufactured in the UK or abroad.
15. The OFT has not found it necessary to conclude on the geographic market since the outcome of the competition assessment is not dependent on this. For the purposes of this assessment, the OFT's analysis is on the cautious assumption that the geographic scope for the supply of carpet gripper and metal edgings is no wider than the UK but includes products that are manufactured abroad and supplied into the UK.

HORIZONTAL ISSUES

Carpet gripper

16. Interfloor's post merger UK share of the supply of carpet gripper amounts to [75-85] per cent, with an increment of [20-30] per cent. The evidence available to the OFT, in particular historic market share data, also indicates that the reciprocal competitive constraint exerted pre-merger between Interfloor and Stikatak in these markets was significant. The OFT therefore considers that the loss of such rivalry would have pointed, absent mitigating circumstances, to a substantial lessening of competition.

Erosion of market share

17. In the case of Duralay/Gates, the CC cleared the merger notwithstanding that the parties' combined shares of the supply of carpet gripper amounted to 94 per cent. The CC concluded that there were sufficient competitive constraints posed on the merged entity by low entry barriers and by the threat of increased imports.²
18. The parties have provided estimates of their combined shares of the supply of gripper between 2003 and 2007 which point to a [5-15] percentage point decline (to around [75-85] per cent) in the previous financial year, coinciding with the emergence of importers sourcing carpet gripper from producers in China. This equates to a [10-20] percentage point decline since the time of the CC report (2001). The parties' estimates for the first half of the financial year 2008 point to a further and sharper decline in their market shares in carpet gripper to around [70-80] per cent.

Alternative sources of supply

19. Opinion on the part of customers in the carpet gripper segment varied as to the number of alternative UK suppliers available although most could name at least three or four alternative suppliers. The case for competitive constraint being posed by alternative suppliers is undermined if customers face high switching costs. In the course of the OFT's investigations in this case, however, the vast majority of customers of carpet gripper considered

² Paragraphs 1.8, 2.60 and 2.80.

that switching between suppliers was easy and achievable at no significant cost.

20. Consistent with its cautious assumptions with regard to the geographic scope of the market (see paragraphs 13 to 15), however, the OFT attributes weight to the effectiveness of competition only from suppliers who source carpet gripper independently from UK-based manufacturers or importers other than Interfloor and Stikatak. On such a basis and given the available evidence, the OFT considers that customers will be able to exert disciplinary pricing constraint on the merged entity by either switching or threatening to switch to at least five credible, alternative UK suppliers.

Barriers to entry and expansion

21. In Duralay/Gates, the CC found that Duralay itself had entered the market for the manufacture and supply of gripper in response to price increases by the erstwhile dominant supplier, Gripperods. The CC reports that Duralay's market entry was effected by the purchase in 1993 of a second-hand gripper line for £170,000. Given such low costs and that the technology involved was relatively straightforward, the CC concluded that entry barriers to the supply of carpet gripper were low.

Imports

22. Although in the present case the parties affirm the conclusions drawn by the CC as to ease of entry through starting up manufacture in the UK, third party comment supports their further submission that increases in the costs of raw materials have made imports of carpet gripper a substantially more attractive means of market entry and expansion. Several competitors proposed that importing carpet gripper from China would require only minimal set-up costs.
23. The CC pointed to evidence of imports in the context of its report on Duralay/Gates, and also considered that there was a likelihood that imports would increase were the prices of gripper to rise. Evidence before the OFT indicates that prices of UK and US manufactured product have indeed risen over the previous five years and that since 2001 a total of eleven firms have either entered the UK market or are expanding within it on the basis of imports of carpet gripper from either the US or from China. Stikatak

itself increased its share of supply from 'minimal' in 2001 to the [20-30] per share it achieved in the last year. Furthermore, based on the available data, the OFT calculates that, on the basis of imported carpet gripper, Dickinson Moore achieved a market share of [5-10] per cent in the two years that it has been operating (through the supply of imports from China).

24. The parties further assert that significant spare capacity amongst manufacturers of carpet gripper both in the US and in China amounts to as much as double the total annual sales in the UK. Given that comment from third parties also points to ample spare capacity, the OFT considers that importers into the UK face low barriers (in the form of additional warehousing, distribution logistics, and absence of capacity constraints at the manufacturer level) to expansion.

Assessment on carpet gripper

25. Taking account of the erosion of the parties' previously substantial shares of supply, customers' ability to switch to alternative UK suppliers, low barriers to market entry and, in particular expansion through imports, the OFT considers that this merger does not lead to a substantial lessening of competition in the supply of carpet gripper in the UK.

Metal edging

26. Interfloor estimates that its post-merger share of the UK supply of metal edging amounted to around [40-50] per cent during the previous financial year – an increment of [20-30] per cent. Further information provided by the parties indicates that their shares of the supply of metal edging, rather than having been eroded over the previous five years as they have with carpet gripper, have remained relatively constant over that period.
27. Although not determinative, historic shares of supply data indicate that the parties have been close competitors, and this was corroborated by most customers.

Alternative sources of supply

28. According to Interfloor, one competitor, Morley, has a market share of around 26 per cent and there remain a further three companies, Gradus, Unika and Parallel each with market shares of around eight per cent. The remainder of the supply side is made up of a number of additional smaller competitors, including a number of companies importing product from China.

Barriers to entry and expansion

29. The CC reported in the Duralay/Gates case – taking account of Duralay's submission that the largest cost associated with the manufacture of metal edgings was the purchase of a metal press at around £10,000 – that the overall costs involved in setting up production of metal edging appeared to be low. In the present case, some (though not all) third party comment suggests that market entry into the supply of metal edging is more difficult and more costly than entry into the market for the supply of carpet gripper. However, the evidence available – in the form actual and planned new market entry – indicates that barriers are surmountable.
30. The parties point to companies such as Unika, Parallel and West Co as examples of new entry over the same period. The OFT also received evidence from a potential new market entrant regarding the various options available to it for procuring supplies and establishing a route to market.
31. The OFT received no comment from third parties that disputed the parties' proposition that there are no significant barriers to any competing suppliers of metal edging to expand further and that no significant investment would be required to do so.

Imports

32. Although in the present case the parties affirm the conclusions drawn by the CC as to ease of entry through starting up manufacture in the UK, they argue that new entry into this market is now more likely to occur through imports from China of metal edging that comprises partly or fully finished aluminium strips.

33. In support of their submission that importing has become a more attractive market entry route than manufacture, the parties estimate that imports of metal edging into the UK have increased from a 12 per cent share of the total supply to 53 per cent over the previous five years. Interfloor imports all of its metal edging from China, Stikatak imports from China around half of its total supply.

Assessment on metal edging

34. Taking account of customers' ability to switch to alternative UK suppliers and the evidently surmountable barriers to market entry and expansion through imports, the OFT considers that this merger does not lead to a substantial lessening of competition in the supply of metal edging in the UK.

Countervailing buyer power

35. A substantial number of customers indicated to the OFT that they considered that they had a degree of buyer power when negotiating their purchases of carpeting accessories. Three customers submitted that there would be no reduction in buyer power as a result of the merger. However, two customers considered that the merger will reduce their negotiating power due to the limited number of alternative suppliers. On the basis of the available evidence, the OFT considers that although customers may not possess a great deal of buyer power, they are able to source product from outside of the UK if they wish to.

COORDINATED EFFECTS

36. On the basis of the evidently surmountable barriers to entry, asymmetric shares of supply and cost bases (for example, domestic production versus imported product) and in the absence of identifiable capacity constraints, the OFT does not consider that this merger raises any increased scope for coordination amongst the competing suppliers.

THIRD PARTY COMMENTS

37. The OFT directly approached 30 customers and received comments on the merger from a total of 13, the majority of whom were unconcerned. Three

customers raised concerns with regard to the reduction in the number of competitors. These concerns have been addressed in the context of this decision.

38. The OFT also spoke to 11 competitors, three of whom raised concerns. One considered itself to be a specialist provider of metal edging who perceived an increasing trend for customers to procure all their carpet accessories from one single source. That third party felt that the merger would make it easier for Interfloor (as a volume supplier of carpet edging) to expand into that third party's niche products than it would be for itself to expand into volume supplies. The evidence before the OFT, however, indicates a preference amongst some customers for a consolidated supply base offering a 'one-stop shop'. The OFT therefore considers that any expansion by the merged entity along the lines proposed by the third party would be driven by demand, and would not of itself raise competition concerns. Another competitor submitted that Interfloor's 'Gripperrods' range may give Stikatak products extra competitive edge if similarly branded. Such a concern was not raised by any customers, and so the OFT can attribute only limited weight to such a speculative theory of harm. Finally a third competitor (who sourced product from the merging parties) also raised concerns as to the reduction in the number of suppliers, and these have been addressed above.

ASSESSMENT

39. The parties overlap in the supply of carpeting accessories, including flooring tapes, flooring tools, carpet gripper and metal edging.
40. On the basis of the parties' combined shares of supply and third party comment, the OFT has assessed the impact of this merger in detail on the carpet gripper and metal edging segments only.
41. In carpet gripper, the parties' combined share of supply amounts to some [75-85] per cent. However, taking account of evidence of a continual decline in the parties' combined share of supply, customers' ability to switch to alternative UK suppliers and low barriers to market entry and expansion through imports of the product, the OFT considers that this merger does not lead to a substantial lessening of competition in the supply of carpet gripper in the UK.

42. In metal edgings, the parties' combined shares of supply are approximately [40-50] per cent. On the basis of customers' ability to switch to alternative UK suppliers and the evidently surmountable barriers to market entry and expansion through imports, the OFT considers that this merger does not lead to a substantial lessening of competition in the supply of carpet gripper in the UK.
43. 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

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