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Anticipated acquisition by Schneider Electric (UK) Limited of Get Group plc

The OFT's decision on reference under section 33 given on 2 November 2006. Full text of decision published 10 November 2006.

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**Please note that square brackets indicate figures which have been replaced by a range at the request of the parties for reasons of commercial confidentiality.**

**PARTIES**

1. **Schneider Electric (UK) Limited (Schneider)** is a manufacturer of products for the distribution, and industrial application, of electricity. It produces medium and low-voltage products such as final distribution products, industrial control and automation components, busbar trunking and power distribution and medium-voltage switchgear.
2. **GET Group plc (GET)** is a UK based designer, developer and distributor of electrical products. GET's UK turnover for the financial year ended 31 August 2005 was £76.3 million.

**TRANSACTION**

3. Schneider announced the terms of a recommended cash offer, dated 11 September 2006, to acquire all of the issued and to be issued shares of GET. Schneider notified the transaction to the OFT on 21 September 2006. The statutory deadline expires on 2 November 2006.

**JURISDICTION**

4. As a result of this transaction Schneider and GET will cease to be distinct. The UK turnover of GET exceeds £70 million, so the turnover test in section 23(1)(b) of the Enterprise Act 2002 (the Act) is satisfied. The OFT therefore believes that it is or may be the case that arrangements are in

progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

## RELEVANT MARKET

### Product market

5. The parties overlap in the supply of final low-voltage panel boards; wiring devices and systems and the provision of hand tools and associated consumables<sup>1</sup>.
6. For final low-voltage panel boards and wiring devices and systems, Schneider proposed the following product market segmentation which is in line with the European Commission's analysis in *Schneider/Lexel*<sup>2</sup> and *Schneider/Legrand*<sup>3</sup> although the Commission did not conclude on whether individual components of the final panel-boards should be considered separately.
  - (i) Final low voltage panel-boards including circuit breakers, earth leakage protection, lightning protection, measurement and regulation devices and BUS devices for communication (individual components);
  - (ii) Wiring devices and systems; with further sub-segments
    - Switches and outlets
    - Components (e.g. sockets, light switches, luminaire couplers, common accessories, products for industrial use, installation electronic components etc.)
    - Control systems (for heating, lighting, air conditioning, etc.)
    - Electrical accessories for example: installation boxes, cable clips, fixings and fasteners
    - Trunkings<sup>4</sup>.

Third party views support this segmentation and sub-segmentation although one competitor argued that individual components of the final low

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<sup>1</sup> For example: drill bits, blades and electric tape.

<sup>2</sup> Case IV/1434 Decision dated 3 June 1999.

<sup>3</sup> Case COMP/M2283 Decision dated 10 October 2001.

<sup>4</sup> Comprising horizontal and vertical services carriers such as PVC conduit and mini trunking, channelling etc.

voltage panel-boards should be considered separately. The OFT received no concerns from third parties in respect of these product segmentations.

7. The provision of hand tools and associated consumables is diverse. Schneider submits that this category does not constitute a product market rather it comprises a miscellany of products. Third parties have not proposed any segmentation of the hand tools and associated consumables segment and the OFT received no concerns from third parties in respect of these products.
8. For this case it is not necessary for the OFT to conclude on the product scope of the frame of reference in the absence of competition concerns. For completeness the OFT has considered the following (i) final low voltage panel-boards and individual components (ii) wiring devices and systems; with the further sub-segments listed in paragraph 6 and (iii) hand tools and associated consumables.

### **Geographic market**

9. Schneider submitted that the geographic scope for final low voltage panel-boards is at least EU-wide because technical standards are established at that level and because installation rules for these products are mainly harmonized across the European Union. By contrast, the Commission concluded in *Schneider/Legrand* that the market for equipment used in final panel-boards is national. Third party comments also indicated that competition takes place on a national level.
10. For wiring devices and systems and the further sub-segments outlined in the product market section above. Schneider submitted the geographic scope is national due to national differences in configuration, trade practices, installation rules, customers' brand loyalty, consumer taste and transport costs for trunking systems.
11. For hand tools and associated consumables Schneider submitted that given these products are generally mass manufactured, subject to international standards and may be both imported and exported the market is at least EU-wide.
12. Third party responses failed to segment the product scope into the segments and sub-segments listed above when commenting on the geographic dimension of competition although noted that, for all the

segments and sub-segments the OFT has adopted, a UK distribution presence is preferable.

13. The OFT considers that it is not necessary to conclude on the geographic scope of the frame of reference since the assessment does not change on an EU or UK frame of reference. For the purposes of the competition assessment, a UK geographic scope is considered for all product segments and sub-segments in addition to an EU-wide scope for final low voltage panel-boards (including individual components) and hand tools and associated consumables.

## **HORIZONTAL ISSUES**

### **Market shares**

14. On a UK basis, the merged entity would have UK shares of supply across all segments and sub-segments that range from less than five per cent (with an increment of [0-5] per cent) in the hand tools and associated consumables segment to [25-30] per cent (increment [0-5] per cent) in the sub-segment of switches and outlets (control systems).
15. The parties confirmed that the share of supply data for individual components of final low voltage panel-boards are not significantly different from those stated for the category as a whole. Moreover, GET does not generally sell individual components separately for use in panel boards.
16. Schneider has a UK share of supply in excess of [10-15] per cent in final low voltage panel-boards; switches and outlets (control systems) and trunkings whilst GET has minimal presence in these segments/sub-segments. Conversely, in switches and outlets (components) GET has a UK share of supply of [10-15] per cent, in contrast Schneider has minimal presence. In the remaining segments and sub-segments, switches and outlets (combined) and electrical accessories the parties estimate their combined UK share is no more than [15-20] per cent on a UK basis. On this basis, the OFT considers that the presence of the parties in the UK is largely complementary.
17. The analysis does not alter on an EU-wide basis for final low voltage panel-boards and hand tools and associated consumables. Schneider has an EU-wide share of supply of [25-30] per cent (increment [less than 1] per cent) for final low voltage panel-boards and a EU-wide share of supply of less

than five per cent with an increment of less than one per cent for hand tools and associated consumables.

18. Third parties raised no concerns in relation to the individual segments and sub-segments. Many noted that there is limited competition between the parties and do not consider them close competitors. The evidence seen by the OFT shows that post-merger a number of alternative suppliers would be present in all segments and sub-segments considered in this decision, including Hager; Siemens; Honeywell; Eaton; and Legrand.

### **Portfolio issues**

19. The OFT considered whether this transaction would lead to any portfolio effects given that Schneider and GET products appear to be of largely complementary nature. In particular the OFT considered whether the merged entity could anti-competitively bundle the sales of Schneider's products with those of GET. This concern was raised by a few third parties.
20. However, third parties said that there are a number of suppliers active in the UK in all segments and sub-segments considered in this decision e.g. Eaton, Siemens, Honeywell and Legrand that could also bundle products together and compete with the merged entity, and customers can and do purchase products on a stand alone basis from multiple suppliers therefore enabling competitors to compete in individual segments and sub-segments. The OFT therefore considers that the potential ability to bundle would have only a limited effect on the competitive position of the merged entity.

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

21. Schneider submitted that the availability of third party manufacturing capacity in markets that export to the UK such as the Far East means that market entry in the UK can be achieved with relatively little expenditure. Accordingly, Schneider argued that the costs of market entry relate principally to sales and marketing and that new entry could be achieved on the basis of investment measured in hundreds of thousands of pounds. Conversely, Schneider submitted trunking products are principally distributed on a national basis rather than wider due to relatively high transport costs.

22. Third party comments have been mixed on barriers to entry. Some gave examples of a number of new entrants though were not clear on which segments/sub-segments they entered, whilst others commented that the cost of entry and the time it takes depends on whether a supplier purchases from third parties or manufactures its own products. However, the OFT considers that it is not necessary to conclude on barriers to entry given that this transaction does not give rise to competition concerns.

### **VERTICAL ISSUES**

23. This merger does not raise any vertical issues.

### **THIRD PARTY VIEWS**

24. The majority of third parties did not raise competition concerns. A few raised concerns that the transaction would enable Schneider to tie products together anti-competitively and these have been dealt with above.

### **ASSESSMENT**

25. The parties to this transaction overlap in the supply of final low-voltage panel-boards and wiring devices and systems with further sub-segments; and hand tools and associated consumables. The increment to the combined share of supply for each segment and sub-segment is low, comments from third parties indicate that the parties are not close competitors; and a number of competitors will remain post-merger.
26. In relation to the portfolio issues raised, third parties stated that there are a number of suppliers active in the UK in all segments and sub-segments considered in this decision that could also bundle products together and compete with the merged entity, and customers can and do also purchase products on a stand alone basis from multiple suppliers.
27. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

### **DECISION**

28. This merger will therefore not be referred to the Competition Commission under section 33(1) of the Act.