OFFICE OF FAIR TRADING

Anticipated merger between Acco World Corporation and General Binding Corporation

The OFT's decision on reference under section 33 given on 4 July 2005. Full text of decision published 15 July 2005.

Please note that square brackets indicate information excised or replaced by a range at the parties' request.

PARTIES

1. **Acco World Corporation (Acco)** is a subsidiary of **Fortune Brands, Inc. (Fortune Brands)** which is incorporated in the US. In the UK, Acco supplies office equipment including binding and laminating products and consumables, shredders, boards and easels under various brands.

2. **GBC Corporation (GBC)** is a US company which produces punch and bind equipment and related supplies. Its UK turnover for the year ending 31 December 2004 was [less than £70 million].

TRANSACTION

3. Fortune Brands, Acco and GBC have agreed that, firstly, Fortune Brands will spin off Acco and its worldwide subsidiaries to Fortune Brand's stockholders, by distributing all outstanding shares of common stock of Acco World Corporation owned by Fortune Brands to Fortune Brand's stockholders on a pro rata basis. Second, and immediately following such distribution, Acco and GBC will merge in a stock-for stock merger of a wholly-owned subsidiary of Acco with and into GBC, with GBC surviving as a wholly-owned subsidiary of Acco. The merger company will be called Acco Brands. GBC shareholders will receive one Acco Brands share in exchange for each GBC share they hold. Upon closing of the transaction, Fortune Brands' shareholder will own approximately 66 per cent of Acco Brands Corporation and GBC's shareholders will own approximately 34 per cent.

4. The transaction has also been notified in the USA, Germany and Spain. The administrative deadline for announcement of the OFT's decision in this case expires on 6 July 2005.

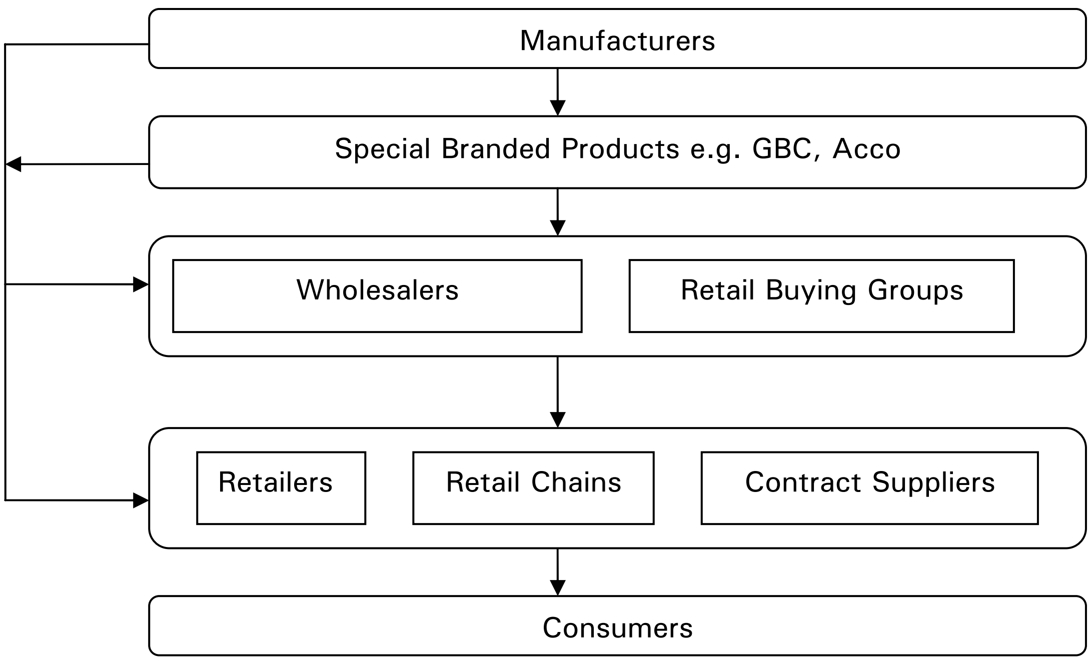
JURISDICTION

5. As a result of this transaction, Acco and GBC will cease to be distinct. The parties overlap in the supply of binding equipment and consumables, laminating equipment and consumables, boards and easels, and shredders, with a share of supply of 30 to 60 per cent (depending on the product). Therefore, 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 arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

RELEVANT MARKET

6. The parties supply branded stationery equipment (manufactured by themselves and/or by contract manufacturers) to wholesalers, retailer purchasing groups, retail chains and contract stationers, all of whom then resell products further down the supply chain[1] (see Figure 1 below).

Figure 1



[1] Wholesalers and retail buying groups supply end-users, retailers, retail chains and contract suppliers, whilst retailers, retail chains and contract suppliers supply end-users only.

7. The parties overlap in the following stationery products:

- binding equipment
- binding equipment consumables, (e.g. binding strips and combs)
- laminating equipment
- laminating equipment consumables, (e.g. laminating pouches or film)
- document shredders; and
- boards and easels (including markers).

8. Acco supplies the majority of the products listed above under the Rexel brand; boards and easels are supplied under the Nobo and Sasco brand. GBC supplies under the GBC, Ibico and Quartet brands.

Product scope

Substitutability between stationery products

9. The parties submit that on the demand-side, customers of binding equipment and laminating equipment could and would, in the event of a price rise, switch to another product type. However, third parties maintain that end-users choose a specific product based on its particular task and functionality and would not consider substituting it with another stationery product. On the supply-side, limited information has been provided on the substitutability between different product types and the parties source each product type from different suppliers. On balance, it therefore appears appropriate for this assessment to consider each product category separately.

Consumables

10. Consumables, such as laminating film and binding strips/combs, might either be considered in conjunction with, or separate from, the initial purchase of the binding or laminating equipment. Third parties acknowledge that the original equipment and consumables are complementary products, but note that consumables are not brand-specific with a number of suppliers specialising only in these products. The parties maintain and third parties confirm that although some customers tend to purchase both equipment and consumables together there was nothing to hinder stand-alone purchase. Therefore, consumables will be considered separately from the initial purchase of binding and laminating equipment.

Types of end-user

11. Acco maintains that while the distribution channel[2] between home/office and commercial customers varies, the actual product differences are very limited and do not merit further sub-segmentation. Moreover, suppliers of products sold to the home/office segment could easily enter the commercial products segment and vice versa. However, third parties note a difference to the extent that products sold to commercial customers are slightly superior in quality as compared to lower-end products directed towards the home/office segment. In addition, commercial users might require a level of after-sales support, especially in laminating. For the purpose of this case it is not necessary to conclude on this point, given that even on the narrowest frame of reference, i.e. home/office and commercial customers being considered separately, the transaction does not give rise to a significant lessening of competition.

12. No distinction in terms of distribution channel has been suggested for shredders and boards and easels.

Conclusion on product scope

13. For the purpose of this assessment the OFT therefore considers separately

- each type of stationery product,
- the original equipment separately from consumables (secondary products), and,
- home/office products separately from the whole sector including commercial binding and laminating products.

Geographic scope

14. On the demand side, some customers stated they would consider international suppliers while others would prefer a supplier with a UK presence. There is some evidence to suggest that some customers procure from the rest of Europe.

15. On the supply side, the majority of stationery products sold in the UK are imported from Europe or the Far East which might prima facie indicate a geographic scope wider than national. The parties maintain that a manufacturer active outside the UK could distribute its products easily into the UK, with transport costs of between 8-15 per cent of total cost. However, some competitors submit that prices vary throughout Europe and that there may be scope for price discrimination.

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[2] Commercial products are sold through value-added retailers or directly to customers, while home/office products are sold to retailers, wholesalers, contract stationers and retail buying groups.

16. While it appears that manufacturers outside the UK, mainly in the rest Europe and the Far East, supply stationery products into the UK the evidence on timeliness and ease of distribution in inconclusive. Therefore, supply of the products in question to the UK will be considered separately.

Conclusion on relevant frame of reference

17. For the purposes of this assessment the appropriate frames of reference are the supply in the UK of:

- binding equipment (home/office and commercial respectively);
- binding equipment consumables (home/office and commercial respectively);
- laminating equipment (home/office and commercial respectively);
- laminating equipment consumables (home/office and commercial respectively);
- document shredders; and
- boards and easels.

HORIZONTAL ISSUES

Market shares

18. The parties have provided estimates of their shares in the supply of each stationery product category discussed above.

Table 1: UK Share of supply data for stationery product sales in 2004

(Shares for binding and laminating equipment and consumables excludes the commercial sector)

	GBC per cent	Acco per cent	*Combined per cent*	HHI Increment (maximum)	Size of sector £m
Binding Equipment	15-20	25-30	*40-50*	1200	*[~5-15]*
Binding Consumables	15-25	15-25	30-50	1250	[~5-20]
Laminating Equipment	[5-15]	40-45	50-55	900	[~5-20]
Laminating Consumables	15-25	15-25	30-50	1250	[~5-20]
Shredders	<1	[30-40]	30-40]	68	[~20-30]
Boards & easels	<5	25-30	25-35	300	[~30-40]

Source: The parties[3]

Binding Equipment

19. The parties estimate the size of the commercial sector, typically categorised by higher-value products, is worth approximately [ ] in comparison to home/office sales of [ ]. The parties have submitted and third parties confirmed that Acco is not present in the commercial segment and that its focus is primarily on lower-end home/office binding equipment typically imported from the Far East. On the basis of this narrowest frame of reference, i.e. the UK supply of low end home/office binding equipment, the merged entity would supply up to 40-50 per cent (increment 15-20 per cent). However, if the total binding market (including commercial sales) were considered, the combined share would amount to approximately [20-30 per cent]. On a European basis, the parties' combined share of binding equipment (including consumables) would be [26-36] per cent.

20. Post-merger there are relatively few large suppliers present but the parties maintain there remains a fringe of smaller suppliers. The parties have listed 39 suppliers throughout the world active in the binding equipment segment. The next largest competitor supplies approximately 15-25 per cent of binding equipment in the UK.

21. Notwithstanding these shares of supply, the binding equipment segment in the UK has been increasingly competitive in recent years due to production moving to the Far East, with significant price reductions especially in home/office equipment.

[3] While these are the parties' best estimates, some third parties have submitted different data. However, in the absence of publicly-available data it has not been possible to validate the party's information from independent sources.

The parties estimate a price reduction of approximately [0-10 per cent] per year in the home/office segment, with binding machines typically selling at below £750 today. There is evidence that a supplier recently withdrew from the market due to low margins.

22. The OFT also assessed whether the merged entity would be able to exploit a multi-branding strategy, given that the parties hold three major brands. Third party views on the importance of branding have been mixed, with a majority believing that branding was not essential. Customers also maintained that they themselves and end-users would be willing to switch if prices increased. While the parties supplied several examples of switching, robust data was not available. There is some evidence to suggest that end-users are more susceptible to switching in the lower-end home/office equipment or consumables segments where both GBC and Acco overlap. Overall, it appears that the importance of branding is more significant for commercial products where Acco is not present.

23. The parties also submitted that several customers purchase on the basis of annual or bi-annual bid-competitions. However, no robust bidding data was available.

24. The investigation has revealed that the most significant competitive constraint on the parties post-merger may be the threat of new entry or, indeed re-entry of exited suppliers. In addition, it appears that nothing would prevent customers from buying directly from manufacturers, should prices increase. These aspects are considered more fully under barriers to entry and expansion below.

Binding equipment consumables

25. Table 1 shows that the merged entity would supply up to 30-50 per cent (increment 15-25 per cent) of the UK home/office binding equipment consumables segment. As for binding equipment set out above, Acco is not present in the commercial segment. However, if the total binding consumables segment (including commercial sales) were considered the combined share would be reduced to 20-25 per cent.

26. Post-merger Gilmex, Fellowes, own label and Vivid would remain present, supplying the UK home/office binding consumables segment. As with binding equipment, alternative suppliers are active in the commercial segment. The parties maintain, and third parties confirm, that there are numerous small competitors supplying consumables. The parties list 46 known suppliers many of whom are based in China and the US.

27. In terms of switching, representations received suggest that customers are more likely to switch to own-label or alternative branded products in this segment because consumables are not tied to the branded equipment and volumes purchased are higher.

Laminating equipment

28. Table 1 shows that the merged entity supplies up to 50-55 per cent (increment approximately [5-15 per cent]) of the UK home/office laminating equipment segment. Notwithstanding that Acco is not present in the commercial segment, if the total laminating equipment segment (including commercial sales) were considered; the combined share is reduced to 40-50 per cent[4]. On a European basis, the parties' combined share of laminating equipment (including consumables) would amount to [33-43 per cent].

29. Post-merger, the second largest supplier would hold a 15-25 per cent share of the UK home/office segment, with two other competitors supplying <10 per cent. The parties list 63 known suppliers of binding equipment.

30. There is evidence that three suppliers have recently exited this market due to low profit margins. It has also been submitted to us that there is one example of recent entry.

31. The market characteristics for binding and laminating equipment are very similar with production increasingly being outsourced to the Far East. Customers are generally the same resulting in virtually identical procurement and distribution processes. The parties submit and third parties confirm that prices for laminating equipment have declined with laminating machines now selling for less than £400 with a price reduction of [0-10 per cent] per annum. As outlined for binding equipment above, the most significant restraints on the parties post-merger include direct sourcing from manufacturers, the threat of entry, and to some extent brand switching.

Laminating equipment consumables

32. Table 1 shows that the merged entity supplies up to 30-50 per cent (increment 15-25 per cent) of the UK home/office laminating equipment consumables segment, decreasing to a 25-35 per cent[5] share when the total market (including commercial sales) is considered. As with binding consumables, Gilmex, Fellowes, own label and Vivid remain supplying the UK home/office binding consumables. The parties also list 44 alternative suppliers. As for binding equipment consumables, laminating equipment consumables are not tied to the original equipment and switching therefore appears to be easy. Third parties maintain that alternative suppliers are available or could easily enter.

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[4] The combined share of supply includes GMP. GBC has a 20 per cent stake in GMP and a right to appoint 1/3 of the Board of Directors.

[5] The combined share of supply includes GMP. GBC has a 20 per cent stake in GMP and a right to appoint 1/3 of the Board of Directors.

Document shredders

33. The parties do not distinguish between the home/office and commercial segment and estimate the value of the market at [ ]. The parties estimate that their combined share of supply in the UK will be [29-39 per cent] (increment [<5 per cent]). The merged entity will face competition from another supplier with a share of supply of 35-40 per cent and the parties have provided a list of a further 32 suppliers of shredders (with the majority located in China).

Boards and easels (including markers)

34. The merged entity would supply up to 25-35 per cent (increment <5 per cent) of the UK boards and easels segment. One competitor estimated the parties' combined share may be in excess of [65-75] per cent but also notes that the exact size of the grey (import) market is unknown.

35. However, post-merger, BiSilque, Stanford, Bic and Edding would remain in competition with the parties. Own label supply represents 15-20 per cent[6]. The parties provide a list of 25 manufacturers of easels and 40 suppliers of boards. Third parties contacted were unconcerned.

Portfolio effects

36. Customers have submitted that they tend to purchase products on a stand-alone basis and there is no indication that there exist any 'must-have' products. In the absence of third party concerns the OFT does not consider this transaction to raise any portfolio issues.

Barriers to entry and expansion

37. The most significant competitive constraint that the parties face is the threat of new entry and/or customers' ability to source directly from manufacturers. There do not appear to be any product specific barriers to entry and the parties submit that there are no intellectual property requirements.

38. The majority of stationery equipment is imported into the UK and there seems to be a growing tendency to source lower-end products from the Far East, primarily from China and Korea. Respondents submitted that overseas production capacity could be increased easily. The parties also gave the example of one competitor who operates without a UK distribution base[7] delivering directly from Asian manufacturers. Moreover, there appears to be excess capacity in the industry with the parties' production plants running at a utilization rate of [64-74] per cent.

[6] But Acco is a significant supplier of own label boards and easels. [ ]

39. Third parties agree that in theory there is nothing to prohibit entry, or indeed re-entry, although some note the potential issue of branding and the cost of advertising in catalogues of £6,000-10,000. Yet, on the balance of the evidence it appears that branding is less important for home/office products, i.e. the segment where the parties overlap. Moreover, the parties have submitted data that demonstrates a growth in own-label supply[8] and this trend is also confirmed by third parties.

40. It appears that new competitors could enter the industry via outsourcing. The parties maintain that no exclusive manufacturing contracts are in place and one competitor believed it actually shared one of its manufacturing sources with one of the parties. In the binding equipment segment, a competitor maintained there were four or five major factories and with a little knowledge anyone could gain supply. Furthermore, in the consumables segment third parties submitted that there were numerous small entrants exploiting cheap direct supply. There is evidence of entry and the parties cite two recent examples.

41. Notwithstanding third parties' comments about branding, the available evidence on balance supports the view that barriers to entry are in any event not insurmountable, given the characteristics of the industry set out above, in particular ease of entry via manufacturers in the Far East.

Buyer power

42. Customers include wholesalers, retail buying groups, contract stationers and retail chains. The parties maintain GBC's five largest customers in the home/office segment represent more than [75-85] per cent of sales whilst Acco's 10 largest represent over [70-80] per cent of sales and therefore they have some buyer power vis-à-vis the suppliers. End-users from the commercial sector, offices and the general public purchase relatively small quantities of stationery products and are therefore not considered to possess any buyer power.

43. On balance, even though some buyer power may remain for volume purchasing, this may be weakened to some extent by the reduction of brand choice as a result of the anticipated transaction.

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[7] One competitor estimated that is would cost approximately £50,000 to set up a distribution company. Another competitor estimated this to be around £10,000.
[8] The parties provided estimates that the binding equipment and consumables segment own-labels increased from [0-5] per cent in 2002 to approximately [5-15] per cent in 2004; laminating equipment and consumables own-label saw no presence in 2002 and this increased to approximately 5-10 per cent in 2004; shredders increased from approximately [0-5] per cent in 2004 to [5-15] per cent in 2004; and in board/easels the parties maintain own-label held no share until 2004 where it represented a 15-20 per cent.

THIRD PARTY VIEWS

44. The majority of third parties were not concerned. To the extent that potential issues were raised about branding these have been dealt with above.

ASSESSMENT

45. Post-transaction, the merged entity would be the largest UK supplier of binding equipment and consumables, laminating equipment and consumables, document shredders and boards and easels.

46. However, several large competitors and a fringe of smaller competitors will remain post-merger and recent entry indicates that barriers to entry are not insurmountable. There currently appears to be excess capacity in this industry and prices have generally decreased in recent years, as a result of the relocation of the production to the Far East.

47. While branding appears to be relevant to some extent, especially for the commercial segment, the majority of third parties contacted confirmed that they would switch suppliers if prices increased. In any event, customers could source directly from manufacturers and Acco itself is not present in the commercial sector.

48. 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

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