

# Anticipated acquisition by OSRAM Limited of RGI Light (Holdings) Limited and Ring Automotive Limited

## Decision on relevant merger situation and substantial lessening of competition

**ME/6791/18**

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 8<sup>th</sup> of April 2019. Full text of the decision published on 16<sup>th</sup> of May 2019.

Please note that [X] indicates 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.

### SUMMARY

1. OSRAM Limited (**OSRAM**), part of the OSRAM Licht Group, has agreed to acquire RGI Light (Holdings) Limited and Ring Automotive Limited (together, **Ring**) (the **Merger**). OSRAM and Ring are together referred to as **the Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of OSRAM and Ring is an enterprise; that these enterprises will cease to be distinct as a result of the Merger; and that the share of supply test is met. Accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

3. The Parties overlap in the supply of traditional automotive bulbs (eg incandescent, halogen and high intensity discharge (**HID**) bulbs) and retrofit LEDs<sup>1</sup> to aftermarket customers in the UK.
4. The CMA has assessed whether the Merger will result in a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in relation to a frame of reference for the supply of traditional automotive bulbs and retrofit LEDs to aftermarket (trade and retail) customers in the UK.
5. The Parties' combined share of supply of traditional automotive bulbs and retrofit LEDs to aftermarket customers is around [50-60]% in the UK. However, the CMA considers that this may be over-estimating the Parties' share of supply. In addition, the evidence received by the CMA indicates that OSRAM and Ring are reasonably differentiated suppliers. Overall, the CMA believes that the Parties are not particularly close competitors and that, post-Merger, the merged entity will face sufficient competitive constraint from other suppliers of automotive bulbs to aftermarket customers in the UK.
6. Accordingly, the CMA believes that the Merger does not give rise to a realistic prospect of a SLC as a result of horizontal unilateral effects.
7. The Merger will also create a vertical relationship between the Parties with regard to the supply of automotive bulbs. Post-Merger, OSRAM will be able to sell its automotive bulbs using Ring's distribution network which is also used by competitors of OSRAM to distribute their own automotive bulbs to the UK aftermarket. The CMA has therefore assessed the impact of the Merger on the merged entity's ability to foreclose OSRAM's upstream competitors from access to aftermarket customers in the UK.
8. However, the evidence available to the CMA indicates that the Parties would not have the ability to foreclose OSRAM's competitors post-Merger, as OSRAM's competitors in the supply of automotive bulbs will have sufficient alternative options and post-Merger would have alternative routes to access the UK automotive bulb aftermarket.
9. The CMA therefore believes that the Merger does not give rise to a realistic prospect of a SLC as a result of vertical effects.

---

<sup>1</sup> The Parties are also active in the supply of LED inspection lamps and working lights, but due to OSRAM's limited activity (with approximately [x] pieces sold in a [x], resulting in circa [x] sales), the CMA has found no plausible basis for competition concerns arising from the Merger in the supply of LED inspection and working lights in the UK, and has therefore not considered this further.

10. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

## ASSESSMENT

### Parties

11. The ultimate parent company of OSRAM is a multinational manufacturer of lighting products headquartered in Germany, OSRAM Licht Group. OSRAM is effectively the UK-based salesforce operation of OSRAM Licht Group and distributes bulbs manufactured within the OSRAM Group. In the UK, OSRAM supplies automotive bulbs both through the original equipment manufacturers (**OEM**) channel and the aftermarket channel, operating under two brands, OSRAM and Neolux. The turnover of OSRAM in 2017 was approximately £3.5 billion (EUR 4.11 billion) worldwide and approximately £[REDACTED] in the UK.
12. Ring is a UK-based supplier of various products predominantly to aftermarket customers, including bulbs. Ring does not manufacture any of the bulbs it supplies in the UK and imports bulbs from manufacturers located elsewhere in the EEA, and from Asia. In the UK, Ring operates under two main brands, Ring and Carlex.<sup>2</sup> The turnover of Ring in 2017 was approximately £[REDACTED] worldwide and approximately £[REDACTED] in the UK.

### Transaction

13. The transaction involves the proposed acquisition by OSRAM of the entire issued share capital of Ring.
14. The Parties informed the CMA that the Merger is also the subject of review by competition authorities in Austria and Slovenia. The Merger has been cleared by both of these authorities. Completion of the Merger is conditional on UK merger control clearance.

### Jurisdiction

15. Each of OSRAM and Ring is an enterprise. As a result of the Merger, these enterprises will cease to be distinct.
16. The Parties submitted that they overlap in the supply of automotive bulbs to aftermarket customers in the UK, with a combined share of supply of [30-40]%

---

<sup>2</sup> A small proportion ([REDACTED]) of Ring's sales of traditional automotive bulbs to aftermarket customers in the UK in 2018 accounted for several brands that are sold as [REDACTED], including [REDACTED], among others.

(increment of 10%). The CMA therefore believes that the share of supply test in section 23 of the Act is met.

17. The CMA 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.
18. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 20 February 2019 and the statutory 40 working day deadline for a decision is therefore 17 April 2019.

## Counterfactual

19. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.<sup>3</sup>
20. In this case, there is no evidence supporting a different counterfactual, and neither the Parties nor third parties have put forward arguments to support a different counterfactual. Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual.

## Background

21. Automotive bulbs can be divided into categories on the basis of:
  - (a) the function they perform in a vehicle (eg headlamp, indicator, brake light, etc);
  - (b) location in the vehicle (eg internal lighting or external lighting);
  - (c) type of vehicle (eg passenger, motorcycle, commercial, etc);
  - (d) quality (eg longevity and/or brightness); and

---

<sup>3</sup> [Merger Assessment Guidelines](#) (OFT1254/CC2), September 2010, from paragraph 4.3.5. The [Merger Assessment Guidelines](#) have been adopted by the CMA (see [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, Annex D).

- (e) the nature of technology employed.
22. In terms of the technology employed, automotive bulbs can be broadly divided into two categories: traditional bulbs, and bulbs employing other lighting technology, eg light emitting diodes.
23. Traditional automotive bulbs are typically used as external lighting for on-road purposes and as internal lighting. External lighting for on-road use has to be compliant with UNECE (the United Nations Economic Commission for Europe's) specifications, which is a globally-recognised standard. Traditional automotive bulbs include:
- (a) incandescent bulbs;
  - (b) halogen bulbs, which are mainly used in headlamps (with a small number used for other exterior lightning); and
  - (c) high intensity discharge (**HID**) bulbs, which are used for headlights.
24. Automotive lamps employing light emitting diodes can be divided into:
- (a) external lighting for on-road purposes which is compliant with UNECE specifications (but which is not a direct substitute to traditional automotive bulbs in vehicles not already fitted for such technology) (**LEDs**); and
  - (b) internal lighting for cosmetic purposes, as well as external lighting for off-road purposes (such as for show and exhibition vehicles, and racing events) (**retrofit LEDs**). Retrofit LEDs incorporate an LED light source into the design (voltage, size and shape) of an existing incandescent (or halogen) bulb which enables the consumer to replace and/or upgrade an existing bulb with an LED version. External retrofit LEDs cannot be used for on-road purposes due to not complying with the required UNECE specifications.<sup>4</sup>
25. In terms of sales channels, automotive bulbs can be sold to original equipment manufacturers (**OEM**) such as vehicle manufacturers and/or to aftermarket customers.
- (a) OEM customers purchase automotive bulbs for installation during the manufacturing process of a vehicle.

---

<sup>4</sup> The Parties submitted that the large majority of vehicles employ traditional bulbs, as opposed to bulbs employing LED light arrays, for external on-road purposes (eg headlamps, brake lights, indicators).

(b) Aftermarket customers purchase automotive bulbs as a replacement part or as an add-on option during the lifetime of the vehicle.

26. There are two main groups of aftermarket customers:

(a) Trade customers, which include buying groups,<sup>5</sup> independent garages and workshops, and independent distributors (ie not affiliated to buying groups).

(b) Retail customers, which include specialist retailers (such as Halfords) as well as general retailers (such as Tesco, The Range, Sainsburys). Retail customers may be predominately bricks and mortar retailers (such as Halfords, which is the most significant retailer of automotive bulbs in the UK) or mainly e-commerce retailers.

## **Frame of reference**

27. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.<sup>6</sup>

## ***Product scope***

28. The Parties overlap in the supply of traditional automotive bulbs, and in the supply of automotive retrofit LEDs, to aftermarket customers in the UK.

### *Supply of traditional automotive bulbs and retrofit LEDs*

29. The CMA has considered the narrowest plausible frames of reference in which the Parties overlap, before considering whether demand- or supply-side factors justify widening the product scope.

30. The Parties submitted that notwithstanding the variations between individual automotive bulbs, the relevant frame of reference should include the supply of

---

<sup>5</sup> Buying groups are groups (usually of distributors) that work together to leverage supply and pricing at an aggregated level for their group members. Members of buying groups may either be owned by a buying group itself or remain independent. Buying groups may be international (such as LkQ/ATR, Nexus, Temot, AD International and Group Auto) or regional (UK-only buying groups and distributors include: Factors Group 7, FSG, PDP, CT Autoparts, CPA, SES Autoparts and APD).

<sup>6</sup> [Merger Assessment Guidelines](#), paragraph 5.2.2.

traditional automotive bulbs (incandescent, halogen and HID) and retrofit LEDs because of their supply-side substitutability. The Parties argued that LEDs (other than retrofit LEDs) should be excluded due to the lack of demand-side substitutability with traditional automotive bulbs. In addition, the Parties submitted that LEDs are mostly supplied by a different set of suppliers.

31. The Parties also submitted that further distinction on the basis of functionality and/or quality was not appropriate because the Parties' customers purchase on the basis of ranges as opposed to individual bulb types, and all significant competitors to OSRAM and Ring supplying to aftermarket customers offer similar ranges of automotive bulbs.
32. The Parties' competitors supplying automotive bulbs to aftermarket customers told the CMA that they do not specialise in the supply of automotive bulbs on the basis of various bulb categories, but tend to offer a range of traditional automotive bulbs and retrofit LEDs, although they do not typically offer LEDs (which, as explained above, are not directly substitutable in vehicles not fitted for such technology).
33. Customers told the CMA that they buy automotive bulbs in ranges and confirmed that suppliers of automotive bulbs (including distributors) tend to multi-source from a number of manufacturers to be able to offer their customers a range of bulbs.
34. Given the above, the CMA has considered the impact of the Merger in the supply of traditional automotive bulbs and retrofit LEDs, without segmenting supply further on the basis of quality, application or vehicle type.
35. The CMA has then considered whether the supply of traditional automotive bulbs and retrofit LEDs to (i) OEM customers and (ii) aftermarket customers constitute separate product frames of reference.

#### *Segmentation by sales' channel*

36. In the present case, the Parties submitted that sales to aftermarket customers should be assessed under a frame of reference which is separate from sales to OEM customers mainly on the basis of the different set of suppliers that serve OEM customers (these customers are mainly supplied by the original equipment (**OE**) manufacturers of automotive light bulbs). In addition, whilst OSRAM currently supplies bulbs to both aftermarket customers and to OEM customers, Ring is solely an [X] and has never supplied to [X].
37. Third parties told the CMA that customers considered the aftermarket and OEM to be distinct product markets with different sets of suppliers of

automotive bulbs for each of the two channels. Similarly, suppliers to the aftermarket channel who responded to the CMA's merger investigation said that they did not supply to the OEM, focusing solely on supply to aftermarket customers.

38. This evidence was consistent with an OSRAM internal document<sup>7</sup> which distinguished aftermarket and OEM as two separate market segments within the overall automotive lighting market.
39. For these reasons, the CMA has considered the impact of the Merger on the supply of automotive bulbs to aftermarket customers separately in its competitive assessment.

#### *Segmentation by customer groups*

40. The Parties supply automotive bulbs predominantly to two customer groups within the aftermarket, namely trade customers (which include buying groups and distributors not affiliated to buying groups) and retail customers.<sup>8</sup> Therefore, the CMA has considered whether each of these distinct customer groups should constitute a separate product frame of reference.
41. The Parties submitted that it is not appropriate to segment the frame of reference by customer groups within the aftermarket because end consumers purchasing replacement bulbs in the aftermarket can meet their needs in several ways, including online purchase, and buying from a garage or a retailer for DIY ("do-it-yourself") or DIFM ("do-it-for-me").
42. Competitors told the CMA that they supply automotive light bulbs across various customer groups. Similarly, customers within different customer groups have indicated the same or similar alternative suppliers of automotive bulbs.
43. The CMA, in the course of its investigation, has not found evidence of any particular factors presenting a barrier to supplying automotive bulbs to any particular customer group.
44. The CMA has therefore assessed the impact of the Merger on the supply of automotive bulbs to the overall aftermarket in the UK, without segmenting it further by individual customer groups.

---

<sup>7</sup> [REDACTED].

<sup>8</sup> A further customer group in the UK aftermarket, independent garages and workshops, is largely supplied via the buying groups and/or distributors. This is a small area of supply for Ring, whereas OSRAM does not supply directly to independent garages and workshops. Therefore, the CMA has not considered this customer group further in its competitive assessment of the Merger.



### *Appropriate product frame of reference*

45. For the reasons set out above, and on a cautious basis, the CMA has considered the impact of the Merger in the supply of traditional automotive light bulbs (incandescent, halogen and HID) and retrofit LEDs to aftermarket customers.
46. However, it was not necessary for the CMA to reach a conclusion on the precise product frame of reference, since, as set out below, no competition concerns arise on any plausible basis.

### ***Geographic scope***

47. The Parties' relevant activities overlap mainly in the UK. Whilst OSRAM operates a global business, Ring is largely active in the UK ([REDACTED]).
48. The Parties submitted that the relevant geographic market is at least EEA-wide due to the lack of material country-specific features in the supply of automotive bulbs, and in particular on the basis that: (i) the products sold are largely the same across the EEA and are sold at broadly similar prices; (ii) many of the suppliers selling to UK customers are also based in other EU Member States, and the competitive conditions are similar; (iii) many of the customers in the UK are part of pan-European buying groups that have a pan-European approved supplier list and pricing arrangement; and (iv) if bulbs were sold at a higher price in the UK, there would be scope for arbitrage (bringing in product from other EU Member States and further afield including the Far East) or, alternatively, suppliers based in other EU Member States setting up in the UK.
49. The Parties also submitted that there are no suppliers active in the manufacture of automotive bulbs in the UK. Instead, bulbs are sourced or otherwise imported from suppliers located in other EU countries or from further afield, including numerous manufacturers located in Asia. Ring imports bulbs into the UK from its manufacturer sources, all of which are [REDACTED]. In addition, the Parties submitted that the transportation costs are low (for instance, OSRAM's total transportation costs from Germany to the UK accounted for [0-5]% of its total revenue from sales of bulbs to aftermarket customers in the UK).
50. However, some evidence received during the CMA's investigation indicated a narrower UK-wide frame of reference. In particular, evidence indicated that sales and marketing support might be targeted to a particular national market and packaging might be tailored to be country specific. Competitors supplying automotive bulbs in the UK tend to have a local sales team in the UK. Some

competitors who responded to the CMA's merger investigation considered that having a national UK sales team was important or very important. Similarly, the majority of customers who responded to the CMA's merger investigation said that a UK sales team is a factor which is important or important to some extent when choosing their supplier of automotive bulbs.

51. Several customers of the Parties who source automotive bulbs across several countries told the CMA that they considered competitive conditions in the supply of automotive light bulbs to be different depending on the specific demands of national markets. [X] told the CMA that whilst the same suppliers of automotive light bulbs can be present in several countries, their prices and supply terms tend to differ from country to country. In this respect, the CMA notes that Ring is the largest supplier of automotive bulbs in the UK but has limited sales in [X].

#### *Appropriate geographic frame of reference*

52. For the reasons set out above, and on a cautious basis, the CMA has considered the impact of the Merger in the UK. The CMA has considered evidence of a level of competitive constraint from the direct supply by European and Asian manufacturers in its competitive assessment.
53. However, it was not necessary for the CMA to reach a conclusion on the precise geographic frame of reference, since, as set out below, no competition concerns arise on any plausible basis.

#### **Conclusion on frame of reference**

54. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of traditional automotive bulbs and retrofit LEDs to aftermarket customers in the UK.

## **Competitive assessment**

### ***Horizontal unilateral effects***

55. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or to degrade quality on its own and without needing to coordinate with its rivals.<sup>9</sup>

---

<sup>9</sup> [Merger Assessment Guidelines](#), from paragraph 5.4.1.

56. Horizontal unilateral effects are more likely when the merging parties are close competitors. The CMA has assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects in the supply of traditional automotive bulbs and retrofit LEDs to aftermarket customers in the UK.

*Shares of supply*

57. The Parties submitted that their combined share of supply of traditional automotive bulbs<sup>10</sup> to aftermarket customers in the UK in 2018 was [30-40]%, with an increment of 10% resulting from the Merger (Table 1).

**Table 1: Market shares in the UK aftermarket in 2018**

	2018	
	Sales £ (m)	%
OSRAM	[X]	[10-20]
Ring	[X]	[20-30]
<b>Combined</b>	[X]	[30-40]
Total UK aftermarket	[X]	100

*Source: Parties' sales data*

58. The Parties' estimates of the market size and their shares of supply were not consistently supported by other evidence, such as the Parties' internal documents and views of competitors and customers. The CMA has therefore used information on revenues from suppliers of automotive bulbs to the UK market to reconstruct the market and relative shares of key players and this information is shown in Table 2 below.

**Table 2: CMA revised market shares<sup>11</sup> in the UK aftermarket in 2018**

	Market shares (2018)	
	Sales £ (m)	%
OSRAM	[X]	[10-20]
Ring	[X]	[40-50]
<b>Combined</b>	[X]	[50-60]
Philips	[X]	[5-10]
Elta/Lucas	[X]	[5-10]
Autolamps	[X]	[5-10]
Hella*	[X]	[0-5]

<sup>10</sup> The market shares provided exclude retrofit LEDs. The Parties submitted that retrofit LEDs is a negligible market for them in comparison to traditional bulbs and that including retrofit LEDs in the estimation of shares of supply would make very little impact on overall shares of supply.

<sup>11</sup> The market shares provided in Table 2 include traditional automotive bulbs and retrofit LEDs.

GE/Tungsrām**	[X]	[0-5]
Bosch	[X]	[0-5]
JLR Distribution (Simply)	[X]	[0-5]
Other***	[X]	[10-20]
<b>Total market</b>	[X]	100
<p>*The Parties' estimate, confirmed by third parties.</p> <p>**GE/Tungsrām sales to its customers other than Ring.</p> <p>***The CMA applied an assumption that other suppliers would account for approximately 10% of the market.</p>		

Source: CMA's estimates based on the Parties' and third parties' data

59. Table 2 suggests that the Parties' combined share of supply of automotive light bulbs to aftermarket customers in the UK may be around [50-60]%, with an increment of approximately [10-20]%.
60. However, given that there are significant variations in the market size estimates and methodologies used by the Parties, provided by competitors and contained in market reports, there is a degree of uncertainty which limits the weight that can be put on the shares of supply submitted by the Parties in Table 1 (or those estimated by the CMA in Table 2 above), especially because the relative shares of supply are not consistently supported by other sources of evidence.
61. The CMA also notes that Table 2 may under-estimate the total size of the market and over-estimate the Parties' shares because these estimates are based on an incomplete revenue data set and do not take account of the shares of supply of a number of competitors supplying traditional automotive bulbs mentioned by third parties, including Astra Automotive, Skyparts, Ledo, Eurolec, Valeo, PIA, Guradian, and Bosma.
62. The CMA also notes that the market size estimates do not take into account direct sales from Asian suppliers. As explained below in the competitive assessment, the CMA received evidence that some customers already source directly from Asian suppliers, and a number of other customers consider this to be a viable option.
63. In addition, as discussed further below (see paragraphs 94 to 97), the CMA notes that a significant proportion of demand in the market (and the Parties' sales) are from large customers, who could easily switch and/or increase demand from other suppliers, if dissatisfied with the Parties. For instance, more than half of Ring's sales are to [X] and these sales account for [X] of the total size of the UK aftermarket. Similarly, a buying group [X], which is OSRAM's largest customer, accounts for 5% of the UK aftermarket.

64. Given the uncertainty in relation to shares of supply, the CMA has placed greater weight on evidence regarding the closeness of competition between the Parties and the competitive constraints from alternative suppliers.

### ***Closeness of competition***

65. The CMA has examined the closeness of competition between the Parties and considered within its assessment:
- (a) the Parties' views;
  - (b) evidence from internal documents; and
  - (c) third party views.

### ***Parties' views***

66. The Parties submitted that they are not close competitors due to the differences in their respective business models, as well as their product and service offerings; in particular because:
- (a) OSRAM predominantly sells premium OSRAM-branded bulbs and, to a smaller extent, mid-range Neolux branded bulbs.<sup>12</sup> By contrast, Ring offers mid-range Ring branded bulbs and a small number of budget Carlex branded bulbs.<sup>13</sup>
  - (b) OSRAM is a global lighting specialist and manufacturer which only supplies lighting bulbs. By contrast, Ring is a one-stop-shop supplier of a wide range of automotive parts to aftermarket customers in the UK, including tyre care, battery care, workshop equipment, and automotive lighting.<sup>14</sup>
  - (c) OSRAM has a small sales team based in the UK but no UK warehousing or distribution facility. It therefore tends to serve large customers that can manage their own distribution. On the other hand, Ring has a material UK sales force team of around fifteen people and supplies to its aftermarket customers through its UK distribution network.
  - (d) The Parties' customer base differs. OSRAM's aftermarket customer base is predominantly large trade buying group customers. Ring, on the other hand, targets a much broader range of trade customers, including smaller

---

<sup>12</sup> Neolux branded bulbs account for [20-30]% of OSRAM's sales.

<sup>13</sup> Carlex branded bulbs account for [0-5]% of Ring's sales.

<sup>14</sup> Automotive lighting accounts for approximately [40-50]% of Ring's sales to aftermarket customers in the UK.

wholesalers and motor factors. On the retail side, OSRAM is almost exclusively supplying to e-commerce retailers. By contrast, Ring does not supply [REDACTED], and its retail customer base is predominantly [REDACTED].

- (e) OSRAM undertakes a very limited amount of private label sales, which does not [REDACTED]. By contrast, Ring undertakes significant private label sales, notably to [REDACTED], which accounts for [REDACTED] of Ring's revenues.

### *Internal documents*

67. Whilst the Parties' internal documents indicate that they consider themselves to be among the main suppliers of automotive bulbs to aftermarket customers in the UK, they do not suggest that the Parties consider each other to be their closest competitors.
68. A study conducted by GfK for OSRAM in 2016,<sup>15</sup> which sets out the nature and make-up of the aftermarket in the UK, focusses on suppliers such as OSRAM, Philips, Ring, Lucas and Bosch. It lists 15 brands of automotive bulbs: the 5 brands of the competitors mentioned in this paragraph, and others such as Bluecol, Autobar, Classic, Eurolec, Autolamps, and AA.
69. Ring's presentation to OSRAM prepared in view of the Merger<sup>16</sup> lists OSRAM as one of its competitors, alongside Philips, Lucas, Ecco, and Bosch.
70. Additional presentations prepared by Ring and delivered to OSRAM in 2018<sup>17</sup> considered Ring branded automotive bulbs to be in a similar price range as OSRAM branded automotive bulbs. In terms of the Parties' respective quality, Ring bulbs ranked below OSRAM and Phillips, but above Bosch and other competitors such as Lucas, Hella, and Tetrosyl.
71. The CMA also reviewed a record of OSRAM's negotiations tracked on an informal basis and containing 20 approaches by customers since 2017,<sup>18</sup> and reviewed Ring's documents relating to its responses to the requests by three buying groups (IFA, AAG and Parts Alliance) to pitch or provide a quote for the supply of automotive bulbs.<sup>19</sup>
72. Whilst the evidence available to the CMA is limited in scope and does not take into account all of the Parties' discussions with their customers (a proportion of which tends to be on an informal basis), the available data suggested that

---

<sup>15</sup> [REDACTED].

<sup>16</sup> [REDACTED].

<sup>17</sup> [REDACTED].

<sup>18</sup> RFI 1, p.32.

<sup>19</sup> RFI 3, p. 11, p.14-15.

the Parties have no significant overlap of their top customers, with the exception of buying groups. However, a number of buying groups told the CMA that they tend to multi-source to complement their ranges and are therefore more likely to source from both Parties.

73. In terms of competition between the Parties, an internal strategy document for Ring<sup>20</sup> noted Ring's future strategy was to "develop [a] new relationship with [X] for workshop equipment & bulbs." Whilst [X] is OSRAM's current customer, [X] told the CMA that it does not consider OSRAM and Ring to be competitors as they supply bulbs at different levels, in particular, OSRAM supplies higher quality ("OE level") bulbs, whereas Ring's bulbs are a mid-level product.

### *Third party views*

74. Customers generally considered that the Parties did not compete very closely. Half of the customers who responded to the CMA's merger investigation said that the Parties competed moderately, and a quarter considered that the Parties competed weakly.
75. Several customers told the CMA that the Parties supplied different quality products, some of whom also noted a price difference between the Parties. For example, one customer told the CMA that: "OSRAM is considered [to be a] Tier-1 supplier while Ring falls in the Tier-2 category." Another customer considered that: "OSRAM is a far superior quality and price in comparison to Ring. Customers will often decide if they want premium or a lower quality from a price perspective."
76. Similarly, a competitor told the CMA that it did not consider that OSRAM and Ring competed strongly with each other as "OSRAM is considered OE and Ring [aftermarket]."
77. Customers and competitors generally identified different competitor sets for each of the Parties in their responses to the CMA's merger investigation. In particular, OEM customers (such as Philips and GE/Tungshram) were most often mentioned as OSRAM's competitors. By contrast, suppliers without their own manufacturing capabilities (such as Lucas, Hella and Bosch) were most often mentioned as Ring's competitors.
78. Although the CMA noted that several customers, most notably buying groups, sourced from both OSRAM and Ring, evidence indicated that such customers often considered the Parties' product ranges to be complementary as

---

<sup>20</sup> [X].

opposed to close alternatives. For example, a buying group [X] did not consider the Parties to be close competitors, explaining that buying groups tend to multi-source automotive bulbs from a number of suppliers, which can often include both of the Parties, in order to offer a more complete range to their own customers. Similarly, another buying group Alliance Group did not consider the Parties to be competing closely.

79. Whilst several third parties told the CMA that the Parties did compete,<sup>21</sup> a number of them considered that the extent of their competition was limited to the Parties' limited overlap in the supply of medium range automotive bulbs.<sup>22</sup> In particular, a customer told the CMA: "[Ring competes] with OSRAM brand very little. More so on OSRAM's secondary cheaper brand [...] Neolux." Autolamps noted that Ring's automotive bulbs competed with OSRAM's Neolux branded bulbs, but not with OSRAM branded products. Similarly, a competitor submitted that "[the Parties] are two of the largest players on the market, offer similar quality products and are focussed on the same channels", it recognised that OSRAM (alongside Philips and GE/Tungsgam) was top tier for quality, while Ring (alongside Lucas, OSRAM's Neolux and Bosch) was a supplier of Tier 2 bulbs.
80. Whilst some third parties acknowledged that Ring and OSRAM were both significant suppliers to aftermarket customers, third parties have consistently considered that the Parties had different product quality propositions. OSRAM was viewed as a supplier of higher quality ("Tier 1" or "OE standard") bulbs, which was mainly associated with it being an automotive bulb manufacturer, whereas Ring was generally considered to be a supplier of medium ("Tier 2") quality automotive bulbs.
81. On the basis of this evidence, the CMA believes that OSRAM and Ring are reasonably differentiated suppliers who compete against each other to some degree, but who do not appear to be particularly close competitors in the supply of automotive bulbs and retrofit LEDs to aftermarket customers.

### ***Alternative suppliers***

82. Unilateral effects are more likely where customers have little choice of alternative suppliers. The CMA has therefore assessed whether there are alternative suppliers which would provide a competitive constraint on the

---

<sup>21</sup> Bosch said it did not know whether OSRAM and Ring competed.

<sup>22</sup> OSRAM's sales of medium range Neolux brand accounted for [20-30]% of its sales of automotive bulbs in 2018.



merged entity in the supply of automotive bulbs to aftermarket customers in the UK.

83. The Parties submitted that post-Merger, there will remain a number of competitors which will exercise a constraint on the merged entity in respect of the supply of automotive bulbs to aftermarket customers in the UK, which include: Lucas/Eltta, Philips, Autolamps, Bosch, Hella, GE/Tungsrarn, etc.
84. The CMA has assessed the constraint from alternative suppliers by taking into consideration evidence from internal documents, third-party views, switching, and the competitive constraint from European and Asian suppliers.

#### *Internal documents*

85. The Parties' internal documents supported the view that there are a number of competitors supplying automotive bulbs in the UK which exert a competitive constraint (see paragraphs 67 – 69).
86. The Parties' internal market analysis documents also indicated end-consumer and customer awareness of a number of alternative automotive bulb suppliers.
  - (a) A consumer survey prepared for Ring<sup>23</sup> indicated that [redacted] scored highest for automotive bulb brand awareness, followed by [redacted] and [redacted]. In this survey, OSRAM ranked as number 7, while Ring ranked as number 9, below other alternative competitors, including Bosch, Philips and Lucas Electrical.
  - (b) Similarly, a brand tracking report by OSRAM<sup>24</sup> suggested that OSRAM viewed Philips as a very close competitor. The report assessed and compared customers' and end consumers' brand perceptions in several countries (including in the UK), focussing exclusively on OSRAM and Philips. This is consistent with another OSRAM internal document,<sup>25</sup> which identified Lumileds (Philips) alongside GE/Tungsrarn as its key competitors in the context of global competition.

#### *Third party views*

---

<sup>23</sup> [redacted].

<sup>24</sup> [redacted].

<sup>25</sup> [redacted].

87. Third parties (customers) responding to the CMA's merger investigation identified various alternative suppliers of automotive bulbs including: Philips, Bosch, GE/Tungshram, Hella, Lucas/Elta, Autolamps, etc.
88. The vast majority of customers who responded to the CMA's merger investigation told the CMA they currently purchase automotive bulbs from at least one alternative supplier in addition to the Parties.
89. Third parties (customers and competitors) also told the CMA that the Parties' respective competitor sets differed. In particular, customers typically considered OSRAM to be competing with higher quality suppliers ("Tier 1" or "OE quality" manufacturers such as Philips and GE/Tungshram). Ring, on the other hand, was typically believed to be competing with other "Tier 2" suppliers such as Lucas, Hella and Bosch.
90. A buying group told the CMA that there is intense competition between OSRAM and Bosch in the Tier 1 bulbs category, and that Bosch is "constantly fighting to win market share by matching range and pricing." In addition, Alliance Automotive said that Elta (Lucas – CMA's note) "actively targets Ring business with competitive pricing and generous rebate offers" and has made "major changes (range extension, lower pricing, etc) to make their offer more lucrative than Ring's."
91. Competitors that responded to the CMA's merger investigation typically identified one party as a closer or stronger competitor than the other party. For instance, [REDACTED] submitted that Ring was its main competitor but said that OSRAM was "considered OE to commercial specialists." [REDACTED] noted that it competed with Ring very strongly, but not so strongly with OSRAM. [REDACTED] considered that OSRAM (but not Ring) was one of its "major competitors in the market for OE quality lamps".
92. Whilst a number of competitors identified by third parties have a smaller share of supply when compared to the Parties, the CMA has not found any evidence suggesting that this could impact competitors' ability to compete and/or expand their supply to accommodate switching customers. In particular, one large retail customer told the CMA that sourcing from a smaller supplier would be an option if they wished to switch.
93. Two customers raised concerns regarding the possible reduction of choice post-Merger, however, one of them noted that it did not believe that this would be to such an extent as to negatively impact the market. A competitor expressed concerns that the Parties would have "huge buying power" post-Merger which could impact the "market price". No other third parties raised competition related concerns about the Merger.

## *Switching*

94. Evidence received from those customers accounting for a significant proportion of the Parties' revenues suggests they have options of alternative suppliers and can easily switch to and/or increase their orders with other suppliers.
95. In particular, several of the Parties' large customers who also account for a significant proportion of total demand of automotive bulbs in the aftermarket in the UK considered they can easily switch to other suppliers. For example, Halfords told the CMA that it regularly tests the market and has alternative options such as Bosch, Philips and Autolamps. Halfords also told the CMA that it could alternatively start sourcing directly from automotive bulb manufacturers, including those located in Asia.
96. Similarly, a buying group [X], which is already multi-sourcing from a number of suppliers including Philips, told the CMA that there are many other alternatives in the market, including large suppliers, as well as regional and smaller aftermarket bulb manufacturers.
97. Evidence of customers' past switching suggests that changing a supplier of automotive bulbs is not difficult. In particular, Halfords told the CMA that it had ceased using Bosch, moving all of its business to Ring. Another customer said that it had switched from Lucas to Ring.
98. Based on the above evidence from internal documents and third parties, the CMA believes that there is a sufficient range of alternative suppliers in the market remaining post-Merger which will constrain the merged entity.

## *Competitive constraint from European and Asian suppliers*

99. The Parties submitted that a level of competitive constraint is exerted by European and Asian manufacturers.
100. More than half of the customers who responded to the CMA's merger investigation considered that purchasing automotive bulbs directly from European manufacturers could be a viable option. A customer told the CMA that it was already purchasing from European manufacturers, which it believed to be giving it "a competitive edge in the market." A third of respondent customers, however, expressed the opposite view, for reasons including not sourcing high enough volumes to get direct supply from European manufacturers and lack of trust in the quality or supply chain.
101. Similarly, more than half of the customers who responded to the CMA's merger investigation considered that purchasing automotive bulbs directly

from Asian manufacturers (where UNECE approved) could be a viable option. Whilst two customers expressed concerns about the quality of the bulbs of Asian suppliers, two other customers told the CMA that they are already purchasing automotive bulbs from Asian manufacturers. In addition, the CMA notes that Ring is purchasing some of its bulbs from [X] manufacturers.

102. Third party views were consistent with one of OSRAM's internal documents<sup>26</sup> which considered Asian manufacturers such as [X], among others, to be its competitors. The document referred to the "great cost-advantage of Chinese manufacturers."

103. Evidence of a competitive constraint from Asian suppliers is also reflected in another OSRAM document,<sup>27</sup> in which Chinese manufacturers are monitored.

#### *Conclusion on competitive constraints*

104. On the basis of this evidence, the CMA believes that the merged entity will continue to face sufficient competitive constraints from a number of other competitors supplying automotive bulbs to aftermarket customers in the UK post-Merger, including from suppliers which are currently present in the UK, and at least some level of constraint from European and Asian manufacturers.

#### **Conclusion on horizontal unilateral effects**

105. For the reasons set out above, the CMA has found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of traditional automotive light bulbs and retrofit LEDs to aftermarket customers in the UK.

#### **Vertical effects**

106. Vertical effects may arise when a merger involves firms at different levels of the supply chain, for example a merger between an upstream supplier and a downstream customer, or downstream competitors of the supplier's customers.

107. Vertical mergers may be competitively benign or even efficiency-enhancing, but in certain circumstances can weaken rivalry, for example when they result in foreclosure of the merged firm's competitors. The CMA only regards such

---

<sup>26</sup> [X].

<sup>27</sup> [X].

foreclosure to be anticompetitive where it results in an SLC in the foreclosed market(s), not merely where it disadvantages one or more competitors.<sup>28</sup>

108. In the present case, the Merger will create a vertical relationship to the extent that OSRAM will be able to sell its own automotive bulbs via Ring's more extensive distribution network. Currently, Ring distributes automotive bulbs to the aftermarket in the UK from a range of manufacturers who compete with OSRAM as a manufacturer of automotive bulbs at the upstream level. Accordingly, the CMA has considered whether the merged entity would be able to foreclose OSRAM's upstream competitors' access to aftermarket customers in the UK by replacing automotive bulbs currently sourced by Ring (from rival manufacturers) with automotive bulbs sourced from OSRAM.
109. The CMA's approach to assessing vertical theories of harm is to analyse (a) the ability of the merged entity to foreclose competitors, (b) the incentive of it to do so, and (c) the overall effect of the strategy on competition.<sup>29</sup>

### *Ability*

110. The available evidence indicates that the Merger may result in Ring ceasing to purchase automotive bulbs for distribution from suppliers competing with OSRAM upstream, and replacing them with OSRAM to satisfy Ring's own customers' demand. The Parties noted [REDACTED].
111. However, based on its findings on the Merger's horizontal effects, the CMA considers that Ring does not have sufficient market power to be able to restrict other automotive bulb suppliers' access to aftermarket customers in the UK post-Merger on a significant scale.
112. Moreover, available evidence indicated that other alternative routes to the aftermarket in the UK will remain available to OSRAM's rivals post-Merger. In particular, one of OSRAM's competitors [REDACTED] which is currently [REDACTED] told the CMA that it also supplies through around five other distributors in the UK (although to a significantly smaller extent).
113. While [REDACTED] mentioned that it would be difficult to regain market share via distributors other than Ring and would involve developing business through several (between 7-10) smaller distributors, it confirmed that there are alternative suppliers that it could target (such as Elta, Network Brands, Autolamps, Motaquip and Euro Cat Parts). In addition, while [REDACTED] considered that going direct to retail customers is not a viable option as those are already

---

<sup>28</sup> In relation to this theory of harm, 'foreclosure' means either foreclosure of a rival or to substantially competitively weaken a rival.

<sup>29</sup> [Merger Assessment Guidelines](#), paragraph 5.6.6.

serviced by buying groups (or Ring, in the case of Halfords), it told the CMA that it would consider the option of starting to supply automotive bulbs directly to the buying groups (which currently buy [X]’s automotive bulbs from Ring).

114. Considering the above, the CMA believes that Ring will not have the ability to foreclose OSRAM’s rivals’ access to aftermarket customers in the UK and the CMA has not therefore gone on to consider incentive or effect.

#### *Conclusion on vertical effects*

115. For the reasons set out above, the CMA believes that Ring will not have the ability to foreclose OSRAM’s competitors’ access to aftermarket customers in the UK post-Merger. Accordingly, the CMA has found that the Merger does not give rise to a realistic prospect of a SLC as a result of vertical effects in relation to the foreclosure of access to aftermarket customers by Ring in the UK.

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

116. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC. In assessing whether entry or expansion might prevent an SLC, the CMA considers whether such entry or expansion would be timely, likely and sufficient.<sup>30</sup>
117. However, in this case, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

#### **Third party views**

118. The CMA contacted customers and competitors of the Parties.
119. Third party comments have been taken into account where appropriate in the competitive assessment above.

---

<sup>30</sup> [Merger Assessment Guidelines](#), from paragraph 5.8.1.

## **Decision**

120. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the United Kingdom.
121. The Merger will therefore **not be referred** under section 33(1) of the Act.

**James Waugh**  
**Director, Mergers**  
**Competition and Markets Authority**  
**8 April 2019**