



DETERMINATION OF MERGER NOTIFICATION M/14/021 -

Evo / O2O

Section 21 of the Competition Act 2002

Proposed acquisition by Evo Business Supplies Limited of Office to Office plc

Dated 16 September 2014

Introduction

1. On 21 August 2014, in accordance with section 18 of the Competition Act 2002 ("the Act"), the Competition Authority ("the Authority") received a notification of a proposed transaction whereby Evo Business Supplies Limited ("Evo") would acquire the entire issued and to be issued share capital of Office to Office plc ("O2O"). Evo has been established for the purposes of the proposed transaction and is wholly owned by the Elderflower III Funds, which are owned and managed by Endless LLP ("Endless").
2. At the same time as the proposed transaction, Evo will enter into a conditional acquisition agreement for the acquisition of the entire issued share capital of Vasanta Group ("Vasanta"). Endless, through its Elderflower II Funds, currently holds a majority (71.5%) and controlling share in Vasanta. The parties argue that a merger or acquisition within the meaning of section 16(1) of the Act does not arise with respect to the acquisition by Endless of the remaining combined minority (28.5%) shareholding in Vasanta.¹

The Undertakings Involved

Acquirer - Endless

3. Endless, headquartered in Leeds, Yorkshire, is a UK based private equity firm owned and controlled by two partners: Messrs Garry Wilson and Darren Foreshaw. Endless has investments in various sectors including retail, manufacturing, engineering and distribution.²
4. Within the State [...] ³ [...] ⁴ [...] ⁵ [...] ⁶ [...].

¹ The remaining shareholders are the current Vasanta managers (11%), Ares Capital Corporation (8.56%), Bank of Ireland (5%) and Royal Bank of Scotland Group plc (3.94%).

² For more information on Endless and its portfolio of companies see <<http://www.endlessllp.com/about-us.aspx>> and <<http://www.endlessllp.com/portfolio.aspx>>.

³ [...]

⁴ [...]

⁵ [...]

⁶ [...]

5. For the year ended 30 April 2013 Endless's worldwide turnover was approximately €[...] million, of which approximately €[...] million was generated within the State.⁷

Vasanta

6. Within the Endless portfolio of companies Vasanta is of most relevance to the proposed transaction because of the overlap in the activities of Vasanta and O2O and possible competitive effects arising with respect to the business supplies sector.⁸
7. The business supplies sector covers a large variety of products and services such as:⁹
- a) Traditional office products: stationery, filing products, office machines, commercial paper envelopes, books and pads (exercise books, memo and refill pads).
 - b) Electronic office supplies, also known as computer consumables, such as laser and inkjet printer cartridges, data storage media, computer labels, media storage and CD cases, computer cleaning products, screen filters, copyholders, mouse mats, foot/wrist rests, computer luggage, computer security and cables.
 - c) Paper products of differing product characteristics, e.g., uncoated sheet paper, copier / laser grades, top quality writing paper, specialist inkjet papers, offset and duplicator papers.
 - d) Facilities services products such as janitorial, health and safety, security, catering products etc.
 - e) IT products such as laptop and tablet computers, desk top computers, printers and computer software.
 - f) Office furniture such as seats, desks, storage units, computer trolleys and screens.
 - g) Specialist business products such as business cards and corporate gifts.
 - h) Services such as printing services and document destruction.
8. Vasanta has a central stocking facility located in Rathcoole, County Dublin from where it operates its warehouse and logistics operations for the island of Ireland.
9. Vasanta states that its sales revenue, in both the UK and the State, is generated predominantly by sales of products in [...].¹⁰

⁷ Calculated using an average ECB exchange rate for the period May 2012 to April 2013 of €1 = £0.8178.

⁸ [...]

⁹ [...]

¹⁰ Vasanta states that in the UK, but not the State, services such as printing and document destruction and recycling account for a very small amount [...] of total Vasanta turnover. Correspondence with Vasanta dated 11 September 2014.

10. Within the UK and the State, Vasanta is primarily a 'broadline wholesaler' of business supplies products. Vasanta, through its 'VOW' brand, purchases a very wide range of products from manufacturers which are then supplied to other, typically smaller and/or more specialised, distributors for sale to end user customers, such as larger corporations, small and medium sized enterprises ("SMEs") and government agencies.¹¹
11. Within the UK and the State, Vasanta is also a 'contract stationer' of business supplies products. Vasanta, through its 'Supplies Team' brand, purchases products as required by the end user customer directly from manufacturers and supplies these products directly to the end user customer (rather than, for example, to a distributor such as those described below).¹²
12. The parties state that there are other types of firms, in addition to broadline wholesalers and contract stationers, involved in the distribution of office supplies.¹³
 - a) Manufacturers will, in some instances, deliver business supplies directly to end users, typically to those end users that purchase large quantities of the manufacturer's product.¹⁴
 - b) Specialist wholesalers purchase a particular set of products from manufacturers and sell primarily to dealers and contract stationers and to a lesser extent directly to end user customers.
 - c) Dealers, individually or as part of a group, purchase business supplies from broadline or specialist wholesalers but also directly from manufacturers, and then sell them to end user customers.¹⁵
 - d) Electronic retailers, or so-called "e-tailers", sell business supplies mainly to business end users, and also individual consumers via their websites.
 - e) Retailers sell some office supplies mainly to small businesses and individual consumers.
13. For the year ended 31 December 2013 Vasanta's worldwide turnover was approximately €488.7 million, of which approximately €[...] million was generated within the State.¹⁶

¹¹ In the UK, but not in the State, Vasanta, through its VOW retail brand, is involved in the purchase from manufacturers of memory cards and printer cartridges and the subsequent resale to end user customers.

¹² The term contract stationer is potentially misleading. The products supplied are not limited to stationery but rather reflect whatever products are specified in the contract with the end user customer.

¹³ Notification pp. 11-13.

¹⁴ Vasanta identifies large firms such as Hewlett Packard, Xerox, Lexmark and Accodata and also paper mills as the types of firms that supply direct to end user customers. Notification page 11.

¹⁵ Vasanta states also that

"Dealer groups ... deal direct with manufacturers as far as they can, but also make significant purchases from broadline wholesalers (each dealer group tending to deal in this context with a single broadline wholesaler) and from specialist wholesalers where relevant (e.g. for spot purchases of paper from paper merchants.)" Notification page 12.

¹⁶ Calculated using the ECB annual average exchange rate to 31 December 2013 of €1 = 0.8493.

Target – O2O

14. O2O, a UK based company, is primarily a contract stationer operating through its 'Banner' brand. O2O also provides services such as print management, marketing and secure document disposal.
15. Within the State O2O through the Banner brand, operates only as a contract stationer¹⁷ and is primarily involved in supplying products in the traditional office products category¹⁸ and in paper. O2O has a distribution centre at Newtownards, County Antrim from where it manages its distribution of products within the island of Ireland.
16. O2O states that:

*"While [O2O] has made sales in the State, this only accounts for a small percentage of its overall turnover and it does not have a physical presence in the State."*¹⁹
17. For the year ended 31 December 2013 O2O's worldwide turnover was approximately €273.0 million, of which approximately €[...] million was generated in the State.²⁰

Third Party Submissions

18. No submission was received.

Rationale for Transaction

19. Vasanta states that the proposed transaction is "[...]".²¹
20. O2O states that it has "[...]".²²

Analysis

Market Definition

21. The Authority is of the view that for the purposes of its assessment in the present case it is not necessary to reach a definitive view on the precise product market definition because its conclusions regarding the competitive impact of the proposed transaction would be unchanged regardless of the manner in which the product market is defined. Thus, the Authority considers that it is not necessary to decide whether there are separate markets for different distribution channels for business supplies or whether the market should be defined more broadly, e.g., to include all distribution channels for business supplies.
22. Similarly, the Authority considers that it is not necessary to reach a definitive view on the precise definition of the relevant geographic market. The Authority considers that, regardless of the manner in which the geographic market is defined, the proposed transaction would not result in a substantial lessening of competition in the State.

¹⁷ Notification page 8 and correspondence with O2O dated 11 September 2014.

¹⁸ [...]

¹⁹ Notification page 6.

²⁰ Calculated using the ECB annual average exchange rate for 2013 of €1 = £0.8493.

²¹ [...] See also <<http://www.vasantagroup.com/news.asp>>.

²² [...]

Competitive Assessment

23. There is a horizontal overlap in the activities of the parties within the State. Both Vasanta and O2O are involved in the supply of business supplies products within the State. The horizontal overlap is not significant. O2O's presence in the State is on a small scale as indicated, for example, by its low level of turnover generated in the State.²³ Consequently, the Authority is of the view that, in this instance, the proposed transaction will not give rise to significant merger-specific competitive effects in the State.

24. The parties argue that any overlap in the activities of the parties in the State is not significant because Vasanta and O2O operate mainly through different distribution channels. The parties state, for example, that:

"[...]"²⁴

25. This argument appears to imply that the parties are not close competitors within the State, and suggests that business supplies product markets could be defined in terms of distributor type.

26. The parties also argue, however, that business supplies distributors operating in any of the various channels described above, in paragraph 12, compete with all other business supplies distributors including broadline wholesalers and contract stationers, i.e. that there is one large market comprising different types of business supplies distributors. For example, the parties state that:

*"The parties' experience shows that ... what the buyer of business supplies (dealer or end user customer) wants is delivery (generally next-day delivery) of the specific products within the business supplies range which it wants at the best available price at the time. Who supplies them is almost immaterial to the customer. Business supplies, with next-day delivery services, are widely available from many different sources. Customers know that this is the case, actively 'shop around' across different distribution channels as well as within them and do not remain tied to any specific route to market or supplier."*²⁵

27. The parties state further that the business supplies sector is characterised by rigorous price competition, low customer switching costs and flexible non-exclusive contractual arrangements. The parties state:

"[...]"²⁶

28. The parties state also that typically business supply customers (either end users or intermediate purchasers such as dealers) buy from more than one distributor. For example Vasanta estimates that its dealer

²³ [...]

²⁴ [...]

²⁵ Notification pp. 20-21. The parties note *Case M.6382 Unipapel/Spicers*. In that case the European Commission identified different business supplies distributor categories but left open the definition of product markets with respect to distributor category.

²⁶ [...]

customers typically buy approximately [...] of their business supply products (by value) from Vasanta and the remaining [...] from other distributors.²⁷

29. Within the State, the small size of O2O together with the market characteristics described above suggest that the proposed transaction would not lead to significant horizontal competition concerns. Nor does O2O have greater competitive significance than its turnover would suggest. [...] ²⁸
30. In addition the presence within the State of firms such as Office Depot, Lyreco, Staples and Codex and Spicers²⁹ would continue to provide a competitive constraint subsequent to the implementation of the proposed transaction.
31. The proposed transaction will not give rise to significant vertical competition concerns within the State. Within the State, the presence of other business supplies distributors, including contract stationers, indicates that the merged entity would have neither the opportunity nor the incentive to engage in input or customer foreclosure.

Conclusion

32. In light of the above the Authority concludes that the proposed transaction will not substantially lessen competition in any market for goods or services in the State.

²⁷ [...]

²⁸ [...]

²⁹ See <<http://www.spicers.ie>>.

DETERMINATION

The Competition Authority, in accordance with section 21(2)(a) of the Competition Act 2002, has determined that, in its opinion, the result of the proposed transaction whereby Evo Business Supplies Limited would acquire the entire issued and to be issued share capital of Office to Office plc will not be to substantially lessen competition in any market for goods or services in the State and, accordingly, that the acquisition may be put into effect.

For the Competition Authority

Stephen Calkins
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