

***Case No IV/M.1534 -
PINAULT-
PRINTEMPS-
REDOUTE / GUCCI***

Only the English text is available and authentic.

**REGULATION (EEC) No 4064/89
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 22/07/1999

*Also available in the CELEX database
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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels,

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) No 4064/89 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sirs,

Subject: Case No IV/M.1534 – Pinault-Printemps-Redoute/GUCCI

1. On 18/06/1999, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89¹ by which the undertaking Pinault-Printemps-Redoute S.A. (“PPR”) will acquire within the meaning of Article 3(1)(b) of the Council Regulation control of the undertaking Gucci by way of a purchase of shares.

I. THE PARTIES

2. PPR is a major French and European retailing specialist, active in specialised distribution sectors throughout the world. Its activities are structured around four divisions: retail, credit and financial services, wholesale and international trade. Following its recent acquisition of Sanofi Beauté, PPR is currently also active in the production and sale of luxury fragrances, cosmetics and fashion articles. In fact, it has become active in this sector because Artemis S.A. (“Artemis”) a holding company which has a shareholding in PPR(43.1% of the capital and 58.8% of the votes) has recently acquired sole control of Sanofi beauté (cfr. IV.M1533 Artémis/Sanofi Beauté).

¹ OJ L 395, 30.12.1989 p.1; corrigendum OJ L 257 of 21.9.1990, p. 13; Regulation as last amended by Regulation (EC) No 1310/97 (OJ L 180, 9.7.1997, p.1, corrigendum OJ L 40, 13.2.1998, p.17).

3. Gucci is a leader designer, producer and distributor of high quality personal luxury leather goods and other luxury products, all of which are marketed under the Gucci brand through company-owned stores, franchised boutiques, duty free boutiques and department and speciality stores.

II. THE OPERATION AND THE CONCENTRATION

4. PPR has acquired an interest in Gucci pursuant to a Strategic Investment Agreement ("SIA"). Pursuant to this agreement, PPR has acquired 39,007,133 newly issued and outstanding common shares of Gucci; as a result of this agreement and open market purchases, PPR now owns 42,938,780 common shares of Gucci, which represents 43.79 % of the total outstanding voting Gucci shares (98,040,167).
5. Pursuant to the SIA, PPR has the right to nominate 4 out of 9 of the members of Gucci's Supervisory Board. The SIA also provides that the Supervisory Board will form a Strategic and Financial Committee comprised of three PPR directors and two independent Directors. Certain matters subject to decision by the Supervisory Board must first be approved by the Strategic and Financial Committee or, absent such approval, approved ultimately by a 75% supermajority of the entire Supervisory Board. These matters include: (i) appointment of the Chairman of the Supervisory Board; (ii) capital expenditures above certain amounts; and (iii) the strategic plan. In addition, Section 9.1 of the SIA provides that any nominations of future Gucci Managing Directors must be approved unanimously by the Strategic and Financial Committee or, absent such approval, by a 75% supermajority of the entire Supervisory Board.
6. In addition, on the basis of the presence of shareholders in the last three years at Gucci's shareholders meeting it is considered highly likely that PPR's current shareholding will allow PPR to obtain a majority at these meetings, given in particular that the remaining shares, with the only exception of LVMH (which has 20,144,986 common shares, representing a 20.55% voting interest) are widely dispersed.
7. On the basis of all the above elements it is considered that PPR acquires sole control over Gucci. The operation therefore constitutes a concentration within the meaning of Article 3 of the Merger Regulation.

III. COMMUNITY DIMENSION

8. The operation has a Community dimension under the thresholds of Art. 1(3) of the Regulation. The combined aggregate world-wide turnover of the undertakings concerned exceeds EUR 2 500 million (PPR 16,514 Mio, Gucci 249 Mio). In each of at least 3 Member States the combined aggregate turnover of all the undertakings concerned is more than EUR 100 million and in each of at least 3 of these Member States the aggregate turnover of each of at least two of the undertakings concerned is more than EUR 25 million []. The aggregate Community wide turnover of each of the undertakings concerned exceeds EUR 100 million []. They do not achieve more than two-thirds of their turnover in one and the same Member State.

IV. COMPATIBILITY WITH THE COMMON MARKET

The relevant Product Markets

9. The proposed concentration concerns the markets for the production and sale of luxury products as well as the distribution of such products.
10. Luxury products are high quality articles with a relatively high price, marketed under a prestige trademark. From the demand-side point of view, luxury products have a low degree of substitutability with other products falling within other segments of the same sector (namely, within cosmetic products, at least women's perfumes and men's perfumes, other beauty products-, designer clothes -haute couture, furs, men's luxury ready-to-wear clothes, women's luxury ready-to-wear clothes-, leather goods -for example, suitcases, handbags, belts, wallets-, other accessories). The notifying party claims that, from a supply-side point of view, there is a single market for all luxury products. For this particular case, it is not necessary to take a definitive view on the precise market definition to be adopted, since the proposed operation does not create or strengthen a dominant position irrespective of the market definition chosen.
11. Retail of luxury products includes a number of outlets through which luxury products are sold to the final consumer. For the purpose of this decision it is not considered necessary to check which are the precise retail distribution channels, which are used or can be potentially used for the sale of luxury products, as the proposed operation does not create or strengthen a dominant position, irrespective of the precise definition adopted.

The relevant geographic markets

12. Luxury Products: the notifying party considers that factors such as the presence of large operators in different countries and the importance of intra-European trade imply that the relevant geographic market for luxury products is at least EC-wide. On the other hand, it could be argued that, given that most distribution networks are organised on a national level, the geographic market is of national dimension. It is however not necessary to take a definitive view on this issue, since the proposed operation does not create or strengthen a dominant position irrespective of the precise definition adopted.
13. Distribution of Luxury Products: in retailing the catchment area for a distribution outlet is often delimited by a boundary within which the distribution outlet can be reached by car in no more than about twenty minutes². From the consumers' viewpoint, depending on the geographic area under consideration, a twenty-minute car journey might offer a choice of one, two, or more outlets, which offer luxury products. However, there may be a certain overlap between outlet catchment areas, which will not only determine the competitive interactions between geographically proximate outlets, but will also, to some extent, have "knock-on" or "chain-reaction" effect on more distant outlets. In addition, some parameters of competition, such as range of products, service level (opening hours etc), advertising, promotion and

² There are a number of Commission decisions dealing with the retail sector: see for example M.1086 Promodès/S21/Gruppo GS, M.998 OBSI Denmark; M.784 Kesko/Tuco; M.558 La Rinascente/Cedis Migliarini.

prices may not be decided on the local level, but on a regional or national level. In any event, in the present case it is not necessary to decide whether the relevant geographic market is a local, regional or national market, since the proposed operation does not create or strengthen a dominant position irrespective of the precise definition adopted.

Assessment

14. As to production of luxury products, the only segment where Gucci has a significant market share in some countries is the luxury leather segment, where Gucci has an approximate market share of [] for luxury handbags in Italy and [] for luxury handbags in the United Kingdom. Artémis is present in this sector through the Yves Saint Laurent brand. All Yves Saint Laurent leather goods were manufactured by Cartier under a licence. This contract was terminated at the beginning of 1999, as Yves Saint Laurent decided to make its own leather goods. Yves Saint Laurent is therefore currently a new entrant on the market. However, if 1998 sales of Yves Saint Laurent for luxury handbags were to be taken into account, then it would result that these sales account for around 3% of the United Kingdom luxury handbags market and 1% of the Italian luxury handbags market. In addition, in these two countries a number of important competitors to the parties operate, namely Prada, Louis Vuitton (LVMH), Salvatore Ferragamo, Hermès and Giorgio Armani. As to the other sectors where both Gucci and Artémis -through Sanofi Beauté- operate, the combined market shares of the parties will be below 15% in any possible market definition. The market investigation has widely confirmed the absence of concerns as to the operation. As to the horizontal overlaps the Commission therefore concludes that the proposed operation will not result in the creation or strengthening of a dominant position.
15. As to distribution of luxury products, Sanofi Beauté is active in this market only through 12 boutiques for men's and women's ready-to-wear clothing which are wholly dedicated to the Yves Saint Laurent brand. PPR distributes only a limited amount of luxury products comparable to those marketed by Gucci in its Printemps department stores in France. Gucci competes in the same market with its own speciality boutiques. The combined market share of the parties is below 15%. As a result, the proposed operation does not produce any conceivable significant increment in market shares at this level.
16. Given that Gucci is basically active in the upstream market of luxury products and that Artémis is mainly a retailer and distributor, inter alia of luxury products, the Commission has to assess the effects of the proposed operation as far as the vertical links are concerned.
17. With the only exception of small luggage in Italy, the parties' combined market shares in any of the possible relevant markets are below 25%. For each of these possible markets, and also for luxury small luggage in Italy, Sanofi Beauté faces competition from a number of important players, like for example Christian Dior, Armani, Prada, Louis Vuitton, Lancôme. In addition, Artémis' market share appears to be well below 25%, also having regard to the region where it is more present, that is "la région parisienne". Artémis faces competition from a number of important competitors, like the Galeries Lafayette, Saresco Le Bon Marché and Marie-Jeanne Godard (these last two chains belonging to the LVMH group).

18. It is therefore concluded that the proposed operation will not result either in the possibility for the new entity to foreclose the market, upstream or downstream, or in the possibility to discriminate against rival upstream and downstream suppliers.

V. CONCLUSION

19. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)b of Council Regulation (EEC) No. 4064/89, as amended by Regulation 1310/97, and Article 57 of the EEA Agreement.

For the Commission,