

***Case No COMP/M.1780 -
LVMH / PRADA / FENDI***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 25/05/2000

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 25.05.2000

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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 parties

Dear Sirs,

Subject: Case No COMP M.1780 LVMH/Prada/Fendi

1. On 17/04/2000, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89¹ by which Moët Hennessy Louis Vuitton SA (LVMH) and PRADA Holding B.V. (PRADA) acquire the majority of the capital stock and voting rights of Fendi.

I THE PARTIES AND THE OPERATION

2. LVMH is an international group of companies principally engaged in the production and sale of luxury goods under world famous brand names. The company, whose headquarters are in Paris, has operations around the world and is active in the following sectors: wines and spirits, fashion and leather goods, fragrances and cosmetics and selective retailing.
3. PRADA is a company based in the Netherlands active in international design, manufacture, distribution and retail of luxury goods.
4. Fendi is an Italian group of companies principally involved in the design, creation and distribution of luxury goods such as furs, clothing, leather goods, footwear and accessories for two luxury brands, Fendi and Fendissime.
5. The proposed concentration concerns the acquisition by LVMH and PRADA of the majority of the capital stock and voting rights of Fendi (Fendi S.r.L., Fendi Paola e

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).

sorelle s.a.s., Fendi International B.V., Fendi Stores Inc. and Cinque Più S.r.l.). The transaction will be made through a joint venture company (Newco) primarily created by LVMH and PRADA to acquire the majority of the capital stock and voting rights of Fendi and also more generally, to make capital investments in luxury business. Newco, which is jointly controlled by PRADA and LVMH will acquire 51% of the shares and manage Fendi. The acquisition of Fendi will be financed as to two thirds by an equity cash contribution to Newco in equal parts by LVMH and PRADA and as to the remaining third by third party medium-term debt financing of Newco, the terms and conditions of which are subject to the mutual agreement of LVMH and PRADA.

6. On the basis of all the above elements it is considered that LVMH and PRADA acquire joint control over Fendi. The operation therefore constitutes a concentration within the meaning of Article 3(1)b of the Merger Regulation.
7. The concentration does not have as its object or likely effect a coordination of their competitive behaviour in markets related to or neighbouring those directly affected by the concentration, within the meaning of Article 2(4) of the Regulation.

II COMMUNITY DIMENSION

8. The operation has a Community dimension under the thresholds of Art. 1(2) of the Regulation. The combined aggregate worldwide turnover of the undertakings concerned exceeds 5 000 million Euros (LVMH 7 081 and PRADA 679 and Fendi 138). Moreover the aggregate community wide turnover of each of at least two of the undertakings concerned is more than 250 million Euros (LVMH 2 409 PRADA 298). The undertakings concerned do not achieve more than 2/3 of their turnover in the same Member State.

III COMPATIBILITY WITH THE COMMON MARKET

The relevant Product Markets

9. The proposed concentration concerns the markets for the production and wholesales of luxury products as well as retail sales of such products.
10. The Commission has defined² luxury products as high quality articles with a relatively high price, marketed under a prestige trademark. The market for luxury products is very competitive with numerous players. Moreover, recent years have seen the entry of numerous new designers such as Eric Bergère, Christian le Drezen, Isabel Marant etc. The notifying parties claim that luxury goods have to be considered as a single product market because of:
 - Substitutability from the demand side: the idea of acquiring a luxury good is linked to prestige rather than consumption of a precise item, on the other hand luxury goods are often acquired as gifts;
 - Substitutability from the supply side: most of the producers of luxury goods manufacture a broad range of products: e.g. ready to wear, leather goods, fashion

² Case M. 1534 Pinault-Printemps Redoute/Gucci

accessories, perfumes, shoes etc...and all of them are able to expand their product lines market

11. In the above-mentioned previous case the Commission stated that 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, cosmetic products, 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). For this particular case as well as for the previous one, 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.
12. Retail of luxury products includes a number of outlets through which luxury products are sold to the final consumer. The parties have indicated that the common denominator is the importance of qualitative requirements designed to maintain the image of prestige, exclusivity and the high quality of the brand (e.g. location, the nature of the external appearance of neighbouring shops, decoration and fittings of the outlet which should reflect the prestige of the brand). Products are distributed through mono-brand directly operated shops, franchised and licensed boutiques, authorised boutiques, duty free shops and other independent sellers. A recent phenomenon, primarily in the USA, is the distribution of luxury goods via the Internet. This is used by luxury department stores (e.g. Saks Fifth Avenue) and independent companies (e.g. the web site Styleclick.com sells Ralph Lauren's second line Polo Sport and Bestselections.com offers the Chanel line). Three European designers have fully transactional websites: Jean Paul Gaultier, Etienne Aigner and Ermenegildo Zegna.

The relevant geographic markets

13. Luxury Products: the notifying parties and most of the competitors consulted by the Commission consider that the relevant geographic market for luxury products is world-wide or at least EEA-wide because of the following reasons: the importance of macro economic factors such as the performance of the financial markets, international travel, the presence of a number of producers that operate on a world-wide basis, the high level of global commerce, marketing and promotion carried out on a world-wide basis and globalisation of the media, absence of preferences for national brands, absence of regulatory barriers and relatively low transportation costs. As regards structure of manufacture and distribution, many leading manufacturers export on a world-wide or larger than national basis from a limited number of manufacturing locations. As regards prices, there is no doubt that they show a strong correlation in different EEA states. However, retail prices in the USA and in Japan are higher than in the EEA (approximately 30-40% in the case of Japan and 10-20% in the USA). 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.
14. Retail of Luxury Products: the parties' view, which is shared by a significant number of competitors and customers, is that the market is world-wide or in any case EEA-wide for the following reasons: on the one hand retailers can only be found in fashionable cities, metropolis, seasonal holidays destinations frequented by rich

people, duty free shops and places associated with international events. On the other hand luxury good consumers are highly mobile: a large proportion of luxury goods purchases are made by international travellers. In addition, some parameters of competition, such as advertising and promotion are organised at world-wide level and there is a strong correlation among prices in the different EEA states (prices in the USA and in Japan are higher than in the EEA: approximately 30-40% in the case of Japan and 10-20% in the USA). In any event, in the present case it is not necessary to decide whether the relevant geographic market is a national or larger than national since the proposed operation does not create or strengthen a dominant position irrespective of the precise definition adopted.

Assessment

15. Production and sales of luxury products, if luxury goods are considered as a whole, according to the parties' estimates (accurate figures are not available) their market shares would not attain 15% irrespective of the geographic market definition. If a further segmentation of the product market had to be considered the only segments where the parties (according to their best estimates) would have market shares over 15% would be:

Luxury handbags: [15-25%]³ in the UK (if a national division of the market had to be considered) and [15-25%]⁴ (in a world-wide market definition); and

Leather accessories: [15-25%]⁵ in Spain, [15-25%]⁶ in Italy and [15-25%]⁷ in France (if a national division of the market had to be considered) and [15-25%]⁸ in a world-wide market definition.

16. A competitor has brought the attention of the Commission on the fact that, according to his estimations, the parties would have [25-35%] market share in the EEA in the leather goods sector considered as a whole (luggage, handbags and accessories) as well as and in soft accessories. Nevertheless, even if it had to be accepted that the division of the market proposed is the appropriate one and that the market shares indicated are accurate, the operation would not create a dominant position taking into account the relatively low market shares and the significant number of important competitors active in the market such as Gucci, Chanel, Hermés, Ferragamo, Vendôme, Longchamp, etc. Furthermore, it has to be borne in mind that LVMH and PRADA will continue to compete with each other after the operation is achieved. Finally, given the diversification of product lines by existing players there are constantly new entrants in the market of leather goods. For instance Yves Saint- has recently entered the leather goods segment terminating its manufacturing licence with Cartier.
17. It has also been pointed out that LVMH, PRADA and Fendi will increase their buying power, especially as regards price, quality and delivery delays when obtaining raw

³ LVMH [5-15%], PRADA [0-10%] and Fendi [0-10%]

⁴ LVMH [5-15%], PRADA [0-10%] and Fendi [0-10%]

⁵ LVMH [15-25%], PRADA [0-10%]

⁶ LVMH [0-10%], PRADA [5-15%] and Fendi [0-10%]

⁷ LVMH [10-20%], PRADA [0-10%] and Fendi [0-10%]

⁸ LVMH [10-20%], PRADA [0-10%] and Fendi [0-10%]

materials for jewels, leather articles and textiles and that they will also have the possibility to have access to the best sites for the retail sales of their products. Since, according to the notification, the parties will continue to compete in the market it cannot be expected and there is no evidence that they will collaborate to exercise buying power.

18. As to retail of luxury products, LVMH is active in this market through its DOS (directly operated stores) where the vast majority of LVMH's goods are sold as well as duty free shops outside the EEA (DFS Group). PRADA's luxury ready to wear apparel, footwear and leather goods are mainly sold in PRADA-owned boutiques. Contrary to LVMH and PRADA, Fendi primarily sells its own products to third party retailers and only a small part of its production is sold through DOS. The combined market share of the parties for retail of luxury goods on any possible geographic market definition, according to the parties' estimates is below 15%. As a result, the proposed operation does not produce any significant increment in market shares at this level.
19. During the market investigation carried out by the Commission, one competitor has claimed that retail of luxury goods in duty free shops is a separate product market with a world-wide geographic scope. Since LVMH owns the DFS group it will be able to control what products are displayed in the limited space available favouring its own products as well as PRADA's and FENDI's. In this respect, it has to be remembered that the notified operation refers only to the joint acquisition of Fendi by LVMH and PRADA. The operation, as such is not related to possible retail sales by LVMH of PRADA and FENDI products and does not contain any agreement on favouring the display of these products in LVMH's duty free shops. On the other hand, according to the figures provided to the Commission the DFS group has only a [0-10%] world-wide market share as regards duty free sales⁹.
20. Finally it was pointed out that LVMH is in the process of establishing an Internet portal for the sale of luxury goods and that the potential addition of the Fendi and PRADA brands to the website could limit further the distribution opportunities for those brands excluded from the website. It should be remembered that, on the one hand, as stated before, the present decision and the notification of the parties are only related to the joint purchase of Fendi by PRADA and LVMH and it does not include any co-operation agreement between the parties. On the other hand, nothing prevents other brands from establishing individually or jointly an Internet portal to compete with LVMH.
21. The market investigation has confirmed, in general, the absence of concerns as to the operation.
22. For the reasons explained above the Commission concludes that the proposed operation will not result in the creation or strengthening of a dominant position.

CONCLUSION

⁹ Annual Reports and Generation publication Best's Most 1998.

23. 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,

Mario Monti
Member of the Commission