

***Case No IV/M.458 -  
ELECTROLUX / AEG***

Only the English text is available and authentic.

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

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Article 6(1)(b) NON-OPPOSITION  
Date: 21.06.1994

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21.06.1994

PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

Registered with advice of delivery

To the notifying party

Dear Sirs,

Subject : Case No IV/M.458 - Electrolux/AEG

Notification of 17.5.1994 pursuant to Article 4 of Council Regulation No 4064/89

1. On 17 May 1994 AB Electrolux (Electrolux) notified its proposed acquisition of 80% of the share capital of AEG Hausgeräte AG (AHG) pursuant to an agreement made on 5 May 1994. Electrolux already owns 20% of the share capital of AHG and thus now acquires sole control.

After examination of the notification the Commission has concluded that the proposed operation falls within the scope of Council Regulation No 4064/89 and does not give rise to serious doubts as to its compatibility with the common market and the EEA agreement.

## **I. The parties**

2. Electrolux, incorporated in Sweden, is party of the Wallenberg Group. It manufactures and supplies domestic appliances, floor-care products, food-service equipment, industrial laundry equipment and other goods.

AHG is incorporated in Germany. It manufactures and supplies domestic appliances and other goods. Its ultimate parent is Daimler Benz AG.

3. By an agreement made in 1992 Electrolux purchased 10% of the share capital in AHG and acquired an option to purchase a further 10%. It exercised that option on 1 January 1994. The agreement also contained provisions for the cross-supply of top-loaded washing machines, dryers and dishwashers, for trade mark licensing and for limited joint management. The agreement was notified under Council Regulation No17/62 to the Commission on 21 September 1992. By a notice dated 5 June 1993 the Commission indicated that it intended to take a favourable position with respect to the agreement. The Commission has not yet reached a conclusion concerning the agreement.

## **II. The operation**

4. The proposed operation consists in the acquisition by Electrolux of the remaining 80% of the share capital in AHG which it does not currently own.

## **III. Community/EEA dimension**

5. The aggregate world-wide and Community-wide turnover of both Electrolux and AHG exceeds 5.000 million Ecus. Each party has an aggregate Community-wide turnover exceeding 250 million Ecus. Although AHG achieves  $\square^{(1)}$  of its aggregate Community-wide turnover in Germany, Electrolux does not achieve more than two-thirds of its Community-wide turnover in a single Member State. The operation thus has a Community dimension.
6. Given the increase in the already high market shares in the Scandinavian countries, in particular Sweden, it was necessary to investigate whether the operation was liable to create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the territories of the EFTA States or a substantial part thereof. For this reason, it was therefore considered that the proposed concentration was a cooperation case under the EEA Agreement.

## **IV. Compatibility with the common market and the EEA Agreement**

### **A. Relevant product market**

#### **Major domestic appliances**

7. According to the parties major domestic appliances comprise the following product groups, each group constituting a separate product market: (i) refrigerators; (ii) freezers; (iii) washing machines; (iv) dryers; (v) dishwashers; (vi) cooking appliances; (vii) microwaves. Since hoods are often sold with cookers the parties consider hoods as

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<sup>(1)</sup> Deleted business secret.

belonging to the same product market as cooking appliances. However, because of functionality it seems as if hoods constitute a separate product market.

8. In each product group there exist a number of different product models that are generally marketed at different price points. The various models combine common elements with different functional and aesthetic variations to create different performance and appearance specifications. In addition, the domestic appliances are produced in several different sizes. Furthermore, some of the major domestic appliances are produced both as free-standing appliances and as products designed for built-in use. According to Electrolux, there is no functional or technical difference between free-standing and built-in appliances,
9. The parties regard all models/sizes in each product group of major domestic appliances as part of the same product market since their intended end uses are the same, and since the core technology and components used in the manufacture of these different models are largely identical. In this connection the parties argue that the high degree of supply-side substitutability has to be taken into consideration. According to the parties all major manufacturers produce a full range of models and the flexibility of manufacturing lines used to produce domestic appliances allows products that are differentiated both technically and aesthetically to be manufactured on the same line.
10. According to the parties, consumers do not have strong brand attachments to major domestic appliances and the ratio of advertising expenditure to sales is relatively low. This is due largely to the infrequency with which most households purchase major domestic appliances as well as the lack of product differentiation.
11. Although the major domestic appliances in each product group are produced and purchased to fulfil the same specific function (for example dishwashing), in several of the product groups a further distinction could be made between models because of the different characteristics and end uses of the products. However, this distinction is not necessary since all the main producers of major domestic appliances produce and sell a full range of models; accordingly, producers can switch existing capacity from the production of one model specification to another, so that there are a high degree of supply side substitutability.

### **Vacuum cleaners**

12. According to the parties, there are four principal models of domestic vacuum cleaners used for cleaning floors, carpets and furniture: (i) canisters (i.e. traditional cylindrical appliances); (ii) hand sticks (i.e. cleaners with the motor and dust bag on a stick); (iii) uprights (i.e. appliances with the dust bag in an upright position but the motor at the bottom part); (iv) barrels (i.e. spherical shaped cleaners). In the light of their common functions all these models can be regarded as part of the same product market.

### **Small domestic appliances**

13. Since the transaction does not give rise to any overlap in small domestic appliances (the only small appliances produced and sold by Electrolux are kitchen machines for bread, that do not compete with any of AHG's products) the question of relevant product market can be left open.

## **Water heaters**

14. Water heaters are powered by gas or electricity and operate as either instant or storage heaters. According to the parties, since these products fulfil the same function and are perceived as interchangeable by the consumers, they are considered part of the same product market. Since even on the narrowest market definition the concentration will not give rise to competition problems the question of the relevant product market can be left open.
15. In conclusion, the relevant product markets are considered to be : (i) refrigerators; (ii) freezers; (iii) washing machines; (iv) dryers; (v) dishwashers; (vi) cooking appliances (vii) hoods; (viii) microwaves; (ix) vacuum cleaners and (x) water heaters.

## **B. Geographic market**

### **Major domestic appliances and vacuum cleaners**

16. The parties consider the markets for major domestic appliances and vacuum cleaners as at least Western Europe. There are no legal barriers to trade; as to technical harmonization, the EU legislation on electrical equipment is applicable in the EFTA countries which have signed the EEA Agreement. These countries have abandoned or are abandoning mandatory registration and certification. The EFTA countries are members of CENELEC, so they also must transpose European standards. There are still some deviations to standards known as special national conditions. However, the remainder of these regulations are supposed to be eliminated within two to three years. According to the parties transport costs are low (between most Western European countries approximately [ ]<sup>(1)</sup> of sales ex factory). In addition the technology for the production of domestic appliances is well known.
17. Large European manufacturers tend to have pockets of strength in their respective "home" territories. That is also true of Electrolux in Scandinavia, in particular in Sweden. Such a pattern might be evidence of the existence of separate geographic markets. However, the integration of EU and EFTA States and the resulting removal of barriers to trade means that markets are no longer national in scope.
18. It appears that the main Western European producers of major domestic appliances and vacuum cleaners transport and market their products on a Western European scale. In addition, information provided by the retailers shows that they are able to buy the products from the most competitive supplier. Major domestic appliances are suited to large-volume assembly-line manufacture and production plants are increasing in size to take advantage of significant economies of scale. Almost all the principal firms source domestic appliances sold throughout Western Europe from large manufacturing centres. Italy and Germany are the major European production centres for domestic appliances, and products are shipped from Italy and Germany to every EEA State in large quantities. Furthermore, there is a high degree of cross-border trade between Italy and Germany.
19. According to the parties, products sold across Western Europe are becoming less and less differentiated and more "look a like". This applies especially to microwave ovens, dishwashers, washing machines and vacuum cleaners. Nevertheless, certain regional

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preferences still exist, in particular in regard to free-standing cookers because of certain regional cooking habits and preferences. There is considerably greater product commonality across Europe in regard to other forms of cooking appliances (i.e. built-in ovens and hobs), and sales of built-in cooking appliances have in the last 10 years increased from approximately 30% of all cooking appliances sold to approximately 45%.

20. Information provided by the parties and by the main competitors seems to confirm that the lack of barriers to entry, the centralization of production in large European centres and the increasing product commonality across Europe prevent the producers from using different price strategies in different EU/EFTA States.
21. In conclusion, information provided by the parties, the main competitors and the customers indicates, that the markets for major domestic appliances and vacuum cleaners are Western European in scope.

### **Water heaters**

22. AEG does not sell water heaters outside Germany and, according to the parties, sales of water heaters tend to be national in scope because they have to meet different technical specifications. However, given the transaction's limited effect on these appliances the question of geographic market definition can be left open.

### **C. Assessment of the operation**

23. Since the parties have provided comprehensive market share data expressed only in terms of volume the following figures for 1993 are based on volume. According to Electrolux, the company has been unable to provide complete shares of sales data by value because independent value-based data are not available for certain countries. Further information given by the parties indicates that volume-based figures do not differ significantly from value-based figures.
24. After the acquisition, Electrolux's shares within Western Europe will be between 20% and 24% in each of the product markets, except for hoods and microwave ovens where Electrolux's market shares will not exceed 10%. (AEG adds to Electrolux's pre-merger market shares in each of the product markets - but not hoods and microwave ovens - approximately [ ]<sup>(1)</sup>). Except for dishwashers, Electrolux will be the leader on all markets followed by two competitors, each with more than 9% of the markets, the larger with market shares from approximately 11% to 15%. As to dishwashers, the leader - Bosch-Siemens - has more than 25% of the European market.
25. In common with their competitors, Electrolux and AEG sell certain quantities of products to competitors and private label producers. These sales do not figure in Electrolux's and AEG's market shares as discussed above but have been attributed to the company under whose brand they are sold. These sales constitute a relatively small proportion of Electrolux's and AEG's total sales on the Western European market.
26. As a Swedish producer Electrolux has a particularly strong position in the Nordic countries, especially in Sweden, and that position will be strengthened by the acquisition, even though the market share of AEG is small. This applies especially to refrigerators,

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<sup>(3)</sup> Less than 10%.

freezers and cooking appliances, which are among the least "Europeanized" products, where the combined market shares in Sweden will exceed  $\square^{(1)}$ . However, it appears that the process of European integration and the integration of EFTA States into the EU with greater product communality has already reduced and will continue to weaken the position of producers in their home markets over the next few years. In this connection it can be noted that the trend in Electrolux's position in Sweden has shown a gradual reduction in their market shares. Furthermore, the competitors expect that Electrolux will lose some of its AEG customers to other producers.

27. Because the markets for major domestic appliances and vacuum cleaners are Western European in scope, high local market shares do not necessarily translate into market power. There are many European producers of domestic appliances, including large and financially strong companies, and the importance of large distribution or buying groups that operate across Western Europe is increasing.
28. There are now approximately 100 - 150 manufacturers covering the total range of major domestic appliances in Western Europe (in 1970 approximately 700). Growth by acquisitions is a well established strategy and normally the acquirer continues to market under the acquired brands. For example, Electrolux markets its products in Sweden under the brands of Electrolux, Electro Helios, Husqvarna, Volta and Zanussi. Furthermore, there are many private label producers; the sale of private labels accounts for approximately between 8,5% and 12% (% of total sale) (dishwashers and cooking appliances only 4-5%).
29. Electrolux, AEG, Bosch-Siemens (BS) and Whirlpool (WH) are active in most Western European countries on all the product markets. These four companies together account for approximately 45% of total Western Europe sales of major domestic appliances.
30. Other companies, for example EL.FI Elettrofinanziaria S.P.A. (ELFI), Merloni and Miele, are present in several countries. In addition, there are large companies with activities in a few countries, where they can have strong positions in one or more product markets. Besides, there are a further 100 - 125 smaller producers that compete mainly on local markets.
31. A considerable bargaining pressure is exercised by big stores and by buying groups, of which several are active on a cross-border basis. In addition, private label products are sold under trademarks owned by large retail chains and are mostly produced under tenders by manufacturers. It is estimated that approximately 30% of total Western European volume of major domestic appliances now goes through about 20 companies (retail chains and stores). As to Sweden, Electrolux estimates that, in 1993, chain stores accounted for approximately 45% of all major domestic appliance sales while the figure in 1980 was 30%.
32. Electrolux accounted for approximately  $\square^{(1)}$  of compressors installed in refrigerators manufactured in Western Europe in 1993. Approximately  $\square^{(1)}$  of these compressors are supplied to other major domestic appliance manufactures. The other  $\square^{(6)}$  are used by Electrolux. In addition, Electrolux manufactures motors for use in washing machines, dryers and dishwashers. Electrolux accounted for approximately  $\square^{(1)}$  of motors installed

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(4) More than 60%.

(5) More than 25%.

(6) Deleted business secret.

(7) More than 30%.

in major domestic appliances sold in Western Europe in 1993. Approximately 10% of these motors are sold to other major domestic appliance manufactures. The remaining 90% are installed in Electrolux's appliances. Since AEG is not vertically integrated to any significant degree in regard to any of the affected product markets the operation does not give rise to any overlap in the above mentioned product markets.

33. As to water heaters, Electrolux's post-concentration share of all water heaters sold in Germany will be less than 10% (considering a separate market for electrical water heaters, Electrolux's market share would increase from 5%<sup>(1)</sup>). In Germany Electrolux and AHG face competition from several other local producers, including Stiebel, Vaillant, Junkers, Clage EGS and Blomberg.
34. As mentioned above the proposed concentration is an EEA "cooperation case" and the Commission has been in close and constant liaison with the EFTA Surveillance Authority (ESA). ESA has expressed its views upon the concentration which are in accordance with the Commission's approach. In short, ESA rejects the conception that the Swedish market for major domestic appliances should be considered as a market separate from the rest of the European market because of the clearly identified trend towards an integrated European market.

## V. Conclusion

35. As to major domestic appliances and vacuum cleaners : the markets are Western European in scope and Electrolux's post-merger market shares on any of the affected markets will not exceed 24%. Furthermore, Electrolux will face competition from several large competitors and considerable bargaining pressure from large distribution or buying groups. As to water heaters the concentration will not give rise to competition problems since even on the narrowest market definition the share does not exceed 13%.
36. Based on the above, the concentration does not raise doubts as to its compatibility with the common market and the EEA Agreement.

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

For the Commission,

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<sup>(8)</sup> 5% to 15%.