

***Case No COMP/M.5099 -  
ARROW ELECTRONICS  
/LOGIX***

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004  
MERGER PROCEDURE**

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Article 6(1)(b) NON-OPPOSITION  
Date: 19/05/2008

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19-V-2008

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PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sir and Madam,

**Subject: Case No COMP/M.5099 – Arrow Electronics / Logix**  
**Notification of 08/04/2008 pursuant to Article 4 of Council Regulation N°**  
**139/2004<sup>1</sup>**

1. On 8 April 2008, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 ("the Merger Regulation") by which the undertaking Arrow Europe GmbH (Germany), an indirect wholly-owned subsidiary of Arrow Electronics, Inc. (USA) (collectively "Arrow"), acquires within the meaning of Article 3(1)(b) of the Merger Regulation sole control of the whole of Logix S.A. ("Logix", France), a wholly-owned subsidiary of Groupe Open S.A. ("Groupe Open", France), by way of purchase of shares.

#### **I. THE PARTIES**

2. Arrow is a wholesale distributor of electronic components and computer products to industrial and reseller customers. Arrow also provides services in support of the products it distributes. The company's distribution network covers the Americas, Europe and the Asia/Pacific region.
3. Logix is a value-added wholesale distributor of computer products focusing on infrastructure products and, in particular, middleware, servers, storage and network/security products. Logix's activities cover France, Poland, the Benelux, the Nordic region, Israel and Morocco.

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<sup>1</sup> OJ L 24, 29.1.2004 p. 1.

## II. THE OPERATION

4. Pursuant to the Sale and Purchase Agreement signed on 23 February 2008, Arrow will acquire 100 % of the shares in Logix from Logix's parent company Groupe Open. Through the acquisition, Arrow will acquire sole control over the whole of Logix.
5. The proposed transaction therefore constitutes a concentration within the meaning of Article 3 (1)(b) of the Merger Regulation.

## III. COMMUNITY DIMENSION

6. In 2007, the combined aggregate worldwide turnover of Arrow and Logix exceeded EUR 5 000 million<sup>2</sup>. Each of the parties has a Community-wide turnover in excess of EUR 250 million<sup>3</sup>, and none of them achieves more than two thirds of its aggregate Community-wide turnover within one and the same Member State.
7. The notified operation therefore has a Community dimension within the meaning of Art. 1(2) of the Merger Regulation.

## IV. THE RELEVANT MARKET

### A. The parties' activities

8. Both Arrow and Logix operate as wholesale distributors of IT products<sup>4</sup>. As such, they supply a broad range of IT products purchased from many IT manufacturers and software vendors (thereafter collectively referred to as "manufacturers of IT products") to a large number of resellers<sup>5</sup>, retailers<sup>6</sup> and, in exceptional cases, also end-users. The IT products distributed by the parties include *inter alia* personal computers (PCs), servers, storage devices, networking and security equipment, and packaged software.
9. As noted in a previous decision, distributors of IT products essentially provide their customers with a "one stop shop" facility<sup>7</sup>. However, not all distributors supply such a broad range of items and brands, as there are smaller distributors who rather focus on a smaller number of products and brands. It should also be noted that almost all manufacturers of IT products sell directly to retailers and resellers, as well as to large corporate accounts, thus bypassing wholesale distributors.

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<sup>2</sup> Arrow: [...] million; Logix: [...] million.

<sup>3</sup> Arrow: [...] million; Logix: [...] million.

<sup>4</sup> Arrow also distributes electronic components such as semiconductors, interconnect components and passive and electromechanical components.

<sup>5</sup> Resellers include value-added resellers ("VARs") and system integrators, whose service-oriented or application-oriented business model is geared to "adding value" to the third-party products that they resell to end-users and to corporate resellers, who address primarily large and medium businesses.

<sup>6</sup> Retailers include traditional IT dealers, who are IT dedicated resellers selling standard products, superstores characterised by large storefront businesses, and distant sale companies, such as mail order companies and etailers

<sup>7</sup> Case COMP/M.4868 – AVNET/Magirus EID, para. 9.

10. In addition, both Arrow and Logix provide their customers with additional services in support of the products they distribute, including pre-sales services (e.g. sizing, configuration, technical advice on products and interoperability), on-site installation, training and education, marketing support and after-sales support. From that perspective, Logix and Arrow differentiate themselves from traditional "broadline" distributors who offer a limited range of services, typically financial services (trade credit) and after-sales support. As explained by a manufacturer of IT products: "Broadline distributors' primary skills are around operational efficiency, such as fast delivery times and inventory availability, whereas value-added distributors' primary skills are around product and solution knowledge, such as ability to do consulting around optimal choice of hardware solution". To some extent, value-added distributors provide to their customers services similar to those supplied by specialised IT service providers.
11. However, the market investigation carried out in the present case revealed that the distinction between value-added and broadline distributors is somewhat blurred; indeed not all value-added distributors supply a similar range of services. In this respect, it appears that Logix supplies a broader range of value-added services than Arrow, in particular with respect to on-site installation. Furthermore, a number of broadline distributors have developed a value-added business offering a range of services more or less similar to that offered by value-added distributors. Finally, it should be noted that value-added and broadline distributors typically distribute the same products, although for certain complex products some manufacturers of IT products may have chosen to distribute exclusively through value-added distributors and resellers.
12. Within the EEA, both parties are active in Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland, Sweden, Norway and the United Kingdom. However, except for Denmark, their combined market share does not exceed 20% in any of these Member States under any possible market definition. The market investigation therefore focused on the impact of the proposed transaction in Denmark.

#### B. Product market definition

13. The notifying party submits that the relevant product market should be defined as the overall market for the distribution of IT products and related services, including all IT product categories as well as direct sales by manufacturers of IT products and indirect sales by wholesale distributors.

##### *Direct and indirect sales*

14. The notifying party contends that the relevant product market should comprise not only wholesale distribution of IT products (the indirect sales channel), but also direct sales of such products by manufacturers of IT products to retailers, resellers and end-users (the direct sales channel), as there would be a high degree of fluidity between the direct and indirect sales channels. In this respect, the notifying party argues that neither customers nor manufacturers of IT products use one of these channels to the exclusion of the other, and that the relative volumes purchased / sold directly or via distributors are in constant flux.
15. In previous decisions, although the definition of the relevant market for the distribution of IT products was ultimately left open, the Commission noted that the wholesale distribution of IT products is characterised by three distinct features, namely (i) a broad product offering, (ii) fast delivery (normally within a day), and (iii) logistics capacities.

These features were deemed to be typical of distributors and not to be found in relation to direct sales carried out by manufacturers of IT products<sup>8</sup>. However, in one case<sup>9</sup> the Commission also noted that the market investigation provided some support in favour of the inclusion of direct sales in the same market as indirect sales with respect to the distribution of servers.

16. The market investigation carried out in the present case among distributors, retailers and resellers active in Denmark showed that direct and indirect sales are not fully interchangeable for resellers and retailers active in this Member States. Indeed, a significant proportion of resellers and retailers cannot source IT products directly from the manufacturers as they do not procure sufficiently large volumes of such products. Furthermore the distinct features of distributors referred to above constitute strong incentives for resellers and retailers to source their IT products via the indirect sales channels.
17. However, for the purpose of the present case, the question whether the direct and indirect sales channels belong to the same product market can be left open as the proposed transaction does not raise serious competition concerns even under a narrow market definition limited to the indirect sales channel.

#### *IT product categories*

18. The notifying party also disagrees with a definition of the market for the wholesale distribution of IT products along specific IT product categories, such as servers, storage devices, software etc., or along even narrower segmentations within such categories, for instance, high-end, mid-range and low-end servers. In this respect, the notifying party contends that the typical customers of a distributor will generally demand a range of IT products, so that there are no different types of customers for different categories of products. Furthermore the skills and know-how required to distribute different types of IT products would be broadly similar, making it straightforward for a distributor to expand its range to include different product types.
19. In previous decisions concerning the distribution of IT products<sup>10</sup>, the Commission noted that demand is directed towards a variety of IT products and that, given the “within a day” delivery standard which characterizes the indirect sales channel, a large stocking inventory is a further characteristic directly relevant to the product market definition. Based on these elements, the Commission has defined a product market comprising all IT product categories, although it did not exclude that narrower product markets may be defined along product categories or sub-categories (high-end, mid-range and entry level servers)<sup>11</sup>.

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<sup>8</sup> See *inter alia* case IV/M.1192 – *CHS Electronics /Metrologie International*, paras. 10 and 11, case COMP/M.2223 – *Getronics/Hagemeyer/JV*, para. 13, and case COMP/M.4868 – *AVNET/Magirus EID*, para. 8.

<sup>9</sup> Case COMP/M.2223 – *Getronics/Hagemeyer/JV*, para. 18.

<sup>10</sup> Case IV/M.1192 – *CHS Electronics /Metrologie International*, para. 12

<sup>11</sup> See *inter alia* case COMP/M.2223 – *Getronics/Hagemeyer/JV*, para. 14, and case COMP/M.4868 – *AVNET/Magirus EID*, para. 10.

20. A majority of respondents to the market investigation indicated that conditions of supply in the indirect sales channel are globally homogeneous across all categories of IT products in Denmark. However some respondents explained that value-added distributors, such as Arrow and Logix, tend to specialise in certain specific product categories, such as servers and storage devices, for which the ability of the distributors to supply services constitutes a strong advantage. As a result, value-added distributors hold market shares in certain product categories significantly above their average share of the overall market encompassing all IT product categories.
21. However, the question whether the relevant product market encompasses all IT product categories or should be defined along product segments can be left open in the present case as the conclusion of the competitive analysis will remain unchanged.

*Conclusion on product market definition*

22. For the purpose of this decision, the exact product market delineation can be left open, since, under any possible alternative definition the proposed transaction does not raise serious competition concerns.

C. Relevant geographic market

23. The notifying party submits that the market for the (wholesale) distribution of IT products is EEA-wide. Indeed, the notifying party explains that there are no technical barriers to the use of IT products across the different member States, nor are there any significant price differences between Member States. Furthermore, according to the notifying party, it is commonplace for distributors to carry out their European purchasing on a centralised basis, given that manufacturers of IT products often prefer to deal with a single entity when handling their delivery, invoicing and credit checks. On this basis, a distributor would readily be able to expand to sell products into different Member States without the need for a substantial local infrastructure.
24. In one previous decision<sup>12</sup>, the Commission noted that the market investigation supported an EU- or EEA-wide definition of the market for the wholesale distribution of IT products, although the precise definition of the geographic market was ultimately left open. However, in other previous cases<sup>13</sup>, the Commission indicated that the market for the wholesale distribution of IT products was probably national in scope or possibly regional/cross border in some circumstances. This finding was mainly based on the fast delivery ("within a day") feature which is characteristic of this market and the need for a national presence for the supply of some related services, such as education/training and technical support. Furthermore, the Commission noted that both distributors and resellers of IT products tend to organise their activities on a national basis. However, the exact geographic scope of the market for the wholesale distribution of IT products was ultimately left open.
25. A very large majority of the respondents to the market investigation has indicated that language and geographic proximity constitute important elements of the selection of

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<sup>12</sup> COMP/M.3107 – *Tech Data Corporation / Azlan Group*, para. 14

<sup>13</sup> See *inter alia* case COMP/M.2223 – *Getronics/Hagemeyer/JV*, para. 19, and case COMP/M.4868 – *AVNET/Magirus EID*, para. 13.

(wholesale) distributors by customers. As a result, most of the resellers and retailers active in Denmark have indicated that they predominantly source IT products from distributors having a local presence in this Member State. Furthermore, the market investigation revealed that there are specific national provisions in the agreements between distributors and manufacturers of IT products regarding notably the range of products the distributor is authorised to sell and the pricing structure, including bonuses or discounts.

26. For the purpose of the present case, the geographic market definition (national or EEA-wide) can be left open as the proposed transaction does not raise serious competition concerns in the common market or in any substantial part of it under any of the possible definitions of the geographic market.

## V. COMPETITIVE ASSESSMENT

### *General overview*

27. On a hypothetical EEA-wide market for the distribution of IT products, the combined market share of Arrow and Logix would not exceed 3 %, irrespective of whether direct sales were to be included or not. In view of this insignificant market position, the transaction is unlikely to raise competition concerns at the EEA level, either in the overall market for the (wholesale) distribution of IT products or in any individual product segments of this market.<sup>14</sup>
28. As regards possible national markets for the wholesale distribution of IT products, the parties' activities overlap in Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Sweden and the UK. Except in Finland, Norway and the UK, the combined market share of the parties on the overall market for the wholesale distribution of IT products (excluding direct sales) does not exceed 5 % in any of these Member States. If the relevant product market were considered to be narrower, meaning that it would need to be subdivided along different categories of IT products (servers, storage devices, software etc.), the parties' combined market share would still not exceed 15%.
29. In Finland, the parties' joint market share in the overall market for the wholesale distribution of IT products remains below 5% and the parties' joint market share remains below 15% in all product categories, except for storage devices. However, also as regards storage devices, the parties' joint market share remains below 20% (Arrow: [10-20%]; Logix: [5-10%]).
30. In Norway, the parties' joint market share in the overall market for the wholesale distribution of IT products remains below 5% and the parties' joint market share remains below 15% in all product categories, except for storage devices, where the parties have a combined market share of [10-20%] (Arrow: [10-20%]; Logix: [5-10%]).
31. In the UK, the parties' joint market share in the overall market for the wholesale distribution of IT products remains below 5% and the parties' joint market share remains below 15% in all product categories, except for storage devices, where the parties have a combined market share of [10-20%] (Arrow: [10-20%]; Logix: [<1%]).

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<sup>14</sup> Even if the relevant product market were to be further delineated by product category, the parties' combined market shares at the EEA level would not exceed 15% in any product segment.

32. In view of these figures, the transaction is unlikely to raise competition concerns in Finland, Norway or the UK, either in the overall market for the (wholesale) distribution of IT products or in any individual product segments of this market.

*Impact in Denmark*

33. In Denmark, the parties achieve a joint market share in the overall market for the wholesale distribution of IT products (excluding direct sales) of [10-20%] (Logix: [5-10%] and Arrow: [0-5%]). While this combined market share is still moderate, the parties would reach more significant combined market shares, if the relevant market were to be subdivided along product categories. This is particularly true with regard to the product categories "storage devices" and "servers", in which the parties' joint market share is far above 15%, as is evident from Tables 1 and 2 below.

*Servers*

Table 1: Market share information for the wholesale distribution of servers (excluding direct sales), Denmark, 2007

<b>Company</b>	
Arrow	[0-10]%
Logix	[15-25]%
<i>Arrow / Logix combined</i>	<i>[25-35]%</i>
Actebis	[35-45]%
Tech Data	[15-25]%
Avnet/Magirus	[5-15]%
Ingram Micro	[5-15]%
Others	[0-10]%

Source: Commission's estimates based on figures provided by the notifying party and the parties' competitors

34. As regards servers, post-transaction the merged entity will be the second largest distributor in Denmark with a market share of [25-35]%. Actebis, a leading international distributor, will remain the clear market leader in this market segment with a market share of [35-45]%. In addition, the merged entity will face competition from Tech Data, Ingram Micro and Avnet/Magirus, all of which are also leading international distributors.
35. Apart from competitive pressure from other wholesale distributors, the merged entity will face competitive constraints from manufacturers of IT products (direct sales). IDC estimates that direct sales of servers by manufacturers of IT products accounted for 43.9% of total sales of servers and related services in Denmark in 2007. In view of these figures, which were broadly confirmed by the Commission's market investigation, it



appears that manufacturers of servers constrain to an appreciable extent the competitive behaviour of distributors as regards the distribution of servers in Denmark. [...].

36. The same would apply, if the server segment had to be further subdivided into separate categories for high-end, mid-range and entry level servers. In this case, the merged entity would have a combined market share of [10-20%] (Arrow: [5-10%]; Logix: [0-5%]), [30-40%] (Arrow: [5-10%]; Logix: [20-30%]) and [20-30%] (Arrow: [5-10%]; Logix: [10-20%]) respectively.<sup>15</sup> As regards entry level servers, the merged entity faces strong competition from the other broadline distributors, namely Actebis, Tech Data, Avnet/Magirus and Ingram Micro. Concerning mid-range and high-end servers, competition from manufacturers is particularly strong. Indeed, industry data provider IDC estimates that direct sales of mid-range and high-end servers by manufacturers of IT products accounted for 60.5% and 69.1% respectively of total sales of such servers and related services in Denmark in 2007.
37. In addition, the notifying party puts forward that, in many instances, the manufacturers will negotiate prices directly with end-users, allocating a small portion of the total margin to Arrow. The distributor must accept the overall price (and its designated margin) or lose the deal. [...]. The Commission's market investigation has confirmed that, in many cases, manufacturers of IT products, including servers, directly negotiate prices with end-users, whereas the wholesaler primarily acts as a logistics provider.
38. Furthermore, the merged entity will be constrained by the risk of other wholesalers being appointed by the suppliers which use the merged entity for the distribution of their servers. In this respect, it must be noted that the merged entity's supply contracts with manufacturers of IT products can be terminated at relatively short notice and that the appointment of additional or alternative wholesalers involves relatively low investments. Indeed, it appears that one major supplier of IT products has recently switched a significant contract for distribution of its products in Denmark from one Danish wholesaler to another one.
39. Finally, to the extent that the sale of servers requires the provision of additional services, including pre-sales services and after-sales support, the merged entity will face competition from other broadline distributors which have a value-added business such as Avnet/Magirus and Tech Data. Two other broadline distributors have indicated that they are planning to develop a value-added business in the near future. In addition, the merged entity will be constrained by manufacturers which sell directly to resellers or end-customers and provide the required services themselves. Finally, to some extent also specialized IT service providers and value-added resellers can provide the required additional services. Resellers, retailers and end-users will therefore continue to have sufficient alternative sources of supply in Denmark. Accordingly, the Commission has not received any complaints from customers in relation to the proposed transaction and its effects on competition in the server market in Denmark.

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<sup>15</sup> Market share estimates for these sub-segments of the server market, as provided by the notifying party.

### *Storage devices*

Table 2: Market share information– for the wholesale distribution of storage devices (excluding direct sales), Denmark, 2007

<b>Company</b>	
Arrow	[0-5]%
Logix	[50-60]%
<i>Arrow / Logix combined</i>	<i>[55-65]%</i>
Actebis	[10-20]%
Tech Data	[10-20]%
Avnet/Magirus	[0-5]%
Ingram Micro	[0-5]%
Others	[0-10]%

Source: Commission's estimates based on figures provided by the notifying party and their competitors

40. As regards storage devices, post-transaction the merged entity will be the largest distributor in Denmark with a market share of [55-65]%. However, the increment is relatively limited with Arrow adding only approximately [0-5]% to Logix's current market share. Moreover, all four of the merged entity's bigger competitors in this market segment are leading international distributors. The merged entity's most significant competitors in this market segment will be Actebis and Tech Data, which both have an important presence in the market with a market share of [10-20]%, whereas Avnet/Magirus and Ingram Micro each have a market share of [0-5]%.
41. Furthermore, as in the server segment, the merged entity will face competitive constraints from manufacturers of IT products (direct sales). IDC estimates that direct sales of storage devices by manufacturers of IT products accounted for 37.9% of total sales of servers and related services in Denmark in 2007. According to the notifying party, these IDC figures actually understate the actual level of direct sales of storage devices in Denmark, given that the parties' main suppliers sell roughly 50% or even more of their storage products directly. These figures put forward by the notifying party were broadly confirmed by the Commission's market investigation. [...]. It therefore appears that manufacturers of storage devices constrain to an appreciable extent the competitive behaviour of distributors as regards the distribution of storage devices in Denmark.
42. In addition, as in the case of servers, the Commission's market investigation has confirmed that, in many cases, manufacturers of IT products, including those selling storage devices, directly negotiate prices with end-users, whereas the wholesaler primarily acts as a logistics provider. [...].
43. Furthermore, the merged entity will be constrained by the risk of other wholesalers being appointed by the suppliers which use the merged entity for the distribution of their

storage devices. As noted before, the merged entity's supply contracts with manufacturers of IT products can be terminated at relatively short notice and the appointment of additional or alternative wholesalers involves relatively low investments. As already noted, one major supplier of IT products has recently switched a significant contract for distribution of its products in Denmark from one Danish wholesaler to another one.

44. Finally, to the extent that the sale of storage devices requires the provision of additional services, including pre-sales services and after-sales support, the merged entity will face competition from other broadline distributors which have a value-added business such as Avnet/Magirus and Tech Data. Two other broadline distributors have indicated that they are planning to develop a value-added business in the near future. In addition, the merged entity will be constrained by manufacturers which sell directly to resellers or end-customers and provide the required services themselves. Finally, to some extent also specialized IT service providers and value-added resellers can provide the required additional services. Resellers, retailers and end-users will therefore continue to have sufficient alternative sources of supply in Denmark. Accordingly, the Commission has not received any complaints from customers in relation to the proposed transaction and its effects on competition in the storage market in Denmark.

#### *Conclusion*

45. In view of the foregoing, the proposed transaction does not raise serious doubts as to its compatibility with the common market under any alternative product market definition for the distribution of IT products, either at the EEA-level or at national level.

## **VI. CONCLUSION**

46. 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 EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EC) No 139/2004.

For the Commission

*(signed)*

Neelie KROES  
Member of the Commission