

***Case No IV/M.1500 -
TPG /
TECHNOLOGISTICA***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 11/05/1999

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, **11-05-1999**

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.1500-TPG/Tecnologistica

Notification of 13.04.1999 pursuant to Article 4 of Council Regulation No 4064/89¹

1. On 13.04.1999, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the undertaking, TNT Post Group ("TPG"), acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the undertaking, Technologistica, S.p.A. ("Tecnologistica"), by way of purchase of shares.
2. Following examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EEC) No 4064/89 and does not raise serious doubts as to its compatibility with the common market and with the EEA Agreement.

I. THE PARTIES

3. TPG, a listed company, resulted from the merger between the Dutch Post KPN and the TNT Express Group. The State of the Netherlands, with a 44% shareholding, is the holder of a Special Share in TPG which gives it the right to approve certain actions of the company. TPG's main activities are the provision of mail, express and logistics services. While it is active worldwide, the bulk of its turnover is generated in Europe

¹ OJ L 395, 30.12.89 p.1; corrigendum OJ L 257 of 21.09.90, p.13; Regulation as last amended by Regulation (EC) No 1310/97 (OJ L 180, 09.07.97, p.1, corrigendum OJ L 40, 13.02.98, p.17).

and therein most particularly in the Netherlands. TPG is also involved in aircraft sales and leasing activities through a 50/50 joint venture, Ansett Worldwide Aviation Services, with the News Corporation.

4. Tecnologica is an Italian company whose core activity is the provision of logistics services. Tecnologica generates some two-thirds of its turnover in Italy and is also active in France, Germany, Spain and Belgium. It has recently achieved a small presence in Austria.

II. THE OPERATION

5. TPG intends to acquire sole control of Tecnologica through the acquisition of 100% of the shares of Nuovo Tecno, a holding company which owns all the shares of Tecnologica.
6. Therefore, the proposed operation will constitute a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

III. COMMUNITY DIMENSION

7. TPG and Tecnologica have a combined aggregate worldwide turnover in excess of EUR 5,000 million (TPG, EUR 7,411 million; Tecnologica, EUR 366 million). Each of them has a Community-wide turnover in excess of EUR 250 million (TPG, EUR [...] Tecnologica, EUR [...]). TPG and Tecnologica do not achieve more than two-thirds of their aggregate Community-wide turnovers within one and the same Member State. The notified operation has, therefore, a Community dimension.

IV. RELEVANT MARKETS

A. Relevant Product Market

8. The sector in which TPG and Tecnologica overlap in their activities is that of the provision of contract logistics services.

Contract logistics services

9. TPG describes logistics services as an activity which consists essentially of the integrated management (including organization and control), supported by generic or bespoke information technology, of the flow of goods in the supply chain (inbound and/or outbound) of customers in industry or services sectors. Contract logistics services are provided to companies who choose to outsource, in whole or in part, this non-core activity. As an integrated service, logistics involves managing infrastructure, organization, processes and enabling technologies that ensure that the right goods, in the right quantities and condition, are available at the right place at the right time.
10. Logistics services embrace such diverse activities as parts supply, inventory control, product tracking, order picking, packaging, timed line delivery, quality checking, and information technology and account management, as well as value-added services such as assembly and installation upon delivery, repair returns (reverse logistics) and sequencing. While the provision (directly or through subcontracting) of warehousing space and transport constitutes a basic feature, the key feature of such services has been described to the Commission, by one of the large competing operators, as the provision

of integrated management of logistics using sophisticated information technology solutions to control the process.

11. The particular customer's decision with regard to the precise scope of the logistics activities it contracts out will determine how many (part or all) of the different services described above will be provided by a third party operator. Such activities were, in the main, traditionally managed by companies in-house, but, as part of the growing trend to contract out non-core activities to third parties, companies in the industrial, retailing and services sectors are increasingly deciding to outsource part or all of the logistics activities of their supply chain, whenever this results in a combination of lower costs and customer satisfaction.

Sectorial experience

12. While providers may be active in several different sectors, the Commission's market investigation has confirmed the relevance of sector-specific knowledge in the provision of third party logistics services. Indeed it seems that, given the fact that manufacturing processes, product characteristics (e.g. perishability, technical/handling characteristics), consumer preferences, and fiscal, health and safety, and security issues can vary from one sector to another, knowledge of a given sector and its product specific requirements constitutes a valuable asset for a logistics service provider in winning contracts.

Product market definition

13. With regard to a concise definition of the overall activity of contract logistics services, TPG itself refers to the description given by the Commission in its recent decision in case No.IV/M.1405 – TPG/Jet Services, in which the Commission described logistics services as a product which comprised the planning, implementation and control of the flow and storage of goods. The Commission considers that such a description can be retained, given that the details of the different types of activity involved in logistics services provided by TPG, and confirmed by competitors and customers in the course of the Commission's market investigation, fall broadly within its scope.

B. Relevant Geographic Market

The view of the notifying party

14. TPG contends that the geographic market for logistics services is essentially international. In support of this contention it argues, based on a survey carried out among a large sample of pan-European countries, that the proportion of nationally-focussed business is decreasing in relation to pan-European logistics. This evolution is attributed, among others, to the removal of customs barriers within Europe, a growth in regional and cross-border competition and the trend towards multinational as opposed to national distribution centres, and a rationalization of European manufacturing into fewer specialized plants, leading to an increase in cross-border movements of products.
15. At the same time, TPG presents the case for a possible distinction between logistics services provided exclusively within the national territory of the contracting customer, i.e. domestic logistics, and those in which the flow of goods (inbound or outbound) in the supply chain crosses that country's national borders, i.e. international logistics.

Under this hypothesis TPG considers the geographic market for national logistics as national, and that for international logistics as international.

Customer's location, needs and choice of provider

16. The Commission, however, notes that the survey, which TPG cites in support of its contention of an enlargement of the European scope of logistics activities, is based on the experience of pan-European companies. In this context, the Commission's market investigation has indeed confirmed the cross-border and/or European scope of the logistics needs of such companies, and the increased capacity (through subcontracting, acquisitions or alliances) of the larger third party logistics providers to satisfy such demands. However, it is to be noted that pan-European customers make up only a part of the demand for contract logistics services, with essentially national companies constituting another important segment of customers.
17. Moreover, the investigation has also revealed that subsidiaries of international companies do not necessarily use the same logistics provider across the different member states in which they are active, despite the presence of several pan-European or regional logistics services providers. Indeed, some will work with several suppliers to achieve the mix of cross-border and multi-domestic coverage that they require. As confirmed by one large competing logistics services provider, some global organizations with operations across Europe place significant value on local experience given the differences in working practices which can exist between countries. Another such operator stressed the importance of knowledge in localized markets, particularly in specialized areas, while also pointing out the key relevance of local asset ownership and network infrastructure.

National market characteristics

18. In line with national market characteristics, it is to be noted that the different providers of contract logistics services do not have a uniform presence or strength in the different member states. In fact, the array of contract logistics providers at a national level tends to contain many national companies, while pan-European providers tend to have their main strength in the home country in which they are incorporated and, outside it, are present in a cluster of countries, often neighbouring, rather than at a fully European level. Still another national market characteristic is constituted by the above-described need and importance of an extensive and efficient infrastructure within the country in which the customer is to be serviced, accompanied by the necessary reputation of strong expertise in providing services of such strategic importance. Cultural factors are also a consideration given their contribution to determining compatibility with customers.

Geographic market definition

19. The result of the above-described factors is that contract logistics services are provided to customers who typically seek suppliers which have the optimum geographic spread for their needs, but which combine this with a strong operational management at a national level. The suppliers in the market are either predominantly national or have strength in a limited number of countries. Given all the afore-mentioned factors, the Commission concludes that the geographic market, which is relevant for assessing competition in the provision of contract logistics services, is largely national in scope.

V. COMPETITIVE ASSESSMENT

20. The operation leads to an affected market for the provision of contract logistics services in Italy. (In the other member states in which both parties are present, their combined market shares fall substantially short of 15%.)

Market position of parties and main competitors

21. Tecnologica, as mentioned further above, is mainly active in its home market, Italy, where it is a market leader. Its Italian turnover is dispersed across several sectors, including the automotive, tyres and electronics sectors. According to TPG's estimation, Tecnologica enjoys a market share of approximately [10-20%] in Italy.
22. TPG is a worldwide provider of contract logistics services but, as already stated, its main strength is in its home market in the Netherlands. In Italy, some [...] of TPG's turnover corresponds to its contract with the Italian automotive company, Fiat. Its presence in other sectors in Italy is limited. Nonetheless, given the importance of its contract with Fiat, TPG's market share in Italy, according to its own estimate, is approximately [5-15%]. Thus, according to TPG's own estimation, it will enjoy approximately [20-30%] of the contract logistic services market in Italy after the operation.
23. Apart from the parties to the operation, there are several other providers of contract logistics services in Italy, among whom the national companies predominate both in number and relative strength. The market shares estimated by the parties for their main competitors range from some [15-25%] for another market leader, the national company, Zusta Ambrosetti, with in the region of [5-15%] for both Luigi Serra and Fercam, to approximately [1-5%] for the pan-European company, Danzas and another Italian company, Rasimelli & Colleti. The rest of the market is fragmented among several other operators.
24. In the course of the market investigation, competitors have pointed out to the Commission the difficulty in finding the overall turnover figure for this market, due to the flexibility in the range of services within the overall logistics offering, with contracts varying in the scope of their services, as already mentioned further above, and a certain overlap between the basic transport services and the related markets of express and freight deliveries. In fact, the estimates provided by the some of the main competitors in the market have been lower for all players, including the parties, due mainly to calculations based on a market turnover which included that of in-house logistics (for those companies which do not outsource these activities). Exceptionally, two pan-European competitors attributed a combined market share of [25-35%], or more, to TPG in Italy after the operation, but it is to be noted that both of these competitors have a limited presence in logistics in Italy. In the circumstances, and in the light of the market share information available, the Commission considers that it is reasonable to consider that the upper limit of the share to be enjoyed by TPG after the operation would be in the region of [25-35%].

25. Thus the operation can be considered to raise the level of TPG's present market share in Italy, giving it the leading position with some [20-35%] of the market, followed by another strong player with some [15-25%], and confronted with competition from several other players with a relatively strong position, including national and pan-European players.

Contract award procedures in a growing market

26. The Commission's market investigation brought to light features which characterize the market for contract logistics services i.e. the use of tender procedures for the awarding of contracts, a duration of 2 to 5 years for these, and the tendency to renew contracts, even if after renegotiation of the terms, on an annual basis. Thus, while it would appear that once a contract has been awarded, a high degree of customer loyalty can be expected, nonetheless, the practice of bidding procedures guarantees a certain market transparency in the award of new contracts in a growing market.
27. Within the present trend for companies to outsource their non-core activities, the market for contract logistics services in Italy is expected to experience steady growth, as companies cease carrying out these activities in-house, or increase the number and scope of those that they are already outsourcing. In this context, it is to be noted that in Italy the ratio for outsourced logistics services is estimated to be only some 15%, compared with the European average of 27%. Consequently, it is expected that the growth rate in Italy will be higher than the European average, with an annual rate of 8 to 15% forecast for Italy for the period to 2002. Such growth should open the way for new opportunities for those operators already present in the Italian market for logistics services and, likewise, for potential entrants active elsewhere in Europe.

The reaction of third parties

28. Customers, consulted by the Commission on the impact of the operation, broadly concurred in not expecting it to have any negative effects on their companies. Some stressed the benefits that could be expected in terms of higher service levels, and others pointed out the number of alternative suppliers remaining in the Italian market. Some competitors pointed out the strategic significance of the operation for TPG, most of whose logistics business in the Italian market has up to now been limited to its contract with Fiat in the automotive sector, while Tecnologica is a market leader, active across a broad range of sectors in Italy. However, neither customers nor competitors expressed concerns with regard to dominance by TPG in the provision of contract logistics services in Italy as a result of the operation.

Conclusion

29. In the light of the above-described reaction of third parties, the level of market shares enjoyed by TPG and Tecnologica, the number and relative strength of competitors, the growth rate forecast, and the degree of transparency in the award of contracts, the Commission considers that the present operation will not result in the creation or strengthening of a dominant position in the market for contract logistics services in Italy.

VI. CONCLUSION

30. 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 (EEC) No 4064/89.

For the Commission,