

***Case No COMP/M.2134 -
AVNET / VEBA
ELECTRONICS***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 18/10/2000

*Also available in the CELEX database
Document No 300M2134*



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18.10.2000
SG(2000)D/107635

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Subject: Case No COMP/M.2134 – Avnet/Veba Electronics

Notification of 15.09.2000 pursuant to Article 4 of Council Regulation No 4064/89

1. On 15.09.2000, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 (“the Merger Regulation”), by which the US company, Avnet Inc. (“Avnet”) acquires sole control of part of the European electronic components distribution business, and of all of the European electronic systems distribution business, belonging to the Veba Electronics Business, which is part of the German group, E.ON AG. The businesses over which Avnet will acquire sole control through the proposed operation are hereinafter referred to as “the target Veba businesses”.
2. Following examination of the notification, the Commission has concluded that the notified operation falls within the scope of the said Council Regulation and does not raise serious doubts as to its compatibility with the common market and the EEA agreement.

I. THE PARTIES AND THE OPERATION

3. Avnet is an international group active in the wholesale distribution of a diverse range of electronic components, and computer products and systems. It is present in all Member States except Portugal, and is also present in Norway.
4. The target Veba businesses consist of: i) Veba’s electronic systems distribution business (i.e. RKE Systems), which has activities throughout Europe, and ii) Veba’s

electronic component distribution business (i.e. EBV Electronic GmbH, Distron GmbH and WBC GmbH) and its related logistics business (i.e. Atlas Logistic Service GmbH), which have activities throughout the EEA.

5. The proposed operation arises in the context of a consortium bid by Avnet, Arrow Electronics Inc. (“Arrow”) and Schroder Ventures Limited (“Schroder”) for the whole Veba Electronics Business, which they will divide between them, thus giving rise to three separate concentrations: the presently notified operation, through which Avnet will acquire sole control of the target Veba businesses; the acquisition of the remaining part of Veba’s European electronic components distribution business, the Memec Group (“Memec”), by Schroder; and the acquisition by Arrow of the US electronic components and electronic systems distribution businesses of Veba. (The Memec acquisition was declared compatible with the common market by the Commission on 25.09.2000, Case No. COMP/M.2136 – Schroder Ventures/Memec.)

II. CONCENTRATION OF A COMMUNITY DIMENSION

6. The proposed operation constitutes a concentration within the meaning of Article 3.1.b of the Merger Regulation.
7. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion¹ (Avnet, €[...] million; the target Veba businesses, €[...] million). Each of them has a Community-wide turnover in excess of EUR 250 million (Avnet, €[...] million; the target Veba businesses, €[...] million), and they do not both achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation, therefore, has a Community dimension.

III. RELEVANT MARKETS

A. Relevant Product Market

8. The concentration results in an overlap in both the distribution of electronic systems and the wholesale distribution of electronic components. With regard to the distribution of electronic systems (i.e. computer products and related hardware and software), Avnet and the target business overlap at the level of four countries, i.e. Austria, Germany, Italy and the UK. However, from the information provided by Avnet it appears that the proposed concentration will not lead to any affected markets in this activity, as the level of market share which will be enjoyed by Avnet after the proposed operation will be below 15% in all instances.
9. The second area of activities in which there is an overlap is that of the wholesale distribution of electronic components. Such products fall broadly into three main categories, i.e. semiconductors, interconnect components, and passive and electromechanical components. In addition, wholesale distributors of electronic components offer value-added services to customers, such as technical support, the customisation of products and supply chain management. Customers are mainly

¹ Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Notice on the calculation of turnover (OJ C66, 2.3.1998, p25). To the extent that figures include turnover for the period before 1.1.1999, they are calculated on the basis of average ECU exchange rates and translated into EUR on a one-for-one basis.

original equipment manufacturers (“OEM’s”) in a wide range of sectors (e.g. automotive, computer, office equipment, and telecommunications), with contract equipment manufacturers (“CEM’s”) forming another important group of customers. As such customers, particularly the large manufacturers, may also be supplied directly by the component manufacturers themselves, Avnet has submitted that both types of distribution (wholesale and direct) belong to the same relevant product market.

10. This possible scope for the relevant product market was already considered by the Commission in two decisions over the last year in the same sector, i.e. Case No. COMP/M.1700 – Avnet/Eurotronics of 3.12.1999 and Case No. COMP/M.1871 – Arrow Electronics/Tekelec of 13.04.2000. In its analysis in both these decisions, the Commission has considered the significance of a number of features which characterise the wholesale distribution of electronic products and distinguish it from direct distribution by component manufacturers, i.e. a very extensive product mix from different suppliers, value-added services (as described further above), warehouses, short delivery times, and a broad and large customer base.
11. The market investigation in the present case has confirmed (as in the previous cases) the significance of these differentiating features, and also brought to light the importance of local presence as a characteristic of wholesalers. Furthermore, replies from competitors and customers (and indeed from Avnet itself) have confirmed that the increase in the relative share of wholesalers is expected to continue due to two current trends: first, on the part of component customers, a policy aimed at reducing the number of suppliers, consolidating component orders, guaranteeing technical support, ensuring just-in-time and emergency deliveries, providing overall flexibility, and reducing inventory costs; and second, on the part of component manufacturers, a policy aimed at reducing the number of customers they have to deal with, so as to concentrate on core activities, such as R & D and manufacturing.
12. As the above factors are considered significant indicators of a separate market for wholesale distribution, the Commission has retained this level of distribution of electronic components for the purposes of its assessment of the competitive impact of the operation in the present case, as it did in the past two cases.

B. Relevant Geographic Market

13. The market investigation in the present case has confirmed (as in previous cases) the presence of significant national market characteristics in the wholesale distribution of electronic components: the importance of a local presence by wholesale suppliers in terms of: i) sales offices, ii) technical staff for product customisation, development and quality control, and iii) proximity warehousing. Moreover, the investigation has brought to light the relevance of a direct and strong wholesale supplier/customer relationship in this market, as well as the importance of personal and rapid intervention, all of which depend on an adequate territorial presence of the wholesale distributor at country level. Further evidence of a national scope for the market is provided by the predominantly national or local character of the majority of wholesalers in the different affected markets.
14. Avnet has contended that the market has been evolving in recent years towards an EEA market, due to low transport costs, the lack of technical barriers and of national preferences, and the increasing globalization of OEM and CEM customers. Furthermore, Avnet has pointed to the fact that wholesale distributors are increasingly

supplying customers across Europe from a limited number of central warehouses, and that deliveries to most parts of Europe can be made within 24 hours. On this basis Avnet has concluded that a local presence is no longer necessary. However, as already stated, the Commission's investigation has provided evidence of the on-going importance of a local presence by electronic component wholesalers, for the commercial, technical, and logistical reasons already described. Thus, the Commission has concluded that the scope of the market for the wholesale distribution of electronic components continues to be predominantly national and it has retained this geographic scope for its assessment of the present operation, as in previous cases.

IV. ASSESSMENT

Background

15. The proposed concentration forms part of an on-going consolidation process in the market for the wholesale distribution of electronic components: the acquisition by Avnet of the Dutch company, Eurotronics BV, (a subsidiary of the French company, Sonepar Electronique International, S.A.) active in several Member States, was declared compatible with the common market in the Commission decision of 3.12.1999 (Case No.COMP/M.1700-Avnet/Eurotronics), and the acquisition by Arrow, the other leading global company, of the French company, Tekelec, active in most Member States, which was declared compatible with the common market in the Commission decision of 13.4.2000 (Case No. COMP/M.1871-Arrow Electronics/Tekelec).

Affected Markets

16. The present acquisition leads to an increase in Avnet's market share in wholesale electronic component distribution in most Member States and in Norway, and results in the creation of the following affected markets: France, with [25-35%] market share; Spain, Sweden, Germany and the UK, with some [20-30%] each; Austria with some [15-25%]; and Italy, the Netherlands, Belgium and Norway in the [15-25%] range of market share. The increase resulting from the acquisition is highest in Germany and Belgium at [5-15%], with the increase in Austria, the Netherlands, France, Spain and Italy in the [5-15%] range, and less than [2-7%] added in the other affected markets.
17. Among the competitors Avnet will confront in the different affected markets, the other global player, the US company, Arrow, has the most significant presence (except in the Netherlands and Belgium, where the market leader is a Dutch player, Koning en Hartman). Arrow's market shares range from [15-25%] to [20-30%] in those countries where Avnet's own share will be in the [20-30%] bracket, with the exception of France, where Arrow has some [30-40%] of the market and Avnet [25-35%]. In the five markets in which Avnet will have a comparable market share to Arrow (i.e. France, Spain, Sweden, Germany and the UK), their combined share will make up close to (or over) half of the market.
18. In France, where Avnet achieves its highest share, [25-35%], Arrow is the leader with [30-40%], and there are four more competitors in the [2-10%] range, among whom Memec (ex-Veba) which is present in several Member States. In Spain, Avnet will be the leader with [20-30%], but Arrow has a significant presence with [15-25%], while Memec and four other more local competitors have shares in the [2-10%] range, apart from numerous smaller players. In Sweden, Avnet's lead with [20-30%] will face

significant competition from Arrow, with [15-25%], apart from four other competitors in the 6-10% market share range. In Germany, Avnet with a [20-30%] share will be confronted with Arrow's comparable share of [15-25%], and four more competitors with shares in the [1-10%] bracket, among them Memec and two more players with a certain multi-national presence, Abacus-Polar/Rutronik (an alliance) and Eurodis. In the UK, Arrow will be the market leader with some [20-30%], and Avnet will follow with [20-30%], and still face competition from three more players with [5-15%] (including Memec and Abacus Polar). In Austria, three competitors have an [5-10%] share (including Arrow and Eurodis), and Memec has some [2-7%], apart from numerous local players.

19. Avnet will not be the market leader in any of the four affected markets where its share will be under [15-25%] (i.e. Italy, the Netherlands, Belgium and Norway): Arrow will lead with [25-35%] in Italy, Koning en Hartman will lead in the Netherlands with [20-30%] and in Belgium with [20-30%], and in Norway, Arrow will have a significant lead with some [50-60%]. Furthermore, the medium sized player, Eurodis has a substantial presence ([5-15%]) in all these countries (except in Norway), and Arrow has an important presence in the Netherlands ([5-15%]) and Belgium ([10-20%]), apart from the presence of other players.

Assessment

20. Thus after the proposed operation Avnet will be confronted on practically all the affected markets with competition from a significant player with a comparable or larger share of the market. Furthermore, the Commission has appreciated that the market for the wholesale distribution of electronic products is characterized by a significant diversity: distributors vary in their size, geographic coverage, product range, skills, focus, and customer base.
21. Within this diverse market, distributors fall broadly into three categories: a first tier of broad-line, high volume distributors with an EEA-wide presence, whose turnover is preponderantly generated by large customers (often with a pan-European presence), to which tier Avnet and Arrow belong; a second tier, composed of medium-sized distributors, with a presence in a few or several countries, such as Eurodis, Memec and the Abacus-Polar/Rutronik alliance, whose product lines, when not as broad as Avnet's (or Arrow's), overlap with these nonetheless, and who compete in the different national markets in which they are present, in terms of historical performance in the provision of technical support and logistical services, and in terms of strong distributor/customer relationships; yet another tier is constituted by the national players who enjoy similar local strengths to the medium tier.
22. The Commission's market investigation has confirmed that all three categories of competitors will provide competition for Avnet, based on their particular strengths. Nonetheless, the investigation has brought to light a certain wariness on the part of competitors and customers with regard to the change in the market structure which is being brought about by the on-going consolidation process of which the present operation forms a part. The acquisitions by Avnet and Arrow, mentioned further above, have not only increased significantly their respective shares of the different national markets, but have also eroded substantially the space occupied by the medium sized, second tier, competitors, a group to which the acquired Eurotronics, Tekelec, and the present Veba business belonged. The result has been both a reduction in the

number of competitors in the different markets, and an increase in the distance between Avnet and Arrow and their nearest competitors in terms of market share.

23. Despite such developments, the investigation has also provided the Commission with evidence of a certain confidence of competitors and customers alike in the capacity of the market to regenerate in response to this change in structure, given the particular dynamics which characterize the market for the wholesale distribution of electronic components, i.e. the on-going steady growth in the market (due to the reasons described further above); customer strategy of having at least two alternative wholesale suppliers, to reap the benefits of price competition and ensure timely support and service; and the competitive edge provided by the distinctive features of the different categories of suppliers in terms of product range, technical skills and logistics capabilities, particularly in a market concerning products subject to constant technological innovation.

Conclusion

24. In the light of all the fore-going factors, and given the lack of the any serious concerns raised overall with regard to the competitive impact of the proposed operation, the Commission considers that it will not lead to the creation or strengthening of a dominant position in the markets concerned, as a result of which effective competition would be significantly impeded in the common market or a substantial part thereof.

V. ANCILLARY RESTRAINTS

25. Avnet has identified certain clauses in the Share Purchase Agreement (“SPA”) and the Consortium Agreement (“CA”) which they consider ancillary to the concentration.
26. In the SPA, [...].
27. In so far as such provisions, for their contractual duration as stated above, represent the protection for Avnet of the businesses it is acquiring, they can be considered directly related and necessary to the implementation of the proposed concentration.

VI. CONCLUSION

28. 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,

*(signed : Mario Monti
Member of the Commission)*