

***Case No COMP/M.4434 -
RICOH / DANKA***

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

Article 6(1)(b) NON-OPPOSITION
Date: 08/12/2006

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 08-XII-2006

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PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sir/Madam,

Subject: Case No. COMP/M.4434 – RICOH / DANKA
Notification of 24.4.2006 pursuant to Article 4 of Council Regulation
No 139/2004¹

1. On 3 November 2006, the Commission received a notification of a proposed concentration by which Ricoh Europe B.V. (“Ricoh”, the Netherlands) acquires the European business of Danka Business Systems plc (“Danka”, United Kingdom).
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EC) No 139/2004 (“the EC Merger Regulation”), and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

I. THE PARTIES

3. **Ricoh** is a wholly-owned subsidiary of Ricoh Company Ltd, a Japanese public company which manufactures and distributes office automation equipment, personal computers and equipment and related supplies and services.
4. **Danka** is a public company registered in the United Kingdom. The company distributes office imaging equipment, document solutions and related services and supplies. In addition, Danka provides contract services (e.g. technical support and training on the installed base of equipment).

¹ OJ L 24, 29.1.2004 p. 1.

II. THE OPERATION

5. By purchase of shares, Ricoh will acquire the following companies from Danka: Danka Austria GmbH (Austria), Danka Belgium NV/SA (Belgium), Danka Danmark A/S (Denmark), Danka Deutschland Holding GmbH (Germany), Danka Office Products B.V. (the Netherlands), Danka Netherlands B.V. (the Netherlands), Danka Holdings B.V. (the Netherlands), Danka Holding France Sarl (France), Danka Holdings Iberia SA (Spain), Danka Holdings S.A. (Switzerland), Danka Sverige AB (Sweden), Danka Italia SpA (Italy), Danka Norge AS (Norway) and Danka UK plc (United Kingdom), hereinafter jointly referred to as “the Danka businesses”.
6. The **Danka businesses** distribute office imaging equipment (photocopiers, printers and fax machines) and provide associated services and supplies in the countries mentioned above. Ricoh is the Danka businesses’ main provider of office imaging equipment, accounting for approximately -[80-90%] of the businesses’ total sales. The Danka businesses sell Ricoh products under their own Infotec brand name.

III. CONCENTRATION

7. The transaction concerns the acquisition of sole control by Ricoh of the European operations of Danka.
8. On this basis the Commission concludes that the proposed transaction constitutes a concentration within the meaning of Article 3(1) of the EC Merger Regulation.

IV. COMMUNITY DIMENSION

9. Ricoh’s worldwide turnover alone amounted to € 13.9 billion, its Community wide turnover amounted to [...] in the 2005-2006 financial year²; the Community-wide turnover of the Danka businesses amounted to [...] in the 2005-2006 financial year.³ None of the parties derived more than two-thirds of their aggregated Community-wide turnover within one Member State. The transaction therefore has Community dimension.

V. COMPETITIVE ASSESSMENT

A. Relevant product markets

10. Ricoh is active in the manufacture and wholesale distribution of office automation products. In previous cases concerning office automation equipment, the Commission has made a basic distinction between manufacture and wholesale distribution.⁴ At the manufacturing level, the Commission considers that the production of photocopiers, printers and fax machines may constitute three distinct product markets. In the past it

² The latest financial year of Ricoh ran from 01.04.2005 to 31.03.2006.

³ The latest financial year of the Danka businesses ran from 01.04.2005 to 31.03.2006.

⁴ Decisions of the Commission of 12 september 1995 in case No. IV/M.622, Ricoh/ Gestetner; of 22 April 1999 in case No IV/M. 1496, Olivetti/Telecom Italia; and of 24 January 2001, Case No. Comp/M2256, Ricoh/ Lanier Worldwide.

has also considered various further segmentations for the relevant product market comprising the manufacture of office automation equipment.

11. Since the Danka businesses do not manufacture any office automation equipment, the parties' activities overlap only in the wholesale distribution to retailers and large end-users of (i.) photocopiers (ii.) printers and (iii.) fax machines. In previous decisions the Commission considered that further segmentation was not necessary at the wholesale distribution level, given the high level of demand and supply side substitutability. Any company active at the wholesale level can and does distribute a wide range of products. As the Commission observed: "for a given category (photocopiers; fax machines; [...]) these products are distributed by the same distribution channels".⁵
12. The Notifying Parties consider that it could be more accurate to assume a single market for wholesale distribution of office automation equipment. According to the Notifying Parties photocopiers, printers and fax machines are distributed in the same manner through the same distribution channels. The same distributors and dealers that distribute photocopiers most often also distribute other types of office automation equipment (printers, faxes). This is increasingly the case. Before digitalization, dealers with no network knowledge had an incentive to "specialize" in (analogue) photocopiers (rather than printers). This is, according to the Notifying Parties no longer true, since digital photocopiers require the same network knowledge as for printers. As a result, nothing prevents distributors and dealers from distributing all categories of office automation products.
13. Moreover, according to the Notifying Parties, the office automation sector is evolving towards multifunctional devices – which can copy, print and fax.
14. Due to the fact that these products are usually distributed together via the same distribution channels and the ongoing evolution towards multifunctional devices, the Notifying Parties consider that the wholesale distribution of all office automation equipment could constitute a single relevant product market.
15. Customers expect that innovation and product development will increase the multifunctionality of different types of office automation equipment.⁶ However, although the lines of substitutability between photocopiers, printers and faxes and multifunctional digital devices that are capable of combinations of fax, copy and print functions become increasingly blurred⁷, customers indicated that on the wholesale distribution level there are at present distinct markets for the wholesale distribution of photocopiers, printers and faxes.
16. The majority of customers pointed out to the Commission in its market investigation that there is a distinct product market for the wholesale distribution of photocopiers, a distinct market for the wholesale distribution of printers and a distinct product market

⁵ Decisions of the Commission of 12 September 1995 in case No. IV/M.622, Ricoh/ Gestetner; of 22 April 1999 in case No IV/M. 1496, Olivetti/Telecom Italia; and of 24 January 2001, Case No. Comp/M2256, Ricoh/ Lanier Worldwide.

⁶ Commission's questionnaire to customers, send 14 November 2006, Question number 3.

⁷ Commission's questionnaire to customers, send 14 November 2006, Question number 4.

for the wholesale distribution of fax machines.⁸ The market investigation also showed that customers actually make use of different wholesale distribution channels for photocopiers, fax machines and printers.⁹

17. The Commission also found in its market investigation that the majority of customers that responded to the Commission purchases or leases photocopiers, faxes and printers not only through distributors, but also directly from manufacturers.¹⁰ It thus seems likely that in some cases manufacturers compete directly with wholesale distributors and may possibly need to be included in the relevant product market.

Conclusion

18. Based on the elements discussed, the Commission considers that a distinction should be made between the relevant product markets for the manufacture of office automation equipment and the wholesale distribution of office automation equipment. There are indications that there are separate relevant product markets for the wholesale distribution of (i.) photocopiers (ii.) printers and (iii.) fax machines. There are also indications that the borders between those segments will become increasingly blurred in the future. Manufacturers selling directly to the customers may need to be included in the scope of the relevant product market.
19. However, due to the fact that even with regard to the narrowest relevant product market definition the concentration will not result in a significant impediment of effective competition, the precise product market definition can be left open for the purpose of this decision.

B. Relevant geographical market

20. In the *Konica/Minolta* decision the Commission's market investigation indicated that for the manufacturing markets the products sold and prices throughout the Community were similar, the transport cost were low and the presence and market shares of important manufacturers were similar throughout the EEA. In line with the Commission's approach taken in previous cases, the Parties submit that the manufacturing markets for photocopiers, printers and fax machines should be at least EEA-wide. For the purpose of this concentration the exact delineation of the manufacturing markets can however be left open.
21. According to the parties, the markets for wholesale distribution of photocopiers, wholesale distribution of printers and wholesale distribution of fax machines are national or EEA-wide in scope. Irrespective of what the exact delineation of the relevant product market(s) would be, the Commission's market investigation provided indications that such market(s) in the present case would be EEA-wide in scope.
22. In the *Ricoh/Lanier Worldwide* decision¹¹, the suggestion by the parties in the case that the geographic scope of the wholesale distribution market for photocopiers was "under

⁸ Commission's questionnaire to customers, send 14 November 2006, Question number 5, 6 and 7.

⁹ Commission's questionnaire to customers, send 14 November 2006, Question number 1.

¹⁰ Commission's questionnaire to customers, send 14 November 2006, Question number 2.

¹¹ M.2256 Ricoh/Lanier Worldwide.

no circumstances narrower than national" could be accepted by the Commission as under no alternative geographic market definition competition problems would have arisen. The Notifying Parties argue that the scope of the geographic market may be EEA-wide but concede that the wholesale distribution of these products has traditionally been organised on a national basis.

23. In the market investigation a majority of customers indicated to the Commission that they purchased their photocopiers, printers and fax machines within the national geographic area while other customers indicated that they purchase world-wide, EEA wide or regional.¹² However, the majority of customers also indicated that they could switch easily to sources outside their country if national wholesale distributors would increase their prices by 10% on a lasting basis, the prices of the sources outside their country remaining at the same price level.¹³ Customers also indicated that the transport cost expressed as a percentage of the total purchase price for photocopiers, printers and fax machines is estimated as below 5%.¹⁴
24. In any event, considering that neither with the geographical market defined as comprising the EEA nor with the geographical market defined as comprising national markets, the concentration would result in a significant impediment of effective competition in the common market or in a substantial part of it, the precise definition of the relevant geographical market can be left open for the purpose of this decision.

C. Competitive Assessment

Horizontal Overlaps

25. The markets for the wholesale distribution of photocopiers, printers and fax machines are mature markets and appear to be, according to the Commission's findings, as very competitive. The market for the wholesale distribution of photocopiers is perceived by *customers* as being highly competitive. *Competitors* to Ricoh and Danka also pointed out to the Commission that the markets for the wholesale distribution of photocopiers, printers or faxes are competitive. Some *customers* expect a further decrease of prices.
26. The Commission's market investigation also showed that a number of competitors are sometimes pricing aggressively¹⁵ and that some competitors are in particular pricing aggressively.¹⁶ Some "low end" competitors are increasingly becoming a competitive threat to prime brands.
27. As regards actual price differences in the market, the picture emerging from the market investigation is somewhat mixed, with 17 *customers* indicating that the price differences between the different wholesale distributors are relatively small, 11 customers indicating

¹² Commission's questionnaire to customers, send 14 November 2006, Question number 8.

¹³ Commission's questionnaire to customers, send 14 November 2006, Question number 10.

¹⁴ Commission's questionnaire to customers, send 14 November 2006, Question number 12.

¹⁵ Commission's questionnaire to competitors, send on 15 November 2006, question number 18.

¹⁶ Commission's questionnaire to competitors, send on 15 November 2006, question number 17.

that there were significant price differences.¹⁷ However, 10 out of 13 *competitors* confirmed the existence of significant price differences with the remaining 3 competitors stating that they did not keep track of their competitor's pricing behaviour.¹⁸ A competitor indicated that the differences in price may be as big as 25%.¹⁹

28. The parties' activities mainly overlap in the wholesale distribution of photocopiers. The overlaps in the wholesale distribution of printers and fax machines are insignificant, even on a national level, and the transaction is therefore unlikely to significantly impede effective competition in this regard.²⁰
29. The *printer* sales of the Danka businesses are very limited. The Danka businesses sold [...] printers in the EEA in 2005. In consequence, the parties' combined market shares amount to less than [0-10%] in 2005 in every country where Danka is active. The increments in market shares for all these national markets are at maximum [0-10%].²¹
30. With regard to the wholesale distribution of *fax machines* both Ricoh and Danka play a minor role. For example, Danka sold in 2005 only [...] fax machines in the EEA.²² In consequence the parties' combined market shares amount to less than [0-10%] in every country where Danka is active, with increments of at maximum [0-10%].²³ The limited activities of Ricoh and Danka on the wholesale market for fax machines and printers were confirmed by the Commission's market investigation.²⁴
31. As shown below, the post-acquisition entity will have larger market shares for the wholesale distribution of *photocopiers*. However, even in the area of wholesale distribution of photocopiers the combined market shares remain relatively modest. The increments in market shares are also small. The wholesale distribution of photocopiers in the EEA or on affected national markets shows the following structure (see table below):

17 Commission's questionnaire to customers, send on 14 November 2006, question number 17.

18 Commission's questionnaire to competitors, send on 15 November 2006, question number 17.

19 Commission's questionnaire to competitors, send on 15 November 2006, question number 17.

20 Form CO, page page 27

21 Market share figures are estimates by the Notifying Parties based on InfoSource Photocopier Industry Market Research Program, Europe, 2006 Spring Report, and concern sales volumes in 2005.

22 Form CO, page 22.

23 Market share figures are estimates by the Notifying Parties based on InfoSource Photocopier Industry Market Research Program, Europe, 2006 Spring Report, and concern sales volumes in 2005.

24 For example, Commission's questionnaire to customers, send 14 November 2006, Question number 14.

Structure of wholesale distribution for photocopiers (2005)

Geographic market	Parties' combined market share ²⁵	Increment
Austria	[10-20%]	[0-10%]
Belgium/Luxembourg	[20-30%]	[0-10%]
France	[20-30%]	[0-10%]
Italy	[20-30%]	[0-10%]
The Netherlands	[10-20%]	[0-10%]
Spain	[10-20%]	[0-10%]
United Kingdom	[10-20%]	[0-10%]
EEA	[10-20%]	[0-10%]

Source: estimates Notifying Parties

32. According to many *customers*, Ricoh and Danka do not have a particular strong market position.²⁶ In the opinion of the vast majority of customers, Ricoh's acquisition of Danka would not give rise to any anti-competitive effects on the wholesale distribution markets for photocopiers, printers or fax machines.²⁷ The vast majority of customers indicated that the impact of the transaction on their own business, other wholesale distributors or producers of copiers, printers or fax machines would not be significant²⁸. *Competitors* also did not expect a significant impact on their businesses or the market with the disappearance of Danka. Post acquisition Ricoh will continue to face fierce competition from large competitors like Canon, Konica Minolta, Hewlett Packard, Brother, Xerox and others.
33. All *customers* pointed out to the Commission that they could source their office automation from other wholesale distributors or manufactures than Ricoh and Danka.²⁹ The Commission found in its market investigation also many examples of customers who actually did switch or had more than one source in the last five years.³⁰

²⁵ Market share figures are estimates by the Notifying Parties based on InfoSource Photocopier Industry Market Research Program, Europe, 2006 Spring Report, and concern sales volumes in 2005. The InfoSource report does not include market shares based on sales value.

²⁶ Commission's questionnaire to customers, send on 14 November 2006, question number 20.

²⁷ Commission's questionnaire to customers, send on 14 November 2006, question number 24.

²⁸ Commission's questionnaire to customers, send on 14 November 2006, question number 21.

²⁹ Commission's questionnaire to customers, send on 14 November 2006, question number 20.

³⁰ Commission's questionnaire to customers, send on 14 November 2006, question number 14.

34. Post-merger Ricoh will not have a particular strong position on the wholesale distribution markets for photocopiers, printers and fax machines. These markets seem highly competitive. Customers have many alternative sources to which they can switch. Thus, the Commission has in its market investigation found no indications that post-merger Ricoh will be able to significantly impede effective competition.

Vertical integration

35. Ricoh is manufacturing photocopiers, printers and fax machines. Since Danka is a wholesale distributor for those products, the Commission should take vertical effects into account. Ricoh could acquire the possibility to foreclose vertically any of its competitors.

36. EEA-wide Ricoh had a share of [20-30%] in the manufacture of photocopiers in 2005. According to information by the Notifying Parties (based on InfoSource) Ricoh's manufacturing share for photocopiers in the EEA-countries where Ricoh is active was between [20-30%] and [30-40%].³¹ As regards the manufacture of printers and fax machines, shares are even lower.

37. The concentration is not likely to lead to any vertical foreclosure, because the bulk of the products distributed by the Danka businesses are already produced by Ricoh. Approximately [80-90%] of the products currently sold by Danka are Ricoh products.³²

38. Furthermore, no competitor of Ricoh is dependent on the Danka Businesses for the wholesale distribution of its products. Even if Ricoh decided that the Danka Businesses would only distribute Ricoh products and no longer distribute non-Ricoh products, other manufacturers would have sufficient alternative wholesale distribution channels through which they already sell now.³³ According to the Notifying Parties, non-Ricoh products represent less than [10-20%] of Danka's total sales. The largest non-Ricoh brand that Danka is selling is Canon. Danka's sales of Canon products represents only [0-10%] of total Canon sales in Europe.

39. The Commission therefore considers that there are no grounds to believe that the post-acquisition entity is able to foreclose vertically any of its competitors.

40. On the basis of the above, the Commission has concluded that the concentration does not raise serious doubts as to its compatibility with the common market and that it would not significantly impede effective competition in the common market or in a substantial part of it, in particular as a result of the creation or strengthening of a dominant position.

31 E-mail of the Notifying Parties to the Commission, 1 December 2006. Market share figures are estimates by the Notifying Parties based on InfoSource Photocopier Industry Market Research Program, Europe, 2006 Spring Report, and concern sales volumes in 2005.

32 Form CO, page 39.

33 Commission's questionnaire to competitors, sent on 15 November 2006, question number 22.

VI. CONCLUSION

41. 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