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***Case No COMP/M.5221 -  
KENWOOD / JVC /  
HOLDCO***

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: 19/08/2008

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## COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19/08/2008  
SG-Greffe(2008) D/205171, 205172  
C(2008) 4585

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 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 Where possible the information omitted has been replaced by ranges of figures or a general description.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 parties:

Dear Sir/Madam,

**Subject: Case No COMP/M.5221 – Kenwood/ JVC/ Holdco  
Notification of 14 July 2008 pursuant to Article 4 of Council Regulation  
No 139/2004<sup>1</sup>**

1. On 14 July 2008, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which the undertaking Kenwood Corporation ("Kenwood", Japan) enters in a full merger within the meaning of Article 3(1)(a) of the Council Regulation with Victor Company of Japan Ltd ("JVC", Japan) by way of transfer of shares in a newly formed joint holding company. Kenwood and JVC are together referred to below as "the parties" or "the notifying parties".

### I. THE PARTIES

2. **Kenwood** is a provider of electronics equipment. Its business focuses on three product categories: (i) car electronics, (ii) home electronics, and (iii) communications equipment (including handheld and mobile radios, transceivers, repeaters and base stations). Kenwood is not controlled, either directly or indirectly, by any undertaking or person.

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

3. **JVC** is active in the research, development, manufacturing and sales of electronic products and accessories for consumer and professional use. JVC's business includes audio, visual, computer-related electronics and software, and media products. JVC is not controlled, either directly or indirectly, by any undertaking or person<sup>2</sup>.
4. **HoldCo** will be the parent company, listed on the Tokyo stock exchange, that post-merger wholly owns both Kenwood and JVC.

## II. THE CONCENTRATION

5. The transaction is a full merger between Kenwood and JVC. In particular, the parties agreed to merge their respective activities into a newly established joint holding company (HoldCo). Pursuant to the Integration Agreement of May 12, 2008, Kenwood and JVC will establish HoldCo and implement a joint share transfer upon the approval of at least a super-majority of the shareholders of each party. Following the transaction, HoldCo will become a newly listed company on the Tokyo Stock Exchange and will become the parent company that wholly owns both Kenwood and JVC<sup>3</sup>.
6. Thus, the transaction constitutes a concentration within in the meaning of Article 3(1)(a) of the Merger Regulation.

## III. COMMUNITY DIMENSION

7. The concentration does not meet the thresholds set out in Article 1(2) of the Merger Regulation. However, the undertakings concerned have a combined aggregate world-wide turnover for the year 2007 of more than EUR 2 500 million<sup>4</sup>. In each of at least three Member States, the combined aggregate turnover of the parties is more than EUR 100 million<sup>5</sup>. In each of at least three Member States where their joint turnover exceeds EUR 100 million, the aggregate turnover of each undertaking concerned is more than EUR 25 million<sup>6</sup>. Finally, each of Kenwood and JVC has a Community-wide turnover in excess of EUR 100 million<sup>7</sup> without achieving more than two-thirds of their aggregate Community-wide turnover within one and the same Member State.
8. The notified operation therefore has a Community dimension within the meaning of Article 1(3) of the EC Merger Regulation.

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<sup>2</sup> On 31 March 2007, Matsushita Electrical Industrial ("MEI") held 52.4% of the shares in JVC. However, following JVC's sale of newly issued stock in August 2007 to Kenwood and SPARX International, MEI's shareholding in JVC was reduced to 36.8%.

<sup>3</sup> Kenwood and JVC will be de-listed from the Tokyo Stock Exchange.

<sup>4</sup> Kenwood: EUR [...] million, the target: EUR [...] million.

<sup>5</sup> [...].

<sup>6</sup> [...].

<sup>7</sup> Kenwood: EUR [...], JVC: EUR [...].

#### IV. RELEVANT MARKETS

9. The concentration involves the markets for Car Electronics and Home and Mobile Electronics. Kenwood and JVC both sell Car Electronics and Home and Mobile Electronics directly to customers such as retailers, car dealers, as well through local distributors and wholesalers.

##### *Product market*

10. According to the parties, the relevant product markets, for the purpose of the present transaction, are the markets for Car Electronics and Home and Mobile Electronics<sup>8</sup> - in which both Kenwood and JVC are active on a global and EEA-wide basis<sup>9</sup>. According to the parties, there is no need for further sub-segmentation of these two relevant markets due to high supply side substitution among players active within any sub-segments of these markets.
11. While the parties consider Car Electronics as well as Home and Mobile Electronics to be the appropriate relevant markets, they also consider a further narrower segmentation of the above-mentioned relevant markets.

##### *Home and Mobile Electronics*

12. The Home and Mobile Electronics market can be sub-divided into five principal segments: (i) Audio Home Systems, (ii) Audio Components, (iii) DVD Players and Recorders, (iv) Speakers and (v) Portable Audio Players. It is the parties' view that due to supply-side characteristics within these sub-segments, the relevant product market, for the purpose of this transaction, should be defined broadly as Home and Mobile Electronics.
13. However, for the purpose of the present transaction the exact product market definition can be left open as the transaction would not give rise to any competition concerns under any alternative market definition.

##### *Car Electronics*

14. With regard to Car Electronics, according to the notifying parties, there is no separate market in Europe for OEM customers, such as car manufacturers, car parts suppliers or car dealers due to the fact that, at least for the products offered by the parties, most of the Car Electronics products sold in the OEM /automotive channel are the same as those sold to retailers and distributors and with no significant price differences between the products. In addition, the parties explain that, for the products offered by them, they face competition for sales to OEM / automotive customers from the same suppliers as for sales to retailers and distributors. In any case, it does not have to be decided whether there is a specific market for OEM customers in relation to Car Electronics as, even if the OEM channel was considered to be a separate market, the parties' activities in such a market would be *de minimis*<sup>10</sup>.

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<sup>8</sup> There are several areas within Home and Mobile Electronics market in which the parties have no overlap. For instance, Kenwood offers vinyl disc turn tables, and only JVC offers home cassette players, VHS players, camcorders and televisions.

<sup>9</sup> Kenwood also sells Communication Equipment, including wireless radio and transceivers, which in 2007 were 35% of Kenwood's total sales. JVC does not sell Communication Equipment that competes with these Kenwood offerings.

<sup>10</sup> Kenwood's total direct sales to OEM customers in Europe of Car electronics products were only EUR [...] and JVC's sales were EUR [...] amounting to less than [...] of the parties' combined Car Electronics revenue in Europe.

15. The Car Electronics market could be further segmented in three principal product categories: (i) Car Audio products, which primarily include radio receivers with various media players such as CD and DVD players (ii) Car Speakers, including subwoofers and (iii) Car Navigation products, including both portable navigation systems and aftermarket "fix installed" systems.
16. In particular, aftermarket fix installed navigation products typically consist of (i) a head unit mounted in the dashboard of a vehicle, commonly in the form of a LCD screen with or without command buttons (as some LCD have touch-screen functions), (ii) a "main unit" or the product's hard drive into which a secure digital (SD) card is inserted and (iii) an antennae or accessory products used to connect to an existing vehicle antennae. Apart from providing navigation assistance, the head unit can also function as a radio and CD/DVD player/receiver, as well as being compatible with USB stick and portable media players, such as iPods. In contrast to in-dash navigation systems pre-installed by OEMs and auto manufacturers in new cars, fixed installed navigation systems offered by the parties can be purchased by end-customers on the aftermarket, are mainly distributed through retail channels and are sold under the brand of the navigation system manufacturer.
17. Like portable navigation system products, aftermarket fix installed navigation products are used in cars for navigational purposes and the parties therefore consider portable navigation systems to be competitive alternatives to the "fixed installed" navigation systems, as many customers primarily use them for the same purpose.
18. In *TomTom / Tele Atlas*, the Commission found that Portable Navigation Devices (PNDs) and "fixed" in-dash navigation systems form two separate markets<sup>11</sup>. However, in its analysis the Commission focused only on fixed navigation systems which were purchased by OEMs and pre-installed in cars at the production stage. Those systems were purchased by the end customers together with the cars. Their production and product life cycle were closely aligned to that of the car in which they were installed. Unlike the fixed in-dash systems analyzed in *TomTom / Tele Atlas*, the aftermarket installed navigation systems supplied by the parties are sold primarily in the aftermarket. The parties' main customers are car import companies, car dealers, car accessory companies and retailers who sell directly to end customers. The installation of the fixed navigation systems sold in the aftermarket requires less time and technical know-how compared to in-dash systems bought and pre-installed by the OEMs. Like PNDs, the aftermarket fixed installed navigation systems can be bought independently of the car.
19. While the prices of aftermarket fixed installed navigation systems such as those proposed by the parties range from [...] to [...] Euros, the prices of PNDs range from [...] to [...] Euros<sup>12</sup>. Both types of devices remain cheaper in comparison to in-dashboard systems pre-installed by auto manufacturers which invariably cost more than EUR 1 000 due to the relatively small price differential, a single market for PNDs and aftermarket fixed installed navigation systems might be considered, but the final market definition can remain open, since even under the narrowest market definition the transaction will not give rise to any competition concerns.

### **Relevant Geographic market**

20. The parties submit that the relevant geographic market for Car Electronics products, including any narrow sub-segment such as Car Audio and Fixed Installed Navigation systems is at least EEA-

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<sup>11</sup> See Commission's decision COMP/M.4854, *TomTom/Tele Atlas*

<sup>12</sup> Report "In-car Electronics EU", GfK, February 2008, pg. 86.

wide. This is borne out by the fact that (i) most manufacturers distribute their products on a global basis using direct and indirect sales channels in Europe, (ii) suppliers and distributors with operations in one Member State sell Car Electronics products to customers located in different countries given the low transport costs in relation to the sales value of the products, and (iii) there are no technical specifications and prices of Car Electronics within the EEA are largely harmonized.

21. In previous decisions related to the markets for consumer electronics and car components, the Commission has indicated that the geographic scope of such markets can be national due to national distribution systems, service organization, marketing strategies, specific customer preferences or national organization of sales<sup>13</sup>.
22. However, for the purpose of the present transaction, the exact geographic market definition can be left open since the transaction would not give rise to any competition concerns even under the possible narrowest market definition.

## V. COMPETITIVE ASSESSMENT

23. According to the information submitted by the parties, under the broad definition of the relevant markets, HoldCo would have a market share below 15% in both markets for Home and Mobile Electronics and Car Electronics on EEA as well as national basis. There would therefore be no affected markets.

### *Home and Mobile Electronics*

24. In 2007 the parties' combined market share for Home and Mobile Electronics on an EEA-basis, was [0-10]%. If this market were to be divided into narrower product sub-segments: Audio Home Systems, Audio Components, DVD Players & Recorders, Loudspeakers and Portable Audio Players, the highest market shares on an EEA-wide basis would be in Audio Home Systems with [0-10]%<sup>14</sup>. In all other sub-segments the parties are at a share of around [0-10]% or below.
25. On a national basis, according to figures computed by GfK, in 2006/2007 the parties had the highest market shares in the Audio Home Systems in the Netherlands (JVC [5-15]%, Kenwood below [0-10]%) and Spain (JVC [0-10]%, Kenwood below [0-10]%); their combined share in the largest markets Germany and UK was around [0-10]% and below [0-10]% respectively<sup>15</sup>.

### *Car Electronics*

26. According to a narrower definition of the relevant markets based on the sub-segments of Car Electronics, the transaction would give rise to the following affected markets: (i) Car Audio and (ii) "Fixed Installed" Car Navigation Systems.
27. As regards the Car Audio sub-segment, post-merger, Sony will remain the market leader with approximately [15-25]% market share at the EEA level. Holdco would become no.2, with a

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<sup>13</sup> See Commission decisions COMP/M.3091 *Konica/Minolta*, COMP/M.3381 *Alba/Beko/Grundig*, COMP/M.4979 *Acer/Packard Bell*

<sup>14</sup> Notification, Annex 7.1(C) .

<sup>15</sup> GfK Home and Mobile Electronics market Size and Share data, 14 July 2008, Notification, Annex 7.1(B) .

combined market share of approximately [10-20]% (JVC [5-15]%, Kenwood [5-15]%), followed by Pioneer ([5-15]%), Alpine ([0-10]%), Blaupunkt and Panasonic ([0-10]%) and other companies. The parties' combined market shares at a national level are similar to Holdco's share on the EEA level (i.e. [10-20]%), although they are lower in some Member States (France<sup>16</sup>, [10-20]%) and higher in others (Germany, [10-20]%). All the major competitors are active in all member states.

28. In the market for Car Navigation systems sold in the aftermarket (including Portable Navigation Devices) the parties' combined market shares would not exceed [0-10]% on EEA level or in any Member State.
29. The aftermarket fixed installed navigation devices sold by the parties face increasing competition from Portable Navigation Devices. While the sales of PNDs in the EEA have grown from [...] units in 2005 to [...] units in 2007, the sales of aftermarket fixed installed navigation systems have fallen from [...] to [...] in the same period<sup>17</sup>.
30. In the hypothetical market for aftermarket fixed installed navigation systems considered in paragraphs 16-19 the parties' combined market share on an EEA-wide basis was [5-15] % in 2007. The main competitors Pioneer, Becker and Alpine reached market shares of [35-45]%, [10-20]% and [5-15]% respectively.
31. On a national level, the parties' combined market share will exceed 15% in Belgium ([15-25]%) and Italy ([25-35]%). As this is a relatively small market<sup>18</sup> and the main customers are car importers and car accessory vendors, market shares are very volatile. In the years 2006-2007 the parties' combined market share in Belgium has grown from [0-10]% to [15-25]% and in Italy from [10-20]% to [25-35]%.
32. The increment in market share in Belgium resulting from the merger is very limited as JVC's market share was approximately [0-10]% in 2007.
33. Furthermore, the increase of the parties' market share in Italy largely reflects the fact that Kenwood has a strong relationship with [...], [...], who, in the course of 2007 increased its purchases of fixed installed navigation systems from Kenwood to be sold as a dealer option with the [...] model. [...] is the biggest customer of Kenwood in Italy and accounted alone for approximately [...] % of all sales made in Italy in 2007/2008 by Kenwood. [large customer buying several thousand units] ability to source navigation systems from anywhere in the EEA would seem to move it closer to a customer in the OEM market and the sales made to [large customer buying several thousand units], therefore, cannot be considered as an indication of a strong market position of Kenwood on a pure Italian market for aftermarket fixed installed navigation systems.
34. The increment in market share in Italy resulting from the merger is, in addition, very limited as JVC's market share was approximately [0-10] % in 2007.

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<sup>16</sup> The lower share in France are primarily due to the fact that [...].

<sup>17</sup> Report "In-car Electronics EU", GfK, February 2008, pg.16.

<sup>18</sup> In the fiscal year ending in March 2007 overall sales of aftermarket fixed installed navigation systems in Italy amounted to [...] units. Kenwood sold [...] units and JVC sold [...] units.

35. Moreover, like Car Audio, the market for aftermarket Fixed Installed Navigation is highly competitive and, post-merger, other large companies will remain as strong competitors (Pioneer, Alpine, Blaupunkt, Becker and Clarion) offering an equally wide range of products that are close substitutes to the parties' offering.
36. Based on the above, the horizontal overlaps between the parties do not give rise to any competition concern.
37. Finally, there are no vertical links between the parties, and neither Kenwood nor JVC participates in any downstream markets involving the sale of their Car or Home and Mobile Electronics.

## **VI. CONCLUSION**

38. 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 by)  
Androulla VASSILIOU  
Member of the Commission