

***Case No COMP/M.5334 -
RICOH / IKON***

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

Article 6(1)(b) NON-OPPOSITION
Date: 24/10/2008

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24/10/2008
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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 Where possible the information omitted has been replaced by ranges of figures or a general description.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 party:

Dear Sir/Madam:

Subject : Case No COMP/M.5334 – RICOH / IKON

Notification of 19.09.2008 pursuant to Article 4 of Council Regulation No 139/2004¹

1. On 19 September 2008, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 (the "EC Merger Regulation") by which Ricoh Company Ltd. ("Ricoh", Japan) acquires sole control of IKON Office Solutions, Inc. ("IKON", USA).
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the EC Merger Regulation but does not raise serious doubts as to its compatibility with the common market and the functioning of the EEA Agreement.

I. THE PARTIES AND THE OPERATION

3. Ricoh is a Japanese publicly owned company, active in the manufacturing and distribution of office automation equipment, including photocopiers, facsimile machines, printers and multifunction product (MFP) technologies, and the provision of related supplies and services. Ricoh also produces advanced electronic devices and digital cameras. Ricoh distributes its products through a system of subsidiaries called national sales organizations and a network of independent distributors and dealers.
4. IKON is a USA public company listed on the New York Stock Exchange. IKON distributes document management systems, including office automation equipment (e.g., copiers, printers and MFP technologies; document management software; and

¹ OJ L 24, 29.1.2004 p. 1.

related services and support, including on-site and off-site managed services, professional services, customized workflow solutions, and lease financing). IKON distributes its products and services in the European Community through a network of subsidiaries and local sales offices.

5. Ricoh and IKON together are referred to as "the parties".

II. THE TRANSACTION AND THE CONCENTRATION

6. The proposed concentration involves the acquisition of sole control over IKON by Ricoh. This will be accomplished by means of a merger between Keystone Acquisition Inc. ("Keystone"), a wholly subsidiary of Ricoh, and IKON. On 27 August 2008, Ricoh, Keystone and IKON entered into the Merger Agreement pursuant to which Keystone shall be merged with and into IKON. As a result of the merger, Keystone shall cease to exist as a separate corporate entity and IKON shall remain in existence as the Surviving Corporation and a wholly-owned subsidiary of Ricoh. The transaction therefore qualifies as a concentration within the meaning of Article 3(1)(b) of the EC Merger Regulation.

III. COMMUNITY DIMENSION

7. In the financial year ending 31 March 2008, the turnover of Ricoh was EUR 14,108.49 million worldwide and EUR [...] million in the EU. In the financial year ending 30 September 2007, the turnover of IKON was EUR 3,106.18 million worldwide and EUR [...] million in the EU. Neither Ricoh nor IKON achieved two-thirds of their aggregate Community-wide turnover within one and the same Member State.
8. The concentration therefore has a Community dimension pursuant to Article 1(2) of the EC Merger Regulation.

IV. RELEVANT MARKETS

A. Relevant product markets

9. With respect to office automation equipment, the Commission has distinguished in previous decisions between the markets for (1) the manufacture of office automation products (i.e. photocopiers, printers and fax machines) and (2) the wholesale distribution of such products.² As IKON does not manufacture any relevant office automation products, the merger does not cause any issues with respect to the manufacture of those products. However, the merger will result in the combination of Ricoh's and IKON's activities in the wholesale distribution of office automation products.
10. The notifying party considers that the relevant product market for assessing the competitive effects of the proposed merger is the market for the wholesale distribution of office automation products. This is due to the fact that (i) the lines of

² See 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*; of 24 January 2001 in Case No COMP/M.2256, *Ricoh/Lanier Worldwide*; and of 08 December 2006 in Case No COMP/M.4434, *Ricoh/Danka*.

substitutability between different categories of office automation products are often blurred due to the growth of multifunctional devices, and (ii) the products are normally distributed in the same manner through the same channels.

11. However, in order to be consistent with previous Commission decisions, the notifying party has suggested the following narrower product market definitions within the overall wholesale distribution market.

(i) Wholesale distribution of photocopiers

12. Photocopiers may be divided into three main categories, namely personal photocopiers (low-capacity copiers used in private households or very small businesses), black and white office photocopiers and colour photocopiers.³ The latter two categories may be subdivided further depending on copying capacity (measured as the number of copies per minute).⁴ The parties, both of whom are active in wholesale distribution of photocopiers, submit that such segmentation according to the type of photocopiers is not necessary given the high level of supply and demand side substitutability. They submit that any company active at the wholesale level can and does distribute a wide range of different products in the photocopier segment.

(ii) Wholesale distribution of printers

13. Printers may be divided into the following categories: black and white cut-sheet printers, black and white continuous feed printers and colour printers. Each category may be subdivided according to printing capacity (measured as the number of printed pages per minute). The parties have very low market shares for the wholesale distribution of printers. They submit that any company active at the wholesale level can and does distribute a wide range of different products in the printer category.

(iii) Wholesale distribution of fax machines

14. Fax machines may be divided into the categories thermal paper fax machines, plain paper ink-jet fax machines and plain paper laser fax machines.⁵ The parties have very limited sales of fax machines. They submit that any company active at the wholesale level can and does distribute a wide range of different products in the fax machine category.
15. The market investigation examined whether it was appropriate to segment the wholesale distribution market in the above manner. According to that investigation, customers and competitors expect that innovation and product development will increase the multi-functionality of different types of office automation equipment in the coming years⁶. 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 are already becoming increasingly blurred, customers indicated that on the wholesale distribution level there are at

³ From a technical point of view, colour capable photocopiers are very similar to black and white photocopiers, except that they have four colour toning stations as opposed to just one in black and white photocopiers.

⁴ In case M.3091 Konica/Minolta, para. 13, the Commission distinguished between black and white photocopiers and colour photocopiers with possible further subdivision according to copying speed.

⁵ See Case No IV/M.1496 *Olivetti/Telecom Italia*.

⁶ Replies to questionnaires: questions 6 (customers) and 7 (competitors).

present distinct markets for the wholesale distribution of photocopiers, printers and faxes. Competitors also confirmed this view⁷.

16. The market investigation also showed that customers actually make use of different wholesale distribution channels for photocopiers, fax machines and printers⁸. With regard to a further segmentation of each of these segments, it is not necessary to go into more details for the purposes of this decision (see point 18 below). It suffices to note that the results of the market investigation support the conclusion that the overall wholesale distribution market is comprised of separate product markets for distribution of photocopiers, printers and fax machines⁹.
17. Ricoh and IKON normally do not offer services or software related to their office automation products separately from the products. The notifying party submits that, consequently, revenues derived from the supply of services and software related to use of the office automation products should be considered as distribution revenues, and no distinct product market for these related services or software should be identified. This submission is supported by the market investigation. Therefore, these services have not been analyzed as a separate market.
18. Due to the fact that even with regard to the narrowest relevant product market definition the concentration does not raise serious doubts as to its compatibility with the common market, the precise product market definition can be left open for the purposes of this decision.

B. Geographic markets

19. The notifying party considers that the relevant geographic market for both the manufacture and wholesale distribution of office automation products (including any product sub-segments) is at least EEA-wide. This is mainly because (i) product characteristics do not vary throughout the EEA, (ii) the transport costs account for less than [0-5%] of the sales price to the distributor, (iii) price levels are similar in all the national markets at issue, and (iv) the important manufacturers are all present throughout the EEA with similar market shares in each national market. Because transport costs are not significant in relation to the sales value of the products, wholesale customers, particularly retailers and large end-users in one national market have the possibility and indeed do procure products from distributors in another national market.
20. In its prior investigations relating to office automation products, the Commission left open the precise definitions of the geographic markets. Although the Commission previously acknowledged evidence supporting an EEA-wide geographic market definition (at both the manufacturing and wholesale distribution level), it has also

⁷ Replies to questionnaires: question 1 (customers and competitors).

⁸ Replies to questionnaires: questions 15-18 (customers).

⁹ Replies to questionnaires: questions 1-4 (customers) and 1-3 (competitors).

examined national wholesale distribution markets because some distribution and service activities have historically been organized at the national level.¹⁰

21. In any event, the operation does not raise serious doubts as to its compatibility with the common market regardless of the geographic market definition. Therefore, the exact geographic market definition can be left open for the purposes of this decision.

V. COMPETITIVE ASSESSMENT

22. This merger will lead to the following affected markets: wholesale distribution of photocopiers in France, presuming that such a separate market exists (horizontal) and manufacture and wholesale distribution of black and white office photocopiers in the EEA area (vertical).

A. Horizontal effects

23. As noted in point 4 above, IKON does not manufacture any office automation products and the only horizontal overlap between the parties' activities can be found in the wholesale distribution of office automation equipment. Within the wholesale distribution market for all office automation products in which the parties compete, their combined share of sales in the EEA (and any individual national market) is less than [5-10%].
24. The separate wholesale distribution markets for photocopiers, faxes and printers are illustrated in the following table provided by the notifying party. The table is based on: (i) Ricoh's total sales of these products, including direct sales to end-users and indirect sales to dealers and distributors, such as IKON; and (ii) IKON's total sales of these products. The data in this table was compiled by InfoSource, an independent market research company.

¹⁰ Case COMP/M.4434, *Ricoh/Danka*, Par. 22 through 24; case COMP/M.3091, *Konica/Minolta*, of 11 July 2003, Par. 30.

Ricoh and IKON Estimated Combined Wholesale Distribution Market Share (2007)			
Area	Photocopiers	Printers	Fax Machines
EEA	[10-20%]	[0-5%]	[0-5%]
Denmark	[10-20%]	[0-5%]	[0-5%]
France	[10-20%]	[5-10%]	[0-5%]
Germany	[5-10%]	[0-5%]	[0-5%]
Ireland	[5-10%]	[0-5%]	[0-5%]
Italy	[5-10%]	[5-10%]	[0-5%]
Netherlands	[10-20%]	[5-10%]	[0-5%]
Spain	[10-20%]	[5-10%]	[0-5%]
Sweden	[5-10%]	[0-5%]	[0-5%]
UK	[10-20%]	[0-5%]	[0-5%]

25. The only market where the parties' combined market share is above 15% is the market for the wholesale distribution of photocopiers in France (presuming that such a separate market exists). However, the incremental market share on that market acquired as a result of this merger in France is less than [0-5%] (in 2007, IKON only had [0-5%] of that product market). The merger would not thus change the conditions for competition even in France.¹¹
26. The market shares in the table in point 24 and the existence of many different alternative suppliers of the different office automation products were confirmed by the market investigation. In the opinion of the majority of customers, Ricoh's acquisition of IKON would not give rise to any anti-competitive effects on the wholesale distribution markets for photocopiers, printers or fax machines.¹² Customers also stated that, post acquisition, Ricoh will continue to face fierce competition from large competitors like Canon, Konica Minolta, Hewlett Packard, Brother, Xerox and others. The market investigation has revealed that most office automation products customers are currently using several suppliers.¹³
27. The small addition of market shares through the merger and the presence of a number of credible alternative suppliers confirm the notifying party's submissions according

¹¹ Replies to questionnaires: questions 7 and 8 (customers).

¹² Replies to questionnaires: question 23 (customers).

¹³ Replies to questionnaires: question 5 (customers).

to which this merger does not raise serious doubts as to its compatibility with the common market.

B. Vertical effects

28. There are no vertical effects with respect to the manufacture and distribution of printers, fax machines, personal photocopiers and colour photocopiers because the combined entity's shares on these markets would be well below 25%.
29. The only vertical effects are on the EEA markets for the manufacture and distribution of black and white office photocopiers. Given that IKON is not present on the upstream manufacturing level, the combined entity's market share, based on Ricoh's 2007 EEA market share, will be [30-40%].¹⁴ Ricoh's share of this product category also slightly exceeded 25% in the following Member States: France, Italy, Spain, and the U.K. In the downstream market, the EEA market share of the combined entity is consistently below 20% as shown by the table in point 24. In addition, the increment brought about by this transaction is very small: IKON's market shares in this particular segment in the countries where the overlap exists are: France [0-5%], Italy [0-5%], Spain [0-5%], and the U.K. [5-10%].
30. The competitors and customers confirmed in response to the market investigation that this merger does not raise a risk of vertical foreclosure on the EEA markets for the manufacture and distribution of black and white office photocopiers because Ricoh faces competition from a number of large multinational competitors in the EEA (*e.g.*, Canon, Kyocera, Sharp and Konica-Minolta). Most of these large competitors (*e.g.*, Canon) are vertically integrated and are also active at the distribution level. Also, while IKON does distribute products for competing manufacturers of photocopiers, it is not an important distributor in the EEA. Therefore, even if the merged entity decided to no longer distribute non-Ricoh photocopiers, there would not be a customer foreclosure effect on competing manufacturers.
31. Accordingly, this merger does not raise serious doubts with regard to the markets for the manufacture and wholesale distribution of black and white photocopiers at the EEA level.

VI. CONCLUSION

32. 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 the EC Merger Regulation.

For the Commission,

(signed)

Neelie KROES
Member of the Commission

¹⁴ Source: InfoSource.