

Anticipated acquisition by Laidlaw Interiors Group Limited of  
Timbmet Door Solutions Limited

ME/5548/12

The OFT's decision on reference under section 33(1) given on 14 September 2012. Full text of decision published 3 October 2012.

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**Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.**

**PARTIES**

1. Laidlaw Interiors Group Limited (LIGL) is a holding company which owns Laidlaw (UK) Limited (LUK) and Interiors Manufacturing Limited (IM). Through these companies, LIGL activities include the manufacturing and supply of interior products including doors and doorsets, aluminium and glass interior partition products, toilet cubicle systems and ironmongery.
2. The subsidiary IM, trades under a number of different brands, with the most relevant for this transaction being Leaderflush Shapland, Urban Edge, Fitzpatrick Doors and Longden doors. In addition, its Komfort Workspace partitioning business also supplies doors that are manufactured by the Leaderflush Shapland factories and third parties for non-domestic environments.
3. Timbmet Door Solutions Limited (TDSL) principal activities are the manufacture and supply of specialist door and doorset packages, glazed screens as well as a range of privacy glazing products. It is a private limited company registered in the UK, controlled by its Chief Executive Officer, Ash Malhan. TDSL's turnover for the year to March 2011 was £23 million.

## **TRANSACTION**

4. On 11 June 2012 the parties notified the Office of Fair Trading (OFT) of this anticipated acquisition. The OFT's administrative deadline is 14 September.

## **JURISDICTION**

5. As a result of this transaction TDSL and LIGL will cease to be distinct. The parties overlap in the supply of non-domestic timber doors and doorset in the UK. In the financial year to 31 March 2011, TDSL's total turnover was £23.15 million, which is below the turnover threshold of £70 million set out in section 23(1)(b) of the Enterprise Act 2002 (the Act).
6. The parties submit that share of supply in section 23 of the Act is not met, and that their share of the market for non-domestic internal timber doors was around [10 to 20] per cent in 2011. However, third party estimates have suggested that the parties have over 25 per cent share of supply of non-domestic timber doors in the UK, as discussed below in paragraph 36. Based on this analysis, the OFT considers that it may be the case that the parties collectively supply more than 25 per cent of non-domestic timber doors in the UK. The OFT therefore believes that it is or may be the case that arrangements are in progress or contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

## **MARKET DEFINITION**

### **Product scope**

7. The parties submit that they overlap in the supply of internal timber doors and doorsets for non-domestic construction projects. Timber doors are supplied together with a number of other complementary products including ironmongery, glazed screens, panels, seals and glass and can also include installation and maintenance. Doorsets include a door frame (usually a pre-hung door which is, as the name implies, a door that already hangs in its own frame), door leaves, glazing and beads, hinges, closers, operating furniture and smoke seals.
8. Data submitted by the parties show that approximately [65 to 75] per cent of the parties' combined business consists of the supply of internal timber

doors and doorsets for non-domestic construction projects. The parties combined revenues in domestic timber doors, steel doors, installation/fitting, ironmongery, glazed screens, panels, seals and glass are not significant. These products are not key parts of their business and altogether represent [0 to 10] per cent or less of the UK supply of each of these products. Therefore, these products are not discussed further in this decision.

9. As such, the assessment of the competition effects of this case will be focussed on the production and supply of non-domestic timber doors and doorsets.

### **Timber doors and doorsets for non-domestic use**

10. The bulk of the timber doors that the parties supply are made in one of two ways by the door manufacturers. Doors can be manufactured around a core, which may typically be made of wood, chipboard, or flaxboard, depending on the eventual use of the door. This core is surrounded by an inner frame of softwood or hardwood and covered with veneered panels or laminates or simply painted. This is the method used for the bulk of LIGL production.
11. Alternatively, a bespoke panel or 'door blank' is manufactured to defined standards and supplied to a second manufacturer which cuts this board to size, applies a hardwood lipping and the required facing. Blanks are supplied with test data from the third party blank manufacturer. The bulk of TDSL production uses door blanks.
12. A doorset is normally taken to mean the door leaf (the swinging or opening part), the doorframe and non-projecting ironmongery such as hinges, morticed locks and kick-plates. Doorsets can be ordered with the various components assembled or not assembled. Door suppliers tend to supply ironmongery together with the doors, as part of a doorset.
13. The OFT's investigation has found that non-domestic timber door final customers mostly demand the complete doorsets. Although from the supply-side this may involve several sources for procuring doors leaves, ironmongery and other components to form complete doorsets (either from companies like the parties or on a construction site by a joiner or joinery firm), the demand-side evidence suggested that contracts with final

customers will normally involve the supply of complete timber doorsets. Third parties supported this view. Moreover, in this case, the parties mainly supply timber doorsets and not timber doors.

14. On a cautious basis given that there is minimal overlap in the supply of non-door products, and that customers usually buy doors as doorsets and that suppliers also tend to supply doors as doorsets, the OFT has not considered it necessary to segment the market between doors and doorsets. The OFT has assessed the merger on the basis of doors and doorsets.

#### **Internal and external timber doors for non-domestic use**

15. A typical non-domestic construction project will comprise both internal and external doors. Internal doors are usually timber but can be metal (for example aluminium or steel) or glass (for example in partitioning systems). External doors are used to gain access to a building and are usually (but not exclusively) metal (steel or aluminium). The focus of the parties' manufacture is internal timber doors but they also supply external doors.
16. The OFT did not receive any evidence to suggest that the market can be segmented between internal and external timber doors. Further, such segmentation would already be considered in the segmentation between steel or glass doors and timber doors.

#### **Performance doors**

17. Most doors supplied to the non-domestic sector offer some enhanced functionality over a standard domestic door and, as such, are sometimes referred to as 'performance doors'. All performance doors must be manufactured and tested according to published standards, typically the British Standard (BS)<sup>1</sup> or European Standard (EN)<sup>2</sup> standards. The most common categories for performance doors are fire-resistant doors, acoustic doors and high security doors. Other features of performance doors can include their strength and durability, having anti-microbial, X-ray or MRI protection, or being waterproof.

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<sup>1</sup> [www.bsigroup.co.uk](http://www.bsigroup.co.uk)

<sup>2</sup> [www.cen.eu/cen/products/en/pages/default.aspx](http://www.cen.eu/cen/products/en/pages/default.aspx)

18. The parties submitted that major door suppliers and joinery companies are able to manufacture or procure all door types to supply a particular project. This is because the same machinery and processes are used to manufacture doors of all types. Manufacturers are able easily to switch between different door types by changing the material and/or thickness of the door's core or by adding the special seals required. Although suppliers must ensure that a performance door has the appropriate certification, this is a common process used by all suppliers. Suppliers using door blanks are able to use the generic test data generated by the door blank manufacturer.
19. The parties submitted that suppliers do not tend to define themselves by one product type but instead supply across a range of door types to meet the project tenders. Moreover, if a supplier does not directly supply a particular product, it can procure it in order to meet the requirements of the project.
20. The OFT has not therefore considered it necessary to segment the market by reference to performance door categories.

### **Sectors of projects and activities**

21. The parties submitted that a variety of sectors, including commercial (offices, retail and hospitality), housing, education, health, industrial and infrastructure will generally require a combination of different types of performance doors but the mix of door types will vary between different sectors. They submitted that all segments within the non-domestic market, except housing,<sup>3</sup> form part of a single economic market.
22. Information provided by the parties also indicated that door suppliers will migrate (and adapt their marketing) to service the market segment in which projects are being tendered from time to time. They indicated that, TDSL in recent years supplied significant quantities of doors to several large hospital projects, reflecting the number of hospitals under construction and the success of the contractors with which TDSL partners in winning those contracts. Investment in building hospitals has now been scaled back and thus TDSL's business has moved towards commercial projects. They explained that this movement has not required any change in TDSL's

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<sup>3</sup> The parties submitted that housing is excluded on a conservative basis because doors typically supplied for domestic homes are simpler than those supplied for non-domestic applications.

manufacturing or marketing operations, but has simply reflected the changing composition of contractors' activities.

23. Responses from third party competitors suggested that supply-side substitution across sectors was easy. A third party identified five different suppliers in the market that are active across the five sectors of the market including the parties which supported the view that there was no particular constraint on supplying across sectors. In addition, another competitor indicated that it is easy to switch production across sectors due to sophisticated wood machining and computer controlled woodworking machines capabilities. Competitors nor customers did not appear to define themselves by a project type or market sector.
24. Overall, there was no strong demand- and supply-side evidence to suggest that there market needed to be segmented by sector. However, taking a cautious approach, segmentation by sector was taken into consideration in the substantial analysis of this case.

#### **Geographic market**

25. The parties agreed that a cautious approach would be to consider the UK as the relevant geographic market on the basis that for most projects, a UK-based sales and contract estimating activity is required.
26. However, one third party suggested that transporting doors is easy and they source their doors from across the globe. The OFT noted that IM manufactures doors in the UK whereas the bulk of the doors sold by LUK are sourced from [ ] (for timber doors) and are supplied complete with ironmongery. TDSL manufactures for the UK in factories in both the UK and India, and sources door blanks from [ ].
27. Within the UK, a single set of building regulations are published for England and Wales. In Scotland, a separate set of building regulations exists, although the content is very similar to those in England and Wales. There was no evidence to suggest that manufacturers or customers differed across the regions of the UK to the extent to suggest that the UK market be segmented on a regional basis.

28. Based on the information and analysis above, and without needing to conclude on the geographic market, the transaction has been assessed on the cautious basis of the UK.

### **Conclusion on market definition**

29. The OFT has not found it necessary to conclude on market definition in this case. For the sake of its analysis, the OFT has adopted the supply of non-domestic timber doors as the product frame of reference. It does not distinguish between the segmentation of performance doors or non-performance doors. Nor does it segment between project type although it has taken account of industry sectors where relevant.
30. The OFT adopts a UK-wide geographic frame of reference.

## **HORIZONTAL ISSUES**

### **Background**

31. Information provided by the parties and third parties shows that the demand and supply of non-domestic timber doors and doorsets in the UK involves a number of competing and overlapping routes to market.
32. The parties submitted that the key procurement decisions on projects are driven by the main contractor who is the crucial link to the clients: end users, developers, and architects. The architect, developer, or the end user may specify the door required. But there are also cases in which the specification is made by the main contractor or the sub-contractor.
33. The parties also submitted that overall, once the doors for a project have been specified, the contract for the supply of doors is put out to tender, on a whole project basis. Suppliers and manufacturers compete to win the tender on a price for the whole project. Where a project requires doors that a particular manufacturer does not make, it is generally able to buy those doors from another source and is therefore not excluded from tendering.

### **Market shares**

34. The parties estimated the total market for non-domestic timber doors and doorsets in the UK at £433 million and provided estimates of their pre-

merger market shares.<sup>4</sup> The data shows that the parties' combined share of the market for non-domestic timber doors and doorsets in 2011 was approximately [10 to 15] per cent with an increment of [0 to five] per cent.

35. However, a report produced by AMA Research Limited<sup>5</sup> (AMA) in 2011 estimated the market for commercial timber doors at £60-65 million.<sup>6</sup> Based on AMA's figures, the parties would have a combined share of about [70 to 80] per cent ([60 to 70] per cent for LIGL, [15 to 25] per cent for TDSL). The parties told the OFT that the AMA figures are likely to considerably underestimate the market size since they omit some key competitors (including TDSL itself) and focuses on EN standard doors thereby excluding the supply other doors. The parties also said in an internal document, albeit one prepared for the purpose of assessing this merger, that 'the AMA Market research defines the timber hinged door market as c.£60m which we view as incorrect ... Management are confident that the size of the doorset market is over £[ ]'.
36. Competitors provided estimates of the market size and their own revenues to the OFT. Although the OFT did not receive information from the entire marketplace, it did receive relevant turnover figures from several key competitors and these figures suggested that the parties had overestimated the size of the overall market. The OFT's questionnaire on market size for non-domestic timber doors revealed an average estimate of it being £142 million.<sup>7</sup> Based on this estimate, the parties would have a combined share of around 35–40 per cent with an increment of around [five to 15] per cent.<sup>8</sup> While the combined share and increment on this basis of measurement are sizeable, they are not in themselves sufficiently sizeable for the OFT to conclude that the merger would result in a significant increase in concentration in the market that would result in a realistic

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<sup>4</sup> The parties submitted that they based their estimates on data collected by the Construction Products Association (CPA) and published in that organisation's report: CPA Report 'Construction Industry Forecasts 2012-2016', dated spring 2012.

<sup>5</sup> AMA Research Limited are publishers of market analysis covering building and construction, environmental and business to business sectors [www.amaresearch.co.uk](http://www.amaresearch.co.uk)

<sup>6</sup> *Commercial and Industrial Doors and Shutters Market Report UK 2011-2015 Analysis*, AMA Research Limited, May 2011 page 51.

<sup>7</sup> There was little variation in the eight estimates and so ignoring the highest and lowest estimates makes little difference to the third party estimated market size.

<sup>8</sup> The OFT notes that for the purpose of meeting the share of supply test, even if the market size was a third higher than these third parties average estimate the share of supply test would still be met.

prospect of an substantial lessening of competition (SLC). The OFT has instead examined the closeness of competition between the merger parties.

### **Closeness of competition**

37. The OFT received mixed views received from third parties as to whether TDSL and LIGL are close competitors. One competitor indicated that the parties manufacture similar products and have consistently competed against each other for contracts in the past. Whereas other competitors thought the parties competed against each other only in particular sectors of the market such as education and health sectors.
38. Other third parties did not regard the parties as close competitors. One indicated that the parties' service similar market segments but their offerings vary considerably in quality. They suggested that LIGL has been generally more expensive than TDSL and that TDSL's business enjoyed a large amount of orders from two national construction businesses. Another competitor indicated that LIGL is the architects default choice due to their marketing and specification investments and success, while TDSL's business is focussed on national contractor framework relationships.
39. Some customers identified several rivals to the parties that they would consider using such as GE Door Solutions Limited, European Doorsets, CCN Limited, Swedoor (also known as Jeld-Wen) and Cotswold Doors. The credibility of almost all of these, and others, was borne out in the bidding data (below).
40. Moreover, one other customer, who had experience of using both parties, said that the parties have different product characteristics lending them to concentrate on different industry sectors: LIGL has supplied healthcare projects while TDSL generally supplied their education projects.
41. The OFT also analysed the parties' bidding data to assess the degree to which the parties won business from each other. The data showed that the parties lost a significant amount of business to rivals than to each other.
42. LIGL's bidding data (between January 2009 and December 2011) showed that TDSL only won [5 to 15] per cent of the [5,000 to 6,000] contracts that LIGL had participated in the tenders and failed to win. TDSL's bidding data (April 2010 to March 2012) showed that LIGL only won [10 to 20]

per cent of the [400 to 500] contracts that TDSL participated in the tenders and failed to win. Furthermore, an internal document from the parties noted that the customer overlap between them is limited.

43. Based on the third party views and the analysis of the bidding data above, the OFT considers that the parties are not close competitors in the supply of non-domestic timber doors overall or in any particular sectors.

## **BARRIERS TO ENTRY AND EXPANSION**

44. The parties submit that barriers to entry and expansion are low. They identified two new entrants since 2010. Additionally they noted that the same machinery and skills are used across the industry, which makes entry easy.
45. Third party views were mixed. One competitor argued that barriers to entry were high and suggested that factors which raise barriers to entry included costly product design, development, certification, a lengthy period to build up the business and a tendency of contractors using the same suppliers.
46. However, other competitors in the market suggested that barriers to entry were not high. One competitor in particular indicated that technically the emergence of 'kit core doors' – doors assembled from parts by downstream processors – have opened the lower end of the market to entry. Third parties indicated that fire, acoustic, smoke, and mechanical performance test evidence is owned by the 'core' provider and is inclusively made available to all manufacturers, therefore permitting access to all market sectors for all manufacturers. Transportation costs were not identified by any third party as a barrier to sourcing from abroad.
47. A further competitor said that door manufacturing is not especially capital intensive and entry costs are not overly costly, but because at the present there is surplus manufacturing capacity across the industry, with resulting in low pricing and poor profit margins, a new entrant to the industry is unlikely.
48. However, given the outcome of its competition assessment the OFT has not found it necessary to conclude on whether there are barriers to entry and expansion are high in this case.

## **COUNTERVAILING BUYER POWER**

49. Countervailing buyer power arises where an individual customer may be able to use its negotiating strength to limit the ability of a merged firm to raise its prices. However, the OFT notes that where individual negotiations are prevalent, the buyer power possessed by one customer will not typically protect other customers from adverse effects that might arise from the merger.
50. Large customers indicated that there are many alternatives in the market, that they can easily switch suppliers, and that they have bargaining power. For example, one customer identified several other suppliers they were currently buying from and suggested that if LIGL were to increase prices, they would also continue to look internationally at new suppliers. Another competitor suggested that the parties would have excess capacity and may have to cut prices to utilise this capacity.
51. Given the outcome of its competition assessment, the OFT has not found it necessary to conclude on countervailing buyer power.

## **THIRD PARTY VIEWS**

52. Third party views were sought and where relevant have been discussed above. Although competitors were concerned about the prospect of the deal most customers, however, were not and they identified several alternative suppliers.

## **ASSESSMENT**

53. The transaction consists of the acquisition of TDSL by LIGL. The main overlap between the parties is in the supply of non-domestic timber doors and doorsets.
54. The market has been segmented between domestic and non-domestic timber doorsets. Given that the parties have a minimal presence in the domestic segment, the assessment has focused on the non-domestic timber doors in the UK. In its analysis, the OFT did take account of industry sectors, where relevant.

55. The OFT is not aware of any independent research reports which provide the total size of the supply of non-domestic timber doors in the UK. The parties submit that their combined share is around [10 to 20] per cent, but OFT analysis based on data provided by some third parties indicate that the parties' share may be 35-40 per cent with an increment of around [five to 15] per cent.
56. Market testing undertaken by the OFT found that most third parties did not consider the parties to be close competitors and the majority of customers were able to identify several viable alternatives to the merger parties. In addition, the OFT's analysis of bidding data suggested that the parties each faced strong competition from other suppliers in the market and only successfully competed against each other in a small proportion of instances.
57. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

## **DECISION**

58. This merger will therefore **not be referred** to the Competition Commission under section 33(1) of the Act.