

Anticipated acquisition by Neopost SA of PFE International Ltd

No. ME/3354/07

The OFT's decision on reference under section 33(1) given on 7 December 2007. Full text of decision published 13 December 2007.

Please note that square brackets indicate text or figures which have been deleted or replaced with a range at the request of the parties for reasons of commercial confidentiality.

PARTIES

1. **Neopost SA** (Neopost) is a global supplier of a range of document management products including folders/insetters, mailing systems (including franking machines) and logistics systems for parcel delivery. In the year ended 31 January 2007, its total worldwide turnover was around £624 million and its total UK turnover was around £[] million.
2. **PFE International Ltd** (PFE) is a UK based supplier of folders/insetters. In the year ended 31 December 2006 its total worldwide turnover was around £29 million and its total UK turnover was around £[] million.

TRANSACTION

3. Neopost is to acquire the entire issued share capital of PFE and its wholly owned subsidiaries. The parties notified the transaction on 15 October 2007. The administrative deadline is 10 December 2007.

JURISDICTION

4. As a result of this transaction Neopost and PFE will cease to be distinct. The parties overlap in the supply of folders/inseters and have combined shares of supply in the UK in excess of 25 per cent, so the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

MARKET DEFINITION

5. The parties overlap in the manufacture, supply of folders/inseters.

Product market

6. Folders/inseters are machines used automatically to select documents, fold them and insert them into envelopes. These machines are used to speed up the preparation of large batches of similar mail, for example bills, statements and marketing information.
7. The Competition Commission (the CC) in its report on the Neopost/Ascom transaction stated that the alternatives to the use of folders/inseters are manual operations or the use of non postal communication such as e-mail. However the CC considered that these alternatives were unlikely to be close substitutes given current dependencies on postal communication in business.¹ The OFT has found no evidence to suggest a departure from this position in this case.
8. As there are a range of machines available, which offer progressively faster processing speeds and greater functionality, the parties submitted that the supply of folders/inseters should be segmented.
9. In *Neopost/Ascom*, the CC identified two price segments. These were machines priced < £21,000 and machines priced > £21,000.² However, as Neopost and Ascom were only active in the < £21,000 segment the CC

¹ Neopost SA and Ascom Holding AG: A report on the proposed merger, 2002, paragraph 5.19. (referred to hereafter as *Neopost/Ascom*)

² *Neopost/Ascom*, paragraphs 5.33, 5.58.

did not reach a conclusion as to whether the > £21,000 segment should be further divided.

10. The parties argued that folders/inserters should be broadly grouped into segments based on their differing user environments.³ The parties identified three segments:

- Desktop - these machines that are designed to be sited on desktop in an office environment for small jobs and are focused on ease of use. They process lower volumes and at lower speeds (1,500-30,000 letters per month) with the average sale prices from around £4,000 up to around £20,000.
- Mailroom - these are generally floor based machines that are designed to be sited in a dedicated mailroom. The machines handle a greater variety and complexity of jobs. These machines process 20,000-250,000 letters per month and are typically priced from around £20,000 to around £110,000.
- Production - these are machines used to process large volumes of mail. These machines operate on continuous basis for long periods of time. These machines process upwards from around 150,000 letters per month and prices for this type of machine range from around £50,000 to more than £200,000.

11. The majority of third party competitors that responded agreed that it was appropriate to segment the market into the three categories described above. On the supply side, the OFT investigation did not find any evidence to suggest that the technologies used to manufacture machines for the three segments were very different. However, responses from third parties suggested that manufacturers of higher volume machines for the production and mailroom segments were generally unwilling to consider developing lower volume machines. Furthermore, the OFT noted that not all the main competitors of folders/inserters supply all three segments.

³ The parties stated that the demarcation between these three segments primarily reflects the different product features that correspond to the nature of customer demand in each segment, although they noted that there is some overlap at the margins.

12. Based on the evidence available, a narrow frame of reference has therefore been adopted for the purposes of the analysis in this case, with the supply of folders/inseters to the desktop, mailroom and production segments considered separately.
13. With regards to the supply of folders/inseters in the production segment, Neopost is not present in this segment. As a result, competition concerns are not considered to arise in the supply of folders/inseters to the production segment, so this segment will not be considered further.

Geographic market

14. The parties submitted that, consistent with the approach adopted by the CC in *Neopost/Ascom*, the relevant geographic frame of reference for the supply of folders/inseters is worldwide. The parties stated that each of the main competitors produces products in one or two locations for supply globally. This frame of reference has been confirmed by the majority of third party competitors and customers.
15. Based on the information provided, the appropriate geographic frame of reference is considered to be worldwide, in this case.

HORIZONTAL ISSUES

Desktop segment

16. In the supply of folders/inseters for the desktop segment, Neopost is the second largest supplier with a share of supply of around [35-45] per cent worldwide and around [35-45] per cent in the UK. However, PFE has only limited presence in this sector so that the transaction only results in a small increment (less than five per cent) to the merged entity's worldwide and UK shares of supply.
17. Pitney Bowes will remain the largest supplier with a worldwide share of supply of around [45-55] per cent and will therefore continue to act as a strong constraint on the parties' behaviour post-merger.
18. In addition, the parties argued that they are not close competitors in the supply of desktop folders/inseters. The parties stated that PFE's sales in

the desktop segment have been declining in recent years and that its main focus is on supplying the mailroom and production segments. For 2006, only [10-20] per cent of its overall sales were through the supply of desktop machines. However, [60-70] per cent of Neopost's overall sales were generated through supplying this segment.

19. Evidence supplied by the parties and third parties also suggested that direct competition in the sector is limited, with a significant proportion of sales being accounted for by existing customers. In particular, approximately [] of Neopost sales in this segment are to its existing franking machine customers. The parties submitted that as PFE does not supply franking machines, its ability to access (and thus compete for) these customers is limited. Third party competitors also stated that can be advantageous when seeking to supply folders/inserters to customers to also be able to supply franking machines.
20. Third party customers in the desktop segment have stated that they do not seek a number of quotes from different suppliers but rather they replace their old machines with an updated version or buy new machines based on recommendations. Customers stated that they did not have any competition concerns regarding the merger.
21. The OFT considers that the constraint imposed by PFE on Neopost is relatively limited. Furthermore, Pitney Bowes, the largest supplier, will continue to place a significant competitive constraint on the merged entity. As a result, the merger is not considered to give rise to competition concerns in relation to the supply of inserters/folders in the desktop segment.

Mailroom segment

22. Post-merger Neopost and PFE will have a combined worldwide share of supply of approximately [25-35] per cent (increment of [5-10] per cent) in the supply of folders/inserters for the mailroom segment. In the UK, their combined shares of supply are approximately [30-40] per cent (increment of [5-10] per cent). One competitor raised concerns about the strength of Neopost's position post-merger.
23. However in this segment, Pitney Bowes will remain the largest competitor with a worldwide share of supply of approximately [40-50] per cent and

will continue to act as a strong constraint post-merger. There are also several other competitors in the mailroom segment with small shares of supply, including Francotyp-Postalia, Böwe, Buhrs, CMC Equipment Limited, Kalmar, KAS Paper Systems and Kern.

24. Similar to the desktop segment, both parties generate a high proportion of sales from existing customers. One third party raised concerns about the impact of the merger as it has only ever dealt with PFE and is unaware of any other suppliers. However, several other suppliers are also present in this segment and other customers have stated that they source machines from a number of suppliers.
25. In addition, the parties have argued that Neopost concentrates on the lower end of the mailroom segment, while PFE focuses on the upper end of the mailroom segment. The machines offered by PFE can fill approximately 200 more envelopes an hour and can also incorporate a lot more feeder stations than the Neopost machines. They also stated PFE has been able to integrate technology used in its production segment machines (which are larger, faster and have greater functionality), into its mailroom range of machines. The majority of third party confirmed that Neopost and PFE are not particularly close competitors.
26. Given these factors, the OFT considers that sufficient competitive constraints from alternative suppliers will remain post-merger and therefore competition concerns do not arise in relation in the supply of folders/inserters in the mailroom segment.

THIRD PARTY VIEWS

27. The majority of third parties were unconcerned about the merger. One competitor raised the concern that the merger will strengthen Neopost's position in the supply of mailroom folders/inserters, whilst a customer had concerns regarding supply post-merger. These concerns have been addressed in the competitive analysis above.

ASSESSMENT

28. The parties overlap in the supply of folders/inserters, which can be further sub-divided into three segments based on user environments: desktop;

mailroom; and production. With regards to the latter segment, as Neopost is not present, competition concerns are therefore not considered to arise.

29. In relation to the supply of folders/inserters to the desktop segment, the transaction results in a very small increment to the merged entity's share of supply. In addition, Pitney Bowes, the largest supplier, will continue to act as a competitive constraint on the parties' behaviour post-merger. Furthermore, customers raised no concerns in relation to this segment.
30. For the supply of folders/inserters to the mailroom segment, the transaction results in a small increment to the merged entity's share of supply and the majority of third parties considered that Neopost and PFE were not particularly close competitors. The OFT considers that these factors, combined with the existing competition from a number of remaining suppliers, will be sufficient to constrain the parties behaviour post-merger.
31. 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

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