



DETERMINATION OF MERGER NOTIFICATION M/07/055 – BUNZL/DGD

Section 21 of the Competition Act 2002

Proposed acquisition by Bunzl plc of DG Distributors and Vendors Limited

Dated 17/10/07

Introduction

1. On 19 September 2007 the Competition Authority (“the Authority”), in accordance with section 18(1) of the Competition Act, 2002 (“the Act”) was notified, on a mandatory basis, of a proposal whereby Bunzl plc (“Bunzl”) through a wholly owned subsidiary Selectuser Limited (“Selectuser”) would acquire the entire issued share capital of DG Distributors and Vendors Limited (“DGD”).

The Undertakings Involved

2. Bunzl, the acquirer, is a plc incorporated in England and Wales. Bunzl is active in the away-from-home (“AFH”) and the food-away-from-home (“FAFH”) sectors on the island of Ireland through 3 businesses:
 - i. Bunzl O’Mahony Packaging & Retail Supplies – based in County Cork this company is active in the wholesale distribution of packaging items for the retail and quick service restaurant (“QSR”) sectors;
 - ii. Bunzl Cleaning and Safety Supplies (Ireland) – based in Counties Dublin and Cork this company is active in the distribution of cleaning products and supplies, and personal protection equipment/safety items; and,
 - iii. Bunzl McLaughlin – based in County Armagh this company supplies catering equipment and disposable products to the hospitality sector.
3. In the year to 31 December 2006 Bunzl generated turnover of STG£3,333.2 million, of which €[...] was generated through its activities on the island of Ireland.
4. DGD, the target, is a holding company incorporated in the State. DGD has two direct subsidiaries (Romenya Limited (“Romenya”) and Irish Merchants NI Limited (“Irish Merchants NI”)) which are active in the distribution of products in the *non-food* away-from-home (“AFH”) sector on the island of Ireland as follows:
 - i. Romenya Limited has two further subsidiaries:
 1. Irish Merchants Limited (“Irish Merchants”) distributes a range of products including food packaging, beverage systems, hygiene, safety and cleaning products, tabletop products/catering

disposables and, home food management and partyware products;

2. Tishu Manufacturing Limited ("Tishu") is active in the manufacture and distribution of toilet rolls;
 - ii. Irish Merchants NI is a sales only operation which while managed from the Dublin office is active only in the sales of products (including those outlined above) to the Northern Ireland market.
5. For the financial year ending 1 April 2007 DGD generated a worldwide turnover of €44.6 million, of which €[...] was generated in the State.

Analysis

6. Both parties are active in the warehousing, distribution and supply of a large number and wide variety of products across a variety of sectors. The economic report submitted by the parties and prepared by Dr Francis O'Toole, attempts to delineate the large number of products supplied by the parties using the typology outlined in Table 1.

Table 1

Delineation of the Products Supplied by the Undertakings Involved

Terminology	Definition
Sector	The area of the economy within which the parties operate (e.g. AFH sector)
Segment	Business divisions within the undertakings involved that supply relevant sectors (e.g. cleaning and safety supplies segment within the AFH sector)
Sub-segment	Specific lines of sales or groups of customers within particular segments (e.g. contract cleaning within the cleaning and safety supplies segment)
Item	Specific individual pieces of merchandise supplied to each sub-segment (e.g. washroom systems within the contract cleaning supplies sub segment)

Source: Dr Francis O'Toole, *Bunzl plc's Proposed Acquisition of DG Distributors and Vendors Limited: An Economics of Competition Policy Report*, September 2007.

7. Bunzl is active in both the FAFH and the AFH sectors and DGD is active in the AFH sector only. Consequently, the area of horizontal overlap between the parties occurs within this sector. More specifically the segment in which the most significant overlap¹ occurs between the parties are:
- i. catering supplies² – primarily through activities in the contract catering supplies sub-segment.

¹ The submission by the parties identifies additional areas of overlap between the parties. The lack of adverse negative impacts on the competitive nature of the sectors involved as a result of these overlaps are dealt with more generally in paragraph 12 below.

² The parties estimate that Bunzl's market share of this segment is [10% to 20%] and that of DGD is [10% to 20%].

Contract Catering Supplies³

8. Bunzl's activities in this sub-segment include the supply of light catering equipment, disposables, chemicals and heavy catering equipment to the larger contract catering firms on the island of Ireland including Aramark/Campbell catering, Compass group plc (Eurest), and Sodexo⁴ while DGD (through Irish Merchants) supplies consumables/disposables to contract caterers.
9. Based on a total market size of supplies to the contract catering sector of €28.5 million⁵ Bunzl accounts for [10% to 20%] of supplies to this market and DGD accounts for [10% to 20%]. Thus the combined entity would have a market share of [20% to 40%].
10. In its analysis the Authority found that:
 - there is strong competition from other market players including in addition to the parties, Hugh Jordan, Zeus Packaging, Musgrave Food Service and 3663;
 - barriers to entry are low: there are no legal, technical, or strategic barriers to entry and entry/expansion from existing suppliers of catering products to sub-segments other than the contract catering sub-segment would be relatively easy. This is particularly the case for the supply of consumables/disposables to contract caterers in which DGD is primarily active.
 - the merging parties' customers are large international contract caterers who negotiate directly with the manufacturers of the products supplied by the parties and who could facilitate entry from outside Ireland given their network of large international suppliers; and,
 - the costs associated in switching from one supplier to another appear to be minimal: generally in the AFH sector typical contracts last for no more than one year; exclusivity agreements, where present, are driven by customers; new contracts are subject to open tender competitions and there is an increasing trend within the sector for E-tenders/auctions.
11. The Authority considers, despite the [10% to 20%] percentage point market share accretion in the market for contract catering supplies, that the existence of: a number of strong competitors; low barriers of entry; strong buyer power of customers; and the ease of switching together with low switching costs, that the proposed transaction does not raise competition concerns in relation to contract catering in the State.
12. More generally in the AFH sector the Authority recognises that there are a large number of suppliers selling either all or subsets of the products sold by the parties; that entry/expansion by these competitors into sectors/segments in which the parties are active is easy with no legal, technical, or strategic barriers to entry; that self supply by customers has occurred in the past and that there are no barriers to self supply; and that larger buyers can exercise a degree of buyer power.

³ See Case No COMP/M.1972 – *Granada/Compass* (29 June, 2000) where the European Commission defined sales of contract foodservices (i.e. contract catering) to represent a distinct product market.

⁴ [..].

⁵ Which includes €18.5 million for disposables, light equipment and chemicals and €10 million for heavy equipment.

13. The Authority, therefore, considers that the proposed transaction does not raise competition concerns in the State.

Determination

The Competition Authority, in accordance with section 21(2)(a) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed acquisition by Bunzl plc of DG Distributors and Vendors Limited will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the acquisition may be put into effect.

For the Competition Authority

Dr. Paul K Gorecki
Member of the Competition Authority