Case No COMP/M.5301 - CAP GEMINI / BAS

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 13/10/2008

In electronic form on the EUR-Lex website under document number 32008M5301

Brussels, 13-X-2008
SG-Greffe(2008)D/206159
C(2008) 6041

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.5301 – CAPGEMINI/ BAS
Notification of 8 September 2008 pursuant to Article 4 of Council
Regulation No 139/2004[1]**

1. On 8 September 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 Cap Gemini S.A. ("Capgemini", France) acquires within the meaning of Article 3(1)(b) of Council Regulation (EC) No 139/2004 ("Merger Regulation") control of the whole of the undertaking Getronics PinkRoccade Business Application Service B.V. ("BAS", The Netherlands), by way of purchase of shares. Capgemini and BAS are together referred to below as "the parties".

I.   THE PARTIES

2. **Capgemini** is a global services company active through various subsidiaries in consulting and information services. Capgemini is organized around four core areas of activity: (i) Consulting Services; (ii) Technology Services; (iii) Outsourcing Services; and (iv) Local Professional Services[2].

---

[1]   OJ L 24, 29.1.2004, p. 1.

[2]   Capgemini provides its Local Professional Services through its subsidiary Sorgeti.

3. **BAS**[3], the target, is active in the Netherlands and comprises the business application services activities (mainly personnel and customer contracts) of Getronics that were demerged to BAS for the purpose of the proposed transaction. It provides application life cycle management, including controlled migration, application management, testing, development, integration, implementation projects, project management and consulting. Its activities are divided into three divisions: (i) Customer Application Management ("CAM"); (ii) Application Services and Projects ("ASP"); and (iii) Application Services and Consulting ("APSC").

II.   THE OPERATION

4. On 25 July 2008, Capgemini and Getronics PinkRoccade Nederland B.V. ("Getronics") entered into an Announcement Protocol Agreement pursuant to which Capgemini intends to acquire all issued and outstanding shares in BAS from Getronics. Post-transaction Capgemini will have sole control of BAS.

5. Thus, the transaction constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

III.   COMMUNITY DIMENSION

6. The undertakings concerned had a combined aggregate worldwide turnover of more than EUR 5 000 million in 2007 (Capgemini: EUR 8 703 million, BAS: EUR 297 million). Each of Capgemini and BAS has a Community-wide turnover in excess of EUR 250 million (Capgemini: EUR 6 675 million, BAS: EUR 297 million). The undertakings concerned do not achieve more than two-thirds of its Community-wide turnover within one and the same Member State, as while BAS achieves more than two-thirds of its Community-wide turnover in the Netherlands, Capgemini does not achieve more than two-thirds of its Community turnover within a single Member State.

7. The notified operation therefore has a Community dimension within the meaning of Article 1(2) of the EC Merger Regulation.

IV.   RELEVANT MARKETS

8. The proposed transaction principally relates to IT services in the Netherlands. The parties' activities overlap notably in Professional Services, and more particularly the segments of (i) Consulting, (ii) Development and Integration and (iii) IT Management.

---

[3]   BAS was created for the purposes of this transaction and is a fully-owned subsidiary of Getronics, which is controlled by Koninklijke KPN N.V. (see also Case COMP/M.4871 - KPN/Getronics)

Product market

9. In previous Commission decisions concerning the IT services sector[4], various market segmentations were analysed based on the type of services (namely (i) hardware maintenance, (ii) software maintenance and support, (iii) consulting, (iv) development integration, (v) IT management services, (vi) business management services, and (vii) education and training), or based on the customer' sector of activity (such as financial services, transport, manufacturing, government etc.), or based on the size of the customer (distinction between the supply of IT services to large corporations and smaller organisations). However, for the purpose of these cases, the Commission left the exact delineation of the market open.

10. In the present case, the parties submit that the overall market for IT services can be divided into the following service lines relying on the Gartner report[5]:

    a.   <u>Product Support Services</u>[6] (service level 1), including the following segments (service level 2):

        i.   Hardware Maintenance and Support; and

        ii.   Software Support.

    b.   <u>Professional Services</u>[7] (service level 1), including the following segments (service level 2) and sub-segments (service level 3):

---

[4]   See Commission decisions in Cases COMP/M.3571 - IBM/Maerskdata/DMData; COMP/M.3995 - Belgacom/Telindus; and COMP/M.4871 - KPN/Getronics.

[5]   The Gartner Group is an independent industry analyst company specialized in the IT industry. It collects market data and produces reports in which the overall IT services market is subdivided into various segments. In particular, the Gartner Group has subdivided the IT services market into (i) Product Support Services and (ii) Professional Services (both service level 1) that can be further subdivided into different segments (service level 2) and sub-segments (service level 3). This segmentation was most recently considered by the Commission in Cases COMP/M. 4871 - KPN/Getronics and COMP/M.5197 - HP/EDS.

[6]   Product Support Services include the segments (i) Hardware Maintenance and Support and (ii) Software Support. Hardware Maintenance and Support are preventative and remedial services that physically repair or optimize hardware both on site or at centralized repair depot. Software Support services include remote troubleshooting and support done via telephone and online means, installation assistance and basic usability assistance.

[7]   Professional Services are subdivided into the following segments and sub-segments:

  (i) Consulting, which are advisory services to help companies analyse and improve the efficiency of business operations and technology strategies. Consulting is further subdivided into:

    a) Business Consulting: these services are limited to business operations consulting services that typically preface, enable or influence the adoption of IT.

    b) IT Consulting: these services are advisory services that help clients assess different technology strategies and, in doing so align their technology strategies with their business or process strategies.

<blockquote>
<ol type="i">
Consulting, consisting of a.1) Business Consulting, and a.2) IT Consulting;

Development and Integration, consisting of b.1) Application Development, b.2) Deployment, and b.3) Integration;

IT Management, consisting of c.1) Application Management, c.2) Help desk management, and c.3) Operation services; and

Process management.

</blockquote>

11. It is the parties' view that the above segments form part of a single relevant market for all IT services since customers of IT services often contract for a bundle of different services and competition between suppliers often takes place at a broader level. In addition, according to the parties all major players in IT services are active in all or most segments of IT services, and there is a high degree of supply-side substitutability in the provision of these services.

12. Most respondents to the Commission's market investigation, both customers and competitors, take the view that the Gartner segmentation correctly reflects the market for

---

(ii) Development and Integration, which are services used to customize or develop IT solutions, assets and processes and then to integrate these solutions, assets and processes with existing infrastructure and processes. Development and Integration is further subdivided into:

    a) Application Development: these services create new functionality for custom-developed or packaged applications. They frequently serve to integrate or link internal or external business processes and may include conversion applications to run on different platforms or architectures;

    b) Deployment: these services support the implementation and rollout of new applications or infrastructure. Activities may include hardware or software procurement, configuration, tuning, staging, installation and interoperability testing; and

    c) Integration: these services are detailed design, implementation and management services that link applications to each other, or with the established or planned IT infrastructure.

(iii) IT Management, which provides provide day-to-day management and operation of IT assets and processes. As such they represent the core value components of IT outsourcing. IT Management is further subdivided into:

    a) Application management: this service provides a wide variety of application services, processes and methodologies for maintaining, enhancing and managing custom applications, packaged software applications or network-delivered solutions;

    b) Help desk management: these services provide centralized information and support management services to handle a company's internal or external queries and operational problems about IT-related processes, policies, systems and usages; and

    c) Operation services: these services handle the transfer of all or part of the day-to-day system management responsibility for a customer's IT infrastructure. They may include systems operations or support, administration, security, performance, monitoring etc.

(iv) Process management, which is a component of business process outsourcing. It includes transaction processing services that provide IT operational support for specific types of transactions, such as credit/debit cards, payroll. cheque/bank and healthcare.

IT services. The Commission's market investigation was not conclusive as to whether there is a single market for IT services or whether the overall IT service market should be further subdivided in different segments and sub-segments. In any event, the Commission's market investigation also indicated that the market for IT services is a dynamic market with a degree of supply-side substitutability between the various IT services. Whilst small competitors appear to focus on specific sub-segments, the largest IT service providers are active across the various service categories offering almost all IT services to their customers. Therefore, a relevant product market comprising all IT services cannot be excluded.

13. In a previous case[8], the Commission referred to a possible delineation of the IT services based on the customer's sector of activity. The parties also provided market information along a different possible delineation of the market for IT services based on the customer's sector. In particular, the parties submit, in accordance with Gartner data, that the different service lines (service level 2) can be divided into 14 customer sectors[9]. However, for the purpose of the present transaction the parties consider such delineation inappropriate.

14. The Commission's market investigation indicated that, although certain customers may have specific requirements, most service providers operate across a large number of customer sectors, suggesting a significant degree of supply-side substitutability.

15. In some previous cases, the Commission also considered the possibility of a segmentation of the IT services based on the size of customers. In particular, the Commission distinguished between the supply of IT services to large corporations and to small and medium enterprises (SMEs)[10]. However, even though the Commission found a significant scope for supply-side substitutability, it left open the question whether the IT services market should be further subdivided according to the size of the customers. The parties consider such segmentation inappropriate in view of the similarity of services provided to small and large customers.

16. For the purpose of the present case, the exact product market definition can however be left open as the proposed transaction would not give rise to any competition concerns under any alternative market definition.

---

[8] See Commission decision in Case COMP/M.2946 - IBM/PWC Consulting.

[9] According to Gartner, these customer sectors are: (i) Agriculture, mining and Construction; (ii) Process Manufacturing; (iii) Discrete Manufacturing; (iv) Utilities; (v) Wholesale; (vi) Retail; (vii) Transportation; (viii) Communications; (ix) Financial Services; (x) Healthcare; (xi) Services; (xii) Education; (xiii) National and International Government and (xiv) Local and Regional Government.

[10] See Commission decision in Case COMP IV/M.3398 – HP/Triaton; Case COMP/M.2478 – IBM Italia/Business Solutions/JV. The concept of medium-sized, small and micro enterprise is defined in Recommendation 2003/361/EC regarding the SME definition which replaced Recommendation 96/280/EC as from January 2005.

Geographic market

17. The parties submit that the relevant geographic market for IT services is at least EEA-wide. This is in line with previous Commission decisions[11], where the Commission left open whether IT service markets are national or EEA-wide in scope, noting that the market for IT services showed a trend towards internationalisation of supply and demand. However, the Commission also noted that customers continued to value the supplier's ability to provide products and services tailored to local cultural, language and business particularities.

18. In the *HP/EDS* decision of July 2008[12], the Commission noted that IT services and their narrower segments were even considered to be worldwide by the vast majority of respondents to the market investigation, although a minority of respondents suggested that the IT Management segment could have an EEA-wide scope.

19. The market investigation in the present case confirmed that the markets for IT services present characteristics of both EEA-wide and national markets. A number of local competitors have principally developed a national presence and limit their offer to customers in a single country, whereas the largest competitors are international firms, offering contracts to their customers covering locations in different countries. The majority of customers also indicated that a strong local presence is sometimes required for at least some IT services , whereas for other IT services they accept that the IT service provider locate their operations in other countries.

20. A minority of respondents indicated that, although there are some geographic areas with local specificities as regards IT services (such as Help Desk Management and Business Consulting), the geographic market for IT services should be considered worldwide as IT services are offered on a global basis, either through subcontracting or through alliances.

21. For the purpose of the present case, the exact geographic market definition can however be left open as the proposed transaction would not give rise to any competition concerns under any alternative market definition.

V.   COMPETITIVE ASSESSMENT

22. The parties' activities overlap in the provision of IT services in the Netherlands, more precisely as regards Professional Services (only BAS is active in Product Support Services).

23. As regards Professional Services, based on the Gartner segmentation described above, BAS is active in Consulting, Development and Integration and IT Management as well as all sub-segments thereof (with the exception of Business Consulting within Consulting,

---

[11] See Commission decisions in Cases COMP/M.1901 - Capgemini/Ernst & Young; COMP/M.2478 - IBM Italia/Business Solutions/JV; COMP/M.3555 - Hewlett-Packard/Synstar; COMP/M.4108 - T-System/Gedas; and COMP/M.4871 - KPN/Getronics.

[12] See Commission decision in Case COMP/M.5197 - HP/EDS.

and Operations Services within IT Management). Capgemini is active in Professional Services and all segments and sub-segments thereof.

24. On the basis of the broader product market definition of an overall IT services market, the proposed transaction would not give rise to any affected markets as the parties would have a combined market share of less than [0-5]% in Europe[13] and [10-20]% in the Netherlands.

25. On the basis of the Gartner market definition, in Professional Services (service level 1), the parties' combined market share would also be less than [0-5]% in Europe and approximately [10-20]% in the Netherlands.

26. The proposed transaction would only give rise to affected markets in the Netherlands based on the service level 2 and service level 3 of the Gartner segmentation. The table below sets out the market shares of the parties on each of these segments and sub-segments within Professional Services where they overlap in the Netherlands.

	Capgemini market share	BAS market share	Combined market share
Consulting (service level 2)	[20-30]%	[0-5]%	[20-30]%
(i) Business Consulting (service level 3)	[10-20]%	--	[10-20]%
(ii) IT Consulting (service level 3)	[30-40%	[0-5]%	[30-40]%
Development & Integration (service level 2)	[10-20]%	[0-5]%	[10-20]%
(i) Application Development (service level 3)	[10-20]%	[0-5]%	[10-20]%
(ii) Deployment (service level 3)	[10-20]%	[0-5]%	[10-20]%
(iii) Integration (service level 3)	[10-20]%	[0-5]%	[10-20]%
IT Management (service level 2)	[0-10]%	[0-5]%	[10-20]%
(i) Application management	[10-20]%	[10-20]%	[20-30]%
(ii) Help desk management	[20-30]%	[0-5]%	[20-30]%

Source: Notifying parties

---

[13] Gartner does not produce data for the EEA as a whole. In this regard, Europe is deemed to include: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Poland, Portugal, Spain, Sweden and the UK. This figure is taken as a proxy for the EEA market shares as it includes the main EEA countries, in particular the Netherlands. Furthermore, the parties assumed for practical reasons and a worst case analysis that all BAS turnover was achieved in the Netherlands.

27. As regards the four different segments in <u>Professional Services (service level 2)</u>, namely (i) Consulting, (ii) Development and Integration, (iii) IT Management, and (iv) Process Management, the parties' combined market shares would exceed [10-20]% only for Consulting with a small increment of [0-5]% to Capgemini's market share (approximately [20-30]%; Capgemini: [20-30]%; BAS: [0-5]%), but would remain below [5-10]% at a European level and below [10-20]% in the Netherlands for the other three segments. As regards Consulting, post-merger, Capgemini will continue to face competition from important competitors such as Logica ([5-10]%), Ordina ([5-10]%), Getronics ([5-10]%), PWC ([5-10]%) and Atos Origin ([5-10]%).

28. As can be seen from the table above, on the basis of the narrowest product market definition <u>(service level 3),</u> the parties' combined market shares in the Netherlands range between [10-20]% (Deployment) and [30-40]% (IT Consulting), with a small increment in Capgemini's share in all sub-segments except for Application Management ([20-30]%; Capgemini: [10-20]%; BAS: [10-20]%). The parties' combined market share in the sub-segment for Application Management in the Netherlands would however remain below [30-40]%. Post-merger, several large competitors will be present in this market. In particular both IBM and Atos Origin will hold strong positions in IT Management (IBM: [10-20]% and Atos Origin: [10-20]%) and also in the sub-segment Application Management (IBM: approximately [10-20]% and Atos Origin: approximately [10-20]%). Getronics, which continues to have considerable operations in IT Management ([10-20]%), post-merger, will also remain as one of Capgemini's competitors.

29. The Commission's market investigation confirmed that the IT services market in the EEA and the Netherlands will remain fragmented post-merger with large global and regional players (such as Atos Origin, IBM, Accenture, HP/EDS, Logica and Ordina) who are active in all segments and sub-segments in which the parties are active. Customers confirmed that they can purchase IT services from several suppliers other than the parties, including IBM, Atos Origin and Accenture as well as other smaller players that often compete directly against larger players. IT services are generally contracted for a fixed period (generally four or five years) during which any price increase is capped by contractual provisions. Respondents to the market investigation confirmed that competition among IT services providers in bidding for or contracting new IT services projects is strong also due to the absence of brand loyalty. The majority of respondents also confirmed that switching costs, although not completely insignificant, do not constitute an important barrier to the fluidity of the IT service market.

30. Also when considering a market definition based on the <u>customer size</u>, the proposed transaction does not raise any competition concerns. Both parties provide IT services almost exclusively to large organisations (sales to large organisations account for 100% of Capgemini's total sales and 97% of BAS' total sales). The Commission's market investigation showed that a sufficient number of alternative providers of IT services to large organisations will remain active in the EEA and the Netherlands post-transaction.

31. Considering a delineation of IT services based on <u>customer sector</u>, according to Gartner data, the parties' activities in the Netherlands would overlap in relation to Professional Services in three sectors: (i) National & International Government ([10-20]%; Capgemini: [10-20]% and BAS: [0-5]%), (ii) Utilities ([10-20]%; Capgemini: [10-20]% and BAS: [0-5]%), and (iii) Agriculture, Mining and Construction ([30-40]%; Capgemini: [30-40]% and BAS: [0-5]%). BAS' presence in all three sectors is very limited and thus the proposed transaction will result in only a small increment (less than [0-5]%) in Capgemini's share. As regards Agriculture, Mining and Construction, post-merger, the

parties will continue to face competition from a number of important players including, IBM ([10-20]%), Getronics ([5-10]%), Accenture ([5-10]%), BT ([0-5]%) and PWC ([0-5]%).

32. Finally, the market investigation has not revealed any significant objection against the proposed transaction by the competitors and customers of the parties

33. In light of the above considerations, the Commission concludes that the proposed concentration does not raise serious doubts as to its compatibility with the common market.

VI.   CONCLUSION

34. 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)
Joaquin ALMUNIA
Member of the Commission