

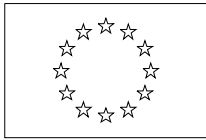
***Case No COMP/M.3171 -
COMPUTER SCIENCES
CORPORATION /
ROYAL MAIL
BUSINESS SYSTEMS***

Only the English text is available and authentic.

**REGULATION (EEC) No 4064/89
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 27/05/2003

*Also available in the CELEX database
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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 27/05/2003

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PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sir/Madam,

Subject: Case No COMP/M. 3171 - Computer Sciences Corporation / Royal Mail Business Systems
Notification of 06.05.2003 pursuant to Article 4 of Council Regulation No 4064/89¹

1. On 06.05.2003, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the undertaking Computer Sciences Corporation ("CSC"-USA) acquires within the meaning of Article 3(1)(b) of the Council Regulation sole control of RM Business Systems Limited ("RM"-UK), which is a business division within the UK-based Royal Mail Group plc (Royal Mail), by way of purchase of assets.
2. The Commission has concluded that the notified operation falls within the scope of the Merger Regulation and does not raise serious doubts as to its compatibility with the common market.

I. THE PARTIES AND THE OPERATION

3. CSC is a multinational company which provides information technology (IT) services to commercial and government customers. Namely, it is active in i). IT outsourcing/management services; ii). IT management consulting; and iii). Systems integration.

¹ OJ L 395, 30.12.1989 p. 1; corrigendum OJ L 257 of 21.9.1990, p. 13; Regulation as last amended by Regulation (EC) No 1310/97 (OJ L 180, 9. 7. 1997, p. 1, corrigendum OJ L 40, 13.2.1998, p. 17).

4. RM is a former division within Royal Mail that has been incorporated as a new company for the purposes of the present operation, certain assets (staff, IT assets, property, third party supply agreements and licences) having been previously transferred to the target undertaking. RM provides IT services only to Royal Mail, a public company wholly owned by the UK government that operates on the UK postal sector.
5. The planned transaction consists of the acquisition of 100% of the shares of RM, which are currently held by Royal Mail. This operation takes place within the broader framework of an agreement entered into by CSC and Royal Mail, according to which the latter will outsource to CSC the IT services traditionally provided by its former Business Systems Division. The outsourcing of the services concerned will be implemented under a service contract to be charged on a usage basis, and is intended to stem the losses being made by Royal Mail.

II. CONCENTRATION

6. The proposed operation is therefore a concentration within the meaning of Article 3(1) of the Merger Regulation.

III. COMMUNITY DIMENSION

7. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion². Each of CSC and RM have a Community-wide turnover in excess of EUR 250 million, but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension.

IV. COMPETITIVE ASSESSMENT

Relevant markets

8. The notified operation concerns the outsourcing of IT services, namely maintenance of desk top computers; management and development of servers, mainframe and IT processes; developing and maintaining applications; and support of business critical systems.
9. The Commission has stated in previous cases³ that the product market for such services may be either the overall market for IT services or each of the following separate market segments : 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. It has also indicated that the markets for IT services continue to be national in scope, although increasing

² Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Notice on the calculation of turnover (OJ C66, 2.3.1998, p25). To the extent that figures include turnover for the period before 1.1.1999, they are calculated on the basis of average ECU exchange rates and translated into EUR on a one-for-one basis.

³ See cases COMP/M. 2946 – IBM/PWC Consulting; COMP/M. 1901 – Cap-Gemini/Ernst and Young; COMP/M. 1561 – Getronics/Wang; COMP/M. 2609 – HP/Compaq; IV/M.668 - Philips/Origin; IV/M.798 - General Electric/Compunet; M. 2195 – Cap Gemini/Vodafone/JV; M. 2478 – IBM Italia/Business Solutions/JV.

internationalisation has been identified. In any case, market definitions have frequently been left open.

10. Against this background, the notifying party considers the provision of IT management services to be the appropriate relevant product market in the present case. IT management consists, according to CSC, of the day-to-day operation of IT assets and processes, and generally includes three categories of services : operational services, applications IT management services and helpdesk IT management⁴. Since the different services are typically provided together and are generic in nature, whatever the customer's field of activity is, CSC does not consider appropriate further divisions.
11. As to the geographic dimension of the relevant product market, the notifying party finds the provision of IT management services to be at least EEA-wide in scope or probably world-wide, given the increasing internationalisation of the market.
12. Irrespective of the above considerations on markets definition, it must be noted that for the purposes of the present case, it is not necessary to precisely decide on this issue, since the planned transaction does not give rise to any significant competition concern on any alternative market.

Market structure and impact of the operation

13. On the basis of the information provided by CSC, no vertical issues or overlapping activities have been identified. CSC is active on the market/s for IT services, whilst Royal Mail operates in the UK postal sector and the target company only provides in-house IT services (to the latter), having no presence at all on either the overall market for IT services or any of the further segments referred to above.
14. Furthermore, the envisaged transfer of assets and resources will not result in any significant increase of CSC's power in the IT services industry. In effect, both the overall IT services market and the IT management services market are very fragmented markets, CSC having a very limited position in each of them.
15. In 2001, the leader's (EDS) market share in the outsourcing and processing software and IT services market in Western Europe accounted for 10%, whilst the combined market share of the top 5 leading suppliers (EDS, IBM, T-Systems, Siemens Business Services and CSC) only amounted to 37%⁵. With regard to the UK market, the leader's (EDS) share in 2001 represented some 19%. The 4 closest competitors (including CSC as third largest supplier) had a combined 27% market share⁶.
16. In the narrowest geographic segmentation (UK) and according to the information provided by the notifying party, CSC's shares for the year 2002 amounted to less than 4% in the market for IT services and 7.5% in the market for IT management services. The envisaged

⁴ This classification is based on the Gartner Dataquest Guide, IT Services Market Definitions Guide, 7 May 2002.

⁵ Data based on the survey The Outsourcing and Processing Market in Western Europe, Software and IT Services Industry, Pierre Audoin Consultants, 20 December 2002.

⁶ Data based on PAC's SITSI Report, 2003.

transfer of the target's assets would result in combined market shares of less than 5% and 9.5%, respectively.

17. In the light of the considerations above and the context of the transaction, the concentration at issue could be considered as an instrument for the implementation of the outsourcing arrangement entered into by the parties concerned, with no significant impact on the competitive structure of the IT services business or the respective positions of CSC and Royal Mail .

V. CONCLUSION

18. 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 (EEC) No 4064/89.

For the Commission

(signed)
Mario MONTI
Member of the Commission