

***Case No COMP/M.3555 -
HEWLETT - PACKARD /
SYNSTAR***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 09/09/2004

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 09-09-2004

SG-Greffe(2004) D/203960

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) 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 Where possible the information omitted has been replaced by ranges of figures or a general description.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
MERCER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

**Subject: Case No COMP/M.3555 - Hewlett-Packard/ Synstar
Notification of 12 August 2004 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 12.08.2004, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which the undertaking Hewlett-Packard Global Investments B.V. ("HP Global", The Netherlands), a wholly owned indirect subsidiary of the Hewlett-Packard Company ("HP", USA) acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the undertaking Synstar plc ("Synstar", UK) by way of public bid announced on 09.08.2004.
 2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EC) No 139/2004 and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.
- I. THE PARTIES and THE OPERATION**
3. HP is a global technology solutions provider to customers, businesses and institutions. It offers services and products including IT infrastructure, personal computing hardware, access devices, global services, imaging and printing solutions.
 4. Synstar provides a range of pan-European IT support services. The company principally operates in computer services and business continuity services.

¹ OJ L 24, 29.1.2004 p. 1.

II. CONCENTRATION

5. Following the Public Offer for Synstar plc. dated on 9 August 2004, Hewlett-Packard Global Investments B.V will, through the notified transaction, purchase the entire share capital of Synstar. Accordingly, HP will gain sole control over Synstar within the meaning of Article 3(1)(b) of the Merger Regulation.

III. COMMUNITY DIMENSION

6. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion². (HP: [...] and Synstar: [...] in 2003) Each of the parties has a Community-wide turnover in excess of EUR 250 million (HP: [...] and Synstar: [...] in 2003). With exception of Synstar, the parties 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. COMPATIBILITY WITH THE COMMON MARKET

A. Relevant product markets

7. The notifying party considers that the relevant product market for the purpose of the proposed transaction is the market for all IT services.
8. In its previous decisions³, the Commission has, as an alternative to considering an overall market for IT services, identified seven service categories. These comprise (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. In the present case, and in support of considering an overall market for IT services, customers have pointed to their “one stop shopping” practices and the existing high degree of supply side substitutability which is further facilitated by the fast technology changes in the IT sector.
9. As an alternative to the seven service categories indicated above, previous decisions have considered the possibility of sub-dividing the IT services market on a sectorial base (identifying sectors of activities such as financial services, manufacturing, government, etc.) or by distinguishing between the supply of IT services to large corporations and smaller organisations (i.e. small and medium-sized enterprises “SME”). Whilst such segmentations may be based on demand differences or procurement patterns, the result of the market investigation in the present case appears, in line with previous decisions, to attach more importance to the existing high degree of supply side substitutability in defining the relevant markets for IT services.
10. In any case, for the purpose of this case, it is not necessary to further define the market as the concentration would not result in the creation or the strengthening of a dominant position in the EEA or any substantial part of it on any alternative market definition considered.

B. Relevant geographical market

11. Whilst the Commission’s previous cases has confirmed the continuing internationalisation of IT services, customers continue to value the supplier’s ability to provide products and

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 Case No COMP/M.2946-IBM/PwC Consulting, Case No COMP/M.2609 – HP/Compaq and Case No COMP/M.1901 – Cap Gemini/Ernst&Young

services tailored to local cultural, language and business particularities. Whilst certain IT services can be provided without geographic restrictions, customers continue to consider a local presence as an important criterion when selecting an IT services provider. Therefore, whilst market characteristics point to the existence of an IT services market that is at least EEA-wide, the possibility of national or regional markets (i.e. a regional market comprising Ireland and the UK) cannot be excluded.

12. In any case, for the purpose of the proposed transaction, the exact geographic market definition can be left open, since on any possible geographic market definition, the concentration does not raise competition concerns.

V. COMPETITIVE ASSESSMENT

13. Considering the market of all IT services at the EEA-level, this concentration will add only less than 3% to HP's current [0-5%] market share. The market can be considered as highly fragmented: the five largest players combined (IBM, EDS, HP + Synstar, Cap Gemini and T-Systems) only covered [25-30%] of the market in 2002. The local service providers intensely compete with the multinational groups, covering more than 70% of the market.
14. Synstar makes most of its turnover in the United Kingdom, where the new entity will be only the eighth strongest player on the market for all IT services with market shares less than 3%. Considering national markets for all IT services, the merged entity will not achieve more than 15% in any Member State.
15. When assessed for each of the seven service categories on a national basis, the concentration would lead to a combined market share above 15% for hardware maintenance and support in Ireland ([20-30%] with HP having [20-25%] and Synstar [0-5%]) and in Portugal ([15-23%], where HP's current [12-20%] market share will only be marginally increased by Synstar's market share of less than 3%). Specifically for the Irish hardware maintenance market, in as far as such a narrow market exists, the transaction will not affect customers' ability to play one supplier against another. Whilst the enlarged HP will slightly reinforce its leading market position, it will continue to face strong competitors such as IBM (the overall IT services leader) with 12%, Xerox (12%), Dell (the leading PC supplier with 7%), and a number of independent service providers such as Siemens Business Services, NextiraOne, CapGemini and Barron McCann. In addition, IT hardware is increasingly becoming commoditised with associated limited barriers to entry.
16. Whilst considered as irrelevant by the market investigation for this particular case, alternative market definitions (either by vertical industry sector or by segmenting the market for large companies on the one hand and SMEs on the other hand), do not point to market shares that are significantly different than those mentioned above.
17. HP holds strong positions in the IT hardware markets that could be considered as markets related to IT services. HP has market shares in excess of 25% for servers⁴, storage solutions and printers in EEA. The market investigation in the present case does not indicate the existence of vertical links and does not create concerns in the neighbouring markets of the hardware and services markets, mostly because customers are able to decouple the procurement of their IT services and hardware in order to

⁴ Markets as defined in case No COMP/M.2609 – HP/Compaq. See also the Commission's decision in COMP M. 3398 – Hewlett-Packard/ Triaton.

ensure independent multi-sourcing. Such is illustrated by some customers requiring their service provider to carry out maintenance services on hardware supplied by a competing hardware supplier. It is therefore considered unlikely that HP could influence its IT services' customers hardware decisions, particularly when considering the limited impact of the transaction on HP's IT services position. It is therefore unlikely that competition concerns will arise on either the services or hardware markets.

18. In view of the foregoing, it can be concluded that the proposed operation would not, in any of the markets considered, impede effective competition in particular as a result of creating or strengthening a dominant position in the EEA or any substantial part of it.

VI. CONCLUSION

19. 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)
Mario MONTI
Member of the Commission