

***Case No COMP/M.4108 -
T-SYSTEMS / GEDAS***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 27/02/2006

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 27.02.2006

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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 Where possible the information omitted has been replaced by ranges of figures or a general description.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 Madam/Sir,

**Subject : Case No COMP/M.4108 – T-SYSTEMS/GEDAS
Notification of 23 January 2006 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 23 January 2006, the Commission received a notification of a proposed concentration by which T-Systems Enterprise Services AG (“T-Systems”, Germany), belonging to the German group Deutsche Telekom AG (“DT”), acquires control of the whole of the undertaking Gedas AG (“Gedas”, Germany), belonging to the German group Volkswagen AG (“VW”).
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 EEA Agreement.

I. THE PARTIES

3. T-Systems provides a wide range of IT services worldwide to German and international companies, non-profit organisations and governmental agencies. For its parent DT, T-Systems runs almost the whole of their IT operations, i.e. DT has almost exclusively outsourced its IT business to T-Systems.

¹ OJ L 24, 29.1.2004, p. 1

4. Gedas also provides IT services and its focus is on companies that are active in the manufacturing and automotive industries. Like T-Systems, Gedas mainly provides intra-group services, i.e. to the VW group.

II. CONCENTRATION

5. T-Systems will acquire sole control of Gedas by way of purchase of shares. The combination of T-Systems and Gedas is complementary, as Gedas focuses on IT services for the process manufacturing sector, whereas T-Systems has a much wider scope in all kinds of IT services, but with a clear focus on the management of IT services.

III. COMMUNITY DIMENSION

6. The parties have a combined worldwide turnover of more than € 5 000 million (€ 57.900 million for DT; € 567 million for Gedas; figures relate to turnover achieved in the fiscal year 2004). The aggregate Community-wide turnover of each of at least two of the undertakings exceeds € 250 million (€ [...] million for DT; € [...] million for Gedas). Neither DT nor Gedas achieves more than two-thirds of its aggregate Community-wide turnover within one and the same Member State. The concentration therefore has a Community dimension.

IV. COMPETITIVE ASSESSMENT

a) Product and geographic market definitions

7. The notifying party, DT, proposes to define the relevant market as comprising all IT services. Following the practice of previous Commission decisions², the notifying party has also provided data according to the following segments of the IT services market, as proposed by the Gartner Group³: IT management services, business management services, software development and integration, IT and business consulting, software maintenance and support, hardware maintenance and support. Furthermore, the notifying party has considered a possible delineation of IT services by industry sector.
8. As the notified transaction does not give rise to competition concerns irrespective of the market definition, the exact product market definition can be left open for the purpose of the present case.
9. The parties take the view that the relevant geographic market for IT services is at least EEA-wide. In recent decisions⁴ the Commission has not found it necessary to define the relevant geographic market, although it noted that “IT services are provided on a national basis, mainly due to customized solutions according to languages and local

² Cases COMP/M.3555 – Hewlett Packard/Synstar, COMP/M.2478 – IBM/Business Solutions/JV

³ Gartner Group, an independent industry analyst specialised in the IT industry, collects market data and produces reports, in which the overall IT services market is subdivided into various segments.

⁴ See footnote n°2.

business particularities”⁵. Nevertheless, the Commission has also noted that the market for IT services shows a trend towards the internationalization of supply and demand.

10. For the purpose of the present case, it is not necessary to decide on the geographic scope since even on a narrower, national level the proposed transaction would not lead to competition concerns.

b) Assessment of the overlapping activities

11. Table 1 gives an overview of the parties’ market shares at Western European level⁶ in 2004, both for the overall IT services market and for the various sub-segments of this market⁷ in which both parties have activities⁸.

Table 1⁹

Product markets	Market shares (in %) in Western Europe		
	T-Systems	Gedas	Combined T-Systems+Gedas
Overall IT services	[<5]%	[<5]%	[<5]%
IT services by sub-segment			
IT management services	[5-10]%	[<5]%	[5-10]%
Business management services	[<5]%	[<5]%	[<5]%
Software development and integration	[<5]%	[<5]%	[<5]%
IT and Business consulting	[<5]%	[<5]%	[<5]%
Software maintenance and support	[<5]%	[<5]%	[<5]%

12. The parties’ overlap in the overall IT services market is far below 15%. T-Systems enjoys a market share of about [<5]% and Gedas of [<5]%. Together, they would have a

⁵ Case COMP M.2195 - Cap Gemini/Vodafone/JV

⁶ Western Europe, as defined by Gartner, comprises the former EU15 Member States, the EFTA States, Switzerland and the rest of Western Europe (e.g. Andorra, Monaco).

⁷ The notifying party also provided data for Eastern Europe. The turnover achieved in these countries, however, is very small compared to Western Europe. In view of this negligible difference, the figures provided for Western Europe are sufficiently accurate to reflect the combined market share situation of the parties and that of their competitors in the relevant markets post-merger.

⁸ As to the sub-segment “Hardware Maintenance & Support”, T-Systems achieves turnover from this activity, which results in a market share of [<5]%. Gedas has no activities in this segment. Hence, no overlap occurs in this segment. When considering this segment in Germany, T-Systems’ market share would amount to approximately [5-10]%.

⁹ Source: Gartner report, August 2005

combined market share of approximately [<5]%. The largest competitor to the parties is IBM with a market share of [5-10]%. Other strong competitors, all of them active on an EEA-wide scale, are EDS (with a market share of [<5]%), Accenture ([<5]%), Hewlett Packard ([<5]%), Atos Origin ([<5]%) and Capgemini ([<5]%). Other, smaller IT services vendors have together a market share of about 33%. These figures are indicative of the fragmented nature of this market.

13. When considering the parties' market shares in the various sub-segments of IT services, their combined market share remains well below 10% in each of these sub-segments. Also under such a narrower product market definition, the combined entity faces largely the same strong competitors as mentioned above.
14. The picture changes when considering the IT services market and its sub-segments on a national level, as is evidenced by the figures contained in Table 2 below: overlaps in excess of 15% only occur in the IT services sub-segment IT management services in Germany and hence in the overall market for IT services in Germany.

Table 2¹⁰

Product markets by country	Market shares (in %)			
	T-Systems	Gedas	Combined T-Systems+Gedas (including captive sales)	Combined T-Systems+Gedas excluding captive sales ¹¹
Overall IT services in Germany	[10-20]%	[<5]%	[10-20]%	[5-10]% ¹²
IT management services in Germany	[25-35]%	[<5]%	[25-35]%	[20-30]% ¹³

15. The Gartner report, however, overestimates the parties' true market shares in these markets, as Gartner calculates market shares based on the company's entire revenue hence irrespective of whether these were achieved from captive sales or non-captive sales. T-System's market share stems to a large degree from *captive* sales to its parent, DT, to which it supplies the bulk of its IT services¹⁴. Also Gedas' captive sales to the

¹⁰ Gartner report, August 2005; figures in column "excluding captive sales" are based on non-captive revenues achieved by T-Systems and Gedas respectively.

¹¹ Source: parties' individual turnover data that exclude captive sales.

¹² For T-Systems: [5-10]%, for Gedas: [<5]%.

¹³ For T-Systems: [20-30]%, for Gedas: [<5]%.

¹⁴ T-Systems achieves more than [40-50]% of its turnover from the DT group.

VW group represents a large part of the company's revenues¹⁵. Therefore, Table 2 also shows the market shares of the combined entity excluding captive sales.

16. While the parties' activities overlap in Germany, the increment in market share is very small. Gedas contributes about a [<5]% market share in the overall IT services market, leading to a combined market share of the parties of [10-20]%. Considering the combined market share of the parties excluding their captive sales, it would amount to about [5-10]%. Strong competitors are present in the market, e.g. IBM with [5-10]% market share, Siemens with [5-10]% and Hewlett-Packard with [<5]%. Furthermore, as stated before, the IT services market is very fragmented and the top ten providers account for only about 47% of the entire market, many smaller competitors collectively representing the remainder.
17. When considering the various IT services sub-segments in Germany, T-Systems and Gedas enjoy a combined market share of approximately [25-35]% in IT management services, whereby Gedas contributes about [<5]%. Again, by excluding captive sales, the parties' combined market share would amount to [20-30]%. Competitors in this market are IBM with a market share of [10-20]%, Siemens with [10-20]%, Fiducia with [5-10]% and EDS with [<5]%. Many smaller competitors account for the remainder, about 39%, again indicating the fragmented nature of this market.
18. Alternatively, the notifying party has provided market share information for IT services by industry sector in 2004. Table 3 gives an overview of those activities that lead to a combined market share in excess of 15%.

Table 3¹⁶

IT services by industry sector and country	Market shares (in %)			
	T-Systems	Gedas	<i>Combined T-Systems+Gedas (including captive sales)</i>	<i>Combined T-Systems+Gedas excluding captive sales</i>
Communication (in Germany)	[35-45]%	[<5]%	[35-45]%	<i>Approx. [5-15]%^{17, 18}</i>
Process manufacturing (in Germany)	[10-20]%	[<5]%	[10-20]%	<i>Approx. [10-20]%¹⁹</i>
Services (in Germany)	[10-20]%	[<5]%	[10-20]%	<i>Approx. [10-20]%²⁰</i>

¹⁵ Gedas' captive sales to the VW group represents approximately [70-80]% of the company's turnover.

¹⁶ Gartner report, August 2005

¹⁷ Source: parties' individual turnover data; market volume and market share data are based on Pierre Audoin Consultants ("PAC") report 2005, an industry consultancy group specialised in the analysis of various vertically integrated sectors. For their reports PAC collects revenue data excluding captive sales.

¹⁸ For T-Systems: [5-15]%, for Gedas: [<5]%.

¹⁹ For T-Systems: [10-20]%, for Gedas: [<5]%.

19. Affected markets were identified in Germany, where the increase in market share of the combined entity would be small only. Sales of the parties to the industry sectors Services and Process manufacturing respectively are captive to a smaller degree thereby leading to a combined market share of around [10-20]% in each segment. The parties face strong competitors in the these sectors, as outlined above, like SAP, IBM, Hewlett Packard and Siemens Business Solutions, each with market shares in similar size as given above. With respect to the industry sector Communication, most part of T-Systems sales is of captive nature, i.e. turnover achieved by servicing DT group. By deducting captive sales from T-Systems' revenues, their market share would amount to approximately [5-15]%. Competitors active in this industry segment are Siemens Business Services (with a market share of [5-10]%), IBM ([5-15]%), and Hewlett Packard ([5-10]%). Likewise, the IT services market for the industry sector Communication is very fragmented, with a large number of smaller players being present in this segment. Furthermore, Gedas focuses on process manufacturing and has negligible IT services activities in the Communication segment, as reflected by its negligible market share of less than [<5]%. Therefore, the proposed transaction would not raise competition concerns in Germany.

c) Further considerations

20. The proposed transaction will have no impact as regards possible conglomerate effects. T-Systems does have some comparative advantage because of its size and knowledge of certain industry sectors, while Gedas complements with its rather specific knowledge in a few sectors. Following the merger, both companies will not have the scale of some of their competitors, being hardware and software vendors such as IBM, Hewlett Packard or Siemens that are able to cross-sell other IT products and services.
21. Competition in IT services is mainly on price and quality. As brand loyalty generally plays a minor role, contracts for renewal can quickly be awarded to other IT service vendors, in particular given that IT contracts typically have a duration of only a few years. Furthermore, the high degree of open technology standards applied in the IT industry facilitates switching supplier. These features of the IT services market and its sub-segments suggest a certain degree of market dynamics whereby market shares of IT companies can easily fluctuate.

V. CONCLUSION

22. 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
Neelie KROES

²⁰ For T-Systems: [10-20]%, for Gedas: [<5]%.

Member of the Commission