

***Case No COMP/M.4987 -  
IBM / COGNOS***

Only the English text is available and authentic.

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

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Article 6(1)(b) NON-OPPOSITION  
Date: 24/01/2008

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24-I-2008

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

**Subject: Case No. COMP/M.4987 – IBM / COGNOS  
Notification of 13 December 2007 pursuant to Article 4 of Council  
Regulation (EC) No. 139/2004<sup>1</sup>**

1. On 13 December 2007, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 ("the Merger Regulation") by which the undertaking International Business Machines Corporation ("IBM", USA) acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the undertaking Cognos Incorporated ("Cognos", Canada) by way of purchase of shares.
2. After examining the notification, the Commission found that the notified transaction fell within the scope of the Merger Regulation and that it did not raise serious doubts as to its compatibility with the common market and the EEA agreement.

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<sup>1</sup> OJ L 24, 29.1.2004 p. 1

## **I. THE PARTIES AND THE OPERATION**

3. IBM is active world-wide in the development, production and marketing of a wide variety of Information Technology (IT) solutions, comprising software, computer systems, storage devices, microelectronics and services.
4. Cognos is a Canadian company which develops and markets business analytics software. Together they are referred to as "the parties".
5. On 11 November 2007, IBM and Cognos entered into an Arrangement Agreement for the share sales of Cognos to IBM. Under the arrangement, the approval of shareholders representing two-thirds of the shares is required at a special shareholder meeting. After consummation, IBM will indirectly own 100% of Cognos' issued and outstanding shares. As a result of the Arrangement Agreement, IBM will acquire sole control over Cognos.

## **II. COMMUNITY DIMENSION**

6. The proposed transaction has a Community dimension pursuant to Article 1(2) of the Merger Regulation: the parties have a combined aggregate worldwide turnover in excess of € 5 billion<sup>2</sup>. Each party has a Community-wide turnover in excess of € 250 million<sup>3</sup>. The parties do not achieve more than two thirds of their Community-wide turnover in one and the same Member State. The notified transaction therefore has a Community dimension.

## **III. RELEVANT MARKETS**

7. According to the notifying parties, the proposed transaction relates to the provision of Enterprise Application Systems software (EAS). Within the software industry, a distinction is generally made between (i) infrastructure software, (ii) middleware, (iii) application software and office software, and (iv) browser and PC operating software. EAS is a subdivision of the (iii) application software, where a distinction is generally made between consumer and business software.
8. The notifying parties submit that the transaction involves business software. Industry analysts further segment EAS according to functionality with broadly similar purpose: ERP (Enterprise Resource Planning), CRM (Customer Relationship Management), SRM (Supplier Relationship Management), SCM (Supply Chain Management), PLM (Product Lifecycle Management and BA (Business Analytics).
9. Cognos achieves small sales in CRM, SCM and Workforce analytic software applications. They represent in each of these segments a market share of less than 1%. Since IBM is not active in these segments, those product markets will therefore not be part of the present assessment.

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<sup>2</sup> For IBM: EUR 72,754 million; Cognos: EUR 827 million; turnover relate to latest fiscal year

<sup>3</sup> For IBM: [...]; Cognos: [...]

10. Cognos is largely active in the BA segment. BA applications are tools and applications for tracking, analyzing and managing data in support of corporate decision making processes. The notifying parties submit that BA can be further subdivided between PM (Performance Management Tools and Applications) and Data Warehouse Platforms, in the latter only IBM is active.
11. PM can itself be divided between:
  - a. BI (Business Intelligence) - IDC, an independent consultant, also suggests that BI could be further sub-divided between Query/Reporting/Analysis ("QRA") and Advanced Analytics;
  - b. FPSM (Financial Performance Strategy Management applications);
  - c. CRM analytics;
  - d. SCM analytics;
  - e. Service Operations management applications;
  - f. Workforce analytics;
  - g. Analytic Spatial Information Management Tools.
12. The activities of the parties overlap in one segment of BI (Query/Reporting/Analysis).
13. Furthermore, the parties submit that IDC reports a limited overlap in the area of Unified Development Environment ("UDE") tools. Such tools are so-called integrated development environments used to develop software applications. However, Gartner, another industry analyst categorises exclusively such tools in its category of business intelligence platform software and has no own category like IDC.
14. Further analysis of the notification allows the conclusion that the precise product market definition can be left open for the purpose of the present case, since in all alternative market definitions considered the proposed operation does not raise serious competition concerns.

*Relevant geographic market*

15. The parties submit that the market for BA is worldwide but at least EEA-wide in scope, and that the geographic market definition remains valid even if a narrower product market would be retained. The notifying parties notably submit that EAS providers distribute essentially the same products to customers all over the world and transport costs, technical requirements and language-specific demand characteristics are no significant obstacles to cross-border trade<sup>4</sup>.
16. In any event, the geographic scope can be left open in the present case, since in all alternative market definitions the proposed operation does not raise serious competition concerns either considering that the geographical scope is EEA or worldwide.

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<sup>4</sup> Local customisation is typically made for language reasons or through customised add-ons to meet specific needs which consulting/services provide at local level.

## IV. COMPETITIVE ASSESSMENT

### *Horizontal assessment*

17. IBM and Cognos have overlapping activities in the BA area (EAS sub-segment), and in PM and QRA (BA sub-segments) in particular. IBM is also active in other EAS areas, namely Data Warehouse Platforms and UDE, whereas Cognos focuses on BA and has only few activities in UDE. It should be noted that the software market, in particular that for BA applications, is currently undergoing a significant consolidation with several large software providers acquiring BA software specialists<sup>5</sup>.
18. The market share reached by the combined entity at world level or in the EEA is below 25% under any alternative market definition, even under the narrowest one.
19. For the purpose of calculating market shares in the segments where the parties' activities overlap, they refer to IDC's reports for 2007, which are given in the table below.

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<sup>5</sup> Oracle purchased Hyperion in May 2007; SAP acquired Business Objects in October 2007.

Software Segment	Worldwide				Western Europe (for the software segment Business Analytics) <sup>6</sup> ; EMEA (for all other software segments) <sup>7</sup>		
	IBM	Cognos	Combined IBM/Cognos	Leading supplier	IBM	Cognos	Combined IBM/Cognos
<b>Business Analytics</b>	[0-10]%	[0-10]%	[10-20]%	Oracle/Hyperion: [10-20]%	[0-10]%	[0-10]%	[10-20]%
<b>PM</b>	[0-10]%	[0-10]%	[0-10]%	SAP/BO: [10-20]%	IDC has no data available		
<b>QRA</b>	[0-10]%	[10-20]%	[10-20]%	SAP/BO: [20-30]%	[0-10]%	[10-20]%	[10-20]%
<b>FPSM</b>	0	[0-10]%	[0-10]%	Oracle/Hyperion: 19.7%	0	[10-20]%	[10-20]%
<b>Data Warehouse Platform</b>	[20-30]%	0	[20-30]%	Oracle/Hyperion: [30-40]%	IDC has no data available		
<b>UDE</b>	[10-20]%	[0-10]%	[10-20]%	Microsoft: [20-30]%	[10-20]%	[0-10]%	[10-20]%

Source: Notifying parties; IDC

20. IBM/Cognos would reach on a world-wide basis a combined market share of less than 15% in each segment with horizontal overlap. As to vertical overlaps, neither Cognos' nor IBM's market share exceeds 25% in FPSM and Data Warehouse Platforms respectively. At EEA-level, the situation is similar expect for UDE where the combined market is [10-20]%. Since in all these segments strong competitors are present, such as Oracle/Hyperion, SAP/Business Objects, Microsoft, SAS, and many suppliers enjoy market shares that are above those of the parties' combined market shares, it can be concluded that

<sup>6</sup> IDC aggregates European sales as regards the software segment Business Analytics on the basis of Western Europe data including the following countries: Austria, Belgium/Luxembourg, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom. According the parties, the vast majority of the Business Analytics software sales within the EEA are made in these 16 countries, the market shares given for Western Europe is representative for the EEA. Furthermore, IDC reports that Western Europe accounts for 97% of total 2006 sales in Europe (Western Europe plus EEA countries in Central and Eastern Europe).

<sup>7</sup> For all other sub-divisions of the software segments, the data relate to EMEA (Europe, Middle East and Africa) as including Western Europe and the following countries: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Slovenia, Egypt, Israel, Saudi Arabia, Turkey, United Arab Emirates, and South Africa. The parties estimate that, in EMEA, little revenue is usually generated from the sale of software development tools outside the EEA, as very few customers of these products are located in non-EEA countries. Furthermore, IDC reports that the EEA accounts for more than 90% of all 2006 sales in the EMEA region. The parties submit that EEA data would not significantly differ from EMEA data.

post-merger there would remain sufficient alternative offers on any of the markets i.e. EAS, BA, PM, QRA or UDE software applications, and that no anti-competitive effect would result from the merger.

21. Alternatively, the parties also provided market share information collected by Gartner, which is given in the table below.

Software Segment	Worldwide				Europe <sup>8</sup>		
	IBM	Cognos	Combined IBM/Cognos	Leading supplier	IBM	Cognos	Combined IBM/Cognos
Business Intelligence Platform software	[0-10]%	[10-20]%	[10-20]%	Business Objects: [10-20]	[0-10]%	[10-20]%	[10-20]
Corporate Performance Management software	[0-10]%	[10-20]%	[10-20]%	Oracle/Hyperion: [20-30]%	[0-10]%	[10-20]%	[10-20]%

Source: Notifying parties; Gartner

22. On the basis of Gartner's data, the combined IBM/Cognos would have a small horizontal overlap and the figures show that combined IBM/Cognos' market share might be [10-20]% at world-wide level whereas at EEA-level it would be [10-20]%. Leading competing suppliers, such as SAP/Business Objects and SAS Institute, have higher market shares than IBM/Cognos and other strong competitors are active in this segment, e.g. Oracle/Hyperion and Microsoft.

23. As to UDE, IDC defines it as a segment and attributes Cognos' sales of the product Power House to it. The parties submit that Cognos ended direct sales of this product many years ago and only distribution partners continue to sell it. Moreover, Cognos is not aware of any sales of Power House for new applications developments. Furthermore, in the period from 2004 to 2006, Cognos' sales yearly declined significantly<sup>9</sup> while at the same time the total market expanded. IDC expects expansion of this segment in the foreseeable future. Hence, it can be concluded that Cognos' market share is likely to decline further in the foreseeable future. To further illustrate Cognos' argument, the parties provided the Gartner reports in which the Power House sales are

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<sup>8</sup> Gartner defines Europe as including Western, Central and Eastern Europe and includes the following 28 countries: Austria, Baltics (Estonia, Latvia, Lithuania), Belarus, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Ukraine, and United Kingdom. The parties estimate that, in Gartner's Europe report, little revenue is usually generated from the sale of software development tools outside the EEA, as very few customers of these products are located in non-EEA countries. They illustrate this fact by taking into account Cognos' fiscal year 2007 revenues from countries like the Russian Federation which represents [...] of Cognos' European sales or Switzerland with about [...], as the two countries with the by far largest sales. Accordingly, the parties submit that Gartner's Europe data would not significantly differ from EMEA data.

<sup>9</sup> From [...] in 2004 to [...] in 2006 on a worldwide basis and from [...] to [...] in 2006 for the EMEA.

attributed to the category of Business Intelligent Platform software. In such segment, Cognos' market share is [10-20]% and IBM's sales are negligible representing a market share of less than 1%.

24. It can therefore be concluded that the concentration would not give rise to serious doubts as to its compatibility with the common market on the basis of horizontal concerns.

*Non-horizontal assessment*

25. No vertical concern would arise from the proposed transaction as the IBM's and Cognos' individual market shares in Data Warehouse platforms and FPSM is below 25% respectively.
26. It can therefore be concluded that the concentration would not give rise to serious doubts as to its compatibility with the common market on the basis of non-horizontal concerns.

## **V. CONCLUSION**

27. 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  
Member of the Commission