
Anticipated acquisition by BT Group plc of Wire One Holdings Inc

ME/3628-08

The OFT's decision on reference under section 33(1) given on 21 May 2008.
Full text of decision published 3 June 2008.

Please note that square brackets indicate figures or text which have been deleted or replaced at the request of the parties for reasons of commercial confidentiality.

PARTIES

1. BT Group plc (BT) is an international provider of telecommunications solutions and IT services in the UK, Europe and around the world. BT's principal activities include networked IT services, telecommunications services, broadband and internet products and services.
2. Wire One Holdings Inc (Wire One) is a provider of audio, web and video teleconferencing solutions. It supplies a range of teleconferencing solutions including design and consultancy, the supply of video conferencing equipment and various other conferencing services. In 2007, Wire One generated revenues of approximately £[] million in the UK.

TRANSACTION

3. On 8 April 2008, BT United States L.L.C., a wholly-owned subsidiary of BT, agreed to acquire the entire issued share capital of Wire One. The parties intend to close the transaction by [].
4. BT notified the transaction to the OFT by way of a Merger Notice on 21 April 2008. The OFT's extended statutory deadline to announce its decision is 4 June 2008.

5. The transaction has also been notified to the competition authorities in Germany and Italy.
6. The parties submit that the rational for the transaction is to enhance BT's offering of video conferencing solutions in the USA. Wire One generated approximately [] per cent of its 2007 worldwide revenue in the USA.

JURISDICTION

7. As a result of this transaction BT and Wire One will cease to be distinct.
8. The parties overlap in the supply of conferencing services, namely audio conferencing, video conferencing and web conferencing services. The parties submit that their share of supply of audio conferencing services in the UK is above 25 per cent. Therefore, the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

MARKET DEFINITION

Product scope

9. The parties overlap in the provision of teleconferencing services. Teleconferencing services are comprised of audio conferencing, web conferencing and video conferencing. The parties submit that the narrowest relevant product market is that for the provision of teleconferencing solutions as a whole.
10. The OFT recently considered this segment in its analysis of the anticipated acquisition by West Corporation of Genesys S.A. (the West/Genesys transaction).¹ The OFT considered that it was appropriate to consider that transaction on the basis of the market for teleconferencing services as a whole, as well as the individual segments for audio, web and video conferencing. The OFT identified no competition concerns in relation to the West/Genesys transaction and, therefore, did not consider it was necessary to conclude on the precise scope of the product market in that case.

¹ Announced on 18 April 2008.

11. Wire One has minimal sales of audio and web conferencing in the EU. The most significant overlap between the parties' activities is for the provision of video conferencing. The video conferencing segment is made up of the provision of video conferencing equipment and video conferencing services. The supply of video conferencing equipment involves the provision of, among other things, data coders and decoders, video cameras, monitors, audio input/output equipment, as well as bridging equipment and network equipment. Video conferencing services are provided over an ISDN (Integrated Services Digital Network) telephone line or an IP (Internet Protocol) connection and include the provision of bridging (that is, connecting three or more sites or connecting ISDN and IP networks) services, as well as a number of other optional services depending on the customer's requirements. The parties argue that it is artificial to consider video conferencing services and video conferencing equipment separately, but rather that they should be viewed together as making up the video conferencing segment.
12. In line with the *West/Genesys* case, the OFT has decided to analyse the present transaction on the basis of the market for conferencing services in general and also on the basis of the individual market segments. In relation to video conferencing, the OFT has taken a cautious approach and has considered the provision of video conferencing equipment and video conferencing services separately. The OFT has not identified any competition concerns on even the narrowest basis and, therefore, has not felt it necessary to come to a conclusion on the precise product market definition.

Geographic market

13. The parties submit that the relevant geographic scope of the market may be wider than national. The parties provided data on both a UK national market basis and on an EU-wide basis.
14. Even on the narrowest geographic basis, the OFT received no evidence of competition concerns arising. Therefore, it does not consider that it is necessary to conclude on the precise scope of the geographic market.

HORIZONTAL ISSUES

Market shares

15. The parties overlap in the provision of audio, web and video conferencing. The OFT considered these segments in the West/Genesys transaction. The parties in that case used the report by Wainhouse Research LLC on the European Collaborations Services Market – 2007 (Wainhouse 2007) as their main data source.
16. In the present case, the parties argue that the Wainhouse 2007 data is flawed with regard to the video conferencing segment in the UK for a number of reasons, including: it only includes revenue generated by the supply of video conferencing services and excludes revenue generated by video conferencing equipment; it significantly underestimates the extent to which the video conferencing segment grew in 2007; and it underestimates the total size of the video conferencing services sub-segment in the UK by only taking into account the 15 principal competitors. The parties, therefore, presented their own market share data for each segment. The parties argue that, to the extent the Wainhouse 2007 data is used, it provides a worst case scenario. The OFT received no evidence to indicate that the parties' arguments as to the flawed nature of the Wainhouse 2007 data are unfounded. In any event, even on the basis of the worst case Wainhouse 2007 date, the OFT was able to conclude that the transaction did not raise any competition concerns.
17. In relation to the teleconferencing market as a whole, the parties submit that the merged entity will have a relatively low market share post-transaction (approximately [20-30] per cent in the UK and [5-15] per cent in the EU) and that the increment in market share as a result of the transaction will be less than [0-10] per cent on either a UK or an EU basis. The parties also submit that the teleconferencing sector as a whole is characterised by a significant number of strong players (for example, InterCall/Genesys, Premiere Global Solutions, Verizon, as well as France Telecom and Deutsche Telecom outside of the UK).
18. The parties submit that the increment in market share in relation to both audio and web conferencing which will result from the transaction is minimal. For audio conferencing, although the merged entity will have a

share of approximately [25-35] per cent at the UK level and [10-20] per cent at the EU level, the increment is well below [0-10] per cent. As regards the provision of web conferencing, the merged entity's share of the market is approximately [0-10] per cent at the UK level and approximately [0-10] per cent at the EU level and the transaction will result in an increment in market share of well below [0-10] per cent on both a UK and EU basis. The parties submit that there are many strong competitors active in the audio and web conferencing segments.

19. In relation to the provision of video conferencing, the parties submit that, at an EU level, they have a combined share of [0-10] per cent ([0-10] per cent for BT and [0-10] per cent for Wire One). This breaks down as [0-10] per cent ([0-10] per cent for BT and [0-10] per cent for Wire One) of the video conferencing equipment segment and [25-35] per cent ([10-20] per cent for BT and [5-15] per cent for Wire One) of the video conferencing services segment. At the UK level, the parties submit that they have a combined share of [20-30] per cent ([15-25] per cent for BT and [0-10] per cent for Wire One) of video conferencing in general, with [20-30] per cent ([15-25] per cent for BT and [0-10] per cent for Wire One) of video conferencing equipment and [20-30] per cent ([20-30] per cent for BT and [0-10] per cent for Wire One) of video conferencing services².
20. The parties submit that, although they both compete in the supply of video conferencing solutions, they are not close competitors. Tendering information supplied by the parties was consistent with this claim: a comparison of each company's tender history for 2007 (amounting to over 250 tenders) indicated that on only one occasion did the parties tender to the same customer (and even on that occasion it appears that the tender was not for the same piece of work). Responses from customers contacted by the OFT also suggest that the parties are not each other's closest competitors, with only one indicating that the parties had submitted tenders for the same contract.
21. The parties submit that the merged entity will continue to face competition from a number of other companies in the provision of video conferencing solutions. They identified a number of alternative suppliers. These alternative suppliers fall into four broad categories: telecommunications

² The market share figures in this paragraph for the provision by Wire One of video conferencing services exclude sales by Wire One of such services to [] for resale to end customers.

operators (including Global Crossing, AT&T Orange, Verizon, C&W and BT); conferencing services providers (including ACT, Premiere Global Solutions, InterCall/Genesys and Wire One); systems integrators (including IBM, EDS and HP); and video specialists (including AVM, York Telecom, CitiIS and Margolis). The parties submit that these firms all compete with one another in the supply of video solutions. On the basis of the evidence available, the OFT was unable to come to a conclusion on the extent to which all of these companies directly compete against the parties and each other. However, the OFT is satisfied that there will be enough suppliers of video conferencing equipment and services to ensure a sufficient level of competition is maintained in the market. Most customers contacted felt that the market was competitive and that they would continue to have sufficient choice of providers post-transaction.

22. The OFT also considered the cost and ease for customers of switching between competing suppliers. The parties submit that the costs of switching between suppliers of video conferencing (both equipment and services) are not significant. This view was supported by competitors and customers. The tendering data provided by BT also supports the parties' submission that switching is easy and that customers would be willing to switch in the event of an attempted price increase. The OFT received no evidence that any suppliers of video conferencing solutions are capacity constrained.
23. Some of the competitors expressed concerns about the transaction increasing BT's already strong position in the market. Some competitors also noted that the transaction would allow BT to be present at all levels of the video conferencing market and raised the concern that BT might attempt to bundle its offerings. BT submitted that it does not currently bundle its video conferencing offering with any other products. None of the customers contacted by the OFT raised these or any other concerns.

Barriers to entry and expansion

24. The parties submitted that the barriers to enter the teleconferencing market were not high. During its analysis of the West/Genesys transaction, the OFT considered the barriers to entry into the audio and web conferencing segments and, on the basis of the evidence available in that case, concluded that they were not particularly high. In that case, the OFT did not receive convincing evidence that the barriers to entry into the video

conferencing services segment were low or that new providers of video conferencing services had recently entered the market.

25. The parties in the present case submit that there has been recent entry into the video conferencing market. The evidence received by the OFT was inconclusive as to whether these new entrants were direct competitors with either BT or Wire One for the provision of video conferencing services.

Buyer power

26. Larger customers contacted by the OFT generally considered themselves to have some buyer power, whereas smaller customers did not.

VERTICAL ISSUES

27. As well as supplying ISDN bridging services to end customers, Wire One also supplies these to three resellers: []. [] of Wire One's UK video conferencing revenues are generated from the supply of ISDN bridging to []. The parties were unable to provide an estimate of the proportion of the total provision of wholesale ISDN bridging which is accounted for by Wire One. The parties did identify nine alternative suppliers of ISDN bridging services. Both [] confirmed that they would be able to source these services from other suppliers.
28. BT is vertically integrated in relation to the provision of audio, web and video conferencing in that it provides certain upstream inputs for each, for example, access lines for audio conferencing and ISDN lines or services connecting IP networks for video conferencing. The parties submit that this vertical integration does not give rise to any competition concerns either because the activities in the upstream market are regulated or, where they are not, because in those upstream markets BT faces strong competition. No third parties raised any concerns about possible foreclosure in this respect.
29. The OFT did not receive any evidence that the transaction raised any vertical competition concerns.

THIRD PARTY VIEWS

30. The OFT received responses from 11 customers, none of which raised any concerns about the transaction. Amongst eight competitor respondents, four expressed some concerns. These related to the transaction strengthening BT's already strong position in the market and allowing BT to be present at all levels of the video conferencing services market. These concerns have been addressed in the OFT's analysis.

ASSESSMENT

31. The parties overlap in the provision of teleconferencing solutions. Teleconferencing is made up of audio, web and video conferencing. The OFT recently examined this sector in its decision on the West/Genesys transaction. Consistent with that case, the OFT has considered the impact of this transaction on the market for teleconferencing as a whole, as well as the individual segments for audio, web and video conferencing. Taking a cautious approach, the OFT has also examined the impact of the transaction on the provision of video conferencing equipment and video conferencing services separately. The parties have provided data on the basis of a UK national market and a wider EU market. Given the lack of competition concerns on even the narrow UK basis, the OFT has not considered it necessary to come to a conclusion on the precise scope of the product or geographic market in this case.
32. In relation to the teleconferencing market as a whole and the audio and web conferencing segments, the increment in market share resulting from the transaction is minimal. The OFT received evidence that the merged entity will continue to face strong competition from a significant number of competitors. On the basis of the evidence received in this case, as well as its knowledge of the market from its analysis in the West/Genesys transaction, the OFT is able to conclude that the transaction does not raise any competition concerns in relation to teleconferencing in general or audio and web conferencing in particular.
33. In relation to the provision of video conferencing solutions, the OFT took a cautious approach in considering the provision of video conferencing services separately from the provision of video conferencing equipment. In any event, the OFT did not receive any evidence to indicate that the

transaction raised any competition concerns in relation to either video conferencing services or video conferencing equipment. The OFT saw robust evidence that the parties are not each other's closest competitors for the provision of video conferencing equipment and video conferencing services and was satisfied that customers would have a sufficient choice of providers post-transaction. Moreover, the OFT received evidence that customers could relatively easily and cheaply switch between competing suppliers in the event of an attempted price increase. No customers raised any concerns about the loss of choice of suppliers resulting from the transaction.

34. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

35. This merger will therefore not be referred to the Competition Commission under section 33(1) of the Act.