

DIEBOLD INC (DIEBOLD) AND WINCOR NIXDORF AG (WINCOR) MERGER INQUIRY

Summary of a call with Fujitsu during the phase 1 inquiry on 14 July 2016

Service market

1. Fujitsu [redacted]. It had tried to enter the market but this had proved difficult due to the dominance of Wincor and NCR, both of whom bundle [redacted]. It was difficult for customers to decouple these bundles.
2. Fujitsu was [redacted].¹

Hardware market

3. Fujitsu had [redacted]. This strategy had already been successful in Spain, Norway, Sweden, Denmark and Finland. It noted that NCR had had a more relaxed approach to partnering and bundling its products in those countries.
4. Regulatory barriers to entry existed for firms providing ATM hardware such as Bank of England accreditation. [redacted]. Fujitsu was also aware of the Disability Discrimination Act but assumed that its devices would be largely compliant as there were similar requirements in Spain. There was no documented rule on aperture size but the industry generally conformed to a broad standard.

Third party service providers

5. Third party service providers included IBM. Cash-carriers, such as G4S and Loomis, who provided first-line maintenance services. Cash-carrier companies held the necessary insurance for cash-in-transit services, which was important when dealing with banks with remote ATM estates. The banks with whom it was conducting ongoing negotiations did not have a significant remote ATM network and therefore the cash-carrier model would not provide similar cost savings.

¹ [redacted].

Second-line maintenance

6. Fujitsu said that cash-carrier companies might be able to turn to Wincor, NCR, or other original equipment manufacturers (OEMs) to fulfil necessary training requirements for second line maintenance. However those cash-carrier companies would know better how feasible such partnerships would be in practice.
7. Fujitsu said it was possible for OEMs to commercially prohibit second-line maintenance by bundling services, insisting on accreditations, and restricting support in terms of components or firmware. Customers should be able to choose who provides its second-line maintenance regardless of the manufacturer. However in practice it might be difficult to access spare ATM parts as the OEMs would be able to dictate prices for third party providers.
8. Some spare parts were easily replicated and so widely sourced, but others were more complicated (such as circuit boards) and replicating them might raise issues of intellectual property rights.
9. The availability of spare parts posed a genuine risk to its ongoing contract negotiations. If the contracts were to be in Fujitsu's interests OEM's would need to sell their spare parts to Fujitsu at a competitive price. Fujitsu said it believed this was achievable with large customers as OEMs would be more likely to agree to those terms if an offer came from a customer purchasing 5,000 or so ATMs.

Entry into UK ATM hardware market

10. [REDACTED]. This was dependent on there being no delays in the certification process and of continued support among customers for a new entrant.
11. Fujitsu said that it may be feasible to enter the hardware market [REDACTED]. Under this scenario it would be very difficult to secure the necessary investment approval to enter a market dominated by a few larger players. [REDACTED].
12. Fujitsu adopted the aforementioned strategy due to its experience with the self-checkout device market. This market was similar to that of ATM hardware in that Wincor and NCR were the two dominant players. Fujitsu had attempted to agree a deal to service self-checkout machines in two large supermarkets but had not secured the contracts. This was because customers preferred to

bundle their service and hardware from a single provider, and the OEMs were not willing to provide spare parts at a market rate to third party suppliers.²

13. Multi-vendor software solutions would not be an option, at least in the UK, although it did not have recent experience on this.

Other hardware manufacturers

14. Triton and Global Glory Solutions (Glory) were examples of other companies who supplied ATM hardware. Fujitsu had serviced a number of their devices, including in the UK where these companies did not have their own servicing arms. Triton and Glory's products were smaller and simpler than the main supplier's devices and were unlikely to be suitable for bank customers.

Current market conditions

15. Fujitsu's main business in the UK was in third party maintenance, which was an open and competitive market. Around 5% of its work related to its own equipment (eg servers) and the rest to others (including Wincor). Fujitsu's view was that ATMs could be considered a niche product, were expensive to maintain and it was difficult for new players to enter the market that was mainly driven by OEMs who typically maintained their own devices.
16. Fujitsu said ATM hardware was an expensive product to develop and manufacture, which was why so few companies were able to make the necessary investments. Fujitsu said it had an offering in Europe because they were already an established manufacturer in Japan – and even with this advantage the barriers to entry were still high in local markets.

² [REDACTED].