

DIEBOLD / WINCOR MERGER INQUIRY

Summary of a hearing with GRG International on 7 October 2016

Background

1. GRG International (GRGI) was a distributor of automated teller machines (ATMs) in the UK, USA, Canada, Australia and New Zealand.
2. GRG Banking (GRGB) was a Chinese ATM manufacturer. Although their products were distributed by GRGI the two companies were distinct. GRGB had the capacity to produce approximately 40,000 ATMs a year and were active in Europe either directly or through other distributors.
3. GRGB was a subsidiary of Guangzhou Radio Group (GRG) which was a state-owned military communication supplier.

GRGI in the UK

4. GRGI had been operational in the UK ATM market for the last six years. The market had a limited number of potential purchasers of ATMs and was mature. Customers consisted of banks and independent ATM deployers (IADs).
5. GRGI noted that to enter the UK market it required a significant amount of capital investment over a period of time to pay for premises, employees, parts and manufacturing. Due to the long sales cycle it was possible for new suppliers such as GRGI not to make a sale in the first few years of their existence in such an established market.
6. [✂].

The market for ATMs in the UK

7. GRGI noted three principle manufacturers of ATMS in the UK; NCR, Diebold and Wincor Nixdorf (Wincor). These manufacturers sold ATMs to banks. For IADs the main manufacturers were Triton, Nautilus Hyosung, GRGI, Wincor and NCR. Diebold were not a major player in the market for sales to IADs.
8. Hyosung were a Korean company who appear not to have recently sold many ATMS but had recently appointed its own UK distributor. [✂].

9. Triton had provided low cost ATMs to a large segment of the IAD market but those machines were now aging. Triton had not appeared to have sold many ATMs in recent times.
10. Upon entering the UK GRGI considered selling ATMs to both the banks and IADs. GRGI had approached banks informing them of their products and were invited to participate in tenders. In GRGI's view as a new entrant they did not have the same reputation as NCR or Diebold amongst the banks.
11. [✂].
12. GRGI noted that the market for ATMs in the UK was competitive. Banks were historically able to obtain competitive prices by exploiting the competition between NCR and Wincor. The introduction of a third supplier and its machines may have created further costs for a customer as they would need to integrate the new ATM into their network eg ensure any new machines were installed, operational, serviced and train members of staff in their use.
13. Price was a key factor in why customers chose a particular ATM assuming that all other factors were equal. Other key factors included the total cost of ownership, the maintenance support a customer received from the manufacturer, ongoing product development and reliability. GRGI noted that the price of ATMs had fallen over recent years.
14. As the potential for new sites is decreasing IADs are increasingly competing for the renewal of existing ATMs at popular sites. One source of new sites were through banks who were looking to reduce their costs and outsource or sell their non-branch ATMs. [✂]. Where a non-branch bank cash dispenser ATM needed to be replaced an IAD would normally replace it with an ATM of a similar specification.
15. IADs would typically use a manufacturer's own software on its machines as the ATMs may not be able to operate on any other type of software. Also this software was often less costly than multi-vendor software (the type typically used by banks) and it provided the basic ATM functionality that IADs required eg cash dispensing and balance inquires. [✂].

Customer requirements

16. GRGI noted that banks would deploy ATMs within their branches to meet their customer services requirements but also, in some cases, allow them to manage their costs by being able to rationalise the number of human teller positions within each branch.

17. For IADs their prime motivation in the deployment of ATMs was to increase revenues. Locations with a high footfall contributed toward a high number of transactions per ATM. Transactions provided revenues through interchange fees (a fee paid between banks for the acceptance of card based transactions) or by surcharges added to each transaction by certain ATMs.
18. There were differences in the type of machine that a bank or IAD would use. In merchant replenishment locations IADs would typically deploy machines, not of the size or security standard that a bank would use. In these locations it is likely that the ATM would add a surcharge to each transaction. ATMs used by a bank would normally have a greater functionality and a more developed set of transaction types supported by its software. By comparison an IAD would have a more simple set of transaction types within its ATM software and so it would have lower overheads to maintain its software.
19. The distinction between the requirements between different IADs was linked to location and footfall.

Maintenance and servicing

20. [✂].
21. [✂].
22. While third party maintenance providers were used to working with different ATM manufacturers some customers were nervous about using a third party provider who had not serviced their machine before. [✂].

Barriers to entry

23. GRGI noted that if an aperture size needed to be amended because a new ATM were to be installed there may be costs to be incurred such as planning permission, building costs and the cost of security (should an ATM need to be fitted overnight).
24. GRGI submitted that some suppliers designed their machines based on the size of the ATM that was previously deployed by a particular customer so that the prospective new customer could have an advantage in any future tender. [✂].
25. Redesigning an ATM had disadvantages including the cost of development, production, the time to get the correct certification [✂].

Impact of the merger

26. GRGI noted that the merged entity would provide a good challenge to NCR as it was felt the entity would be able to invest more in research, product development and would have a greater global presence. If banks felt there was not enough competition in the market due to the reduction of possible manufacturers from three to two they could potentially encourage a new entrant.
27. For IAD customers it was felt that the potential impact of the merger would be lesser impact than to banks as Diebold did not fully compete in that segment of the market and there were already a healthy number of possible manufacturers for IADs to choose from.