

Diebold Incorporated / Wincor Nixdorf AG

Banks and IADs

1. Introduction

- 1.1 Diebold, Inc. (“Diebold”) and Wincor Nixdorf AG (“Wincor Nixdorf”) (together, the “Parties”) both sell customer operated ATMs to banks and independent ATM deployers (“IADs”) in the UK. On 15 August 2016, Diebold acquired Wincor Nixdorf (the “Transaction”). As the Parties have explained to the CMA, they nowadays treat all such purchasers as a single class of customers. The Parties have summarised in this paper the key reasons why banks and IADs are not separate customer markets, and should be considered together as a single frame of reference in the CMA’s analysis of the Transaction.
- 1.2 The CMA’s Phase 1 Decision incorrectly considers that purchasers of customer-operated ATMs in the UK may be divided into banks and IADs due to differences in their product requirements, their procurement process and in their requirements for service¹, and that these differences should be taken into account in the CMA’s competitive assessment². To the extent that there historically have been relevant differences between banks and IADs, the Parties set out why these differences have almost entirely disappeared, such that both demand and supply-side considerations indicate that no relevant distinction should be made between these two customers. This means that those players who supply or could supply ATMs to any customer (regardless of whether they are a bank or IAD) should be considered to be a credible supplier to all customers in the UK. For example, Nautilus Hyosung should be viewed as a viable competitor across the customer waterfront as it already has ATMs installed with the biggest ATM deployer in the UK market, Cardtronics, and has the same capabilities as Diebold, Wincor Nixdorf and others to supply devices to all customers in the UK.
- 1.3 From a demand perspective, the demand drivers tend to be the same for banks and IADs. Thus, there are no significant differences in the type of customer-operated ATMs purchased by IADs and banks: nearly 90% of the ATMs installed by banks in 2015 were models which are also installed by IADs (and nearly half of the models installed by IADs are also installed by banks). Moreover, the procurement processes used by banks and IADs are the same (formal tenders, e-auctions), and both banks and IADs tend to requests proposals from a similarly large number of suppliers. Finally both banks and IADs demand tends to be very concentrated, and both types of customers enjoy significant countervailing buyer power.
- 1.4 From a supply perspective, none of the customer-operated ATM suppliers currently active in the UK have separate product offerings or dedicated sales and support teams for IADs and banks. It is therefore clear that any ATM supplier able to serve one customer segment is also able to serve the other.
- 1.5 Wider market dynamics form the backdrop to the ATM market in the UK and explain why it would be wholly inaccurate, for the purpose of assessing the Transaction, to separate IADs and banks into two separate groups. These market dynamics include: buyer power; the commoditisation of hardware; the increased prominence of multi-vendor software; and the

¹ CMA Phase I Decision, paragraph 58.

² CMA Phase I Decision, paragraph 61.

increasing number of service providers. Each of these points are discussed in more detail below.

- 1.6 The following sections discuss in more detail each of the relevant demand-side and supply-side factors pointing to the existence of homogenous condition of supply to both banks and IADs.

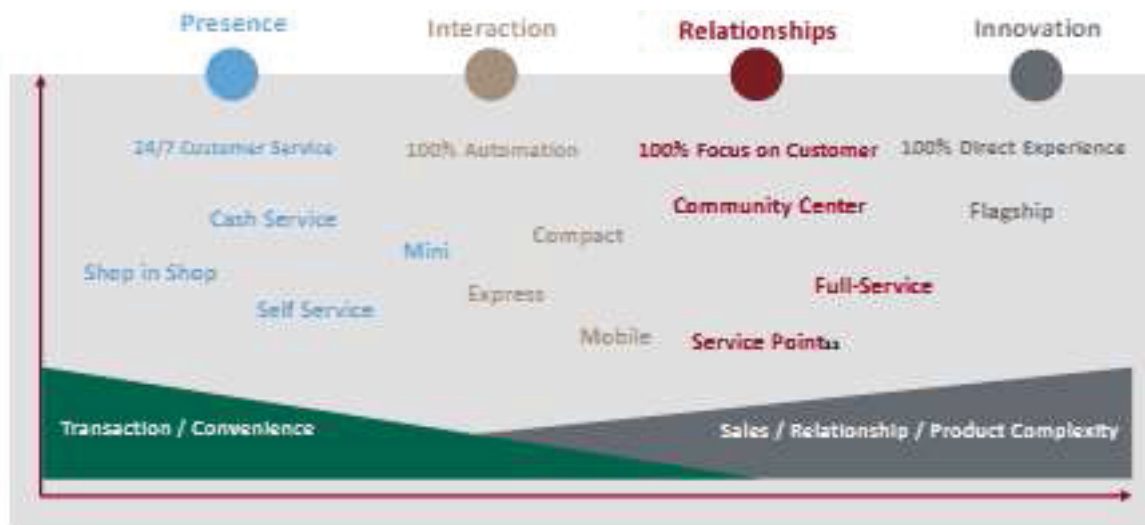
A. Demand- side Considerations

2. Banks and IADs have similar underlying considerations driving their purchase decisions

- 2.1 In its Phase 1 Decision, the CMA argues that “*IADs generally install ATMs in locations where the number of transactions per ATM is lower than average*”, and more generally that different considerations underly their purchase decisions.³
- 2.2 The Parties dispute the CMA’s characterisation of the purchase decisions for customers of customer-operated ATMs. In contrast to what the CMA argues, these decisions are not driven or differentiated by their identity as a bank or an IAD, but instead by considerations that are common to all ATM deployers: footfall and usage.
- 2.3 For example, if an ATM is in a secure retail location with relatively low usage, then the deployer will not need to spend unnecessary money on a stronger safe or for a particularly robust dispenser. The customer (regardless of whether it is a bank or an IAD) will therefore buy a machine that meets the needs of that location. Particular locations are no longer specific to banks or IADs and this has led to a clear convergence of customer needs between IADs and banks.
- 2.4 As shown in the below image below, there is a continuum of usage from the traditionally low footfall locations (e.g. corner shop) where simple presence is key, to the high footfall locations on high streets (e.g. supermarkets or bank branches) and to ‘flagship’ locations showing off innovation. Both banks and IADs have a large cluster of locations in the middle of this continuum (e.g. supermarkets and bank branches), especially since IADs took over off-branch bank estates, a trend that began approximately 12 years ago, and that recently started to extend even to on-branch bank estates.
- 2.5 Both IADs and banks retain at least some ATMs in lower footfall locations including shops and lower footfall street locations. Similarly, both have ATMs in flagship locations. For example, Barclays operates top-end Wincor Nixdorf and Diebold ATMs in its flagship branches. Similarly, Cardtronics (which owns the largest estate of customer-operated ATMs in the UK), operates the ATMs in MetroBank’s flagship branches.

³ CMA Phase I decision, paragraph 58.

Figure 1: Strategic variables determining ATM locations



2.6 It is therefore completely inaccurate to characterise, as the CMA’s assessment seems to implicitly suggest, IADs as deployers of “corner shop” ATMs and banks as deployers of “High Street” or top end ATMs.

3. Customers have similar charging structure for end customers

3.1 Moreover, the “pay-to-use” model once adopted by IADs, whereby the end customer pays a fee to the deployer for the use of the ATM, is now in decline. These “pay-to-use” ATMs were typical of the early stages of IAD growth in the UK, but have met with significant customer and political resistance. “Free-to-use” ATMs increase customer usage (and therefore LINK interchange fees) as customers will avoid pay-to-use ATMs wherever possible. As ATM coverage has increased, and mobile services have allowed customers to easily locate free-to-use ATMs in their vicinity, the pay-to-use model has become less profitable for IADs. In fact, free-to-use models accounted for 98% of all ATM withdrawals in 2014⁴. IADs have moved their business models toward generating income from LINK interchange fees rather than customer charges.

4. Banks and IADs have a similar mix of models in their estates and do not systematically require different specifications

4.1 The above factors mean, in turn, that all ATM deployers have a similar mix of models in their estates.

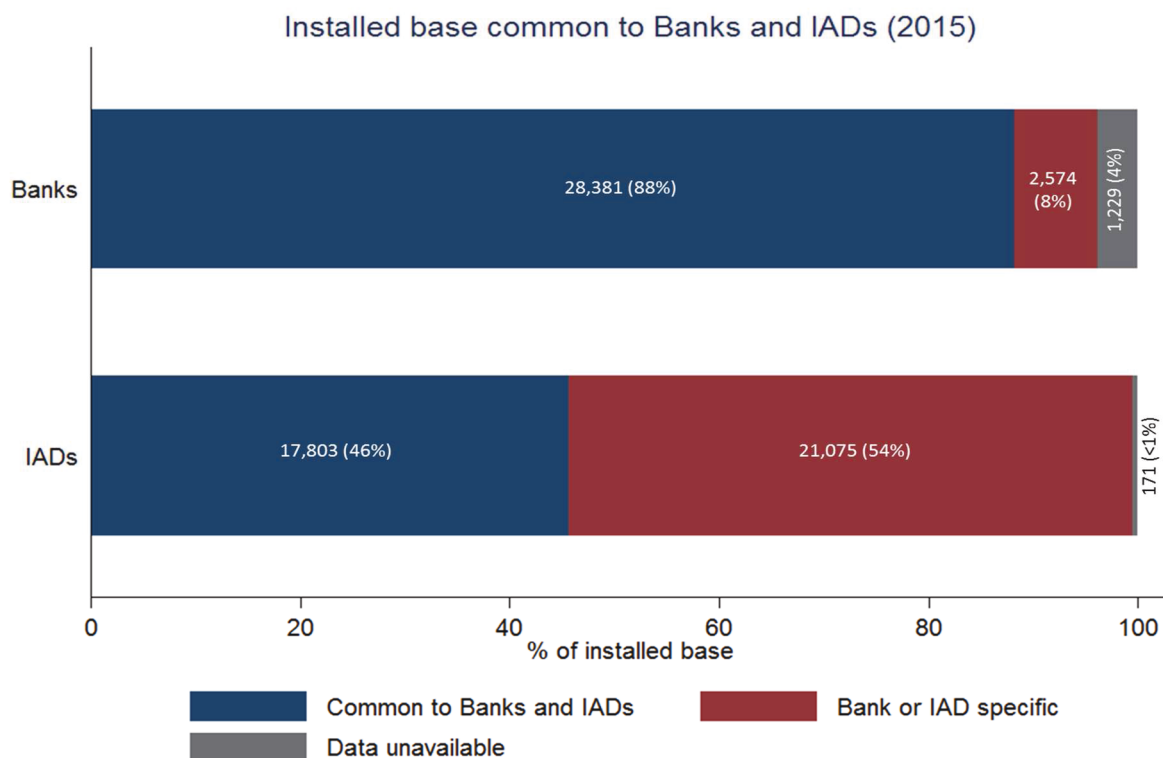
4.2 While the CMA argues that banks require a wider range of ATMs and functionality than IADs,⁵ it would be entirely misleading to characterise IADs as only operating “low end” customer-operated ATMs. As already explained above, the purchase decision of a customer is driven by factors such as the location and usage of a particular ATM, which means that there will naturally be a mix of models on both bank and IAD estates.

⁴ “How has cash usage evolved in recent decades? What might drive demand in the future?” by Tom Flsh and Roy Whymark, Quarterly Bulletin, 2015 Q3, page 225

⁵ CMA Phase I Decision, paragraph 58.

4.3 This can be seen in **Annex 1** which provides an analysis of the customer-operated ATM models that were used by banks and IADS. Furthermore, Figure 2 below, which provides an analysis of the 2015 UK installed base, by model, for banks and IADs, shows that 88% of the customer-operated ATMs deployed by banks and 46% of the customer-operated ATMs deployed by IADs are models which are common to banks and IADs. This implies that the models used by banks and IADs are, for the most part, the same.

Figure 2: Overlap in models in banks and IADs installed base



Source: Compass Lexecon’s analysis of 2015 RBR installed base data, by model.

5. Banks and IADs operate similarly sophisticated procurement processes

5.1 Both types of deployers procure ATMs through competitive bidding processes, with the consequence that the Parties are subject to the significant buyer power displayed by all customers.

5.2 Both banks and IADs have experienced procurement teams who adapt a strict structured process that enables them to solicit offers from a range of suppliers. [REDACTED]

5.3 Two recent announcements underline the substantial size and sophistication of IADs in the UK:

- (a) Euronet’s acquisition of YourCash (announced on 10 October 2016).⁶ This combines YourCash with a deployer operating over 25,000 ATMs in 20 European countries; and
- (b) Cardtronics’ acquisition of DC Payments (announced on 3 October 2016).⁷ This transaction creates a single customer with over 30% of the UK ATM installed base.

6. Banks and IADs are similarly open to a wide range of providers

- 6.1 The bidding data submitted to the CMA has shown that both banks and IADs are open to inviting a wide range of providers to their tenders.
- 6.2 For example, in recent years Nautilus Hyosung, which has ATMs installed with the biggest IAD customer in the UK market (Cardtronics) has been invited to multiple major UK tenders by banks and IADs, including Barclays, RBS and Paypoint. Similarly, Wincor Nixdorf has been invited to tenders from all types of deployers, including [REDACTED]. The Parties also believe that GRG are currently certifying with YourCash. As noted in Paragraph 5.3, YourCash was recently acquired by Euronet, a global ATM deployer. This shows that there is no differentiation in terms of which ATM providers will be invited to tender, depending on whether a deployer is an IAD or a bank. Together with the evidence, discussed above, that customers have similar mixes of models in their estates, this further corroborates that the conditions of competition in the supply of ATMs to banks are not materially different from the conditions of competition in the supply of ATMs to IADs.

7. Both banks and IADs have very significant buyer power

- 7.1 It would be wrong to assume that banks alone have the sort of scale that facilitates buyer power in this market. The majority of IADs now act globally, including Cardtronics, Euronet and YourCash. In fact, IADs now account for over 50% of total deployed ATMs in the UK. In particular, Cardtronics accounted for 23% of total installed base in the UK market in 2015.
- 7.2 The global size of IADs are also now increasing, for example Cardtronics recently announced its intention to acquire DC Payments which was noted as being “*a leading global ATM services provider with approximately 25,000 ATMs (inclusive of its First Data ATM portfolio acquisition) with primary operations in Australia, Canada and the United Kingdom.*”⁸
- 7.3 In addition, Euronet Worldwide, Inc. (a leading global electronic payments provider) also announced the completion of its acquisition of UK based-operator, YourCash Europe Limited. The acquisition includes approximately 5,000 ATMs across the UK, Netherlands, Belgium and Ireland⁹. The article announcing the transaction states that “*YourCash provides Euronet with additional experience and resources in key Western European markets...particularly in the U.K.*” Euronet already operates nearly 26,000 ATMs across 50 countries and provides services to approximately 185,000 ATMs around the world.
- 7.4 Hence in 2015 the five largest purchasers of customer operated ATMs in the UK accounted for 63% of total installed base, whilst the three largest purchasers accounted for 47% of total installed base. It should be noted that the five largest purchasers of ATMs include banks and IADs: Cardtronics; NoteMachine; RBS Group; DC Payments; and Lloyds Banking Group, in

⁶ <http://ir.euronetworldwide.com/releasedetail.cfm?ReleaseID=992833>

⁷ <http://ir.cardtronics.com/releasedetail.cfm?ReleaseID=991820>

⁸ <http://ir.cardtronics.com/releasedetail.cfm?releaseid=991820>

⁹ <https://www.finextra.com/pressarticle/66505/euronet-worldwide-buys-uk-atm-operator-yourcash>

order of size of ATM estate. The largest customer, Cardtronics, accounted for 23% of total UK demand for ATMs in 2015. As the Parties have already pointed out to the CMA in prior submissions, all purchasers of ATMs in the UK are large, sophisticated organisations with specialised purchasing departments. They uniformly use tender processes highly tailored to their own requirements to achieve the most competitive terms of purchase. In addition, demand for customer-operated ATMs in the UK is highly concentrated.

7.5 As a result, all customers, banks and IADs alike, have significant buyer power, which they can, and do, deploy through their sophisticated and competitive bidding processes. The Parties refer the CMA to Paragraphs 285 – 314 of the Merger Notice for further information.

8. Customers are similarly agnostic as to whether maintenance services are provided by the hardware provider or not

8.1 Whether a customer is an IAD or a bank is not determinative of the model they use for service provision. All customers are able to choose between a wide range of options for their services provision, regardless of their hardware supplier. Different customers make different choices with respect to service providers, but the difference is not specific to whether a customer is an IAD or bank but is rather driven by customer preferences. For example, both types of deployers can use independent third party maintenance service providers. RBS and Santander both use IBM, and YourCash uses Cennox. Others, for example, Barclays and Paypoint rely upon their hardware suppliers. As can be seen, therefore, different customers adopt different models for service provision, but this is not determined by whether the customer is an IAD or a bank.

8.2 Moreover, even if there were any differences in the way IADs and banks organise *service* (installation and repair), it is not at all clear why this would point to separate markets for *hardware*. As explained by the Parties, and accepted by the CMA, the two markets are completely separate, therefore the way customers procure service has no bearing on the appropriate hardware market segmentation.

B. Supply-side Considerations

9. Suppliers all seek to satisfy the demand of all customers

9.1 As already indicated, the demand for customer-operated ATMs is extremely concentrated with the five largest purchasers of customer operated ATMs in the UK accounting for 63% of total installed base in 2015. In addition, tenders are often timed when either hardware products have reached the end of its product life, or when contracts are coming to an end and customers are looking to switch providers.

9.2 Consequently, every single UK customer is very important to ATM providers. This means that all providers want to sell to all customers, regardless of whether they are a bank or an IAD. [REDACTED]

[REDACTED]

[REDACTED] The Parties also participate in the same tender processes for all types of deployers (see paragraph 5 above).

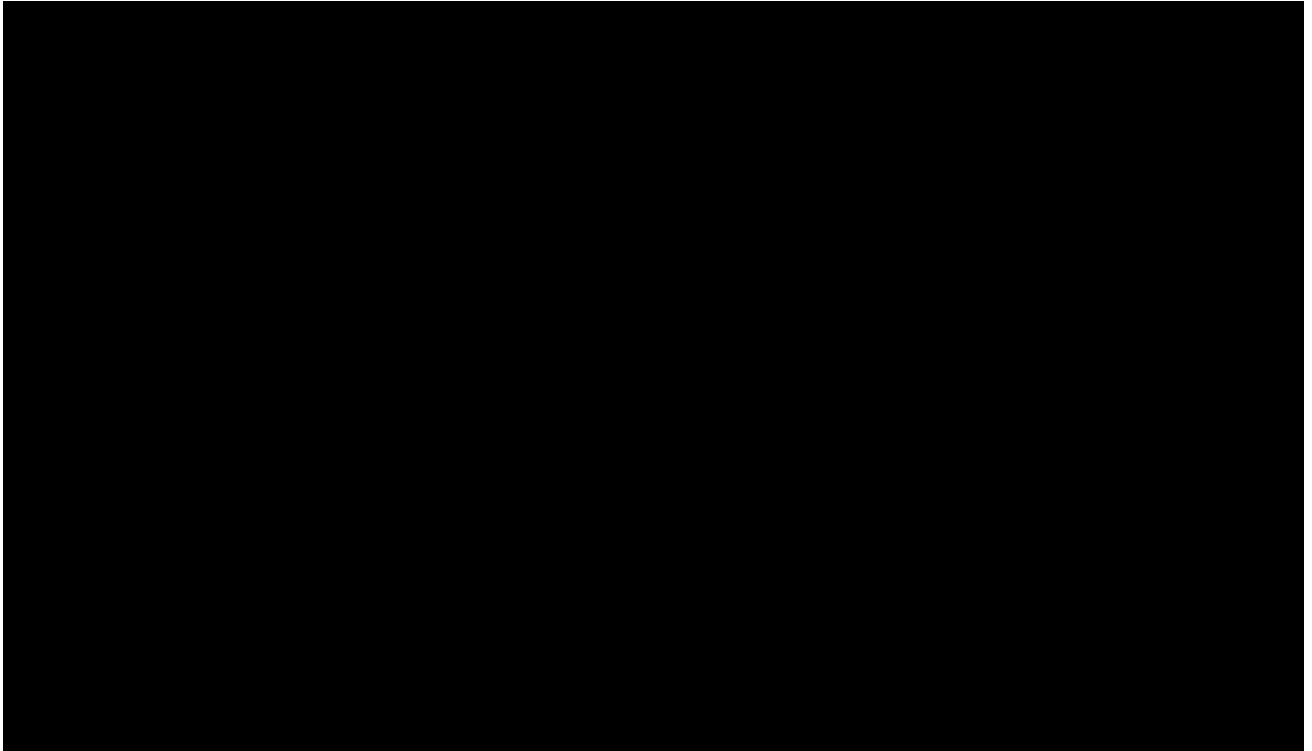
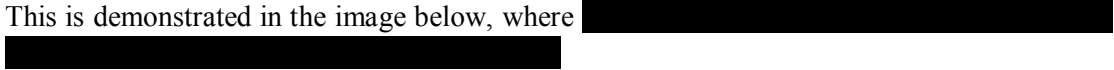
9.3



10. Suppliers have a full portfolio to meet the needs of all customers

10.1 We explained in sections 2 and 4 above that all customers have a range of ATM needs.

10.2 Suppliers have models required to satisfy all such needs, regardless of the customers' identity. This is demonstrated in the image below, where



10.3 Similarly, GRG has the models required to satisfy UK deployer demand for both banks and IADs.



10.4 As discussed in paragraph 4.3 above, the green highlighting in **Annex 1** shows that the majority of Wincor Nixdorf ATM models are used by both banks and IADs. This demonstrates that suppliers have adapted their portfolios to ensure they have a variety of models to meet all types of customer demand.

11. Conclusion

11.1 There is no credible basis for the CMA to consider the supply of ATMs to banks as a separate frame of reference from supply to IADs. As the Parties have set out in this submission, customers (regardless of whether they are a bank or IAD) are driven by the same factors when considering their purchase decision. As discussed, the location of bank and IAD ATMs are converging. Any notion that banks buy one type of ATM and IADs buy a different type of ATM is conceptually flawed. The similarities between bank and IAD estates and the shift towards “free-to-use” models have inevitably led to deployers having a similar mix of ATM models with the same specifications.

11.2 Both banks and IADs also hold significant buyer power and operate very similar sophisticated tendering processes to exploit that buyer power in full. Furthermore, the fact that different customers might have adopted different models for choosing a maintenance service provider has no bearing on the market segmentation at the hardware level, and, in any case, there is no evidence to suggest banks and IADs have different approaches in that regard.

11.3 Any notion that IADs are “less important” customers than banks in the market is patently incorrect. The IADs account for over 50% of total deployed ATMs in the UK, and are huge global players with significant recent mergers that have created even bigger players. In any event, due to the extremely concentrated market, all customers are equally important to ATM providers. This can be seen in [REDACTED], as well as in the fact that suppliers are keen to ensure they have full portfolios in order to meet the needs of all types of customers.

11.4 The Parties conclude that the CMA's Phase 1 characterisation that purchasers of customer-operated ATMs in the UK should be divided into banks and IADs factually is flawed. This therefore implies, that any ATM providers that supply or indeed could supply ATMs to any type of customer should be considered to be a credible supplier to all customers in the UK further underlying the lack of competitive concerns arising from the Transaction.