

Completed acquisition by Pulsant Bidco Limited of Onyx Information Technology Holdings Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6631/16

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 9 December 2016. Full text of the decision published on 18 January 2017.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

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SUMMARY

1. On 7 June 2016, Pulsant Bidco Limited (**Pulsant**) acquired Onyx Information Technology Holdings Limited (**Onyx**) (the **Merger**). Pulsant and Onyx are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that the Parties' enterprises have ceased to be distinct and that the

share of supply test is met. The four-month period for a decision, as extended, has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

3. The Parties overlap in the supply of colocation services in and around the Edinburgh area. A colocation centre is a data centre facility in which a business can rent space for servers and other computing hardware and receive related services typically including cooling, power, network connectivity and physical security.
4. Customers indicated that they would be willing to travel up to between 70 km and 100 km to reach a colocation centre. The Parties provided data showing that their 80% catchment areas are much larger. The CMA, on a cautious basis, assessed the impact of the Merger on the supply of colocation services within each of 70 km and 100 km around Edinburgh city centre, using this as the central point as this is where the Parties' customer density is highest.
5. The CMA calculated shares of supply on the basis of spare capacity and total capacity, as these metrics reflect the Parties' and their competitors' current competitive strength, as well as their future ability to compete. The CMA calculated capacity on the basis of racks and power, each being important complementary indicators of a supplier's competitive strength.
6. The CMA found that the Parties' combined shares of supply within 70 km around Edinburgh city centre are as follows:
 - (a) [X] % (with an increment of [X] %), based on total racks;
 - (b) [X] % (with an increment of [X] %), based on total power;
 - (c) [X] % (with an increment of [X] %), based on spare racks; and
 - (d) [X] % (with an increment of [X] %), based on spare power.
7. The CMA found that the Parties' combined shares of supply within 100 km around Edinburgh city centre are as follows:
 - (a) [X] % (with an increment of [X] %), based on total racks;
 - (b) [X] % (with an increment of [X] %), based on total power;
 - (c) [X] % (with an increment of [X] %), based on spare racks; and
 - (d) [X] % (with an increment of [X] %), based on spare power.
8. The CMA found that, whilst Pulsant and Onyx have competed with each other for the provision of colocation services for some customers (see paragraphs

74-75), they are not particularly close competitors and there are several alternative suppliers, some of which are ranked at least as high as Pulsant and Onyx by most customers. These alternative suppliers are DataVita Limited (**DataVita**), Sungard Availability Services (**Sungard**), Atos Limited (**Atos**) and SSE Telecoms Ltd (**SSE**), within 70 km of Edinburgh city centre. Further alternative suppliers within 100 km of Edinburgh city centre are Brightsolid Online Innovation Limited (**Brightsolid**), British Telecommunications plc (**BT**) and iomart Group plc (**iomart**).

9. The CMA also believes that potential entry by Queensway Park Data Centre (**Queensway**) imposes a competitive constraint on the merged entity, particularly with respect to larger customers.
10. The CMA believes that these constraints, taken together, are sufficient to ensure that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects.
11. The Merger will therefore **not be referred** under section 22(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

12. Pulsant is a provider of IT services, such as cloud computing, colocation, managed hosting and managed network services. Pre-Merger, Pulsant operated a network of ten data centres across six sites in the UK, including three in Scotland (one site at Newbridge (**Pulsant Newbridge**) and two sites at South Gyle (**Pulsant South Gyle**)). The turnover of Pulsant in 2015 was approximately £44 million, almost all of which was generated in the UK.
13. Onyx offers cloud services, managed services, network services and colocation services. Onyx serves customers throughout the UK, but is primarily based in the North of England and Scotland. Pre-Merger, Onyx operated five data centres, one of which is located in Edinburgh (**Onyx Medway**).¹ The turnover of Onyx in 2015 was approximately £28 million, all of which was generated in the UK.

¹ Onyx also operates a data centre in Glasgow, which is within 100 km from Edinburgh city centre (Onyx Glasgow).

Transaction

14. On 18 May 2016 a share and purchase agreement was entered into between Pulsant and the shareholders of Onyx.

Jurisdiction

15. As a result of the Merger, the enterprises of Pulsant and Onyx have ceased to be distinct.
16. The Parties' combined share of supply exceeds 25% on a number of metrics, including total racks, total power and spare power, within 50 km (in line with previous precedent, see paragraph 48) as well as within 70 km and 100 km around Edinburgh city centre (see Table 1 and Table 2).² The CMA therefore believes that the share of supply test in section 23 of the Act is met.
17. The Merger completed on 7 June 2016 and was first made public on 9 June 2016. The four-month deadline for a decision under section 24 of the Act is 15 January 2017, following extension under section 25(2) of the Act.
18. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
19. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 9 November 2016 and the statutory 40 working day deadline for a decision is therefore 6 January 2017. The CMA opened an own-initiative investigation into the Merger by sending an Enquiry Letter to Pulsant on 15 July 2016.³

Counterfactual

20. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For completed mergers the CMA generally adopts the pre-merger conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is

² Within a 50 km radius around Edinburgh city centre the Parties' combined share of supply is: (i) [X]% (with an increment of [X]%), based on total racks; (ii) [X]% (with an increment of [X]%), based on total power; and (iii) [X]% (with an increment of [X]%), based on spare power.

³ See *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, paragraphs 6.9-6.19 and 6.59-60.

a realistic prospect of a counterfactual that is more competitive than these conditions.⁴

21. In this case, there is no evidence supporting a different counterfactual, and Pulsant has not put forward arguments in this respect. Therefore, the CMA believes the pre-Merger conditions of competition to be the relevant counterfactual.

Frame of reference

22. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.⁵
23. The Parties' activities overlap in the supply of colocation services.
24. The Parties also overlap in the supply of cloud, managed hosting and managed network services.⁶ However, these overlaps are not assessed further in this decision, as no competition concerns arise on any plausible basis, given the very low combined shares of supply and the lack of any concerns raised by third parties.

Product scope

25. Pulsant submitted that a colocation centre is a data centre facility in which a business can rent space for servers and other computing hardware. Typically, a provider of colocation services will provide raised floor space in a data centre, rack space, cooling, power, network connectivity and physical security, while the customer provides their servers and other computer hardware.
26. Pulsant submitted that space in a colocation facility is typically leased by the rack or floor space (often as a dedicated cage or room). A rack is a vertical cabinet that houses multiple servers and data storage devices. Most customers do not want to mix their IT equipment within a rack with equipment

⁴ *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

⁵ *Merger Assessment Guidelines*, paragraph 5.2.2.

⁶ Pulsant submitted that it provides managed network services to enable its other services (cloud, managed hosting, colocation) to be delivered and does not offer this service as a stand-alone service.

of other customers, so each rack is normally allocated to one customer. Some customers do not wish to buy colocation by racks, as their requirements might change and they might need more flexibility, so instead they might buy a specified amount of floor space into which they fit the racks they need as and when required. Pulsant submitted that when a customer purchases a dedicated area or cage, the pricing is determined by the total number of racks that space could accommodate, the power required and/or any other services provided, rather than just a price per unit of area.

27. In *Equinix/Telecity*,⁷ the European Commission (the **Commission**) considered colocation services to be a distinct relevant product frame of reference which comprised colocation services provided by third party data centres (ie not including in-house data centres). The Commission did not segment the product frame of reference into services provided by carrier-neutral and carrier-owned data centres,⁸ wholesale and retail operators,⁹ or by type of customer.
28. Pulsant submitted that the main alternatives to colocation services are:
- (a) managed hosting services;
 - (b) cloud services;¹⁰ and
 - (c) self-supply.

Each of these is discussed separately below.

Managed hosting services

29. Pulsant submitted that the key difference between colocation and managed hosting services is that, for colocation, the customer procures, owns and is responsible for managing the IT equipment (which is then placed in the supplier's premises); whereas for managed hosting services, the supplier typically procures, owns and manages the IT equipment and is responsible for delivering an agreed outcome. The benefits of managed hosting services are that a customer will typically be able to avoid the variable costs associated with the ownership, management and maintenance of IT equipment (eg out of hours support, security updates, management of operating systems, etc);

⁷ Case M.7678, *Equinix/Telecity*, 13 November 2015.

⁸ Carrier-neutral data centres are operated independently of any network provider/carrier, whereas carrier-owned data centres are owned and operated by a network provider, eg Orange or BT.

⁹ Wholesale operators offer large amounts of space on long term contracts, whereas retail operators offer smaller amounts of space on medium- and short-term contracts.

¹⁰ Pulsant submitted that customers can, and often do, purchase a package of IT services, which involves a combination of managed hosting and cloud services.

however, for some customers managed hosting may also be less flexible and offer less control.

30. Pulsant sought to provide examples of customers switching between colocation and managed hosting services in order to demonstrate the substitutability between these two types of service. However, the CMA found the reasons for each customer switching were not clear (eg whether it was because of an increase in price or changes in the customer's requirements).
31. None of the customers that responded to the CMA indicated that managed hosting services are an effective substitute to colocation services.
32. On the basis of this evidence, and on a cautious basis, the CMA did not include managed hosting services in the same frame of reference as colocation services.

Cloud services

33. Pulsant submitted that cloud services provide customers with a flexible network solution, in which the scope of the service can be configured to the customer's specific requirements. Pulsant added that cloud services can often be cheaper than colocation services. Pulsant said that the overall market is moving away from traditional IT solutions, such as colocation, to cloud services.
34. Pulsant sought to provide examples of customers switching between colocation and cloud services in order to demonstrate substitutability between these two types of service. However, similar to managed hosting services above, it was not clear what had triggered each example of switching.
35. Some customers that responded to the CMA indicated that cloud services could be an alternative to colocation services, although they also expressed concerns in relation to the speed and security offered by cloud services. For example, one customer said that 'cloud services are an effective option but security is a major consideration...with colocation the equipment is dedicated/yours, whereas cloud services often share equipment among multiple companies'. Another customer said that 'cloud storage providers are available but lack the security and speed of a colocation service'. Another customer said that its 'clients are concerned around security of their data and like to know where servers/services are physically hosted'.
36. On the basis of this evidence, and on a cautious basis, the CMA did not include cloud services in the same frame of reference as colocation services.

Self-supply

37. In *Equinix/Telecity*, the notifying party said that customers seeking data centre facilities can either build and operate their own in-house data centre or (wholly or partially) outsource their data centre requirements. It noted that many large technology companies still build and maintain their own in-house data centre but, due to the cost and complexity of owning and operating a data centre, and the wide availability of outsourcing options, many companies choose to outsource entirely, or complement their in-house data centre needs, by purchasing data centre services from third-party providers. It said that, for most customers, these options were not substitutable.
38. In *Equinix/Telecity*, the Commission found that the majority of customers also considered that third party data centre services were not substitutable in terms of product characteristics and price with self-supply. The Commission therefore did not include in-house data centres in its assessment.
39. Pulsant submitted that the main advantages of self-supply are likely to be (i) convenience, given that the equipment is situated on-site, and (ii) cost, since businesses (especially smaller businesses) can typically run the service below the minimum cost that a data centre would charge. However, Pulsant noted that, with self-supply, the customer will not benefit from the generally resilient power supply, cooling systems and network services offered by an outsourced service provider. Pulsant submitted that, out of [redacted] customers that left Pulsant in the last three years, [redacted] (ie [redacted]%) chose to self-supply.
40. Third party responses suggested that it would not be economical to switch to self-supply in response to a price rise in the supply of colocation services. For example, one customer submitted that ‘self-supplied data centres are an effective substitute but the costs involved in building a facility to the same standard as a co-location provider are prohibitive for most organisations’. Another customer said that it switched from self-supply to Pulsant as, for security reasons, its data centre needed to be at least 10 km away from its office. Another customer submitted that it could self-supply but it would not be able to provide backup electrical supply to keep its technology online in case of power failure. Another customer said that self-supply is not commercially viable because the environmental and security requirements to which a data centre has to adhere would make building and managing a data centre prohibitively costly.
41. On the basis of this evidence, and on a cautious basis, the CMA did not include self-supply in the same frame of reference as colocation services. However, the CMA has recognised the potential of self-supply to exert a

competitive constraint on the merged entity with respect to some (in particular large) customers in its competitive assessment.

Customer segmentation

42. The CMA also considered whether it is appropriate to identify different product frames of reference for different customer groups, either on the basis of size, type and/or different requirements.
43. In the *Equinix/Telecity* decision, the Commission acknowledged that different types of customer have different needs which may affect the specific characteristics of the data centre they choose, but it did not segment customers because there was no clear way of identifying different groups. The Commission found that the majority of competitors believed that data centres offering services to one category of customers can easily modify their services to offer services to another category of customers. The Commission also noted that data centres usually serve multiple customer segments, even if the proportion of the different groups can vary by data centre.
44. Pulsant submitted that the frame of reference should not be segmented according to customer type as the distinctions between certain customer types (eg between information technology (IT) and information and communications technology (ICT)) are not always clear, and they would not be recognised as distinct customer groups by other providers.
45. The evidence collected by the CMA from customers and competitors indicates that, while there are differences in the requirements of different customers,¹¹ there is no clear pattern by which to identify different groups. One third party submitted that 'colocation data centre providers do not differentiate their services to customers based on specific customer needs. All customers' needs could be similarly served by all colocation data centre providers in Scotland and Northern England provided that they have spare capacity'.
46. On the basis of this evidence, the CMA did not identify separate frames of reference by customer size, type or requirements.

Conclusion on product scope

47. For the reasons set out above, and on a cautious basis, the CMA assessed the impact of the Merger on the supply of colocation services.

¹¹ For example, customers operating in legal and finance industries seem to be located somewhat closer to their data centres than customers operating in other industries, while ICT customers tend to be located significantly further away.

Geographic scope

48. In the *Equinix/Telecity* decision, which related to an assessment of colocation services provided in Amsterdam, Frankfurt, London and Paris, the Commission found that customers that sourced data centre services within a metropolitan area generally did so within a radius of usually no more than 50 km from the city centre and metropolitan areas did not appear to be substitutable from the demand side.

Parties' views

49. Pulsant submitted that, in the present case, the relevant geographic frame of reference should be wider than 50 km radius and should encompass the whole of Scotland, for the following reasons:
- (a) First, geographic proximity to a data centre is only relevant to some customers, such as those with a large number of users utilising particularly data-heavy and time-critical applications.¹² Most businesses do not have that need and can source colocation services across a wide geographic area.¹³
 - (b) Secondly, once a customer's IT equipment is installed in its data centre(s) of choice, it is often not necessary for the customer to visit the data centre as most routine tasks can be carried out and many upgrades can be implemented by the data centre provider, or remotely by the customer. Customers can also use third party maintenance organisations or contractors to carry out work at data centres, making proximity to the colocation centre even less important for the customer.
 - (c) Thirdly, customers do not visit colocation centres often. Pulsant estimated that, on average, across the Pulsant South Gyle, Pulsant Newbridge and Onyx Medway sites, [X]% of customers did not visit their data centre during the 12-month period between August 2015 and August 2016. A further [X]% visited their data centre five or fewer times during this period. With regard to the remaining [X]% of customers, the number of

¹² For example, major financial services institutions and trading platforms, which deal with real-time information and for which service latency is important. For the trading software utilised in the London Stock Exchange, for example, it is recommended that users' systems are located no more than 50 km away, which limits any latency problems to one millisecond. In respect of these customers, service performance is of paramount importance since any delay in the provision of the service can be critical to the needs of the customers' business.

¹³ Pulsant submitted that latency was an issue in the *Equinix/Telecity* case which focused on London and Paris, which both have a significant base of financial services customers.

visits per customer varied considerably between six and 50 visits in this period.¹⁴

(d) Fourthly, the Parties' customers are widely geographically dispersed, located throughout Scotland and further afield. Pulsant submitted that the 80% customer catchment area of Pulsant South Gyle is [redacted] km, while the 80% customer catchment area of Pulsant Newbridge is [redacted] km. The 80% customer catchment area of Onyx Medway is [redacted] km.

50. Pulsant submitted that [redacted],¹⁵ [redacted] the price list is typically only the starting point of a negotiation.¹⁶ [redacted], the end prices charged to customers can vary. [redacted] local variation in prices can occur for a number of reasons [redacted].

Third party views

51. The CMA assessed to what extent the distance between a customer's office and a colocation data centre is an important factor in a customer's choice of colocation service provider.

52. The majority of customers that responded to the CMA indicated that distance is important, in particular, because of the need to be able to visit the data centre when necessary. For example, one customer submitted that a data centre 'needs to be close enough to technical team's homes and office (Edinburgh area).' Another customer submitted that 'it is important that any site can be reached with a minimum of delay to allow for fault resolution'.

53. The CMA asked customers to indicate the maximum driving distance within which they would consider choosing a colocation centre. The majority of customers that responded to the CMA indicated that they would be willing to travel up to one hour to their data centre, which corresponds to approximately 70 km driving distance. Many customers indicated that they would be willing to travel up to 100 km.¹⁷

Conclusion on geographic scope

54. On the basis of this evidence, the CMA believes that competition for colocation services has local characteristics and that it is appropriate to assess the Merger within a local, rather than a national, geographic frame of

¹⁴ Pulsant noted that these figures include visits made by third party maintenance organisations/contractors commissioned to carry out work, without the need for the customer itself to attend the data centre.

¹⁵ All Onyx's data centres are located in the north of the UK, ie Medway, Newcastle, Yorkshire and Glasgow.

¹⁶ [redacted] discounts tend to be negotiated on a case-by-case basis [redacted].

¹⁷ Some customers indicated that they would be willing to travel further than 100 km. However, the CMA notes that, even if most customers indicated 70-100 km as the maximum distance they would travel, it does not mean that they would not have a preference for a colocation centre which was closer.

reference. On a cautious basis, the CMA has assessed the impact of the Merger within 70 km and 100 km¹⁸ around Edinburgh city centre.¹⁹ However, it has not been necessary for the CMA to reach a conclusion in relation to the precise geographic frame of reference, since, as set out below, no competition concerns arise on any plausible basis.

Conclusion on frame of reference

55. For the reasons set out above, the CMA has assessed the impact of the Merger on the supply of colocation services within 70 km and 100 km around Edinburgh city centre.

Competitive assessment

Horizontal unilateral effects

56. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without needing to coordinate with its rivals.²⁰ Horizontal unilateral effects are more likely when the merger parties are close competitors.
57. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to unilateral horizontal effects in the supply of colocation services within 70 km and 100 km around Edinburgh city centre.
58. In order to assess the likelihood of the Merger resulting in unilateral effects, the CMA assessed:
- (a) shares of supply;
 - (b) the closeness of competition between the Parties; and
 - (c) competitive constraints from alternative suppliers.

¹⁸ Hereafter in this decision, distance is expressed in terms of driving distance, unless stated otherwise.

¹⁹ The Edinburgh city centre has been chosen as the starting point as the Parties' customer density is the highest in the city of Edinburgh. In this case, centering the geographic frame of reference on the Parties' colocation data centres would make no difference to the competitive assessment.

²⁰ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

Shares of supply

59. Different metrics can be used for calculating shares of supply of colocation services, including:
 - (a) rack count;
 - (b) raised floor space;²¹ and
 - (c) power.
60. Each of these three metrics can be further considered in terms of (i) occupied capacity; (ii) spare capacity; and (iii) total capacity.
61. In the *Equinix/Telecity* decision, the Commission noted that, while spare space and spare power were very important indicators that should be taken into account when assessing the market power of providers and their ability to compete, revenue market shares appeared the most appropriate starting point.²² The Commission noted that, when a data centre is full and has no capacity to expand, it may not have the ability to compete for new customers.
62. Pulsant submitted that spare capacity is the most informative indicator of the competitive significance of a provider of colocation services, given that there is typically little customer churn.²³
63. The CMA notes that shares of supply by occupied capacity are likely to reflect a supplier's cumulative historical performance relative to competitors over a period of time, while shares of supply by spare capacity will tend to reflect a supplier's ability to compete for new customers.²⁴ The CMA believes that shares of supply by total capacity will reflect the overall market position of a colocation service provider against its competitors.
64. In light of the above, the CMA calculated shares of supply on the basis of spare capacity and total capacity, as these metrics indicate the Parties' and their competitors' current ability to compete and their future ability to compete

²¹ Pulsant and some competitors told the CMA that they could not identify spare capacity in terms of raised floor space. The CMA therefore did not assess shares of supply on this basis.

²² Some competitors did not provide their revenues to the CMA. The CMA therefore did not assess shares of supply on this basis.

²³ The CMA found that customer churn in colocation services is low. 17 out of 24 customers that responded to the CMA had never changed their colocation services provider. The CMA found that costs of switching depend on the size of the customer. For instance, for a business which only has 1 rack and could break the use of its IT systems, the move would be fairly easy; however, for a large business, the costs would be substantial.

²⁴ The CMA notes that a higher proportion of spare capacity would indicate a greater incentive to compete for business in order to contribute to the fixed costs of supporting this capacity.

in the longer term. The CMA calculated capacity on the basis of racks and power, each being a constraint on a provider's ability to compete.²⁵

65. The CMA's estimates of the Parties' and their competitors' shares of supply of colocation services within each of 70 km and 100 km around Edinburgh city centre are presented in Tables 1 and 2 below.

Table 1 Shares of supply of colocation service providers* within 70 km around Edinburgh city centre

Competitor	Spare capacity		Total capacity	
	Racks (%)	Power (%)	Racks (%)	Power (%)
Pulsant Newbridge	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Pulsant South Gyle	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Onyx Medway	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Parties combined	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
DataVita	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Sungard	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Atos	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
SSE	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	100	100	100	100

Source: CMA analysis

* The CMA notes that the Scottish Government and South Lanarkshire DC are also providing colocation services within 70 km around Edinburgh city centre. However, the Scottish Government submitted that it only offers colocation facilities to public sector customers on a full cost recovery basis (ie not for profit), so the CMA excluded it from the competitor set. South Lanarkshire DC submitted that it provides colocation exclusively for public sector bodies, and the main user of its data centre is itself. This would suggest it might be an alternative for some public sector customers, which constitute about [REDACTED]% of the Parties' combined customers.

²⁵ Pulsant submitted that there is no linear relationship between racks and power, as customers do not purchase space and power in fixed proportions. Some racks will require more power, and these racks will require more cooling which will also consume more power. Pulsant explained that a supplier must have both spare racks (or the space to build spare racks) and spare power in order to service the requirements of new customers.

Table 2 Shares of supply of colocation service providers within 100 km around Edinburgh city centre

Competitor	Spare capacity		Total capacity	
	Racks (%)	Power (%)	Racks (%)	Power (%)
Pulsant Newbridge	[X]	[X]	[X]	[X]
Pulsant South Gyle	[X]	[X]	[X]	[X]
Onyx Medway	[X]	[X]	[X]	[X]
Onyx Glasgow	[X]	[X]	[X]	[X]
Parties combined	[X]	[X]	[X]	[X]
DataVita	[X]	[X]	[X]	[X]
Sungard	[X]	[X]	[X]	[X]
Atos	[X]	[X]	[X]	[X]
SSE	[X]	[X]	[X]	[X]
Brightsolid	[X]	[X]	[X]	[X]
BT	[X]	[X]	[X]	[X]
iomart	[X]	[X]	[X]	[X]
Total	100	100	100	100

Source: CMA analysis

68. Table 1 shows that the Parties' combined shares of supply within 70 km around Edinburgh city centre is:

- (a) [X]% (with an increment of [X]%), based on total racks;
- (b) [X]% (with an increment of [X]%), based on total power;
- (c) [X]% (with an increment of [X]%), based on spare racks; and
- (d) [X]% (with an increment of [X]%), based on spare power.

69. Table 2 shows that the Parties' combined shares of supply within 100 km around Edinburgh city centre is:

- (a) [X]% (with an increment of [X]%), based on total racks;
- (b) [X]% (with an increment of [X]%), based on total power;
- (c) [X]% (with an increment of [X]%), based on spare racks; and
- (d) [X]% (with an increment of [X]%), based on spare power.

70. The CMA believes that the Parties combined shares of supply on the basis of spare and total capacity are low to moderate (with a negligible to moderate increment), depending on the metric. In particular, the shares show that both Pulsant and Onyx are capacity-constrained relative to their competitors, in particular in relation to racks. This indicates that the Parties did not impose a significant competitive constraint on each other pre-Merger, in particular with respect to larger customers.

Closeness of competition between the Parties

71. Pulsant submitted that Onyx Medway data centre can only support a maximum of [X] racks ([X] of which are currently occupied) and [X]. Pulsant submitted that, for this reason, the Merger has not materially altered the competitive choices available to new colocation customers in the Edinburgh area.
72. The CMA has examined the closeness of competition between the Parties. In particular, it has considered:
- (a) recent performance in tenders; and
 - (b) third party views on closeness of competition.

Recent performance in tenders

73. Pulsant submitted that customers often procure colocation services through informal discussions with potential suppliers, rather than through formal tenders. This was confirmed by third parties as less than a third of customers that responded to the CMA said that they had purchased colocation services through a tender in the past three years.²⁶ However, some third parties indicated that some customers buy colocation services through tenders, at least for their initial contract.
74. The bidding data provided by customers showed only one recent tender in which Pulsant and Onyx had bid against each other. The bidding data also indicated that there is a broad range of other providers active in the bidding market for colocation services.
75. Pulsant submitted that Onyx does not keep any records in relation to those tenders in which it participates. However, Pulsant provided information in relation to eight tenders in which it had participated in the past three years. In only two of these eight tenders had Pulsant and Onyx both participated (both in 2014).²⁷
76. The CMA believes that this evidence indicates that the Parties are not each other's closest competitors for colocation services in the Edinburgh area secured through tenders.

²⁶ This includes one request for proposals and one pre-tender framework agreement.

²⁷ However, the CMA therefore did not put much weight on the tender data provided by Pulsant, as it submitted that no systematic tender data is kept and those were the only tenders that its management could recall.

Third party views of closeness of competition

77. Most customers which responded to the CMA said that the Parties have a similar offering and, for this reason, they ranked them as medium or strong competitors. However, some customers said that the strength of competition between the Parties is low.²⁸
78. The CMA asked customers to rank the providers of colocation services in the Edinburgh area according to the likelihood that they would switch to that provider for their existing or future needs. All of Pulsant's customers ranked at least one other provider as high as Onyx; and all of Onyx's customers ranked at least one other provider as high as Pulsant.
79. Table 3 summarises the number of times the Parties' customers ranked particular competitors higher or as high as the Parties.²⁹

Table 3 Customer ranking of the Parties' competitors

<i>Competitor</i>	<i>Number of customers who ranked it higher than Pulsant and Onyx</i>	<i>Number of customers who ranked it as high as Pulsant and Onyx</i>	<i>Total number of customers who ranked it at least as high as Pulsant and Onyx</i>	<i>Proportion of customers who ranked it at least as high as Pulsant and Onyx</i>
DataVita	[REDACTED]	[REDACTED]	[REDACTED]	79%
Brightsolid	[REDACTED]	[REDACTED]	[REDACTED]	58%
Sungard	[REDACTED]	[REDACTED]	[REDACTED]	79%
Atos	[REDACTED]	[REDACTED]	[REDACTED]	79%
SSE	[REDACTED]	[REDACTED]	[REDACTED]	63%

Source: Third party submissions

80. Table 3 shows that a number of competitors are seen as being alternatives to the Parties by most customers.

Conclusion on the closeness of competition between the Parties

81. On the basis of this evidence, the CMA believes that, whilst Pulsant and Onyx compete with each other for the provision of colocation services to some customers (see paragraphs 74-75), they are not particularly close competitors or particularly important alternatives, given the availability of other competitors which are ranked as high as Pulsant and Onyx by customers.

Competitive constraints from alternative suppliers

82. Unilateral effects are more likely where customers have little choice of alternative supplier. The CMA has assessed whether there are alternative

²⁸ These customers said either that Onyx has a poorer reputation than Pulsant, or that Onyx focusses on full managed hosting, cloud or other managed services, whereas Pulsant focusses more on colocation.

²⁹ This analysis is based on the [REDACTED] customers which provided the CMA with rankings of the Parties and their competitors, including [REDACTED] customers that are common to both Parties.

suppliers of colocation services which would provide a competitive constraint on the merged entity.

83. The customer ranking data above (see paragraphs 78-80), as well as the tender data (see paragraphs 74-75), indicate that other competitors impose a competitive constraint on the Parties in the supply of colocation services.
84. The CMA identified the following competitors to the Parties within 70 km around Edinburgh city centre: DataVita, Sungard, Atos and SSE. Within 100 km around Edinburgh city centre, the CMA identified three additional competitors: Brightsolid, BT and iomart. Pulsant submitted that Queensway is also a new significant competitor in the process of entering the market.
85. The CMA considered each of these competitors, as set out below.

DataVita

86. DataVita is a recent entrant into the provision of colocation services in Scotland having launched its services in October 2016. As a new entrant, DataVita has significant spare capacity, which it has the incentive to fill in order to cover its fixed costs. DataVita appears confident of gaining customers as the CMA has seen evidence that DataVita is planning to expand its capacity further by approximately 10-25% in 2017. DataVita submitted to the CMA that it competes with Pulsant and Onyx for the provision of colocation services and it identified the Parties as its close competitors.
87. Customers that responded to the CMA generally provided positive feedback about DataVita. Several customers submitted that DataVita has built a very good quality facility, developed a strong reputation and offers good services. One customer said that 'the competition landscape has shifted dramatically recently with the introduction of Fortis [DataVita], which is arguably an even better facility than Pulsant'. As shown above, 79% of the Parties' customers ranked DataVita at least as high as Pulsant and Onyx when considering possible providers of colocation services (see Table 3).
88. On the basis of this evidence, the CMA believes that DataVita imposes, and will continue to impose, a significant competitive constraint on the merged entity. [X], this constraint will apply for both small and large customers.

Sungard

89. Sungard operates a modern data centre in Livingston.
90. One competitor submitted that Sungard and the Parties 'appear to offer very similar if not identical commercial offerings'. Another said that 'Sungard and

Onyx both provide Workplace recovery services'. Another said that Sungard and the Parties 'will compete head to head as they have done for years in the colocation and managed service arena.'

91. As shown above, 79% of the Parties' customers ranked Sungard at least as high as Pulsant and Onyx when considering possible providers of colocation services (see Table 3).
92. However, the CMA notes that [REDACTED]. In light of [REDACTED], the CMA believes that Sungard will not impose a significant competitive constraint on the merged entity with respect to large customers, at least in the short term. Nevertheless, on the basis of the evidence set out above, the CMA believes that Sungard imposes, and will continue to impose, a competitive constraint on the merged entity with respect to small customers [REDACTED].

Atos

93. Pulsant submitted that Atos Appleton Parkway data centre was constructed in 2012 and is the main colocation site for Atos in Scotland.
94. The CMA found that, although Atos is active in the supply of colocation services, it primarily provides outsourced managed IT services. Atos has had only two colocation customers in the past 10 years. Atos also submitted that 'we do not consider ourselves as a primary supplier of colocation services and as such do not compete for colocation business.' Nevertheless, one competitor submitted that Atos and the Parties will compete vigorously.
95. As shown above, 79% of the Parties' customers ranked Atos at least as high as Pulsant and Onyx when considering possible providers of colocation services (see Table 3).
96. However, the CMA notes that Atos [REDACTED]. In light of [REDACTED], the CMA believes that Atos will not impose a significant competitive constraint on the merged entity with respect to large customers, at least in the short term. Nevertheless, on the basis of the evidence set out above, the CMA believes that Atos may impose, and may continue to impose, some competitive constraint on the merged entity with respect to small customers [REDACTED].

SSE

97. SSE submitted: 'we do not compete against the tiered data centres as we provide low capacity, low cost rack space to small SME partners.' However, as shown above, 63% of the Parties' customers ranked SSE at least as high as Pulsant and Onyx when considering possible providers of colocation services (see Table 3).

98. The CMA notes that [REDACTED]. In light of [REDACTED], the CMA believes that SSE will not impose a significant competitive constraint on the merged entity with respect to large customers, at least in the short term. Nevertheless, on the basis of the evidence set out above, the CMA believes that SSE may impose, and may continue to impose, some competitive constraint on the merged entity with respect to small customers [REDACTED].

Brightsolid

99. Brightsolid operates a data centre in Dundee.³⁰
100. Brightsolid submitted that it competes strongly with Pulsant, as both companies provide similar services.³¹
101. One competitor submitted that Brightsolid and the Parties ‘appear to offer very similar if not identical commercial offerings’. Another said that Brightsolid and the Parties will compete vigorously. DataVita, which the CMA has identified as a close competitor of the Parties (see paragraph 88), listed Brightsolid as one of its closest competitors for the provision of colocation services.
102. As shown above, more than half of the Parties’ customers ranked Brightsolid at least as high as Pulsant and Onyx when considering possible providers of colocation services (see Table 3).
103. The CMA notes that [REDACTED]. In light of [REDACTED], the CMA believes that Brightsolid will not impose a significant competitive constraint on the merged entity with respect to large customers, at least in the short term. Nevertheless, the CMA believes that Brightsolid imposes, and will continue to impose, a significant competitive constraint on the merged entity with respect to small customers [REDACTED].

BT and iomart

104. BT and iomart both operate colocation data centres in Glasgow. DataVita, which the CMA has identified as a close competitor of the Parties (see paragraph 88), listed iomart as one of its closest competitors for the provision of colocation services.
105. The CMA notes that [REDACTED]. In light of [REDACTED], the CMA believes that neither BT nor iomart will impose a significant competitive constraint on the merged entity with respect to large customers, at least in the short term. Nevertheless,

³⁰ Brightsolid also operates a data centre in Aberdeen, however this data centre is not within 100 km of Edinburgh city centre and is therefore outside of the geographic frame of reference.

³¹ Brightsolid submitted that there are few similarities between it and Onyx.

although it has received limited evidence in relation to these providers, the CMA notes that these providers might impose some competitive constraint on the merged entity with respect to small customers [REDACTED].

Queensway

106. Pulsant submitted that Queensway is a significant and substantial new entrant, located within 70 km of Edinburgh city centre. Pulsant explained that, while the scale of this data centre is not yet finalised, Queensway is already offering colocation services to prospective customers.
107. Queensway data centre is [REDACTED].
108. The CMA found that, [REDACTED].
109. [REDACTED].
110. The CMA found that Queensway is known to customers and the majority of customers submitted that they would consider using Queensway for their colocation service needs.
111. The CMA notes that it is not clear when Queensway will begin supplying colocation services and [REDACTED]. For this reason, the CMA believes that Queensway is not currently imposing a material competitive constraint on the merged entity in relation to small customers, although it does appear to be imposing some competitive constraint on the merged entity with respect to large customers, [REDACTED]. Once opened, the CMA expects that Queensway will compete effectively for all customers.

Conclusion on competitive constraints from alternative suppliers

112. The CMA found that the alternative suppliers of colocation services which will continue to impose a competitive constraint on the merged entity within 70 km around Edinburgh city centre are DataVita, Sungard, Atos and SSE. In particular, DataVita has significant spare capacity. In addition, Brightsolid, BT and iomart will continue to constrain the merged entity within 100 km around Edinburgh city centre. The CMA also notes the anticipated entry of Queensway.
113. The CMA believes that DataVita and Queensway will impose the main competitive constraint on the merged entity with respect to large customers,³²

³² The CMA notes that some large customers might also have the option of self-supply.

while the remaining competitors will impose a competitive constraint on the merged entity with respect to small customers.

Conclusion on horizontal unilateral effects

114. As set out above, the CMA believes that the Parties are not particularly close competitors, or particularly important alternatives, and that the remaining competitors, taken together, will continue to impose a sufficient competitive constraint on the merged entity with respect to both large and small customers.
115. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of colocation services within 70 km and 100 km around Edinburgh city centre.

Third party views

116. The CMA contacted customers and competitors of the Parties. Many customers expressed positive views with respect to the impact of the Merger on their business. A few customers raised concerns regarding the reduction of competition. No other third parties raised concerns about the Merger.
117. Third party comments have been taken into account where appropriate in the competitive assessment above.

Decision

118. Consequently, the CMA does not believe that it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC within a market or markets in the UK.
119. The Merger will therefore **not be referred** under section 22(1) of the Act.

Andrew Wright
Director of Mergers
Competition and Markets Authority
9 December 2016