

Anticipated acquisition by BT Group plc of IP Trade SA

Decision on relevant merger situation and substantial lessening of competition

ME/6658/16

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 25 April 2017. Full text of the decision published on 11 May 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.

SUMMARY

1. BT Group plc (**BT**), through its subsidiary BT (Netherlands) Holding BV, has agreed to acquire IP Trade SA (**IP Trade**) (the **Merger**). BT and IP Trade 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 will cease to be distinct as a result of the Merger, that the share of supply test is met and that accordingly arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the supply of turret systems (and associated maintenance and support) used in voice trading applications to customers based in the UK. In its assessment, the CMA has considered it appropriate to include within the product frame of reference all types of turret systems used in voice trading applications (including hardware, hybrid and cloud-based solutions), on the basis that some customers considered all types of turret system to be substitutable. This further represents the most conservative approach to identifying potential competition concerns, as the Parties would in each case not overlap if the CMA were to establish frames of reference delineated by the types of turret system described by the Parties. In terms of

geographic frame of reference, while the CMA found that there are reasons to believe that the supply of turret systems has global characteristics, on a cautious basis the CMA has assessed the potential impact of the Merger in the UK. Accordingly, the CMA has assessed whether the Merger may give rise to horizontal concerns in the supply of turret systems (and associated maintenance support) used in voice trading applications in the UK.

4. In the UK, customers purchase turret systems either directly from suppliers or indirectly through third party distributors and resellers. While BT supplies its turret systems directly to end-customers, IP Trade supplies many of its turret systems through third parties. These third parties may themselves compete with BT both in the supply of turret systems and the supply of certain installation and integration services associated with turret systems. Consequently, in addition to assessing potential horizontal concerns arising from the Merger, the CMA has investigated whether the merged entity could harm competition through foreclosure, by ceasing to supply, or supplying on less favourable terms, its turret systems to such third parties.
5. With regard to the horizontal concern, the CMA found that the merged entity will have only a modest combined share of supply (of between 20% and 30%) with the Merger resulting in only a small increment to BT's share of supply (less than 5%). The CMA also found that:
 - (a) For larger customers, IP Trade does not have the scale or geographic reach to be considered a viable alternative to BT; and
 - (b) For many smaller customers, whilst there is some evidence of competition between the Parties, they are not close competitors, and a number of alternative suppliers will remain post-Merger.
6. With regard to the vertical concern, the CMA found that the Merger would not enable BT to foreclose third parties from supplying turret systems, given that a number of alternative turret system suppliers would remain post-Merger which third parties could switch to.
7. In light of the above, the CMA believes that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) in the supply of turret systems (and associated maintenance and support) used in voice trading applications in the UK.
8. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

9. BT is a provider of communications products and services to consumers, businesses and the public sector. BT also sells wholesale products and services to communications providers in the UK and around the world. Globally, BT supplies managed networked IT services to businesses and the public sector. The turnover of BT in the financial year 2015/2016 was around £18.9 billion worldwide and around £14.8 billion in the UK.
10. IP Trade is a provider of turret systems for voice trading and command and control applications. It is based in Liège, Belgium. The turnover of IP Trade in the financial year 2015 was around [REDACTED] worldwide and around [REDACTED] in the UK.¹

Transaction

11. BT, through its subsidiary BT (Netherlands) Holding BV, intends to acquire IP Trade for an enterprise value of [REDACTED] million (subject to price adjustments in accordance with a Share Purchase Agreement signed on 19 January 2017).

Jurisdiction

12. As a result of the Merger, the enterprises of BT and IP Trade will cease to be distinct.
13. The Parties overlap in the supply of turret systems for use in voice trading applications in the UK, with a combined share of supply in excess of 25% by number of turret positions. The CMA therefore believes that the share of supply test in section 23 of the Act is met.
14. The CMA 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.
15. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 7 March 2017 and the statutory 40 working day deadline for a decision is therefore 4 May 2017.

¹ Finalised 2016 turnover figures for IP Trade were not available at the time of the Parties' submission of the Merger Notice.

Counterfactual

16. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing 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 a realistic prospect of a counterfactual that is more competitive than these conditions.²
17. In this case, there is no evidence supporting a different counterfactual, and the Parties and third parties have not put forward arguments in this respect. Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual.

Frame of reference

18. 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.³
19. Turret systems are specialised desktop phone devices with a switch to control communications to and between desktop devices. They combine phone and intercom capability with multiple speakers. Turret systems are used in two end-use applications: voice trading (where the Parties overlap) and command and control (where the Parties do not overlap).⁴
20. Turret systems are often integrated as part of a customer's other internal and external communications systems, such as instant messaging, chat, desktop

² [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).

³ [Merger Assessment Guidelines](#), paragraph 5.2.2.

⁴ The latter involves the use of turret systems by command centres of organisation dealing with public safety, utilities, transportation, government and industry, where turret systems are used to coordinate time sensitive, event-driven response in, for example, air traffic and emergency response operations. In the UK, IP Trade supplies turret systems for both voice trading and command and control applications whilst BT only supplies turret systems for use in voice trading applications.

sharing and audio and video conferencing (sometimes collectively referred to as the customer's 'unified communications' systems).

21. Turret systems used for voice trading are incorporated into a wider installed solution encompassing voice recording, private wires ('always-on' point-to-point lines that connect traders to their most frequent business contacts), and, if required, a separate intercom facility. Together, this is known as a 'Trader Voice Solution'.

Product scope

22. The CMA found that the Parties overlap in the supply of turret systems used in voice trading applications. The CMA investigated whether it was appropriate to further delineate this frame of reference with regard to:
 - (a) the different types of turret systems currently supplied to customers;
 - (b) the different types of customer that purchase these systems;
 - (c) the supply of maintenance and support services to existing customers of turret systems; and
 - (d) the supply of installation and integration services.
23. Each of these possible delineations is discussed further below.

Possible delineation by type of turret system

24. The Parties submitted that there are three different types of turret system currently supplied to customers:
 - (a) **Hardware turret systems:** a physical desktop turret that connects to a hardware switch (currently supplied by BT and IPC);
 - (b) **Hybrid turret systems:** a desktop or 'soft' (ie PC application) turret that connects to a software switch (which runs on servers located at the customer's site or in off-site data centres) and can be integrated into the customer's existing communications systems (currently supplied by Enepath, IPC, IP Trade, Speakerbus, Wesley Clover and Unify).⁵

⁵ The CMA understand that Wesley Clover has minimal presence in the UK. As the CMA has assessed the effect of the Merger within the UK (see paragraphs 37 to 41 below), this supplier is not taken into account in the competitive assessment.

- (c) **Cloud turret systems:** a turret which runs on a desktop device and connects to other communication systems via the cloud (currently supplied by Cloud9 and Greenkey).
25. The Parties submitted that all types of turret system should be treated as being part of the same product frame of reference.
26. The CMA's investigation confirmed the differences in functionality between the three types of turret systems used in voice trading applications, as described by the Parties.⁶ The CMA also found that customer preferences for these different types of turret systems varied. Whilst some customer considered all three types of turret systems to be substitutable, other customers believed that cloud turret systems did not currently offer the full functionality of a hardware or hybrid turret systems nor were as proven as these devices.⁷
27. The CMA notes that if it were to establish frames of reference delineated by the type of turret system described by the Parties, the Parties would in each case not overlap and thus such an approach would not be the most conservative as regards identifying potential competition concerns.
28. On a cautious basis, the CMA has therefore included all types of turret systems used for voice trading applications within the same frame of reference, but has taken into account differences in the respective functionality (and substitutability from the customer's perspective) of different turret systems in the competitive assessment.

Possible delineation by customer type

29. The Parties submitted that a distinction could be made between the size and geographic scope of customers and their turret system preferences. However, the Parties considered that no delineation between different types of customers was necessary for the purposes of defining the product frame of reference.
30. The CMA's investigation found that customer preferences for different types of turret system (and/or for different turret system suppliers), could vary

⁶ The CMA's investigation found that customers (and competitors) were not typically familiar with the terms 'hardware', 'hybrid' and 'cloud', suggesting that these terms are not standard within the industry. However, the CMA's investigation found that third parties were familiar with the key differences in functionality that differentiated these three types of turret system, as described by the Parties in the preceding paragraphs. For ease of reference, the CMA has therefore adopted the terms 'hardware', 'hybrid' and 'cloud' in this decision.

⁷ The CMA's investigation also found that, for a small number of customers, and typically for a subset of users within the customer, a Private Branch Exchange (**PBX**, a private telephone network) may also be considered a substitute to turret systems. However, as PBX systems were not considered substitutes by the majority of the customers, the CMA has not considered widening the product frame of reference to include these products.

according to the size and nature of the customer's business. In particular, the CMA's investigation was consistent with the Parties' submission, insofar as customers that required a large number of turret system positions stated that only the largest market players (namely IPC and BT) had the scale necessary to meet their requirements. In contrast, the CMA found that smaller customers were more likely to identify both Parties as potential suppliers (alongside a number of other alternatives).

31. However, the CMA found that there was no clear threshold (in terms of number of positions required) at which customer preferences changed. Therefore, adopting a cautious approach (on the basis that the degree of overlap between the Parties is less significant for certain customer segments), the CMA did not further segment the frame of reference by customer size, but took into account the Parties' relative competitiveness vis a vis the size of the customer in the competitive assessment.

Possible delineation between the supply of turret systems and their maintenance and support

32. The Parties submitted that maintenance and support of turret systems are typically provided by the supplier of the turret system (whether the manufacturer or reseller) and this was confirmed by customer responses to the CMA's investigation. The CMA therefore did not establish a separate frame of reference for maintenance and support of turret systems.

Separate frame of reference for the installation and integration of turret systems

33. The CMA understands that, in some cases, a customer will require the services of a third party to install the turret system and to integrate the turret system with the other elements of a Trader Voice Solution and the customer's wider unified communications systems.
34. The Parties submitted that, where the customer has purchased a BT turret system, BT (or its contracted distributor or service agent) will provide the installation of the turret system and BT may also, occasionally, oversee the installation of the entire Trader Voice Solution.⁸ By contrast, the Parties submitted that IP Trade does not provide installation/integration services, although resellers of IP Trade turret systems typically do.

⁸ The Parties submitted that it was rare for BT to oversee the installation of the entire Trader Voice Solution. However, BT will in most cases procure the voice recording capability element of the Trader Voice Solution when also providing the turret systems.

35. As part of its investigation, the CMA explored whether vertical concerns could arise as a result of the Merger given that, pre-Merger, IP Trade supplies turret systems to resellers, which may compete with BT for the supply of turret systems and the installation/integration of those turret systems within Trader Voice Solutions. For the purpose of its assessment of these potential concerns, the CMA therefore established a separate downstream product frame of reference for the installation and integration of turret systems as part of a Trader Voice Solution.

Conclusion on product scope

36. In light of the above, the CMA has assessed the potential impact of the Merger on the supply of:
- (a) turret systems (and associated maintenance and support) used in voice trading applications; and
 - (b) the installation and integration of turret systems as part of a Trader Voice Solution (**Turret Integration Services**).

Geographic scope

Turret systems

37. The Parties submitted that the geographic frame of reference for the supply of turret systems used in voice trading applications is worldwide, on the basis that the same products are sold around the world and that many customers (particularly large customers) purchase these products on a global basis.
38. The CMA's market investigation found that some customers with global requirements procured turret systems on a global basis, or at least required the ability to use the same supplier's product across its global operations. However, responses received from customers also indicated that the strength of individual suppliers varied across different global regions, and that only two suppliers in the UK (namely BT and IPC) had the geographic reach to serve global clients.
39. On this basis, the CMA believes that the supply of turret systems used in voice trading applications may be global. However, on a cautious basis, the CMA has assessed the potential impact of the Merger on competition for the supply of turret systems used in voice trading applications in the UK.

Turret Integration Services

40. The CMA's investigation found that a supplier of Turret Integration Services will need to have a national presence in order to serve customers as it will need staff on the ground to provide the Turret Integration Services at the customer's offices. The CMA has therefore assessed the potential impact of the Merger on competition for the supply of Turret Integration Services in the UK.

Conclusion on frame of reference

41. For the reasons set out above, the CMA has considered the impact of the Merger in the following frames of reference:
- (a) the supply of turret systems (and associated maintenance and support) used in voice trading applications in the UK; and
 - (b) the supply of Turret Integration Services in the UK.

Competitive assessment

Horizontal unilateral effects in the supply of turret systems

42. 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.⁹ Horizontal unilateral effects are more likely when the merger parties are close competitors.
43. 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 turret systems (an associated maintenance and support) used in voice trading applications in the UK.

Shares of supply

44. The CMA's analysis, based on data provided by the Parties and their competitors found that the Parties' combined share of supply of turret systems used in voice trading applications was between 20% and 30% with an

⁹ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

increment of below 5% on any plausible frame of reference, whether on a UK, EEA or worldwide basis.¹⁰

45. The CMA's analysis also found that:
- (a) IPC was the largest supplier of turret systems used in voice trading applications by a very significant margin, whether assessed on a UK, EEA or worldwide basis (market share [60-70]%), and
 - (b) a number of smaller market players, namely suppliers of hybrid turret systems (eg Enepath, Speakerbus and Unify) and cloud turret system suppliers (eg Cloud9 and Greenkey), accounted for the remaining share of supply.
46. The CMA's analysis also found that:
- (a) for customers requiring a smaller number of positions (eg up to 100-250),¹¹ the Parties' combined share was slightly lower (between [10-20]% and [20-30]% in the UK), with IPC retaining the majority of positions and other suppliers responsible for the remainder (in particular Speakerbus but also cloud turret system supplier, Cloud9); and
 - (b) for customers requiring a larger number of positions (eg above 250), the Parties' combined share was slightly higher (between [20-30]% and [20-30]% in the UK) albeit that the increment arising from the Merger was minimal (or non-existent); with IPC mostly accounting for the remainder.

Closeness of competition

47. The Parties submitted that they were not close competitors, on the basis of different customer focus and product offering. The Parties submitted that over [the vast majority] (by revenue) of BT's bids in 2015/16 was accounted for by sales to large customers.¹² The Parties submitted that IP Trade lacked the global scale necessary to compete realistically for these customers, with all

¹⁰ Due to the way in which customer data is stored in IP Trade's systems, UK position numbers submitted for IP Trade include positions in the Republic of Ireland, Jersey and Guernsey, and therefore overstate IP Trade's positions in the UK, while EEA position numbers submitted by IP Trade include continental Europe, UK, Russia and Switzerland. This note applies equally to the data used for the share of supply calculations in paragraphs 45 and 46.

¹¹ The Parties made a notable distinction in their submissions between customers with over 1000 positions (with either global or multi-national presence), and customers with less than 1000 positions (and generally national presence). While the CMA's investigation did not identify a clear cut-off point (in terms of the number of positions) at which customer preferences changed, the CMA considers that a lower number (in the hundreds, rather than thousands) is likely to be a better reference point for distinguishing between larger and smaller customer preferences. Accordingly, in its assessment of shares of supply discussed further in paragraph 46, the CMA used two alternative reference points for its analysis: (i) customers with above/below 250 positions and (ii) customers with above/below 100 positions.

¹² Which it defined as those typically with over 1000 positions and multi-national or global presence.

but one of the contracts won since 2012 being for customers with less than 100 positions. For smaller customers, the Parties submitted that growing customer preferences for hybrid turret systems meant that BT (which does not offer a hybrid turret system) was at a competitive disadvantage to hybrid turret system providers, such as IP Trade.

48. The Parties submitted that the limited competition between the Parties was demonstrated through the Parties bidding data, which showed that the Parties had only competed for the same customers on a small number of occasions in the past five years.
49. The CMA assessed closeness of competition on the basis of:
 - (a) bidding data provided by the Parties, customers and other turret system suppliers;
 - (b) views received from customers and other turret system suppliers; and
 - (c) the Parties' internal documents and industry reports.

Bidding data

50. The CMA's analysis of the bidding data provided by the Parties, customers and other turret system suppliers indicated that the Parties did not compete head to head for the vast majority of tender episodes in which either Party participated.¹³ Where the Parties have competed, in almost all cases they have faced at least one other competitor and often two or three (most often IPC, but also others including Enepath and Speakerbus).¹⁴
51. The CMA found that:
 - (a) on the basis of bidding data submitted by BT, the Parties only competed head-to-head in [a very small proportion] of all tenders ([redacted]) in which at least one Party participated. Of these, the Parties faced at least one other competitor (always IPC) in over half of the bids, and faced either two or three competitors (including IPC, Enepath and Speakerbus) in a further third;
 - (b) on the basis of bidding data submitted by IP Trade, the Parties only competed head-to-head in [a very small proportion] ([redacted]) of all tenders in

¹³ UK tender data submitted for IP Trade also included data on the Republic of Ireland, Jersey and Guernsey; see footnote 10.

¹⁴ The bidding data also, in a small number of instances, listed PBX suppliers Avaya and Cisco as competing bidders. As noted in footnote 7, PBX systems may consider a substitute to turret systems for some customers.

which one Party participated. Of these, the Parties faced a single other competitor (IPC) in all cases; and

- (c) on the basis of bidding data submitted by a number of competitors (which the CMA notes was less extensive than that submitted by the Parties), the Parties competed head-to-head in [10-20]% (~~[10-20]~~) of all tenders in which at least one Party participated. Of these, the Parties faced at least one other competitor in just under half of the bids, and faced either two or three competitors in the remainder of bids.

Third party views

- 52. Of the responses received from BT customers, the vast majority of customers did not consider IP Trade to be a substitute for BT. In particular, larger customers noted that IP Trade did not have the scale to supply and support their turret system requirements, while others (both larger and smaller customers) were either not familiar with the IP Trade product, or considered the functionality of the BT turret system to be superior. Those customers that did consider the Parties to be close substitutes were typically smaller customers. As discussed further below, these customers each listed a number of alternative suppliers of turret systems alongside BT and IP Trade.
- 53. The majority of customer responses received from IP Trade customers indicated that BT would be a viable alternative. However, the majority of these customers further stated that compatibility with their existing unified communications systems was a key requirement for their turret systems, which BT did not offer as a provider of hardware turret systems. One IP Trade customer raised concerns that the price of IP Trade's turret system may rise post-Merger. However, given that this customer highlighted the differences between BT (and IPC) on the one hand, and IP Trade on the other, in terms of price, service levels and customer focus, the CMA believes that the Parties are unlikely to have been particularly constrained by each other's pricing pre-Merger.

Internal documents and industry reports

- 54. BT internal documents and market reports submitted by the Parties supported the view that BT and IP Trade were not close competitors. These documents typically distinguished, on the one hand, between the larger, more established players BT and IPC and, on the other, smaller players such as IP Trade, Mitel, Speakerbus, and Unify. For example:
 - (a) a series of internal competitor studies prepared by BT focus on the competitive dynamic between BT and IPC and a comparison of their

respective product offering first, before assessing in more summary form the offering of players including Enepath, IP Trade, Mitel, Speakerbus and Unify;¹⁵

- (b) one of these competitor studies examines BT's wins and losses in 2015/16, identifying [REDACTED] losses to IPC (including [REDACTED] to Etrali),¹⁶ against 1 loss to IP Trade;¹⁷
- (c) a 2016 industry report prepared by a technology consultancy firm describes on the one hand IPC, BT and Etrali as the 'dominant, multi-regional' players and the 'big three' voice trading technology and network suppliers, while describing IP Trade and Speakerbus together as new entrants and 'market challengers'.¹⁸ The report notes further that the turret systems market has been largely static for the preceding five years, with 'little shift of market share between the traditional technology and service providers (and new market entrants)', underlining the persistent gap between these two groups of turret systems suppliers;¹⁹ and
- (d) a report prepared by a third party (which BT contributed to) groups on the one hand BT and IPC as turret systems providers with more advanced turret expertise, and on the other, IP Trade and Speakerbus as 'low cost turret providers' with lesser turret expertise.²⁰ The report also indicated that IP Trade was not competing closely with BT (and IPC), stating that IP Trade lacked the geographic coverage to significantly gain market share from these players.²¹

Competitive constraints

- 55. The CMA assessed what constraints would remain on the Parties post-Merger.
- 56. The Parties submitted that, following the Merger, BT's strongest competitor would remain IPC, the largest provider of turret systems. The Parties submitted that IPC and BT were the only players with the scale and scope to compete for large, multi-national competitors and that the Merger would allow

¹⁵ [REDACTED].

¹⁶ IPC acquired Etrali Trading Solutions in February 2016.

¹⁷ [REDACTED].

¹⁸ Wesley Clover was also listed in this latter category. However, as noted in footnote 5, the CMA understands that Wesley Clover has minimal presence in the UK and is therefore not relevant for the CMA's assessment of competition within the UK.

¹⁹ [REDACTED].

²⁰ [REDACTED]. Wesley Clover was also listed in this latter category. However, see footnote 18.

²¹ Silverfleet Capital, *Etrali strategic analysis: Final Report*, July 2015.

BT to better compete against IPC for this customer segment by allowing BT to match IPC's ability to provide both hardware and hybrid offerings.

57. For smaller customers who did not require a provider with global scale, the Parties submitted that post-Merger there would remain a number of competitive alternatives. The Parties submitted that these customers tended to be more flexible regarding their system requirements and therefore in addition to BT and IPC could also currently select from providers such as IP Trade, Speakerbus and Unify.
58. The Parties submitted further that cloud turret systems providers Cloud9 and Greenkey increasingly offer an alternative to hardware and hybrid turret systems, particularly for smaller customers. The Parties submitted that, although these players (given their more limited scale and lack of an established track record) were currently less attractive to larger customers, several large companies had shown interest in the technology, with a number of large customers of turret systems either providing financial backing to Cloud9 or trialling its service.
59. The CMA assessed the extent of competitive constraints remaining post-Merger by reference to:
 - (a) bidding data provided by the Parties, customers and other turret system suppliers;
 - (b) views received from customers and other turret system suppliers; and
 - (c) the Parties' internal documents and industry reports.

Bidding data

60. As set out in paragraph 49 above, the CMA's analysis of the bidding data submitted by the Parties, customers and other turret system suppliers showed that, in the small number of instances in which the Parties have competed head to head, in almost all cases they have faced at least one other competitor and often two or three (most often IPC, but also others including Enepath and Speakerbus). IPC is also present in the vast majority of tenders in which only one of the Parties competed.

Third party views

61. All but one BT customer²² which responded to the CMA's investigation listed IPC (and Etrali)²³ as an alternative provider, almost invariably listing it first when considering alternatives to BT. One customer stated further that most global investment banks would only use BT or IPC, with alternative providers (including IP Trade, Speakerbus, Cloud9 and Greenkey) not currently suited to the needs of these customers.
62. IPC was also listed as an alternative by all but one of IP Trade's customers. However, the majority of these customers further stated that IPC had been rejected as a viable alternative on the basis of price, there being a significant difference between the price offered by IP Trade and IPC (the latter noted as being comparable to that of BT).
63. Alongside IPC, smaller customers of both BT and IP Trade typically listed a number of other turret system suppliers. Most frequent amongst these was Speakerbus, which was noted as having a comparable offering (particularly on price and functionality) to that of IP Trade. Suppliers Telstra/Enepath and Unify were also listed to varying degrees. Notably, two customers of BT that raised concerns regarding the reduced options available post-Merger, each listed three alternative suppliers that would continue to be viable alternatives for their turret system needs post-Merger.
64. A minority of BT customers (and no IP Trade customers) listed either Cloud9 or GreenKey as potential alternatives. On further investigation, these customers confirmed that, while they were either trialling a cloud-based product or would consider one in the future, such systems were unlikely at present to meet internal security and/or regulatory requirements. This was corroborated by the vast majority of respondents (both larger and smaller customers), who noted that the cloud offering was not sufficiently advanced to offer a viable alternative to traditional turret system providers. While many customers considered that this was likely to change in the future, estimates ranged considerably from 12 months up to 3-5 years. Further, the CMA understands [X] that [X].

²² This customer listed only BT as a potential supplier and did not appear to have considered other alternatives.

²³ See footnote 16.

Internal documents and industry reports

65. As discussed in paragraph 53 above, BT internal competitor studies focus substantially on the competitive constraint presented by IPC (including wins and losses against this supplier).
66. Also as discussed in paragraph 53 above, BT internal documents note the competitive offering of players such as Speakerbus, Enepath and Unify²⁴ alongside that of IP Trade. Speakerbus in particular is listed in one BT internal competitor study as the main turret competitor of IP Trade,²⁵ and in a market study as a key 'challenger' to the established players, IPC, Etrali and BT (followed by IP Trade).²⁶
67. BT internal documents and industry reports also note the rising challenge presented by cloud-based solutions such as Cloud9 and Greenkey.²⁷ While these documents typically note that these players remain relatively new entrants, with limited customer focus and lacking global presence, they suggest that these players are likely to be a more considerable competitive threat in the future.

Conclusion on horizontal unilateral effects

68. The Merger will result in only a very small increment to BT's share of turret systems used in voice trading applications in the UK (and a modest combined share of supply). The Parties do not represent close competitors for a significant proportion of customers. Specifically:
 - (a) for larger customers, with a need for a considerable number of turret system positions and often global or at least multi-national coverage, IP Trade does not offer the scale or global presence required to satisfy their requirements. For these customers, IPC and BT represent the only viable options; and
 - (b) for many smaller customers, BT and IP Trade are also not close competitors, on the basis of the significant difference in price and in functionality (particularly the ability of IP Trade turret systems to integrate with a customer's unified communications systems) between the BT and IP Trade products.

²⁴ These documents also mention turret system supplier Wesley Clover; however, see footnote 18.

²⁵ [REDACTED].

²⁶ [REDACTED].

²⁷ [REDACTED].

69. For those smaller customers for whom BT and IP Trade are competitors, the CMA's investigation found that there nevertheless remain other turret system supplier alternatives. In particular, Speakerbus, Unify and Enepath were identified both by customers and in internal documents and market reports as viable alternatives (and typically characterised as closer competitors to IP Trade than BT). The CMA's investigation also found that customers believe the competitive position of cloud system providers is growing (albeit that these providers may not exercise a particularly strong constraint on the Parties at present).
70. Whilst it is possible that IP Trade could in future strengthen its offer or develop the capability to supply its services to larger customers (and therefore become a closer competitor to BT), the CMA has no evidence to suggest that it is any better placed to do this than any of the other smaller players in this market.
71. 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 relation to the supply of turret systems used in voice trading applications in the UK.

Vertical effects in the supply of Turret Integration Services

72. Vertical effects may arise when a merger involves firms at different levels of the supply chain, for example a merger between an upstream supplier and a downstream customer or a downstream competitor of the supplier's customers.
73. Vertical mergers may be competitively benign or even efficiency-enhancing, but in certain circumstances can weaken rivalry, for example when they result in foreclosure of the merged firm's competitors. The CMA only regards such foreclosure to be anticompetitive where it results in a substantial lessening of competition in the foreclosed market(s), not merely where it disadvantages one or more competitors.²⁸
74. BT operates a largely direct sales model in the UK, whereby it sells its turret systems directly to end customers. BT may also procure other elements of the Trader Voice Solution (notably the voice recording functionality) on behalf of its turret systems customers and, on occasion, may 'prime contract' to oversee the installation of the complete Trader Voice Solution. IP Trade meanwhile sells a significant proportion of its turret systems through third party distributors or resellers who, in addition to supplying and installing the turret system, may also procure and oversee installation of the other elements

²⁸ In relation to this theory of harm 'foreclosure' means either foreclosure of a rival or to substantially competitively weaken a rival.

of the Trader Voice Solution and integrate the Trader Voice Solution with the client's wider unified communication systems (**Integrators**).

75. In the present case, the CMA has assessed whether, as a result of the Merger, there is a realistic prospect of an SLC as a result of BT foreclosing Integrators from the supply of Turret Integration Services by refusing to supply them (or supplying them on less favourable terms) with turret systems (for resale to end customers).
76. The CMA first assessed whether BT would have the ability to partially or totally foreclose Integrators in this way,²⁹ which would generally require that:
- (a) Integrators use IP Trade's turret systems; and
 - (b) Integrators would be unable to substitute IP Trade's turret system for another supplier's turret system in a timely manner and ensure the same level of quality or better.³⁰
77. In the UK, several different Integrators use IP Trade turret systems in voice trading applications. These include [REDACTED]. The Parties submitted that IP Trade [REDACTED].
78. The CMA's investigation found that the Merger would not give BT the ability to foreclose Integrators from the market, on the basis that there will remain other turret system suppliers that sell their turret systems through Integrators, which Integrators could switch to in the event that BT withdrew access to IP Trade turrets. In particular:
- (a) there remain at least two turret system suppliers in addition to IP Trade that sell their turret systems through Integrators; and
 - (b) at least two Integrators who resell IP Trade turret systems also resell the turret systems of other turret system suppliers, indicating that there are no technical barriers to sourcing and reselling turret systems from other suppliers.
79. Given that the CMA does not believe that the merged entity would have the ability to foreclose the supply of turret systems by Integrators, it has not been

²⁹ As set out in section 5.6 of its [Merger Assessment Guidelines](#), the CMA's approach to assessing vertical theories of harm is to analyse (a) the ability of the merged entity to foreclose competitors, (b) the incentive of it to do so, and (c) the overall effect of the strategy on competition. All three elements are required to reach an SLC finding. In the present case, as the CMA has found that BT would not have the ability to foreclose Integrators from the market, the other elements (incentive and effect) are not considered further in this decision.

³⁰ [REDACTED] raised concerns regarding the Merger, on the basis that [REDACTED].

necessary to consider whether the merged entity would have the incentive to do so, or what the effect would be.

80. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects in relation to the sale of turret systems by Integrators.

Barriers to entry and expansion

81. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no substantial lessening of competition. In assessing whether entry or expansion might prevent a substantial lessening of competition, the CMA considers whether such entry or expansion would be timely, likely and sufficient.³¹
82. As noted in paragraph 57 above, the Parties submitted that cloud turret systems providers Cloud9 and Greenkey increasingly offered an alternative to hardware and hybrid turret systems. The CMA has therefore investigated whether expansion by these providers would be timely, likely and sufficient to offset any SLC arising as a result of the Merger.
83. As discussed in paragraphs 63 and 66 above, the CMA's investigation found that Cloud9 and Greenkey were listed as alternatives by a small number of customers, and were mentioned as a growing competitive force in BT internal documents and market reports. However, customer responses generally indicated that these suppliers were not a viable alternative for their turret system needs at present, and time estimates regarding when they may offer a viable alternative varied considerably (from 12 months up to 3-5 years). Further, as noted in paragraph 64, the CMA understands that [✂].
84. However, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

Third party views

85. The CMA contacted customers and competitors of the Parties as well as third party distributors and resellers (Integrators) of IP Trade turret systems. Only a very small proportion of customers and one Integrator raised concerns regarding the Merger.

³¹ [Merger Assessment Guidelines](#), from paragraph 5.8.1.

86. Third party comments have been taken into account where appropriate in the competitive assessment above.

Decision

87. Consequently, the CMA 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.

88. The Merger will therefore **not be referred** under section 33(1) of the Act.

Joel Bamford
Director, Mergers
Competition and Markets Authority
25 April 2017