



## **DETERMINATION OF MERGER NOTIFICATION M/06/096 – IBM/ VALLENT**

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### **Section 21 of the Competition Act 2002**

#### **Proposed acquisition by IBM Corporation of Vallent Corporation**

**Dated 11/01/06**

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#### **Introduction**

1. On 22 December 2006, the Competition Authority (“the Authority”), in accordance with Section 18 (1) (a) of the Competition Act, 2002 (“the Act”) was notified, on a mandatory basis, of a proposal whereby IBM Corporation (“IBM”) would acquire sole control of Vallent Corporation. (“Vallent”).

#### **The Undertakings Involved**

2. IBM, the acquirer, is a global company active in the development, production and marketing of a wide variety of information technology (IT) solutions comprising software, systems and services. In the financial year ended 31 December 2005 IBM had worldwide turnover of \$91,134 million (€70,162 million)<sup>1</sup>.
3. IBM’s software activities are diverse and include, but are not limited to, the development of network and service management (“NSM”) software. NSM software is aimed at helping network operators and business managers view and manage the performance and service of the networks they support.
4. IBM’s Irish subsidiary, IBM Ireland Limited, operates a sales and marketing business in the State, as well as a manufacturing business, a software group and software development lab, a telesales and marketing centre, an international banking unit and a corporate treasury centre. In the financial year ended 31 December 2005, IBM generated turnover of €[.] million in the State.
5. Vallent, the target, is a privately held software company, active in the provision of software that manages and monitors the operations of wireless networks operated by wireless communications service providers. Vallent is also active in the provision of NSM software.
6. In the financial year ended 30 September 2005 Vallent generated worldwide revenue of approximately \$[.] (€[.]<sup>2</sup>). In the same period Vallent generated turnover in the State of \$[.] (€[.]<sup>3</sup>) in the State from its Irish subsidiary which is based in Cork.

#### **Analysis**

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<sup>1</sup> Live mid-market rates as of: Thursday, January 11, 2007 – 12.01 pm. Available on <http://www.gcitrading.com/converter.htm>

<sup>2</sup> Ibid

<sup>3</sup> Ibid

7. The activities of the parties overlap in the provision of network and service management software. NSM software is aimed at helping network operations and business managers view and manage the performance and service of the networks they support. NSM software has the following general functions:
  - Monitoring the health of a company's IT network, systems and services through real-time reporting in a graphical interface;
  - Detecting and analysing problems with a company's IT network, systems and services; and,
  - Resolving problems arising from the IT systems and applications.
8. The parties supplied a combination of IDC<sup>4</sup> and OSS Observer<sup>5</sup> data to the Competition Authority as part of the notification. Information on the revenues and shares of competitors in the NSM segment are collected by IDC. However, given that IDC does not collect data on the revenues, and therefore share, of Vallent in NSM, the best available estimates are the parties own estimates of Vallent.
9. Based on an analysis of the market share data provided, the merged entity would not have a share greater than [.]% in any market as defined by IDC or OSS Observer.
10. Using IDC data the proposed transaction would lead to an increase in the market share of the merged entity of approximately [0-10]% (see Table 1) in the NSM market.
11. Since OSS Observer uses different sectoral categorisations its estimates of market shares are different from those of IDC. According to its categorisations, both parties are active in the service assurance ("SA") software category and more precisely the sub-category of service management ("SM") software. However Vallent derives [.]% of its revenues from performance management ("PM"), another sub-category of service assurance, in which IBM is not active.

Table 1 Estimated Worldwide Market Shares of IBM and Vallent using IDC and OSS Revenue Categorisations, 2005

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<sup>4</sup> IDC, according to its website is "the premier global provider of market intelligence, advisory services, and events for the information technology and telecommunications industries. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. Over 775 IDC analysts in 50 countries provide global, regional, and local expertise on technology and industry opportunities and trends. For more than 40 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company". Available at <http://www.idc.com/about/about.jsp>. The Competition Authority has relied on IDC data in a number of mergers relating to technology markets, see for example M/06/002 – IBM/Micromuse, and M/06/050 – EMC/RSA

<sup>5</sup> Given that IDC does not track Vallent's revenue in its NSM segment, Vallent augmented the IDC data with data from categorisations by OSS Observer. This data has the benefit of industry-specific analyses of sectoral share information in those sectors where Vallent does compete, thus providing specific revenues for Vallent.

Company	IDC estimates of NSM shares (%)	OSS Observer estimates of SA shares (%)	OSS Observer estimates of SM shares (%)	OSS observer estimates of PM shares (%)
IBM	<30	<10	<10	-
Vallent	<10	<10	<10	<20
Combined share	<30	<20	<20	<20

Source: IDC and OSS Observer, provided by the undertakings involved

12. A HHI<sup>6</sup> analysis using both IDC and OSS Observer data reveals that the merger would fall within the threshold of the Zone A category defined in the Competition Authority's guidelines for merger review<sup>7</sup>. The Competition Authority's mergers guidelines describe Zone A mergers as those that are "less likely to have adverse competitive effects".
13. The IDC data also shows the presence of a significant number of strong competitors in the supply of NSM software. These included Cisco Systems (10%), Computer Associates (10%) Hewlett-Packard (7%) and Lucent (6%).
14. On the buyer side, those companies purchasing NSM (and SA) software include large multinationals with significant buyer power. IBM's larger worldwide customers include [...] and [...] while Vallent supplies to a number of large telecoms companies including [...] and [...]. Similarly in the State IBM supplies NSM to [...] while Vallent supplies to [...].
15. In addition the products of the undertakings involved can be seen to complement each other to some extent. Through recent acquisitions IBM has enhanced its abilities to manage network technologies and to manage the infrastructure of communications service providers. However, Vallent's products offer capabilities in monitoring wireless communications networks and function that IBM does not currently offer.
16. The relevant geographic markets appear to be broader than the State and are likely to be global in scope. There are limited transport costs as the products are ordinarily downloaded by customers from the parties' websites. Thus the origin and location of the producer and customer can be anywhere in the world. Maintenance is provided over the telephone or via the internet and therefore, does not require a 'national' presence. Customers around the world pay comparable prices for NSM software and with the exception of translated manuals, products are typically not customised for 'national' preferences.

<sup>6</sup> The HHI analysis is a method for calculating industry concentration and is calculated by adding the sum of the squares of the market share of each competitor in the market. This measure gives proportionally greater weight to the market shares of the larger firms. The HHI is estimated for pre and post merger and are then compared in order to calculate the change in industry concentration or 'delta' arising from the merger.

<sup>7</sup> The Competition Authority uses the level of post merger HHI and delta to as a screening devise to filter out those mergers which are unlikely to raise competition concerns. See Competition Authority, *Notice in Respect of Guidelines for Merger Analysis*, Decision No. N/02/004, 16 December 2002, available on www.tca.ie.

17. Due to the global nature of the product markets, the small incremental market share, the low levels of industry concentration, the presence of large buyers and amongst other things the complementary nature of the parties' products, the Competition Authority is of the view that this transaction will not raise competition concerns

### **Determination**

The Competition Authority, in accordance with Section 21(2) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed acquisition by IBM Corporation of Vallent Corporation will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the acquisition may be put into effect.

### **For the Competition Authority**

Dr. Paul K. Gorecki  
Member of the Competition Authority