

Francisco Partners LP/G International Inc merger inquiry

Statement of issues

The issues that the Competition Commission (CC) intends to consider are:

Market definition

1. The appropriate definition of the economic markets affected by the proposed merger (the relevant markets), and in particular:

Product market

- (a) whether the relevant market that contains EDI VANS¹ also includes Internet VANS;
- (b) whether direct line connections, direct Internet connections using AS/2 or similar standards form part of the relevant market;
- (c) whether certain forms of business-to-business electronic trading activity or communication which are not classed as EDI (such as e-auctions) form part of the relevant market;
- (d) whether the relevant market that contains EDI VANS also includes relevant software;
- (e) whether there are separate markets within industry sectors (eg retail, automotive, insurance);
- (f) whether the extent of the relevant product market is likely to change materially within the next one to two years, due to technological change or other factors, and if so, how;

Geographic market

- (g) for each of the relevant product markets, what is the geographic extent of that market and, in particular whether the relevant geographic market is the UK or is larger.

Competitive conditions

2. The competitive conditions in the relevant markets, and in particular:
 - (a) how and to what extent the merging parties competed prior to the merger;
 - (b) what are the key influences on customer behaviour, and in particular how important are:

¹A Value-Added Network (VAN) is a third-party service that acts as an electronic postal system for Electronic Data Interchange (EDI) transactions. VANs are equipped to accept a variety of telecommunications protocols, enabling connectivity between organizations with different telecommunications protocols.

- (i) price;
 - (ii) functionality, reliability of supply, data integrity and product features;
 - (iii) the choices made by trading partners;
 - (iv) the use of inter-network connections to link with key trading partners; and
 - (v) the industry in which the customer operates, its role in the supply chain and its size;
- (c) what is the role of resellers;
 - (d) what costs and risks do customers encounter when switching suppliers;
 - (e) what are the barriers to entry, and in particular:
 - (i) how important are inter-network connections (including their cost and reliability) in facilitating entry; and
 - (ii) are there strong 'network effects', ie do customers benefit the more other customers use the network, making it more costly for any of them to switch away from major incumbents.

Counterfactual

- 3. What may have been expected to occur in the absence of the merger (the counterfactual).

Competitive effects of the merger

- 4. Against this background, the possible competitive effects of the merger within each of the relevant markets identified, and in particular:
 - (a) whether in any of the relevant market(s), any potential lessening of competition might be offset by the buying power of customers;
 - (b) whether the merger may be expected to create or increase market power in any relevant market and lead to a rise in prices, a reduction in service, support or choice for some or all customers or a reduction in innovation;
 - (c) whether the merger could lead to adverse effects in related software markets; and
 - (d) whether, taking account of all of the above, the proposed merger may be expected to result in a substantial lessening of competition within any market or markets in the UK or a part of the UK.

Remedies

- 5. Should the CC conclude that the proposed merger may be expected to result in a substantial lessening of competition, it will consider whether and, if so, what remedies might be appropriate, and will issue a further statement at a later date.

Relevant customer benefits

6. In deciding the question of remedies, should this be necessary, the CC may have regard to any relevant customer benefits. The CC would therefore wish to explore whether or not any significant customer benefits might arise as a result of the merger, and if so what these benefits are likely to be. In particular, the CC would be interested in whether the merger would be likely to lead to lower prices, better quality, or a greater choice of services.