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**Section 57 of the Competition Act (Cap. 50B)**

**Grounds of Decision issued by the Commission**

**Notification for Decision: Acquisition of Singapore Computer Systems Ltd by Computer Systems Holdings Pte Ltd**

**30 September 2008**

**Case number: CCS 400/004/08**

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Confidential information in the original version of this Decision has been redacted from the published version on the public register. Redacted confidential information in the text of the published version of the Decision is denoted by [ⓧ].

**I. INTRODUCTION**

1. On 27 August 2008, the Competition Commission of Singapore (“CCS”) received a notification for decision pertaining to a transaction involving the acquisition of all the issued ordinary shares in the capital of Singapore Computer Systems Ltd (“SCS”) by Computer Systems Holdings Pte Ltd (“CSH”) (CSH and SCS collectively referred hereinafter as “the parties”).
2. CCS has concluded that the notified transaction has not infringed section 54 of the Competition Act (Cap. 50B) (“the Act”).

**II. THE PARTIES**

3. CSH is a company incorporated in Singapore on 19 August 2008. It is wholly-owned by NCS Pte Ltd (“NCS”) which is in turn wholly-owned by Singapore Telecommunications Limited (“SingTel”). NCS was incorporated in Singapore on 23 April 1981. The core business of NCS is in the provision of information and communications technology services. NCS is involved in the following areas of activity:

- (i) consulting services, including business transition consulting, e-Government consulting, information technology (“IT”) consulting, outsourcing consulting and business process reengineering;

- (ii) technology and infrastructure solutions, including engineering and radio communication, IT infrastructure planning, design and implementation, IT security training and certification, data centre hosting and managed services; and
- (iii) business solutions, including application design, development, implementation and maintenance and systems integration.

NCS has more than 5000 staff located in more than 10 countries in the Asia Pacific and Middle East regions.

4. SCS was incorporated in Singapore on 7 January 1980 and listed on the Main Board of the Singapore Exchange Securities Trading Limited in 1991. SCS is an information and communications technology service provider in Asia. SCS is involved in the following areas of activity:

- (i) sale of infrastructure products;
- (ii) provision of infrastructure services, including implementation/maintenance, managed operations, contact centre and business continuity; and
- (iii) provision of business solutions services, including application development, application management services, business process outsourcing and systems integration.

SCS has over 2000 employees who operate from Singapore, Brunei, China, Malaysia, Philippines and Thailand.

### **III. THE TRANSACTION**

5. The notified transaction consists of two phases. In the first phase, pursuant to a Share Purchase Agreement dated 25 August 2008 between CSH and Green Dot Capital Pte Ltd (“Green Dot”), CSH acquired from Green Dot, and held, approximately 60% of all ordinary shares in the capital of SCS. In the second phase, in accordance with Rule 14 of the Singapore Code on Take-overs and Mergers (“the Code”), CSH made a mandatory conditional cash offer (“the Offer”) on 10 September 2008, which is open for acceptance till 17 October 2008, or any such later date(s) as may be announced from time to time, for all the shares in the capital of SCS, other than those already owned, controlled or agreed to be acquired by CSH, in accordance with section 139 of the Securities and Futures Act (Cap. 289) and the Code.

6. The conditions of the Offer are that CCS does not (i) refer the proposed acquisition of SCS by CSH or any matter arising from or relating to that proposed acquisition, to a more detailed assessment pursuant to the CCS Guidelines on Merger Procedures, or (ii) issue a direction that will prohibit CSH from acquiring

voting rights in SCS. The Offer will lapse if either of these conditions are met. If the Offer lapses and CCS subsequently issues a decision that the notified transaction has not infringed section 54 of the Act, it would be reinstated on the same terms as soon as practicable.

7. The parties submit that the notified transaction constitutes a merger falling under section 54(2)(b) of the Act. On the basis of their submission, CCS proceeded to assess the competitive effects of the notified transaction.

#### **IV. COMPETITION ISSUES**

8. The parties submit that the businesses of NCS and SCS overlap horizontally in the provision of IT services. Therefore, CCS considered whether the notified transaction will lead to coordinated and non-coordinated effects that would substantially lessen competition in the market(s) relating to the provision of IT services.

9. The parties also submit that the notified transaction is unlikely to raise vertical competition concerns, as they do not own or manufacture any proprietary hardware or software IT products, and are accordingly reliant on global IT product vendors. They further submit that the notified transaction is unlikely to raise conglomerate effects, as the notified transaction would not offer the merged entity the ability to significantly change the products or service offerings post-transaction that NCS was capable of offering prior to the notified transaction. On this basis, and given that nothing to the contrary was found in the feedback given by third parties, CCS did not assess the notified transaction for vertical or conglomerate effects.

#### **V. RELEVANT MARKETS**

##### **Product market**

###### Parties' submission

10. The parties submit that the relevant product market is the market for the provision of IT services.

11. In response to CCS' queries, the parties submit that it is not meaningful to consider the IT services market as segmented by the types of IT services provided (henceforth referred to as "IT service subcategories") such as consulting, hardware maintenance and software support services. From a demand-side perspective, customers often require a combination of services from each of the IT service subcategories. This is because the IT service subcategories are interconnected and services in one subcategory would typically not be considered by customers in isolation from services in the other subcategories. Although it is theoretically possible for customers to source their requirements from separate providers,

customers are equally able to, and in practice prefer to, source all of their requirements from a single IT service provider as it is more efficient to do so. Such efficiencies include a reduction in transaction costs, increase in bargaining power vis-à-vis the provider and elimination of duplicity of efforts.

12. The parties further submit that there is a high degree of supply-side substitutability, as it is not difficult for providers of one or more IT service subcategories to offer services in other IT service subcategories. This is supported by the fact that identified major competitors such as HP, IBM and Accenture are active in most, if not all, IT service subcategories. The parties note that the IT services provided by NCS and SCS are general in nature applying across the IT service subcategories, and can easily be provided by competitors operating in any of the IT service subcategories. Lastly, the parties suggest that IT service providers that do not specialise in any IT service subcategories are able to, and do in fact, compete with “pure play” IT service providers that specialise in one or more of the IT service subcategories.

13. In response to CCS’ queries, the parties also submit that the provision of IT services by verticals (i.e. the sector of activity of the customer, e.g. government, education) would not constitute separate product markets for the purposes of competition analysis. There is a high degree of supply-side substitutability in providing IT services across verticals. Customer requirements are generally similar across verticals, and NCS’ and SCS’ competencies are applicable and transferable across verticals. The parties argue that this is supported by the wide range of verticals that NCS and SCS participate in, and by the fact that internally, requirements for technical IT personnel to service each contract, regardless of industry, can be drawn from a common resource pool.

CCS’ assessment

14. In examining the relevant product market, CCS considered the possibility of sub-dividing the market for the provision of IT services according to (i) IT service subcategories, (ii) verticals, and (iii) value of projects.

15. CCS noted that independent industry reports produced by Gartner<sup>1</sup> gathered and provided industry data in six IT service subcategories, namely:

- a. consulting (including business consulting, IT consulting);
- b. development and integration (including application development, deployment, integration);
- c. IT management (including application management, help desk management, operations services);
- d. process management;

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<sup>1</sup> [REDACTED].

- e. hardware maintenance and support; and
- f. software support services.

16. The parties' public and internal documents<sup>2</sup> also indicated that the parties considered subsegments in IT services [☒], e.g. business process outsourcing, systems integration, application development, business continuity, etc. CCS hence considered a possible segmenting of IT services, with the provision of each IT service subcategory forming a separate product market.

17. In this regard, feedback canvassed from third parties who responded to CCS' queries ("respondents") indicate that customers are able to identify and purchase the specific IT service subcategory they require. One customer noted that it preferred to use different IT service providers for different IT service subcategories. Generally though, customers typically purchased a combination of services from the same supplier, as it was often difficult or unnecessary to separate services that formed part of a project. The feedback received also indicate that IT service providers are generally able to provide services across all IT service subcategories.

18. CCS further noted that Gartner's reports gathered and provided industry data along verticals<sup>3</sup>. The parties' public and internal documents<sup>4</sup> also made references to the provision of IT services to customers in specific verticals. As such, CCS also considered an alternative market definition, with the provision of IT services to customers in each vertical forming a separate product market.

19. In this regard, respondents indicated that the provision of IT services is usually specialised according to verticals. However, it was also noted that technically, it is possible for IT service providers to supply to all verticals, if the IT service provider possessed some degree of domain knowledge, i.e. understanding of the customer's requirements and is able to offer the right solution to meet the customer's needs.

20. Respondents are of the view that the requirements for Government projects would be generally similar to projects of other verticals. The only exception is the need for personnel with the requisite security clearance to handle classified government systems, a requirement which, one respondent noted, is not onerous. In addition, government procurement via open tender processes is transparent, and all IT service providers which are able to fulfil the requirements are considered.

21. In addition, respondents noted that different IT service providers tend to participate in bids of different nature and values. For instance, larger companies

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<sup>2</sup> See [☒] and SCS Annual Report 2007

<sup>3</sup> The verticals are: (i) Agriculture, Mining & Construction, (ii) Communications, (iii) Discrete Manufacturing, (iv) Education, (v) Financial Services, (vi) Healthcare, (vii) Local and Regional Government, (viii) National and International Government, (ix) Process Manufacturing, (x) Retail Trade, (xi) Services, (xii) Transportation, (xiii) Utilities, and (xiv) Wholesale Trade.

<sup>4</sup> See footnote 2.

tend to participate only in bids of larger values to enjoy economies of scale, while smaller companies usually do not have the capacity to participate in large projects. Tender requirements such as track records of similar project content and size and financial resources would also make it less likely for smaller IT service providers to participate in bids for larger projects. In the case of Government projects, there may be a requirement to have valid Government Supplier registration which is in turn based on the bidder's net tangible asset and turnover/sales/revenue. One respondent noted that this classifies IT service providers according to their financial capability, with the effect that smaller IT service providers can only compete for smaller size projects. CCS hence also considered whether it was necessary to segment projects of different sizes into separate product markets.

22. Further, CCS considered the possibility of segmenting the markets more narrowly, e.g. separate markets for IT service subcategories within each vertical, etc. In this regard, respondents did not raise any concerns in any of these sub-segments, except for (i) the provision of facilities management (which would likely fall under the IT service subcategory "IT Management") in the Government vertical (ii) the provision of systems integration services (which would likely fall under the IT service subcategory "Development and Integration") in the Government vertical; and (iii) the provision of systems integration services for the Education vertical. As such, CCS examined these three markets in greater detail.

23. As set out below, CCS found that competition concerns will not arise even if any of the narrower alternative market definitions are adopted. As such, CCS considers that a precise market definition is not necessary in this case.

### **Geographic market**

#### **Parties' submission**

24. The parties submit that the relevant market for the provision of IT services is worldwide.

25. The parties contend that customers in Singapore are able to, and do as a matter of practice, consider purchasing IT services from service providers based outside Singapore. The additional costs incurred in purchasing IT services from outside Singapore are often negligible when compared to the cost of the projects. The physical location of the IT service provider is not a restriction on the IT service provider's ability to compete for tenders in Singapore. The parties submit that many offshore global players, such as those from India, maintain an outpost presence in Singapore to service their global customers. Such players would have the financial resources and expertise to rapidly scale up and increase their presence in Singapore to meet increases in demand.

26. The parties submit that even if a narrower product market definition — the market for provision of IT services for Government projects — was considered, the relevant geographic market would also be worldwide. This is because the

Government is able to effectively substitute between IT service providers and purchase IT services from the full range of local and global IT service providers who have the technical expertise and relevant know-how to qualify for Government sector projects. In addition, they submit that the Government's procurement process is impartial and open.

CCS' assessment

27. CCS' investigations found support for a worldwide geographic market for IT services, as evinced by the ease of entry of global players, both offshore as well as those who have been able to establish some local presence here (e.g. Tata Consultancy Services Limited, Wipro Technologies). There were, however, some indications of a narrower market in Singapore, due to the procurement requirements unique to certain verticals like government, defence and financial services. Requirements in these verticals may require IT service companies to have a local presence. For example, to tender for certain government projects, a certain number of personnel may need to be locals to fulfil the requisite security clearance requirements. Local presence may also be required or preferred to ensure long term availability of maintenance and operational support.

28. CCS therefore also considered the narrower geographic market for the provision of IT services (and alternative narrower product market definitions) in Singapore. In this regard, competitors noted that security requirements are not onerous, as only a small number of staff require security clearance. Respondents also noted that there is no specific requirement for the vendor to have a local presence so long as the service level is acceptable.

29. CCS found that competition concerns will not arise even if the narrower geographic market definition of Singapore is adopted. As such, CCS considers that a precise geographic market definition is not necessary in this case.

## **VI. COMPETITION ASSESSMENT**

### **Market share and market concentration**

Provision of IT services

30. The parties submit that NCS' and SCS' estimated market shares for the provision of IT services in Asia Pacific (excluding Japan) in 2006 is [REDACTED] and [REDACTED] respectively<sup>5</sup>, and would be significantly lower on a worldwide basis (see Table 1).

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<sup>5</sup> Source: [REDACTED]

Table 1: Market shares, significant competitors, Asia Pacific excluding Japan, 2005-2006

[REDACTED]

31. Market share figures for the provision of IT services in Singapore, with estimated market shares of the combined entity as shown at Table 2, also fall well below the indicative thresholds stated in the *CCS Guidelines on the Substantive Assessment of Mergers*.

Table 2: Market shares, significant competitors, Singapore, 2005-2007

[REDACTED]

32. As such, CCS did not conduct further assessment along these market definitions.

#### Provision of IT services by IT service subcategories in Singapore

33. Market share figures by the provision of IT service subcategories<sup>6</sup> show that the estimated combined market shares of NCS and SCS in all IT service subcategories fall short of the indicative thresholds (see Annex A for market share estimates). Further, no competition concerns were raised by respondents over any of them. As such, CCS did not conduct further assessment on the IT service subcategories. Instead, CCS examined the provision of Development and Integration (“DI”) specifically to the Education and Government verticals, and the provision of IT Management (“ITM”) in the Government vertical, as respondents raised concerns in these areas.

#### Provision of IT services by verticals in Singapore

34. Market share figures by the provision of IT services by verticals<sup>6</sup> show that estimated market shares of NCS and SCS fall short of the indicative thresholds (see Annex B for market share estimates). However, market share estimates in the Government vertical are fairly close to the indicative thresholds (see Table 3). As respondents generally noted that NCS and SCS are significant players in this vertical, CCS considered the notified transaction in greater detail in this vertical. CCS did not conduct further assessment on any other vertical, as no competition concerns were raised by respondents.

Table 3: Market shares, significant competitors, Singapore, Government<sup>7</sup>, 2005-2007

[REDACTED]

#### Provision of IT services by value of projects in Singapore

35. As no market share figures by value of projects were available, CCS examined the competitive effects in this alternative market definition using SCS’ bidding data for the last 3 years.

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<sup>6</sup> Source: [REDACTED]

<sup>7</sup> [REDACTED]



36. In light of the above, and given that no competition concern was raised by respondents or indicated by the CCS thresholds in any other market, further assessments are conducted as if the only relevant markets are as follows:

- a. The provision of IT services, and specifically DI and ITM, to the Government vertical in Singapore;
- b. The provision of DI to the Education vertical in Singapore; and
- c. The provision of IT services by value of projects in Singapore.

### **Barriers to Entry and Expansion**

37. The parties submit that there are low barriers to entry as competitors from overseas have entered the market to provide IT services in Singapore through utilising and leveraging offshore resources and processes. Further, new entrants would be able to source for and deploy the necessary technology and equipment, recruit the skilled manpower required to enter the market in Singapore within a short time period and provide competing services to the merged entity. Respondents did not indicate anything to the contrary.

38. The feedback from respondents indicates that entry and expansion barriers for various IT service subcategories are low, as companies are only limited by the availability of skilled labour. Competitors opined that there were no issues with respect to the recruitment of skilled labour and that while a good track record was considered important, it is not insurmountable.

39. Respondents also noted that entry and expansion for various verticals is not difficult. Although domain knowledge and track record are key factors in customers' consideration, respondents noted that neither posed significant barriers. For the Government vertical in particular, respondents highlighted that certain projects may require security clearance for personnel dealing with sensitive information. However, respondents also noted that security clearance requirements are not onerous, and can be fulfilled by hiring a small number of local employees. Global IT service providers are able to qualify for such projects by maintaining a small office locally. SCS' bidding data indicates evidence of global IT service providers being able to enter the market, as there was generally good participation from the industry in respect of government tenders, with projects awarded to a variety of local and global IT service providers.

### **Product differentiation**

40. Respondents noted that competition for projects takes place on both price as well as non-price factors, such as quality, service levels, domain expertise/experience, proven track record and reliability of services. Customers' requirements for customised solutions result in differentiated products.

**Countervailing Buyer Power**

41. Respondents noted that contracts for IT services range in duration, and can be as long as eight to ten years. It was noted that switching IT service providers during the term of a contract is infrequent as it can be costly and is done only if providers fail to meet certain requirements such as service standards. In respect of new contracts or renewal of existing contracts, most respondents noted that switching can take place with relative ease, and have taken place in the past.

42. One customer noted that for the provision of DI in the Education vertical in Singapore, switching at the stage of contract renewal would be costly if customers do not own the intellectual property (“IP”) rights for their solutions or systems, as switching would entail developing a new solution or system. However, upon further clarification by CCS, the same customer explained that ownership of IP rights is subject to negotiation between the customer and the IT service provider, and that it is currently not uncommon for customers not to own IP rights for certain IT work. As such, CCS does not consider that the notified transaction will add significantly to switching costs arising from IP rights issues.

43. The parties also submit that the Government, due to the size and importance of its projects, would have strong countervailing buyer power. They further submit that the Government would have the ability to react to any attempted unilateral or coordinated behaviour on the part of the merged entity by sponsoring new entrants or increasing the presence of competitors. While this may well be the case, CCS notes that the Government’s preference is to allow market forces to determine entry and exit, through transparent open tender processes.

**Non-Coordinated effects**

44. Customers generally identified NCS and SCS as significant players in Government IT service projects. SCS’ bidding data of [200-300] government projects where sufficient information was available for assessment showed that NCS and SCS are also close rivals, as NCS was a competitor to SCS in [40-50]% of the projects. This rate was significantly higher than for the next competitors, which are Frontline at [10-20]% and ST Electronics at [10-20]%. Despite this, respondents generally agreed that there will be sufficient choices post-transaction. This is supported by the bidding data, from which CCS found the following:

- a. There were 3 or more bidders in [100-200] (or [80-90]%) government projects, and there were 4 or more bidders in [100-200] (or [60-70]%) of such projects; and
- b. In the [100-200] projects where NCS and SCS competed, at least one other competitor submitted bids in [100-200] ([90-100]%) of these projects.

45. With regard to the provision of DI and ITM in the Government vertical in

Singapore, one respondent suggested that choice and competition could possibly be reduced in the provision of such services by local IT service providers. However, CCS' further inquiries found that there is no preference for local IT service providers, and customers considered all IT service providers who can meet the requirements for the projects. The bidding data, as follows, further indicated that there will likely be sufficient choices post-transaction:

- a. Out of [70-80] DI projects in the Government vertical, there were 3 or more bidders in [60-70] (or [80-90]%) such projects, and 4 or more bidders in [50-60] (or [70-80]%) of such projects;
- b. In the [40-50] DI projects in the Government vertical where NCS and SCS competed, at least one other competitor submitted bids in [30-40] ([90-100]%) of these projects.
- c. Out of [30-40] ITM projects in the Government vertical, there were 3 or more bidders in [30-40] (or [90-100]%) such projects, and 4 or more bidders in [30-40] ([70-80]%) of such projects; and
- d. In the [10-20] ITM projects in the Government vertical where NCS and SCS competed, at least one other competitor submitted bids in [10-20] ([90-100]%) of these projects.

46. With regard to the provision of DI in the Education vertical in Singapore, one customer noted that there could be limited choices post-transaction. The customer noted that projects in the Education vertical tended to require integrating solutions of different technologies, and there were few IT service providers who would have the required skills and expertise to work with different technologies. In this regard, NCS and SCS have an edge over others, as they have staff trained in different technologies, and hence would be able to meet the customer's needs. Upon CCS' further inquiries, however, the customer noted that other companies, such as the global IT service providers, could compete by recruiting personnel with the required skills. In any case, CCS examined the bidding data for projects in the Education vertical, and is of the view that generally, there would likely be sufficient choices post-transaction on the basis of the following:

- a. Of the [60-70] projects with sufficient information for analysis, there were 3 or more bidders for [40-50] (or [70-80]%) projects, and 4 or more bidders in [30-40] (or [50-60]%) of such projects;
- b. In the [20-30] projects where NCS and SCS competed, at least one other competitor submitted bids in all except [1-10] ([90-100]%) of these projects; and
- c. SCS submitted a bid for the [X] categorised as DI in the vertical, and lost the bid to [X].

47. With regard to the provision of IT services by value of projects in

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Singapore, the bidding data also suggests that competition concerns are unlikely for projects in the Government vertical at any particular value. Although respondents suggested that large competitors (like IBM and HP) and small companies bid for projects of different values, from the bidding data, large competitors were seen to have submitted bids for smaller projects (e.g. about \$200,000 in value). Competition also appears to exist for projects of all values, as the findings at paragraphs 44a and b generally apply across all project values.

48. Although bidding data by value of projects in other verticals is not available, CCS is of the view that the situation for other verticals is likely to be similar. Since it is not difficult for an IT service provider to switch between verticals (see paragraph 39), IT service providers are able to compete in supplying IT services to the Government as well as to the private sector. CCS' inquiries did not find anything to suggest that IT service providers will not compete for private sector projects when they do for Government projects. Further, one respondent noted that projects undertaken by the private sector are typically smaller than government projects, a view which CCS also generally observed from bidding data provided by NCS. As both large and small companies compete for small projects (see paragraph 47), competition concerns are therefore less likely to arise for private sector projects. Respondents also did not raise any competition issues in this respect. As such, CCS is of the view that competition concerns are unlikely to arise even if the product market was segmented according to the value of projects.

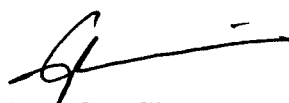
49. On the basis of the above, CCS considers that sufficient competition exists post-transaction, barriers to entry and expansion are low, and customers would have the ability to switch. As such, CCS is of the view that the notified transaction is unlikely to bring about non-coordinated effects.

**Coordinated Effects**

50. Given the high degree of product differentiation in IT services, it is difficult for competitors to coordinate their activities. No concerns of coordinated effects were raised by respondents. As such, CCS considers it unlikely that the notified transaction will bring about coordinated effects.

**VII. CONCLUSION**

51. For the reasons stated above and based on the information available, CCS has assessed that the notified transaction has not infringed the section 54 prohibition.



Teo Eng Cheong  
Chief Executive  
Competition Commission of Singapore

Market share figures for provision of IT services by IT service subcategories in Singapore

[X]

Market share figures for provision of IT services by verticals in Singapore

[X]