



Statement of Issues

5 November 2015

Iron Mountain Incorporated – proposed acquisition of Recall Holdings Limited

Purpose

1. This Statement of issues aims to:
 - a. give the preliminary views of the Australian Competition and Consumer Commission (**ACCC**) on competition issues arising from Iron Mountain Incorporated's (**Iron Mountain**) proposed acquisition of Recall Holdings Limited (**Recall**)
 - b. identify areas of further inquiry
 - c. give all interested parties an opportunity to comment
 - d. invite interested parties to submit information to assist us in our assessment of the issues.

Overview of ACCC's preliminary views

2. The legal test which the ACCC applies in considering the proposed acquisition is in section 50 of the *Competition and Consumer Act 2010* (the **Act**). Section 50 prohibits acquisitions that substantially lessen competition in a market, or are likely to do so.
3. The ACCC divides its preliminary views into three categories, 'issues of concern', 'issues that may raise concerns' and 'issues unlikely to raise concerns'.

Issue of concern

4. The ACCC is concerned that the proposed acquisition would be likely to lead to a substantial lessening of competition in a national market for the supply of physical document management services (**PDMS**).

Issue that may raise concerns

5. The ACCC is concerned that the proposed acquisition may lead to a substantial lessening of competition in regional markets, centred on each state and territory capital city (excluding the Northern Territory), for the supply of PDMS.

Issues unlikely to raise concerns

6. The ACCC does not consider that the proposed acquisition would be likely to lead to a substantial lessening of competition in markets relating to the supply of:
 - a. digital document management services
 - b. data protection services.

Making a submission

7. The ACCC is seeking submissions from interested parties, particularly on the following key issues:
 - a. the geographic dimension of regional markets for the supply of PDMS
 - b. whether competition occurs in a multi-regional or national market in addition to regional competition
 - c. whether small to medium-sized PDMS providers, who do not have a national presence, could supply large or national customers
 - d. the extent to which existing PDMS providers constrain the merger parties
 - e. barriers to entry and expansion in PDMS markets.
8. This Statement of Issues contains detailed discussion of these and other issues, along with specific questions.
9. Interested parties should provide submissions by no later than 5pm on **19 November 2015**. Responses may be emailed to mergers@acc.gov.au with the title: Submission re: Iron Mountain proposed acquisition of Recall - attention Jason Byrne. If you would like to discuss the matter with ACCC officers over the telephone or in person, or have any questions about this SOI, please contact Jason Byrne on (02) 6243 1279.
10. The ACCC anticipates making a final decision on **15 December 2015**, however, this timeline can change. To keep abreast of possible changes in relation to timing and to find relevant documents, interested parties should visit the Mergers Register on the ACCC's website at www.accc.gov.au/mergersregister.

Confidentiality of submissions

11. The ACCC will not publish submissions regarding the proposed acquisition. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the *Competition and Consumer Act 2010*. Where the ACCC is required to disclose confidential information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, if the information provided to the ACCC is of a confidential nature, please indicate as such. Our [Informal Merger Review Process Guidelines](#) contain more information.

About ACCC 'Statements of Issues'

12. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
13. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they wish to do so.

Timeline

Date	Event
25 August 2015	ACCC commenced review of the proposed acquisition
5 November 2015	ACCC publication of Statement of Issues
19 November 2015	Closing date for submissions relating to Statement of Issues
15 December 2015	Proposed date for announcement of ACCC's final decision

The parties

The acquirer: Iron Mountain Incorporated

14. Iron Mountain is a global supplier in the information management industry. It is headquartered in the United States and listed on the New York Stock Exchange. In 2014, Iron Mountain had revenues of US\$3.1 billion.
15. In Australia, Iron Mountain carries on business through its subsidiary Iron Mountain Australia Pty Ltd. As a national supplier, it has a presence in every state and territory.

The vendor: Recall Holdings Limited

16. Recall is an Australian listed public company that is a global supplier in the information management industry. In 2014, Recall had revenues of US\$836 million.
17. Recall is a large national supplier, operating in every Australian state and territory, except the Northern Territory.

Other industry participants

Grace Records Management

18. Grace Records Management Pty Ltd (**Grace**) is a national supplier of information management services in Australia, with operations in every state and territory. It is an Australian private company and part of the Crown Worldwide Group (**Crown**). Crown is a global transportation, relocation, logistics and storage business with a presence in 60 countries. Records management is one of six divisions of Crown.

The Information Management Group

19. The Information Management Group (**TIMG**) is a supplier of information management services in Australia that operates in every state and territory. It is a wholly owned subsidiary of Freightways Limited, a New Zealand listed public company that provides express package and business mail services in New Zealand and information management services across Australia and New Zealand.

Compu-stor

20. Compu-stor is a privately owned Australian information management company. Established in 1987 in Perth, it has expanded to Victoria (in 2007) and NSW (in 2015).

Archivewise

21. Archivewise is a privately owned Australian information management company based and operating in Perth.

Other providers

22. Three other non-national PDMS providers operate in more than one state: Advance Record Management, Fileman and Save My Records. Advance Record Management has operations in NSW, Queensland, South Australia, Tasmania and Victoria. Both Fileman and Save My Records operate in NSW, Queensland and Victoria.
23. There are a number of small to medium-sized PDMS providers that are based in major city centres. Most of these providers operate within one region only. These providers include Document Management Solutions (Sydney), CTI Records Management (Perth), RecDoc (Melbourne) and M.S.S. Records Management Services (Canberra).

The proposed acquisition

24. Iron Mountain proposes to acquire Recall by a scheme of arrangement. Under the proposed transaction, Iron Mountain will acquire all of Recall's operations, including in Australia, North America, South America, Europe and the Asia-Pacific.
25. The proposed acquisition is also being considered by competition authorities in the United States, United Kingdom and Canada.

Industry background

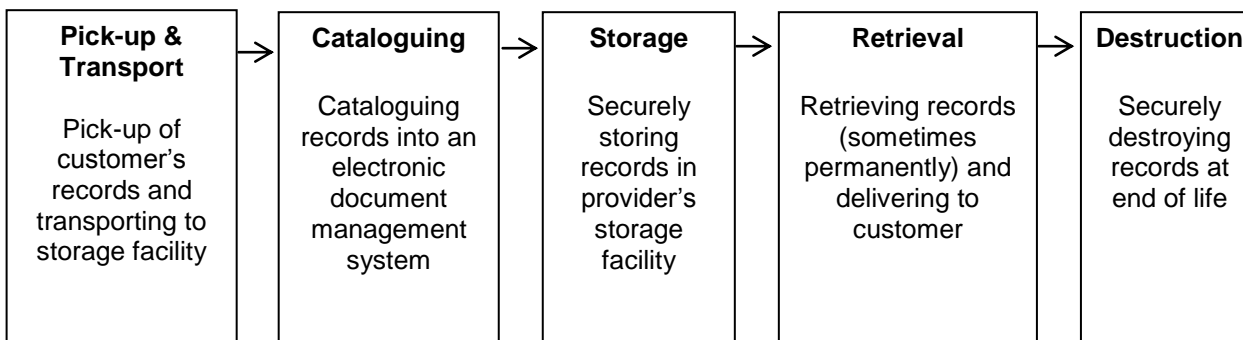
26. The information management industry in Australia provides services relating to the storage, protection, retrieval and disposal of physical (paper) and digital records.
27. Information management services include four lines of business:
 - a. Physical document management services – the storage and retrieval of physical documents for archiving or destruction.
 - b. Digital document management services – scanning and electronically storing large numbers of physical records for easier retrieval, archiving or as part of a business process such as mail room.
 - c. Data protection services – the storage of backup or archival data on tapes, disk and/or cloud mediums.
 - d. Secure destruction services – collecting, shredding and disposing of hard copy documents securely.
28. This Statement of Issues focuses on PDMS, because this is the main area of overlap between the merger parties that raises competition concerns (as discussed at paragraph 43 below).

Physical document management services

Overview of PDMS

29. Broadly, the supply of PDMS encompasses the storage of boxes or files and the activities associated with the stored boxes or files. The processes involved in PDMS are illustrated in the figure below.

Figure 1: Overview of PDMS processes



Charges and costs

30. Many customers conduct tender processes for PDMS or hire procurement firms to conduct such processes. Charges to customers can vary for a range of reasons, including the intensity of competition, the size of the customer (customers may pay lower prices for higher volumes) and the supplier's cost base. Physical document storage is typically charged monthly per box or file.
31. Many of the costs of providing PDMS are fixed in the short to medium term. Larger PDMS suppliers enjoy economies of scale from storing higher volumes and spreading such fixed costs, resulting in lower per unit (box) costs.

Consumers of PDMS

32. The main types of PDMS customers are:
- a. financial services
 - b. government agencies
 - c. health services
 - d. professional services.
33. The customer base includes a large number of small to medium enterprises and non-profit organisations, and ranges up to Australia's largest businesses and government departments. Some of these customers have a national or semi-national presence, with PDMS requirements in more than one region. Some customers have PDMS requirements that mean they value dealing with a single PDMS supplier.
34. Many businesses and organisations retain and protect records to comply with statutory or business requirements. While some organisations undertake these activities themselves, others outsource to third party providers. These arrangements are generally referred to in the industry as 'unvended' and 'vended' respectively. Many vended organisations also store some records in-house, in particular records that are highly active.

Suppliers of PDMS

35. PDMS suppliers tend to be located in capital cities where the concentration of business activity lies. Storage facilities are usually situated relatively close to

where customers are in major city or regional centres to limit transport costs and provide timely services (such as document retrieval).

Industry trends

36. The growth of digitisation in recent years has led to an increase in demand for digital storage, impacting the growth of physical storage services. Some companies are transitioning towards 'paper-light' operations, creating and storing only digital records.
37. Despite this trend, the PDMS market is still expected to grow over the coming years (although more slowly than in the past). This is because some businesses and organisations are still creating physical records to satisfy their business needs, with many records being stored for substantial periods of time.
38. Legislative requirements further drive demand in the PDMS market. Organisations are required by law to create and store certain records, such as tax records and health records, for a specified period of time. Therefore, new storage capacity is continuously required.
39. PDMS currently accounts for approximately 56% of the revenue in the information management industry, while digitisation services makes up 23%.¹
40. There has also been a trend of consolidation within the industry in recent years. Smaller PDMS providers are being acquired as companies seek to increase market share, expand their national footprint and achieve economies of scale.

Future with and without the acquisition

41. Section 50 of the Act prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment post-acquisition if the acquisition proceeds (the "with" position) to the likely future competitive environment if the acquisition does not proceed (the "without" position) to determine whether the proposed acquisition is likely to substantially lessen competition in any relevant market.
42. On the basis of the information currently available, the ACCC considers that in a future without the proposed acquisition Iron Mountain and Recall would continue operating as independent businesses.

Areas of overlap

43. The merger parties overlap in the supply of:
 - a. PDMS
 - b. digital document management services
 - c. data protection services.
44. Feedback from market participants has primarily focused on the potential for adverse competition effects in the market for the supply of PDMS. The merger parties are not large suppliers of digital document management services. As

¹ IBISWorld Industry Report OD5517, 'Document Management Services in Australia', January 2015.

such, they do not have a substantial share of the market(s) in relation the supply of these services.

45. The merger parties are large suppliers of data protection services (mainly tape and disk storage, as well as tape sales). However, the ACCC has not received market feedback to date suggesting the proposed acquisition would give rise to competition concerns in this market.
46. The ACCC notes that while Recall supplies secure destruction services, Iron Mountain no longer provides such services, having recently sold its shredding business. The parties therefore do not overlap in the supply of these services.
47. Accordingly, this Statement of Issues focuses on the market for the supply of PDMS.

Market definition

48. The ACCC's starting point for delineating relevant markets to assess the competitive effects of the proposed acquisition involves identifying the products actually or potentially supplied by the merger parties. The ACCC then considers what other products constitute sufficiently close substitutes to provide a significant source of constraint on the merged entity. For the reasons set out above, the ACCC is focused on PDMS.

Product dimension

49. The ACCC is considering whether digital document storage is a close substitute for physical document storage.
50. There is a trend towards the digitisation of documents, as discussed above. However, this does not necessarily mean that digital document storage should be considered part of the relevant market for assessing the proposed acquisition.
51. The ACCC draws on the conceptual framework provided by the hypothetical monopolist test to define relevant markets. The hypothetical monopolist test asks whether customers would switch to an alternative product (such as digital document storage) in the event of a small but significant non-transitory increase in price (such as a 5-10 per cent increase in PDMS prices). If enough customers switch to an alternative product, then that product may be considered a close substitute and may be included in the product dimension of the relevant market.
52. The ACCC's market inquiries indicate that a 5-10 per cent price increase in PDMS would not be likely to materially affect the rate at which customers are switching from paper to digital records.
53. Further, some organisations are not able to switch to digital records, given they must comply with statutory or other requirements to retain certain documents in hard copy.
54. Market inquiries also suggest that it is generally more cost effective to retain holdings in hard copy until destruction than convert them to digital format.
55. Interested parties have also indicated that it can be costly, or create significant business disruption, to redesign established business practices to create only digital documents.
56. Organisations that have an ongoing demand for document storage are still creating physical documents. The ongoing demand for physical document storage and PDMS more broadly can be seen in the existence of specialised

PDMS providers that seek to meet the needs of customers by providing such a service.

57. Given the above factors, the ACCC's preliminary view is that digital document storage services are a relatively weak substitute for PDMS where customers require such a service. This does not mean that digitisation is excluded from the ACCC's analysis. The ACCC is further considering the extent to which digitisation would provide a constraint on the merged entity, particularly in light of broader trends (see paragraph 88 below).

Geographic dimension

58. The ACCC considers that competition may occur at more than one geographic level. The ACCC's preliminary view is that the market for the supply of PDMS covers two geographic levels: regional and national.

Regional markets

59. Inquiries indicate that customers with holdings in a particular region use suppliers in the same region. For retrieval purposes, time-sensitive customers value access to their documents at short notice. In addition, inquiries suggest that customers are attentive to costs and do not consider suppliers of PDMS in more distant locations (e.g. in a different state) to be close substitutes for suppliers based in the same region as the customer, given transport costs.
60. The ACCC's preliminary view is that regional markets are mainly centred on state or territory capital cities where there is a large customer base. However the ACCC has not sought to precisely define the geographic dimension of each regional market for the purposes of this Statement of Issues. The competition issues in each regional market are unlikely to be materially affected by consideration of the precise geographic boundary of the market.

National market

61. Inquiries indicate that large customers with a national or multi-regional presence, such as large corporate and government customers tender for, and contract with, a single provider who can meet their PDMS needs in all their locations. This arrangement allows such customers to receive significant volume-based discounts. Dealing with only one supplier also simplifies and reduces the costs of procurement and contract management, and allows a central approach to document management and retrieval, even where documents are held in multiple locations.
62. Iron Mountain, Recall, Grace and to a lesser extent TIMG have a national presence with multiple warehouses in different locations. They have the footprint and systems to service the needs of customers requiring a national or multi-regional solution. Inquiries suggest that smaller providers that do not have a national presence cannot readily expand their offer without significant new investment. Inquiries suggest that it is difficult for smaller providers to secure committed business necessary to achieve the economies of scale required to underwrite investment in additional warehouse capacity.
63. Therefore, this Statement of Issues considers the effect of the proposed acquisition in a national PDMS market. For this purpose, a reference to a 'national' supplier or customer includes large customers that operate in more than one state or territory (that is, multi-regional), and suppliers that can service their needs.

Preliminary view on relevant markets

64. Based on information received by the ACCC to date, the ACCC's preliminary view is that the markets relevant for assessing the competition effects of the acquisition are:
- a. regional markets, centred on each state and territory capital city, for the supply of PDMS
 - b. a national market for the supply of PDMS (including multi-regional supply).

Questions for interested parties

The ACCC invites comments from market participants on its preliminary views about the definition of the relevant market(s). In particular market participants may wish to comment on the following:

- Would customers and/or suppliers substitute digital document storage for physical document storage if the price of PDMS were to increase by 5-10 per cent? Why or why not? Please provide examples.
- Could PDMS suppliers only operating in one region readily expand to serve customers in another region, or expand into several regions to meet the needs of a large national supply contract?
- How far do PDMS suppliers travel to service customers? Do these distances differ depending on whether the customer is a national customer or not?

Issue of concern: Reduction in competition in the national PDMS market

65. Based upon its inquiries to date, the ACCC's preliminary view is that the proposed acquisition is likely to lead to a substantial lessening of competition in the national PDMS market as a result of the elimination of close and significant competition between Recall and Iron Mountain. This would lessen the constraints faced by Iron Mountain and would be likely to lead to an increase in prices and/or a reduction in service.

Market concentration

66. Based on data supplied by different interested parties, national market share estimates for the supply of PDMS are provided in Table 1 on the next page. The estimates are provided as ranges to account for differences in parties' views.

Table 1: National market share estimates for supply of PDMS 2014-15

PDMS supplier	Estimate share % (range) ²
Recall	37-55
Iron Mountain	16-22
Merged entity	59-71
Grace	15-19
TIMG	5-9
Others	9-14

Source: Interested parties.

67. Based on these estimates, the table above shows the merged entity would have a share of between 59 and 71 per cent.

Elimination of competition between two close competitors

68. Market inquiries indicate that Recall and Iron Mountain are close competitors, particularly for the supply of PDMS nationally. As the two largest suppliers, they each provide a strong constraint on each other, which would no longer exist after the acquisition. Both merger parties have a large geographic presence and enjoy economies of scale. Inquiries indicate that large customers use the competition between Iron Mountain and Recall to negotiate better deals, including through tender processes and benchmarking. The removal of Recall would remove this competition.

Constraints from existing suppliers

Specialised PDMS providers

69. Grace and to a lesser extent TIMG, the third and fourth largest suppliers respectively, also compete to supply customers with national requirements. However feedback suggests that TIMG and smaller suppliers may not have the same capacity, in terms of the location of their facilities or the level of their services, as Iron Mountain and Recall to compete effectively on this geographic scale. The ACCC is further considering the degree of constraint provided by Grace and TIMG and is seeking further information from stakeholders.
70. Inquiries suggest that smaller suppliers operate in limited geographic areas and do not enjoy the same economies of scale as large suppliers. Given their limited geographic presence and smaller scale, they do not have the ability to compete effectively for national customers.
71. Inquiries indicate that smaller suppliers are not a strong competitive constraint because they are not able to offer the same discounts as larger national providers and do not have the ability to provide a coordinated and comparable level of service covering all of the customer's national requirements.

Self-storage providers

72. Self-storage providers are similarly unlikely to constrain the merged entity. Inquiries indicate that self-storage providers generally cater for households and small businesses that have few boxes to store.
73. Self-storage providers may be an option for some customers with basic document requirements. However given that national customers have greater

² Share estimates are based on the sum of the various estimates from each interested party that provided an estimate. Therefore the range of estimates for the merged entity is narrower than the sum of the lowest and highest estimates of the merger parties' individual shares.

and more sophisticated document storage, management and retrieval requirements, self-storage providers would be unlikely to impose a constraint on the merged entity in the national market.

Public sector providers

74. Public sector providers, such as the National Archives of Australia and various state-based government records authorities, only service government agencies and other public bodies. They tend to focus on providing specialised services for records of a particular nature – such as records that are deemed to have a certain public value. Inquiries indicate that government entities seek to outsource to private PDMS providers to service their general document storage needs. Accordingly, given the limited scope of public sector providers' activities, such providers are unlikely to constrain the merged entity, including in the national PDMS market.

Barriers to entry and expansion

75. Market feedback indicates that there are high barriers to entry and expansion in the national PDMS market. These barriers include:
- a. customer stickiness
 - b. sunk entry costs
 - c. economies of scale
 - d. supplier reputation.
76. These barriers are also relevant in regional PDMS markets, which are discussed below. However, they are exacerbated in the national market given the need to replicate a regional business across multiple locations.
77. Feedback suggests that there has been minimal large-scale new entry or expansion in recent years except via acquisition. While Compu-stor (originally based in Perth) has expanded its operations to Victoria and NSW, it remains a small provider in these two regions, and the expansion has taken many years. Inquiries have not provided other examples of regional providers expanding to be able to meet the national requirements of large customers.
78. The PDMS market is characterised by a high level of customer stickiness. Customers do not switch suppliers often. Estimates suggest that churn rates within the industry are very low. Inquiries suggest the main reasons for this customer stickiness are:
- a. the presence of long-term contracts
 - b. significant switching costs.
79. The presence of long-term contracts limits the extent of customer switching. Even after a contract term has expired, it appears that customers do not generally switch suppliers.
80. At the end of a contract, customers face high costs to retrieve their documents if they want to switch providers. These costs can be exacerbated by permanent retrieval fees. Permanent retrieval fees are a charge (per box or file) to permanently remove records from a warehouse. These fees can be significant relative to the potential savings from a new supplier on ongoing storage costs. They have the effect of limiting the extent of customer switching and deter potential new entry and incumbents from expanding.
81. While competitors may offer to pay a customer's permanent retrieval fee, this is likely to be very costly for a smaller supplier. It may make cost management and

competitive pricing even more difficult for new entrants relative to the incumbency advantage of existing providers, who receive permanent retrieval fees when they lose a customer to a rival.

82. Another barrier suggested by interested parties is costs relating to the establishment of a PDMS business, many of which are sunk costs. These entry costs include sales and marketing, warehouse facilities (such as lease or build costs), internal warehouse fit-out and information technology systems. While they may be scalable to some degree, inquiries indicate that these costs are high, relative to revenues at start-up. It can take many years to turn a profit and recoup costs.
83. Economies of scale also act as a deterrent to large-scale entry and expansion. A large volume of holdings is required to spread fixed costs and realise scale economies. Moreover, adding large capacity to a market with relatively low growth would create excess supply. The expected returns may not be attractive for potential entrants. This limits the viability of entry and expansion, particularly given the difficulty of winning customers from incumbent competitors to generate the economies of scale required to operate competitively.
84. Feedback suggests that supplier reputation may also be important as customers are entrusting providers with confidential, private or otherwise sensitive documents. Some customers may not be willing to switch to unknown or untested suppliers. This may be a more significant issue for larger customers.

Ability of customers to bypass the merged entity

85. The ACCC's preliminary view is that customers do not have strong countervailing power. The following potential options for customers to bypass the merged entity do not appear sufficient to constrain the merged entity raising prices or degrading service.
86. **Disaggregating contracts.** The ACCC has considered whether national customers might be able to disaggregate their contracts so as to use multiple suppliers (across various regions), thereby bypassing the merged entity. However, this would create higher costs and administrative burdens for such customers. Feedback indicates that national customers would be unlikely to do so in the absence of a large price increase from the merged entity. Accordingly, it is doubtful that national customers wield countervailing power to constrain the merged entity in the national market.
87. **Insourcing.** For businesses that have decided to outsource their PDMS requirements, inquiries suggest it is rare for them to revert (or credibly threaten to revert) to insourcing because it is not practical or cost effective to do so.
88. **Digitising the physical records.** As discussed above under market definition, the ACCC considers that digitisation does not have a significant impact on the PDMS market, and is unlikely to do so in the foreseeable future. Inquiries have not provided any examples of customers switching all of their requirements to digital storage and ceasing to use PDMS in response to a price increase. Digitisation appears unlikely to impose a strong constraint on the merged entity. However, the ACCC is further considering the effect of digitisation as a constraint in the PDMS market.

ACCC's preliminary views

89. In summary, the ACCC is concerned that the proposed acquisition is likely to substantially lessen competition in the national market for the supply of PDMS. The proposed acquisition would combine two of the three largest competitors in

circumstances where the merged entity would not be subject to strong competitive constraint from other providers or new entrants, or any countervailing power of customers.

Issue that may raise concern: Reduction in competition in regional PDMS markets

90. Based upon its inquiries to date, the ACCC's preliminary view is that the proposed acquisition may substantially lessen competition in regional PDMS markets as a result of the removal of close and significant competition between Iron Mountain and Recall.
91. Many of the factors identified in the competition analysis of the national PDMS market also apply to the various regional markets (excluding the Northern Territory). In particular, the merger parties:
- have high market shares in each of these regional markets
 - face limited competitive constraints
 - benefit from barriers to entry
 - do not face customers with strong countervailing power.
92. However there are some distinguishing features of regional PDMS markets, which are outlined below. Recall does not have operations in the Northern Territory. Any regional market in the Northern Territory is therefore excluded from the competition analysis below. The various regional markets will be dealt with together given their common features.

Market concentration

93. Based on data supplied by interested parties, estimates of PDMS providers in each relevant state/territory are provided in Table 2.³

Table 2: PDMS share estimates (%) in states and territories 2014-15

PDMS supplier	NSW	ACT	VIC	SA	TAS	WA	QLD
Recall	53	46	44	56	31	36	42
Iron Mountain	17	20	22	15	46	19	17
Merged entity*	70	66	66	71	76	55	59
Grace	19	20	19	15	15	7	22
TIMG	5	10	5	7	6	8	7
Compu-stor	1	-	3	-	-	15	-
Other providers	7	8	6	7	8	14	8

Source: Interested parties.

³ Table 2 shows the midpoint of estimates received from different interested parties, and therefore may not add to 100 per cent. The full range of estimates for the national market is shown in Table 1. Regional markets, which are centred on state/territory capital cities, may not neatly align with state/territory boundaries. Therefore the share estimates for each state/territory may not directly correspond to market shares in each regional market.

94. The merged entity would have consistently high shares across all states. Depending on the state, the market share of the merged entity would sit between 55 and 76 per cent.

Existing competitors

95. Besides the merger parties, Grace and TIMG, several small and medium-sized providers operate in each region. Non-national customers in each region therefore have more choice amongst providers. Compared with the national PDMS market, the merged entity may face more constraint from smaller suppliers in each of these markets.
96. Smaller providers operating within only one region typically:
- a. service small to medium sized customers who do not require storage of high volumes of records
 - b. lack the economies of scale necessary to expand the scope of their service
 - c. focus on quality and service.
97. Smaller providers tend to differentiate themselves on quality and service. While smaller providers compete to some extent with larger providers in single regions, inquiries indicate they are unlikely to be significant price competitors as they lack the advantages of scale. For this reason, the additional constraint provided by smaller suppliers on the regional level may therefore still be limited when compared to the constraint that Iron Mountain and Recall impose on each other.

Barriers to entry and expansion

98. The ACCC's preliminary view is that the barriers to entry and expansion identified at paragraph 75 above also apply in regional markets, although there are added barriers to establishing a national presence. Even at a regional level, market inquiries suggest it would be difficult for new entrants, or expanding small players, to increase their scale significantly to become effective competitors to large PDMS providers.
99. As indicated earlier, even where there has been expansion of smaller providers such as Compu-stor in Perth, they still have a very small market share. The market structure appears to have been relatively stable for a long period.
100. Where there has been growth in market shares, it appears to have been largely due to acquisitions, with a smaller proportion attributable to organic growth. This suggests that there are barriers to significant entry and expansion.
101. The ACCC is further considering the extent to which barriers identified at paragraph 75 above have an effect at the regional level.

ACCC's preliminary views

102. The ACCC's preliminary views is that the proposed acquisition may substantially lessen competition in regional markets for the supply of PDMS.

Questions for interested parties

The ACCC invites comments from market participants on its competition analysis for both the national and regional PDMS markets. In particular market participants may wish to address the following questions. Please address both the national and regional markets in responses to the questions below.

Both national and regional markets:

- Please explain whether you consider Iron Mountain and Recall to be close competitors for the supply of PDMS?
- To what extent would Grace, TIMG or other PDMS suppliers constrain the merged entity?
- Please provide examples of any new entrants or existing PDMS suppliers that have won material share in the PDMS market(s) in recent years. How much of their growth is attributable to winning customers from their competitors, as opposed to the acquisition of competitors?
- Do you agree that the barriers to entry and expansion identified by the ACCC at paragraph 75 constitute barriers? If so, do you consider these to be the main barriers? Are there any other barriers?
- Would customers be likely to bypass the merged entity by reverting to in-house PDMS or switching to digital storage if the price of PDMS were to increase? If so, what level of price increase would be sufficient to prompt such a response?
- Would national customers be likely to disaggregate contracts and use multiple suppliers (instead of a single supplier) if the price offered were to increase? If so, what level of price increase would be sufficient to prompt such a response?

Issues unlikely to raise concerns: Supply of digital document management services and data protection services

103. The ACCC's preliminary view is that the acquisition is unlikely to lead to a substantial lessening of competition in markets relating to the supply of:
 - a. digital document management services
 - b. data protection services.
104. As indicated earlier, the ACCC has not received any significant concerns in relation to the supply of these services. The ACCC welcomes comments from any party who has competition concerns relating to the proposed acquisition and data protection services. Parties should contact the ACCC as part of its review process before 19 November 2015 (further details are provided below).

ACCC's future steps

105. The ACCC will finalise its view on this matter after it considers submissions invited by this Statement of Issues.
106. As noted above, the ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter. Submissions are to be received by the ACCC no later than **19 November 2015** and should be emailed to mergers@acc.gov.au.
107. The ACCC intends to publicly announce its final view by **15 December 2015**. However the anticipated timeline may change in line with the Merger Review Process Guidelines. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.