

EMAP PLC/ABI BUILDING DATA LTD MERGER INQUIRY

Provisional findings report

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The Competition Commission has excluded from this published version of the provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by ✂.

Provisional findings report

Acquisition by Emap plc of ABI Building Data Ltd

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Glossary

Summary

1. We were asked to investigate whether the acquisition of ABI Building Data Ltd (ABI) by Emap plc (Emap) has created a merger situation that may be expected to result in a substantial lessening of competition (SLC). Emap, through its subsidiary Glenigan Limited (Glenigan), and ABI are by far the biggest providers of project information and contact data (PICD) to the construction industry in the UK. They gather information about construction projects and relevant contacts from planning applications and other sources, process it and supplement it with other information, and provide it on subscription to suppliers of construction services and materials, who use it to get new business. This information is provided in standard form or bespoke to meet customers' individual requirements.
2. The use of PICD products is one among many methods by which companies in the construction industry identify new business. Other methods include personal contacts, sales forces, the trade press, advertising and attending conferences and exhibitions. On average, a company which uses PICD uses eight or nine methods in all to generate new sales, and only about 6,000 of approximately 287,000 firms in the construction industry use the PICD products provided by Glenigan or ABI at any one time. Spending on PICD products is only a small proportion of sales and marketing budgets. There is also a high turnover of PICD customers, with a third leaving and being replaced every year.
3. However, these products differ significantly in their use and characteristics from other means of seeking new sales. They provide specific project leads that a company can follow up at exactly the right time; the information is specific to the projects and can be customized. Some companies organize their sales process around the follow-up of contract leads and may integrate the data with their sales management systems.

Over a third of companies that use PICD products believe that there is no effective substitute for them, according to our survey.

4. Both ABI and Glenigan have increased prices, Glenigan more substantially than ABI (though accompanied by some increase in product quality). Most customers who have left have not, however, done so because of price rises but because they have not found the product effective, or have no current need for it as part of their sales and marketing portfolio. Similarly, only a small minority (5 per cent) of ABI customers surveyed gave price as a reason for cancelling the subscription. Only a quarter of Glenigan customers who left at a time when prices were increased as part of Glenigan's added value strategy did so for price reasons. Although some Glenigan customers reduced the specification of the contract leads they receive in response to target price increases, Glenigan still achieved two-thirds of the target price increases and an increase in customers.
5. In our view, customers' sensitivity to prices is low. The Competition Commission (CC) survey of ABI and Glenigan customers found that two-thirds of those who gave a view would continue to use PICD if prices increased by 10 per cent. We could not rely on this result to determine whether or not a hypothetical monopolist could profitably raise PICD prices because of uncertainty about the proportion that would have stopped subscribing anyway. However, considering the capacity for price discrimination that we identified, the evidence of Glenigan's increasing prices in the past (even allowing for quality improvements) and Glenigan's post-merger plans for further increases, we concluded that PICD was the appropriate set of products to use as a basis for assessing the competitive constraints on the merged business. In our view, other means of identifying new business do not sufficiently compete with PICD to be sensibly regarded as competing in the same market.

6. Thus we concluded that the relevant product market was for PICD. We also concluded that it was a national market. Customers do not make the decision of which PICD supplier to use based on where that supplier is located. Both Glenigan and ABI provide PICD across the UK.
7. We found that Glenigan and ABI were by far the most significant suppliers of PICD, with a combined market share of over 70 per cent. Although there are a number of regional or niche suppliers (usually providing information on contracts in specific sectors), none of them individually had more than a very small share of the market. The information they supply was typically less comprehensive on individual projects than that supplied by Glenigan and ABI. They were not seen as realistic alternatives to Glenigan and ABI by the great majority of Glenigan and ABI customers, although they were used by some as supplementary sources in specific sectors.
8. We found that Glenigan and ABI were the main rivals in the supply of PICD. They have both developed their products in recent years, with similar patterns of innovation. They follow similar practices on price setting, negotiating individual prices and discounts from the starting point of the product list. Comparison with the other provider is a factor in customers' price negotiations and they have engaged in competitive discounting. Many customers see the other provider as the only realistic alternative for PICD. According to Glenigan's analysis, actual switching between Glenigan and ABI was relatively low, although there was some evidence that Glenigan's analysis was inaccurate. Actual switching also underestimates the competitive pressure because customers compare the two in advance and use the potential for switching in negotiations.
9. We did not find evidence to suggest that new entry or the expansion of an existing niche or regional provider would provide a sufficient competitive constraint on the

merged firm. Effective competition with Glenigan post-merger would require national or at least substantial regional coverage of all types of contract. All the current regional or niche providers have very low market shares. A new entrant (or expanding smaller provider of PICD) would require considerable investment, notably the ability to sustain operating losses while creating or expanding a customer base. All but one of the potential new entrants identified by Emap considered that the costs and risks made new entry unviable; in the case of the exception, the costs of entry appeared to us to be underestimated.

10. We found that, had it not been for the merger, ABI was likely to have continued as a viable and profitable competitor for Glenigan, either as a free-standing business or following a sale to a purchaser other than Emap. The appropriate comparison, in deciding whether the merger is likely to result in an SLC, is therefore with a situation with Glenigan and ABI in competition and ABI operating as an economically viable and competitive firm.
11. We concluded that, following the merger, the products will be merged and customers requiring the products supplied by Glenigan and ABI will have a single effective supplier instead of having a choice between two. The merged business will be likely to raise prices for these services to a greater extent than the two businesses operating separately in competition. The merged business will also be likely to improve quality and innovation to a lesser extent than the two businesses operating separately in competition. The possibility of new entry is not sufficient to act as a competitive constraint.
12. We concluded that the merger may be expected to result in an SLC.

Provisional findings

1. The reference

- 1.1 On 1 July 2004 the Office of Fair Trading (OFT) referred the acquisition by Emap of ABI to the CC for investigation and report. The reference was made under section 22(1) of the Enterprise Act 2002 (the Act). Our full terms of reference are set out in Appendix A.
- 1.2 We are required to decide two questions: whether the acquisition has created a relevant merger situation, and whether the creation of that situation has resulted or may be expected to result in an SLC within any market or markets in the UK). If we answer both questions in the affirmative, we are required by section 35 of the Act to go on to consider whether action should be taken by the CC or by others to remedy, mitigate or prevent the SLC or any adverse effects from it. If we conclude that action should be taken, we are required to state what action should be taken. Our provisional decisions on the questions that we are required to answer are in paragraphs 3.13 and 8.17. We will publish a separate statement to seek views on the remedial action to be taken. We are required to publish our final report by 15 December 2004. This period can be extended by up to eight weeks.
- 1.3 This document, together with its appendices, constitutes our provisional findings and does not represent a final decision. We conducted qualitative surveys of customers and ex-customers of the firms involved in the merger, and we commissioned a quantitative survey of customers. Reports on these surveys have been published on the CC web site and are at Appendix B. Further information, including non-sensitive versions of main party and third party written submissions, can be found on our web site.

2. The products and the companies

The products

- 2.1 The products supplied by the companies involved in the merger are described in our terms of reference as 'construction project information and contact data products' (PICD). These products are based on information sourced mainly from applications for planning permission, supplemented with market intelligence. The information is put into a database from which it is selected and presented to meet customers' requirements.
- 2.2 Information about current or forthcoming construction projects is gathered from the 440 UK planning authorities, the EU *Official Journal* and other publications giving details of new civil projects, refurbishments or planned relocations or public procurement tenders. This information, which is in the public domain, is processed into a consistent format. To supplement it and to add value, the architects, contractors and others involved in the projects are then telephoned to get more detailed information on the timing, detailed requirements and relevant contacts.
- 2.3 The information is then provided to subscribing customers through printed lists, on computer disc or by email. Interactive online services are also available. The information is frequently updated to be relevant to the current stage of each project; for example, adding information on tenders and subcontracts. Lists of individuals involved in the construction industry (such as builders, architects, surveyors, planners, engineers) and their contact details may also be provided. General information relevant to the winning of new business, including analyses of competitors, may also be sold. Software is provided for data handling, and also to enable the customers to use the data directly to manage client information and correspondence. These different elements may be provided separately or as a package.

2.4 The information on projects may be provided in a standard form or bespoke to meet customers' requirements. Both of the companies involved in the merger supply a standard product, consisting of all the information from the database for a particular geographical area, project size, and construction industry sector, and a bespoke product, consisting of information selected from the database to meet the customer's more detailed specific requirements. Key features which make the products valuable to customers are that the information is accurate, detailed, timely and project-specific. (The products are further described in Appendix C.)

The context in which the products are supplied

2.5 The products are used mainly by contractors and materials suppliers in the construction industry as sales generation services, to identify 'contract leads'—namely the potential buyers of services for building contracts.

2.6 The construction industry is highly fragmented. There are about 170,000 contractors (including subcontractors), of which about 146,000 are small firms employing 1 to 13 people.¹ There are about 30,000 product suppliers.² There are also about 23,500 providers of professional services (architects, engineers, surveyors, project and facilities managers and planners).³ Different firms require different aspects of contract leads information at different stages of construction projects.

2.7 The use of sales lead generation services, including those supplied by the companies involved in the merger, is one method which some companies in the construction industry use to identify potential new business. Only a small proportion of companies in the construction industry (some 6,000 companies at any one time) subscribe to the products supplied by the companies involved in the merger. Firms

¹National Statistics, Construction Statistics Annual 2003.

²DTI Construction Sector Unit—Construction Products.

³Construction Industry Council, Built Environment Professional Skills Survey 2003/4.

in the construction industry generate new business in a variety of ways. Evidence from the qualitative and quantitative surveys suggested that on average companies in the industry use eight or nine different methods to generate new sales. These include personal contacts and long-term relationships, sales forces, cold calling, advertising and direct mailing, trade publications, attending exhibitions and corporate events, and getting information from local or national government offices.

- 2.8 In addition, the products are sold to non-construction companies, such as recruitment consultants and financial institutions, to identify possible sources of new business that might arise from construction projects. They are sold to some utilities (such as BT and Thames Water), which use them for planning service provision, and to Ordnance Survey, which uses them to identify land use changes. They are also supplied for reproduction of selections of the data in construction and building journals.

EMAP

- 2.9 Emap is a multimedia company with interests including consumer magazines and radio stations. It had turnover of £1,050 million in the year to 31 March 2004, with an operating profit of £212 million. The relevant reporting division is Emap Communications Limited, which organizes events and conferences for businesses and publishes business to business (B2B) magazines in the UK, covering healthcare, the public sector, media, retail and construction. Emap Communications Limited provided 20 per cent of Emap's turnover in the year to 31 March 2004 and 28 per cent of its operating profit.
- 2.10 Emap Communications Limited is made up of a number of industry-specific divisions including Construction Network. Construction Network consists of four companies providing construction sales and marketing services. These services include

publishing construction and building services magazines, holding exhibitions, and providing information about construction projects and relevant contacts.

- 2.11 Glenigan is one of the companies in Construction Network. Glenigan provides PICD in the UK (on a regional and national basis). It does not provide other sales and marketing services such as exhibitions or magazines; nor do the other companies in Construction Network provide PICD.
- 2.12 Glenigan is based in Bournemouth and employs about 130 staff. Glenigan's turnover in the year to 31 March 2004 was £[redacted] million (less than 1 per cent of Emap's turnover), with an operating profit of £[redacted] million (after restating central overhead charges).
- 2.13 Glenigan was set up by Eric Sperling and Sture Wigart in the 1970s, originally providing project information to the construction industry in a hard copy publication. The first computer database system was installed in 1982. In 1987, Glenigan was sold to Thomson International which then owned *Construction News*, *Building Today* and other construction and building services journals. Emap bought these titles in 1996 and Glenigan in 1997. The computer system was completely renewed in 1999 and Internet provision launched in 2000. (For further information on Emap and Glenigan, see Appendix D.)

ABI

- 2.14 ABI provides PICD in the UK in a similar way to Glenigan with a similar product range. It had turnover of £5.4 million in the year to 31 December 2003, with an operating profit of about £781,000. Its business and profits have been stable over the last five years. ABI is based at Neston (Wirral) and employed 122 staff prior to

the merger. ABI does not have any activities corresponding to Emap's other businesses apart from Glenigan.

2.15 ABI was set up in the early 1950s as an information exchange for tendering contracts and evolved into a sales leads service for the UK construction industry. It has had various owners. ABI was purchased in 1993 from McGraw Hill (which we were told is the market leader in this sector in the USA) by Bertelsmann Professional Information (BPI). In May 2003, Bertelsmann AG sold its science and trade publishing unit (Springer), which included BPI, to a buyout vehicle principally owned by UK venture capital companies Cinven Limited and Candover Partners Ltd (Cinven and Candover). ABI was the only UK business involved in the construction sector that was acquired as part of this transaction. ABI had been operated as an autonomous division by BPI, with the ABI executive director reporting to a divisional head based in Germany. This arrangement did not change significantly following the purchase by Cinven and Candover. (For further information on ABI, see Appendix D.)

3. The merger and the relevant merger situation

Outline of merger situation

3.1 In January 2004, Emap made a proposal to Cinven and Candover to acquire ABI. Emap Communications Limited (a wholly-owned subsidiary of Emap) completed the acquisition of ABI on 4 May 2004, for a declared price of £14 million. Further background on the transaction is given in Appendix D.

Undertakings to the OFT

3.2 Before referring the merger to the CC on 1 July 2004, the OFT accepted interim undertakings from Emap to prevent the parties from integrating the business in a manner which might prejudice any investigation of the merger by the CC. The undertakings required Emap to maintain and operate the ABI business as a separate

and independent concern as far as possible, but permitted Emap to continue certain steps to prepare for integration of the project and contact information of the two businesses and consolidation of customer lists.

Undertakings to the CC

3.3 When the merger was referred, the CC adopted these undertakings and then considered whether any further changes were necessary to prevent pre-emptive action by the parties which might prejudice the reference or impede the application of effective remedies at the end of the inquiry. As a result, on 21 July 2004, the CC accepted new undertakings from Emap which contained a number of additional obligations to ensure that the ABI business would not be integrated with Glenigan during the CC's investigation and that the ABI business would be operated at arm's length and in a manner which would minimize any risk of loss of competitive potential. In particular, the CC required Emap to cease any further work on combining project information and customer lists and to return customer data to ABI. The undertakings also restrict the exchange of commercially sensitive and confidential information between Emap and ABI except where it is necessary for Emap to receive limited information to be able to hold to account the management of the ABI business and ensure its continued economic viability during the investigation.

Emap's rationale for the merger

3.4 Emap told us that it wanted to acquire ABI because ABI was offering parallel products in a core Emap market, and Emap saw an opportunity following the purchase of ABI by Cinven and Candover. ABI did not appear to fit within the business strategy of Cinven and Candover for Springer which was based on the global scientific, technical and medical publishing sector.

- 3.5 Emap told us that it believed it could improve the quality of the products currently offered by Glenigan and ABI separately. It could improve the service provided to ABI's customers by providing information more quickly, for more projects and with more information per project. It believed it could give Glenigan customers access to Builders' Conference⁴ data (tendering information currently supplied exclusively by Builders' Conference to ABI).
- 3.6 Both companies produce a standard product (Glenigan's Bulletin and ABI's SiteData⁵) and a bespoke product (Glenigan's Tailored and ABI's Databuild). The bespoke products account for the majority of subscription income—[X] per cent for Glenigan in 2003/04 and [X] per cent for ABI in 2003. (These products are described in more detail in Appendix C.) Emap planned to combine these four products into two, based on Glenigan's products. It would focus on moving customers previously subscribing to ABI's Databuild to Glenigan's higher-value (and higher-price) Tailored product. It would also keep down prices for the standard product, reducing Glenigan's Bulletin pricing to match that of ABI's SiteData, in part to limit the exposure of the merged business to new entry and self-supply. It also expected to improve subscription renewal rates.
- 3.7 Emap identified substantial cost savings following the acquisition from the rapid integration of the two businesses, eliminating duplicate head office costs, combining databases and consolidating the collection of source material. These cost savings and synergies increased the value of the ABI business to Emap, compared with its value to possible alternative purchasers with no existing business in this sector. Emap said that the cost savings would also allow for higher levels of investment in customer service and product development to meet changing construction industry requirements. In particular, Emap saw a trend to 'design and build', where both

⁴A not-for-profit publisher of tender information to its members, which are construction industry firms.

⁵In March 2004 ABI replaced its standard product, SiteData, with a part-tailored product, Business Builder.

functions are undertaken by the main contractor and not split in the traditional way between the architect and the main contractor, and the increased use by some clients of lists of preferred suppliers instead of open tendering. In view of this, Emap identified an increased need for customers to use PICD together with better customer relationship management tools to build long-term relationships with contractors and suppliers, rather than just to get information about individual projects (paragraph 4.10).

Jurisdiction

- 3.8 Under our terms of reference we are required to investigate and report on whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation. Under the Act, there are two considerations relevant to determining whether there is a relevant merger situation: (a) whether two or more enterprises cease to be distinct, and (b) whether either the turnover test or the share of supply test is satisfied (section 23 of the Act).
- 3.9 By an agreement made on 4 May 2004, the owners of all the issued shares in ABI agreed to sell those shares to Emap Communications Limited. The sale was completed on the same day. The reference was made on 1 July 2004. Thus enterprises carried on by or under the control of ABI have ceased to be distinct⁶ from enterprises carried on by or under the control of Emap and did so within four months of the reference.
- 3.10 The relevant share of supply test in section 23(4) is met if Emap increases its share of supply of products or services of any description in the UK to at least one-quarter

⁶The Act provides that enterprises cease to be distinct if they are brought under common ownership or control.

as a result of the merger, or if it already supplies at least one-quarter and increases its share as a result of the merger.

- 3.11 Emap identified a broad product category of construction sales and marketing information services, consisting of four segments: (a) PICD; (b) static contact lists; (c) marketing and competitor intelligence; and (d) customer relationship management software. Emap gave us estimates of shares of supply. It based its estimates of the supply of PICD by its competitors on their reported turnover, making assumptions about the proportion of turnover to be attributed to PICD. On this basis, Emap estimated the combined share of supply of PICD of Glenigan and ABI to be over 40 per cent.
- 3.12 We have made our own estimates of the shares of supply of PICD of Glenigan and ABI (Table 8, paragraph 5.2). These estimates are based on information provided for the latest financial year by the companies supplying those services. These estimates indicate that the shares of supply of PICD of Glenigan and ABI are respectively just over 40 per cent and just over 30 per cent. The share of supply test is therefore met, and we do not have to consider whether the turnover test is met.
- 3.13 We have found that, as a result of the merger, enterprises carried on by or under the control of Emap have within four months before the reference ceased to be distinct from enterprises carried on by or under the control of ABI. We have also found that Emap supplies more than a quarter of the PICD supplied in the UK and that its share will have increased as a result of the merger. We therefore conclude that there is a relevant merger situation within the meaning of the Act.

4. Market definition

Product market

General approach

- 4.1. To determine the relevant market definition for the purpose of assessing the competitive effects of the merger, we consider what products should be included in the relevant market. This is determined by the extent to which customers can readily switch between products, or suppliers can readily switch their facilities between the supply of products.⁷ The key to market definition is substitutability. We therefore considered the characteristics and intended use of the products supplied by Glenigan and ABI, to determine the extent to which they can be substituted, whether any substitutes are in the same economic market and whether they constrain the competitive conditions under which Glenigan and ABI supply their products.
- 4.2. To assist in this analysis, we have considered how the hypothetical monopolist test might be applied, to assess whether other products provide pricing constraint and should accordingly be included in the same economic market as the products of Glenigan and ABI. The principle behind the test is that a market is a product or collection of products the supply of which can, hypothetically, be monopolized profitably. If a customer would not switch to an alternative product in response to an increase in price, it can be assumed that the alternative product is not a substitute and does not exercise a competitive constraint on the product being considered. It may not be possible to apply such a test directly, and it is usually necessary to infer from whatever information is available or can be collected what the likely outcome of the test would be.
- 4.3. The starting point is to consider the products sold by the merging firms. Glenigan and ABI each produce a similar range of products. They are used in most cases as sales

⁷CC Merger Guidelines (CC2), paragraph 2.1.

lead generation services for the construction industry, to get information about specific construction projects and contacts. The products essentially consist of the four PICD products supplied by Glenigan (Bulletin and Tailored) and by ABI (SiteData and Databuild). The products are described in paragraphs 4.7 to 4.9 and in more detail in Appendix C. The other products of the merging firms (static contact lists, marketing and competitor intelligence and customer relationship management software), to the extent that they are separately identifiable from PICD products, account for a small proportion of their total turnover. We received no evidence of concerns about the possible behaviour of the merged firm in relation to products other than PICD, and we do not consider them further.

- 4.4. There are other providers of PICD products; these are described in paragraphs 5.3 to 5.7, and in more detail in Appendix C. They provide PICD on a much smaller scale than Glenigan or ABI. They do not provide as comprehensive a service as Glenigan or ABI; some only provide leads for a specific type of project and others provide leads on a local or regional basis, and none provides a fully researched product with national coverage and full information on all sectors of the construction industry. Some ration their leads so that each lead is provided only to a limited number of customers. We believe that these businesses are niche suppliers which provide some competitive constraint on Glenigan and ABI for those customers interested in the specific project type or locality in which they specialize. We therefore treat them as providers of PICD products, alongside Glenigan and ABI, and go on to consider whether PICD products constitute an economic product market.

Substitutability of supply

- 4.5. Before considering demand-side substitutability, including the sensitivity of demand to prices, we consider the scope for supply-side substitutability for PICD. A firm must be capable of switching to supply the relevant products in the short run with little or

no investment if it is to be considered an effective supply-side substitute for the merging business and its products. We have found that providers of other means by which firms identify new business, including those who provide static contact lists, could not begin to supply PICD with national coverage like Glenigan and ABI without a considerable investment. They would have to acquire planning and contact data and a suitable processing system, and employ researchers. We collected a range of estimates of the cost for others to start providing PICD of the type supplied by Glenigan and ABI, as part of the analysis of market entry (paragraph 6.10), and we consider that all the estimated costs were too significant for ready supply-side substitution. Costs of providing PICD of this type on a niche or regional basis would be lower, but a significant investment would still be required. Similarly, a significant investment would be required for a niche PICD provider to expand. We therefore conclude that supply-side substitution does not broaden the market beyond the provision of PICD products. However, in examining the competitive effects of the merger, we consider whether scope for entry or expansion may be expected to provide an effective competitive constraint on the merged businesses.

Substitutability of demand—product characteristics and uses

4.6. Turning to demand-side substitution, we considered the extent to which customers have substitutes for PICD in seeking to generate sales leads. Evidence from the CC customer survey shows that on average companies use eight or nine different resources to generate new sales (as outlined in paragraph 2.7). These are used instead of or alongside one another to improve the likelihood of a sale. A sales force needs specific tools or methods to enable it to identify new customers. For example, static contact lists can be used as a basis for phone calls, letters and emails to raise awareness of a company's products and/or services. Companies develop relationships with their customers and rely on word of mouth to inform them of new projects that might be of interest to them. Advertising and attending or exhibiting at exhibitions

may also be used to raise the profile of the product or service in question. Following the trade press will provide information on the activities of competitors and customers, and can provide some information on new projects.

- 4.7. PICD products are among this portfolio of resources used by companies to identify new business. They consist of comprehensive and timely information and contact data specific to projects. This data is updated throughout the lifecycle of the projects. Unlike the information derived from other means of generating new sales, the information is specific to the projects in question. Selection of the information can be customized by subscribers to ensure that they receive information on all project leads that may be of interest to them.

- 4.8. The parties both produce PICD from databases of projects, including those sourced from planning applications, supplemented by research. This includes the collection of information on projects submitted to local authorities in planning applications. A planning application contains basic information on a project, including its location and the details of the architect and client. Glenigan and ABI enhance this basic data through extensive research. Throughout the lifecycle of a project (above a given value) they both contact the decision-makers named in the planning application to gain additional information on the project as well as the contact details of those involved. At each stage of a project Glenigan and ABI collect this information, building up a comprehensive picture of the project including information about the type of project, the key data for each phase, the details of the main contractors bidding for the contract, the main contractor awarded the contract, the subcontractors involved in the project and the materials and services required, along with key dates in the process.

- 4.9. Both Glenigan and ABI supply two main PICD products: a standard product and a bespoke product. The basic product is described by Glenigan as ‘the publication of PICD in the form of standard/off-the-shelf products’. It has some limited elements of customizing, such as geographical location, industry sector or project stage. The bespoke products are highly customizable. Subscribers can choose the counties or regions that are of interest to them, as well as the exact type of projects (for example, commercial, residential, housing, flats or industrial). They can use word searches that restrict the project leads they receive to those containing certain words, for example ‘casinos’ or ‘insulation’. They can also choose only projects above a specific value. These features mean that subscribers can specify exactly which leads they want to receive, which reduces the burden of having to search through leads that will not be of interest to them. They are able to amend their criteria throughout the period of their subscription.
- 4.10. Timeliness is a crucial feature of these products. A subscriber using these services to generate new business needs to receive the information early enough to be able to respond, and to target projects at exactly the time that its goods and services will be under consideration. Because the PICD sales lead contains the direct contact details for the person taking decisions on the project, it avoids delays and also increases the likelihood of generating a new sale. Emap told us that market needs are changing due to the increased use of preferred supplier lists,⁸ making it more important to contact new prospects at a time when the prospects review their approved lists, rather than at a time relevant to a specific project. Emap said that its product was evolving to meet new customer requirements, to broaden it beyond planning information, in particular to cover decisions being taken before the planning stages, with more value now attached to ongoing contacts with customers and contractors.

⁸In support of its view on these changes in the construction industry contracting process, Emap cited *Rethinking Construction*, the report of the Construction Task Force (chaired by Sir John Egan) to the Deputy Prime Minister (July 1998) www.dti.gov.uk/construction/rethink/report.

However, Emap also told us that it was still important for customers to get notification of projects at the right stage for them in the planning process as this signalled an opportunity to them to generate a sales lead. The effective use of planning information was, Glenigan said, 'all about timeliness'.

4.11. ABI also said that a fundamental tenet of PICD is timeliness of information. It said that timeliness requires significant investment in delivery systems supporting high-speed printing and email and Internet infrastructure.

4.12. Thus, while customers use PICD products as part of a portfolio of services to seek new sales, PICD products differ significantly from other means of seeking new sales in both their characteristics and the way in which they are used. They provide specific project leads that a company can follow up, so the sales process can be active and focused on chasing specific pieces of new work, rather than relying on contacts to inform the salesperson of potential new work, or using general marketing and profile-raising which might cause a contractor to approach the supplier with possible new work. Relying on customer relationships depends on existing contacts and is significantly different from the more active sales opportunity provided by PICD. Following the trade press (where the number of useful leads is too limited for a customer requiring sophisticated customized sales leads data) is also different from the systematic, timely and comprehensive service provided by Glenigan and ABI to their subscribers. Emap told us that the information about projects that Glenigan supplies to construction industry journals is a marketing opportunity for Glenigan, leading some readers to take out a subscription to the more detailed service. Emap said that the PICD content provided by Glenigan in the journals was pretty slight, base-level information which is nonetheless useful to readers as an indication of the level of activity in the market.

4.13. In essence, for most customers PICD is a sales tool rather than a marketing tool. It produces a comprehensive list of relevant projects that can be followed up by the sales team. By contrast, the other resources referred to in paragraph 4.6 provide more general information and raise awareness. Those customers who require project-specific time-sensitive information could not effectively substitute PICD with information that is not specific to projects (for example, static contact lists) or with alternative means of generating new sales, for example advertising.

Emap's views on substitutability of products

4.14. Emap submitted that the fact that, according to the CC survey (Appendix B), Glenigan customers use an average of nine resources and ABI customers use an average of 8.5 confirmed its view that a sales lead generating service is merely one of many alternative routes to market. It considered that this result was highly significant because the respondents to the CC survey were all users of sales lead generating services. Emap considered that the suggestion that these alternatives were complements rather than substitutes was undermined by the results in Figure 10 of the survey (Appendix B), which showed that 64 per cent of Glenigan customers and 62 per cent of ABI customers believed there were effective and realistic alternatives to sales lead generating services. Further, those customers most vulnerable to the merger would be those for whom sales lead generating services were very important and who believed that there were no alternatives. Such customers represented only 6 per cent of Glenigan customers and 10 per cent of ABI customers. This was a very small proportion of the customer base and potentially captive customers were, Emap said, only those who valued the product and saw no scope for substitution.

4.15. We note that the question relating to Figure 10 in the survey report (Appendix B) was asked on the premise of customers ceasing to use all sales lead generating services.

Having seen that customers perceive there to be another eight or nine options, the response that the majority would use these other resources if PICD was not available is unsurprising. However, we consider it significant that 36 per cent of Glenigan customers and 38 per cent of ABI customers believed there were no realistic and effective alternatives to sales lead generating services. We note that, for many customers, switching would still involve some sacrifice of effectiveness or some inconvenience. In any event, the limit of our concern is not just those people for whom the service is both very important and for whom there are no substitutes. Our concern extends also to customers who say that the service may not be critical but that it is useful and valuable.

4.16. Emap also said that Figure 9 of the survey report (Appendix B) demonstrated that 57 per cent of Glenigan customers either did not know of any other PICD provider or thought there were none and were apparently unaware even of ABI's existence. Similarly, 44 per cent of ABI's customers either did not know of any other provider or thought there were none and so were apparently unaware of Glenigan. Emap considered that this indicated the limit of the competitive constraint between the two companies.

4.17. We do not accept Emap's view, since the question asked was whether there were any realistic or effective alternative providers of sales lead generating services *that they could or would use* instead of Glenigan/ABI. This question does not therefore give an assessment of customers' awareness of other PICD providers as alternatives; it is focused on whether they would actually use them. We therefore think it is significant that 35 per cent of Glenigan customers said that ABI was a realistic and effective alternative provider of sales lead generating services that they could and would use, and 49 per cent of ABI customers said that Glenigan was an alternative provider. In contrast, only 8 per cent of Glenigan customers and 7 per

cent of ABI customers responded that they would use other named PICD providers. This indicates the significant level of competitive constraint that Glenigan and ABI currently place on each other.

Dependency on PICD

- 4.18. There is no evidence that any externally observable factors (such as size or sector) separate the companies in the construction industry that use sales leads generation services from those that do not. Customers range in size from those with only a few employees to large international companies, as do those firms in the construction industry that do not use PICD. They operate throughout the UK, and in many different sub-sectors within the construction industry.
- 4.19. However, evidence from interviews with a sample of existing and former Glenigan and ABI customers suggests that extracting most value from PICD services requires systematic usage (Appendix B). Some firms are organized to receive sales leads, review and prioritize them, and systematically pursue them; such firms are likely to gain greater benefits from PICD. These companies could change their approach to selling to make them less dependent on PICD, for example relying more on personal contacts. But this could well require increasing, restructuring and retraining their sales staff. This would involve much higher costs than simply taking out or cancelling a subscription.
- 4.20. It is also worth noting that those customers who provide Glenigan's and ABI's data to others by agreement with Glenigan or ABI may be particularly dependent on having a reliable supply of data. This includes those who publish trade publications incorporating selected project information. One such customer ([REDACTED]) has provided survey evidence to show that its readers particularly value these leads. All

customers in this category told us that including details of construction projects supplied by Glenigan or ABI was important to attract and retain readers.

- 4.21. Overall, this analysis of the characteristics of PICD and of the way in which it is used indicates that PICD is a distinct product market. Although many PICD customers also use other means of finding new business, PICD is a much more focused and sophisticated method of generating sales leads. The other sources of information on potential sales do not provide this comprehensive and timely supply of relevant leads.

Substitutability of demand—prices

- 4.22. We investigated the quantitative information on customers' sensitivity to changes in prices to see whether this would affect the assessment that other methods of generating sales leads are not effective demand-side substitutes for PICD. This should help to show whether, in response to an increase in the price of PICD, a sufficient number of customers would switch to other methods of generating sales leads, so as to suggest that there was a wider economic market. There are five potential sources of data that are relevant to this issue: (a) data on the proportion of customers that leave each year (the 'churn') and whether they leave for price reasons; (b) historic data on price increases and changes in demand; (c) Glenigan's projections for the price rises it expects to achieve post-merger; (d) CC survey responses on price sensitivity; and (e) CC survey responses on reservation prices—the price at which each customer would stop its subscription.

- 4.23. Before discussing these data sources, we note that there are four factors which would be expected to dampen responsiveness to price changes and need to be taken into account in assessing customers' responses to questions about prices:

- The price of the products—the cost of a subscription to Glenigan or ABI—may be a small proportion of a company’s total expenditure on sales and marketing,⁹ although our survey showed that, for those for whom sales lead generation services were most important, the proportion of their marketing budget spent on those services was 31 per cent in the case of Glenigan customers and 37 per cent in the case of ABI customers. Where the proportion of expenditure is low, customers may not be very sensitive to a price change.
- Because of the high degree of customization of the products, prices are not particularly transparent to customers. Emap told us that the pricing of bespoke services varied according to the search criteria selected, number of recipients, and whether the price is to be paid by instalments. ‘Customers have the ability to select from many permutations of search criteria and this makes it difficult if not impossible to compare Tailored and Databuild prices on a like-for-like basis.’ ABI made similar points. Given the complexity of Glenigan’s and ABI’s pricing mechanisms, it is difficult to assess customers’ responsiveness to changes in price.
- It is difficult to compare the price of a subscription for one product from one year to the next. For example, Glenigan has about [X] Tailored customers who commission about 6,500 to 7,000 changes to what they receive every year (that is, more than [X] changes per Tailored customer per year). This in turn makes it difficult for customers to have full awareness of whether the price is increasing in relation to what they receive.
- Emap told us that Glenigan’s annual price rises have been related to improvements in its products. This too may have obscured customers’ awareness of whether the price is increasing on a like-for-like basis.

⁹Research supplied by Emap suggests that PICD spending averages as little as 1.3 per cent of its customers’ marketing budgets.

We now consider the five sources of data identified in paragraph 4.22 on customers' sensitivity to prices.

(a) Churn

4.24. About a third of Glenigan's and ABI's PICD customers leave each year. Customers are more likely to leave after their first year than at other points—at the end of their first year [X] per cent of ABI's customers left, compared with an average of [X] per cent in other years, whilst [X] per cent of Glenigan's first year customers left, and [X] per cent in other years¹⁰. The rate of churn falls with length of subscription: [X] per cent of those who had been Glenigan customers for five years left at the end of their fifth year, and [X] per cent of those who had been customers for ten years left at the end of their tenth year. (See Appendix E.)

4.25. Emap told us that reasons typically given for non-renewal by Glenigan customers included non-use, taking a break, budgetary constraints irrespective of any price increase, a price increase or a change of marketing strategy. This is consistent with the information gathered by ABI when customers cancel their subscriptions. The reasons given for ABI customers cancelling subscriptions are shown in Table 1. The reasons given for Glenigan customers cancelling are given in Tables 2 and 3. In Glenigan's case, the calculations are based on surveys of a relatively small number of respondents.

¹⁰These retention rates are low relative to similar products in other industries, but do not appear low for other construction industry project and market intelligence products. We were told by a construction magazine publisher that the average renewal rate for its construction magazines was 71 per cent and that the first year renewal rate was 61 per cent.

¹²'Guide prices' is the term we use to refer to the prices that suppliers target or plan to achieve, and are used to update the spreadsheet pricing models that provide quotes to customers. The prices are not visible to customers. Realized prices may be lower due to discounts.

TABLE 1 Reasons for cancellation: ABI, January 2001 to July 2004

<i>Reason for cancelling subscription with ABI</i>	<i>Proportion of cancelling customers citing this reason (%) (sample 1178)</i>
Already got enough business	() ✂
No business gained from leads	
Change of marketing strategy	
Gone to competitor	
Change of direction	
Too expensive/no budget	
Quality of information	
Change of contact person	

Source: ABI.

TABLE 2 Reasons for cancellation: Glenigan, November 2001

<i>Reason for cancelling subscription with Glenigan</i>	<i>Proportion of cancelling customers citing this reason (%) (sample 29)</i>
Timeliness	() ✂
Not successful in producing orders	
Price	
Already have plenty of work	
Too much work/not enough staff	
Quality of leads	
Relevance of information/contacts	
Service	

Source: Glenigan.

TABLE 3 Reasons for cancellation: Glenigan, December 2003

<i>Reason for cancelling subscription with Glenigan</i>	<i>Proportion of cancelling customers citing this reason (%) (sample 56)</i>		
	<i>Tailored</i>	<i>Bulletin</i>	<i>Overall</i>
Price	() ✂		
Quality			
Timeliness			
Low orders gained			
Not relevant			
Had plenty of work			
Others			

Source: Glenigan.

4.26. The difference in the importance of price as a reason for cancellation for Glenigan customers between 2001 and 2003 can be explained by the price increases associated with the added value strategy that Glenigan implemented for renewing customers from March 2003, when Glenigan sought price rises of [✂] per cent and [✂] per cent for different categories of customer (paragraph 4.37). Except for

Glenigan in 2003, the figures suggest that, despite the high rate of churn, price has not been a major factor in leading customers to stop subscribing to PICD. Evidence from the qualitative survey (Appendix B) suggests that the underlying churn rate may be a reflection of how subscribers use the products, rather than factors within the supplier's control such as price, product content and service quality. To this extent, churn does not create competitive pressure. In so far as churn is going to happen anyway, it is not relevant to the supplier's decision on price or quality.

(b) Historic data on price increases and changes in demand

4.27. In this section we consider whether or not past changes in price indicate that the parties have been constrained by the existence of alternative means of generating new business. We consider the increase in guide prices¹² that have occurred in recent years, any changes in the quality of the products that correspond to the price changes, and customer response and the extent to which targeted price increases have been achieved and have been profitable.

4.28. Both Glenigan and ABI have pursued a strategy of increasing their guide prices to all customers by an annual percentage each year. Tables 4 and 5 show the price increases that Glenigan and ABI have sought to apply in recent years and are seeking for the current year. The tables also show the total PICD revenue and total customer numbers in each year. The price increases are those that the companies have sought to achieve, and are the increases in the guide prices used in their spreadsheet pricing models. Actual price increases achieved can be lower; this is discussed in paragraphs 4.42 to 4.47.

TABLE 4 **Glenigan: price rises sought, PICD revenue and customer numbers**

	Year	Guide price increase (%)	PICD revenue £'000	Customer numbers	
Annual	1999	[]	[]	N/A	
	2000			N/A	
Annual and added value	2001			✂	✂
	2002			✂	✂
	2003			✂	✂
	2004			✂	N/A

Source: Glenigan.

Notes:

1. Price rises are for calendar years with the exception of 2003 for Glenigan. The 2003 price rise for Glenigan was implemented for new customers in January 2003 and for existing customers from April 2003 to coincide with the start of Glenigan's financial year.
2. In 2003 Glenigan sought price rises of [✂] per cent for Tailored customers with subscriptions over £[✂] and [✂] per cent for both Tailored customers with subscriptions under £[✂] and Bulletin customers (see Table 5).
3. N/A = not available.
4. ICD revenue relates to financial year ending the following March, ie £[✂] is PICD revenue for the financial year ended 31 March 2000.
5. PICD revenue for 2004 is forecast.

TABLE 5 **ABI price rises sought, PICD revenue and customer numbers**

	Year	Guide price increase (%)	PICD revenue £'000	Customer numbers	
Annual	1999	N/A	[]	[]	
	2000	[]			
Annual and added value	2001	✂			✂
	2002	✂			✂
	2003	✂			✂
	2004	✂			N/A

Source: ABI.

Notes:

1. Increases implemented on 1 January each year.
2. N/A = not available.
3. PICD revenue is for the 12 months ended December.
4. PICD revenue for 2004 is forecast.

4.29. Tables 4 and 5 indicate that both Glenigan and ABI have attempted to increase guide prices substantially over the period. The tables also show that subscriber numbers and revenues have not declined at the same time. We note that Glenigan and ABI have continued to make these guide price increases each year, and, as set out in more detail below, Glenigan intends to increase prices to some ABI customers post-merger (see paragraph 4.55). Glenigan's and ABI's attempts to increase prices, and Glenigan's plans to increase prices post-merger, indicate that they believe these policies to be profitable.

4.30. The results of the price rises are considered further below but first we consider changes in the specification of these products and services, and the fact that actual price increases can be below the target guide price increases.

Innovation and quality changes

4.31. Glenigan has stated that annual price rises have been linked to quality improvements and that 'it is difficult to increase prices before proving to customers that innovation represents value'. Therefore, Emap argued that the change in price reflected improvement in quality and specification of the product.

4.32. ABI has stated that its price rises have been to offset increases in its cost base rather than to reflect the increase in value coming from new products and innovations.

4.33. Glenigan's quality improvements can be considered in two categories: incremental improvements in the quality and range of products, and its added-value programme (described in paragraph 4.37). Glenigan's quality enhancements and innovations are set out in Table 10. Incremental improvements and the added-value programme are considered separately.

Incremental improvements

4.34. In any information-based business, development of the data quality and coverage and improvements in customization and delivery methods are part of the normal competitive process. This can be associated with an increase in cost and price, but under competitive conditions the benefits of innovation and quality improvement are likely to be passed to customers. In the five accounting periods ended 31 March 2004, Glenigan's operating costs remained relatively stable at around £[redacted] million. In contrast, in the three-year period ended December 2003, ABI's cost base increased

from £[x] million to £[x] million, an increase of [x] per cent. Operating costs are covered in more detail in Appendix D.

4.35. In certain years there has been a substantial change in the product specification (new or improved products or the inclusion of additional products). Table 10 (paragraph 5.9) lists the major innovations, and there have also been a number of smaller changes. Some of the improvements have benefited all customers, whereas in some years most of the improvements related to products which would not have been relevant to most customers or to quality enhancements for only some groups of customers. However, the annual increase in guide price affects all customers irrespective of the improvements in service or quality they receive. Glenigan does not usually target price increases to the category of customers who receive the changes in service. For example, the smaller product changes in 2001 which preceded a price rise in 2002 of [x] per cent are listed in Table 6, together with the customer groups affected.

TABLE 6 **Changes in the quality and specification of Glenigan’s products, 2001**

<i>Product developments</i>	<i>Customers affected</i>
'Movers on the internet'	Subscribers to Movers
'Telephone preference service'	All
'Email pdf delivery'	Only customers with email
'Approvals on small projects'	Customers interested in projects below £250k
'Heathrow terminal 5 definitive guide'	Interested customers only

Source: CC from information provided by Glenigan.

4.36. Price increases have been applied to all customers for at least the first four of these products. This has occurred whether or not particular customers have benefited from particular product changes or improvements. The quality improvements have not necessarily occurred at the same time as Glenigan has sought to increase prices. All this indicates that price increases do not correspond directly to quality improvements for particular customers. Moreover, we consider that the changes do not appear to be

sufficient to explain the full price increase since some of these are enhancements to product quality that should occur as part of the normal competitive process. We conclude that Glenigan has achieved price increases.

Added-value programme

4.37. In October 2002, Glenigan commenced its 'added-value' programme with the introduction of the Hotline to all clients. The strategy and its components are covered in more detail in Appendix E. In summary, Glenigan tied additional products and services to its core Bulletin and Tailored products. The elements are:

- Advantage (CRM software enabling customers to search for the most relevant leads and to facilitate direct and emailing campaigns and to track the status of current prospects);
- Hotline (giving an immediate telephone response on details of any project);
- Key Projects (a quarterly compilation of the top building projects by value and category);
- Key Specifiers (a quarterly compilation of the top specifiers—clients, architects and other professionals); and
- Projection (a monthly newsletter including analysis of important projects, statistics and case studies).

4.38. A customer who wishes to purchase the Tailored or Bulletin product from Glenigan now has to take these additional products as well as the data.¹³ The price increases in 2003 of [X] and [X] per cent and the further increase in 2004 of [X] per cent therefore comprise an element of annual increase and an element of added-value programme increase. No breakdown of the increases between the two elements has been made available by Emap.

¹³Emap told us that some of the products (Key Specifiers and Key Projects) were also available to buy separately.

- 4.39. To put the price increases in context, the impact for a Tailored customer below £[x], and Bulletin customers, if they had taken the full increases for the added-value package, would be an effective price increase of [x] per cent for the two-year period. For a Tailored customer above £[x], the effective price increase would be [x] per cent for the two-year period.
- 4.40. We consider it unlikely that the costs involved in the elements described in paragraph 4.37 are sufficient to explain that level of target price increase, particularly in light of the lack of any significant changes in Glenigan's operating costs and the level of innovation and quality improvement that could in any event be expected in a competitive market. We note that our view might appear to be contradicted by results from the consumer survey in which respondents were asked whether they believed that the quality of services had improved over the last two years.¹⁴ Respondents gave a score of between 1 (strongly disagree that the quality of service had improved over the last two years) and 5 (strongly agree). 6 per cent of Glenigan customers gave a rating of 5 (ie strongly agreed that they believed the quality of services had improved over the last two years), 34 per cent gave a rating of 4, and 49 per cent gave a rating of 3. This indicates that many customers perceived quality improvements. However, ABI customers also indicated similar perceived quality improvements: 8 per cent gave a response of 5, 22 per cent gave a rating of 4, and 56 per cent a rating of 3, despite there being no ABI equivalent of the added-value programme.
- 4.41. For these reasons we conclude that the added-value programme does not fully explain the price increases that Glenigan has pursued.

¹⁴See Figure 11 of Appendix B [Robson Rhodes report].

Achieved price increases

- 4.42. In practice, ABI and Glenigan have not fully achieved the price increases that they have sought to achieve. This is for two reasons: some customers manage to negotiate a discount to the price increases; and some customers change the specification of the products that they purchase; that is, they reduce the coverage, in order to offset some or all of the cost increase from the price rise.
- 4.43. It is difficult to calculate the price increases that have actually been achieved allowing for these effects as neither Glenigan nor ABI keep good records of discounts negotiated; and there is no consistent basis to compare like-for-like prices, as the products differ from customer to customer and the specification may have been changed, because of, or independently of, the effects of the price change. Consequently there is no good measure of what quality enhancements customers have received in relation to the price they have paid. Overall trends in the prices paid as reflected in Average Order Values (AOV) are not a reliable indicator of price changes because of the level of customization in what customers receive and pay. With no like-for-like comparison, it is not easy to identify the effect of price changes making allowance for quality changes.
- 4.44. Glenigan did, however, calculate realized price increases following its added-value strategy in 2003/04 by comparing revenue for continuing subscribers;¹⁵ this does not make any adjustment for those subscribers respecifying their subscriptions as described above. Table 7 compares the price increases achieved by Glenigan in 2003/04 (by this revenue measure) compared with the price increase sought.

¹⁵Glenigan measured the price increase attained as the change in revenue from renewing customers (ie the revenue from those customers that renewed their subscriptions relative to the revenue from these same customers before the price rise). In addition to the change in revenue arising from the increase in price, this measure will therefore include any composition effects, such as changes in product or criteria. It will not be an exact measure of the price increase attained, but shows the total change in revenue for renewing customers following the price rise. The effect of a price increase in any one year is also delayed as the price increase is spread over the life of the contract and not taken fully at renewal date.

TABLE 7 Price increases achieved by Glenigan in 'added-value' strategy, 2003/04

Product	Price increase sought %	Price increase attained %
Tailored >£[redacted]	([redacted])	[redacted]
Tailored <£[redacted]		
Bulletin		
Movers*		
Total		

Source: Glenigan.

*A relatively low-revenue product which does not significantly affect the overall calculations.

4.45. Table 7 shows that the price increase achieved overall on renewals was two-thirds of the price increase aimed for by Glenigan. It also suggests that the higher-spending customers were better able to resist price increases, or were more aware that they could do so. There is evidence that they could play off Glenigan and ABI against each other (see paragraph 5.20).

4.46. The price increase for Bulletin was closer to the price increase sought than was the case for the other products. Glenigan told us that Glenigan automatically renewed all subscriptions with a value under £[redacted], with the invoice incorporating the full price increase, so Bulletin customers would all have been presented with this automatic increase. The [redacted] per cent difference in price achieved might reflect a few customers opting to receive information on fewer regions.

4.47. Notwithstanding the difficulties noted above about comparing the quality changes and price changes for individual customers, we nevertheless conclude that Glenigan has managed to achieve a substantial proportion of the price increases it has sought under the added-value strategy.

Effects of price increases on subscriber numbers and costs

4.48. The view that Glenigan's prices have been increased profitably without substitute methods of generating sales leads providing a constraint is supported by the fact that

customer numbers have not declined and the fact that the price increases have not been offset by cost increases. The numbers of subscribers for Glenigan and ABI are shown in Tables 4 and 5 respectively.

4.49. Since 1999, ABI has experienced little movement in customer numbers despite the annual price increases. Overall customer numbers increased from [X] at December 1999 to [X] at December 2002, a rise of [X] per cent.

4.50. As shown in Table 4, the overall number of Glenigan's customers increased by [X] per cent in 2002/03, alongside an annual price rise sought of [X] per cent. Information on customer numbers before 2001 has not been provided by Emap.

4.51. In 2003/04, Glenigan's overall customer numbers increased by [X] per cent. The number of Tailored customers increased by around [X] per cent, despite the price increases shown in Table 6 (a [X] per cent realized price increase for Tailored customers valued below £[X], and a [X] per cent increase for customers valued over £[X]). Bulletin saw no significant change in subscriber numbers despite a [X] per cent price increase.

4.52. As noted in paragraph 4.34, Glenigan's operating costs have remained stable over the last five years. In comparison, in the year 2003/04 following the introduction of the added-value package, revenue from Tailored products (new and renewed customers) rose by [X] per cent and the revenue from Bulletin (new and renewed customers) rose by [X] per cent.

4.53. We have seen that many customers churn each year (paragraph 4.24), and therefore we recognize that many customers will be new rather than continuing subscribers.

However, these results indicate that Glenigan and ABI are successful in replacing those customers who churn and that price increases have been profitable.

(c) Glenigan's expectations for price rises post-merger

4.54. Emap told us that its pricing policy after the merger is based on migrating ABI's Databuild customers towards the higher-priced Glenigan Tailored product and moving the price paid by Glenigan's Bulletin customers towards the lower-priced ABI Sitedata product, while keeping Glenigan's 'added value' features for both products. (See Appendix D.)

4.55. Emap believes that Glenigan's current Bulletin customers will see a fall in price (measured by AOV) of [redacted] per cent on renewal, as prices are lowered towards ABI's equivalent product price. New Bulletin customers will also be quoted a price based on the lower ABI price leading to an effective fall in new Bulletin sales prices of [redacted] per cent. In contrast, new customers who would have taken ABI's Databuild product will have an effective [redacted] per cent rise in the new sales price as they will be offered the Tailored product at Tailored prices. However, as AOV reflects product mix, it does not provide a conclusive view of what will happen to prices post-merger. Nevertheless, the only definite price movement confirmed by Emap is the renewal price increase of [redacted] per cent for current ABI Databuild customers, predicated on the rollout of the added-value package to these customers. This strategy is discussed in more detail when considering the competitive effects of the merger (paragraphs 8.3 to 8.6). For the year ending March 2005, Emap is forecasting revenue from all PICD products to grow by around £[redacted] million or [redacted] per cent.

Conclusions on price increases

4.56. We have found that Glenigan and ABI have both managed to raise prices to customers over the last few years, and we believe that these increases are not fully

explained by improvements in the quality of the products. We note that customer numbers have not fallen despite these price increases, and in the case of Glenigan, quality improvements have not raised total operating costs.

4.57. We note that the parties have pursued a strategy of price rises over several years, and that Emap's expectation is that it will seek to continue to raise prices in this way. We therefore conclude that the strategy of price increases has been profitable for Glenigan and ABI, and that Emap believes that it will continue to be profitable following the merger. We therefore conclude that Glenigan is not constrained by so many customers switching to alternative means of generating new business that increasing prices post-merger would be unprofitable.

(d) CC survey responses on price sensitivity

4.58. We asked customers, in our quantitative survey, how they would respond to a price increase of 10 per cent.¹⁶ The responses from Glenigan and ABI customers were very similar to each other; when combined, 47 per cent said that they would continue subscribing, 23 per cent said that they would stop, and 30 per cent said that they did not know. So of the 70 per cent of customers who gave a view, a third said that they would stop subscribing and two-thirds said that they would continue. There was no systematic difference in response according to the value of the order—so the proportions would be similar if weighted by order value.

4.59. The response of those who said that they would stop subscribing could be seen as an upper boundary for the proportion of people who would actually stop using PICD in response to a price rise of 10 per cent, in so far as, in general terms, people like to

¹⁶In general, the CC's guidelines suggest that a 5 per cent price rise would normally be an appropriate threshold for the application of the hypothetical monopolist test. In our survey, we asked customers what would be the effect of a 10 per cent price rise, because difficulties in recollection of prices paid meant that customers might consider a 5 per cent change in prices to be insignificant or within the limits of their uncertainty as to the price of their subscription. We used 10 per cent as this would be more likely to be recognized as a significant price rise by respondents. The effect of this may be to bias results towards a wider market definition compared with a 5 per cent threshold.

think, and to say, that they would switch in response to a price rise, even though in practice they may be unlikely to go to the bother of doing so.

- 4.60. Those customers who said that they would stop subscribing in response to a 10 per cent price increase gave a variety of responses on what they would use to replace the PICD product. The most common response was to use static contact lists, with other popular responses being to use long-term business relationships, personal contacts, or trade publications and magazines. To interpret this data for the purpose of determining whether customers would switch in response to a price rise, we first need to take out those customers who responded that they would stop subscribing anyway following a 10 per cent price rise but who would in fact have stopped subscribing for non-price reasons. These customers were not separately identified in this question.
- 4.61. Data on the background churn is difficult to interpret. About a third of customers leave Glenigan or ABI each year—the same proportion that said they would leave after a 10 per cent price increase, of those who expressed a view. However, there have been increases in subscription prices during recent years, so there is likely to be some price effect in this churn. As shown in Tables 1 and 2, surveys by ABI and Glenigan found that [X] per cent and [X] per cent (respectively) of those who cancelled subscriptions did so purely for price reasons; these surveys were carried out in 2001 (Glenigan) and 2003 (ABI) when price increases in both cases were around [X] per cent (Tables 4 and 5) .
- 4.62. We constructed a model to try to determine whether a 10 per cent price increase would be profitable for a hypothetical monopolist, which requires an estimate of the price elasticity of demand for the market and accurate measurement of the background churn. Emap argued that, if adjusting for churn were necessary, using

historic data to estimate the price elasticity of demand and model the impact of a 10 per cent price increase by a hypothetical monopolist is flawed, as these results were based on periods when the guide price increases were under 10 per cent. Realized price changes would be lower still, and additionally, some customers who did not cancel their subscriptions might reduce the value of their subscriptions. This would suggest that the price elasticity of demand is higher. On the other hand, the historic data gives an estimate of the firm-specific elasticity (or residual elasticity) because the switching is in response to an increase in the price by just one provider of PICD. The market elasticity of demand would be lower than this firm-specific elasticity because a customer faced with a price rise by one provider has the opportunity of switching to alternative providers of PICD. This would suggest that the price elasticity of demand is lower.

4.63. .As discussed in Appendix E, we have been unable formally to apply the hypothetical monopolist test due to the uncertainty of price elasticity of demand, the difficulties of measuring background churn accurately and interpretation of the data. We find that this evidence is inconclusive and insufficient, on its own, to show whether or not a hypothetical monopolist of PICD could profitably impose a price increase.

(e) CC survey responses on reservation prices

4.64. In the survey we attempted to collect information on customers' reservation prices—the price above which they would stop subscribing. There was a relatively low response rate for this question. In addition, customers' responses on how they would react to a 10 per cent price rise were in many cases inconsistent with their response on their reservation price. This is discussed in more detail in Appendix E.

4.65. The analysis in paragraphs 4.58 to 4.63 assumes an across-the-board unilateral price increase. However, our review of Glenigan's and ABI's customer pricing

(Appendix E) suggested that discounting was fairly common. Glenigan also collects considerable information about customers during the sales process (see paragraphs 5.15 to 5.18). As discussed in paragraphs 5.21 to 5.26, price discrimination refers to any situation where customers are charged different prices for the same goods or services for reasons not related to cost, and the way in which Glenigan and ABI conduct their price negotiations meets these conditions. We consider variable negotiated discounting for individual customers to be a form of price discrimination.¹⁷

- 4.66. If a hypothetical monopolist could correctly identify each customer's reservation price, there would be scope for very substantial increases in price, on average, before customers stopped subscribing. Even with only partial price discrimination, such a strategy would be profitable. Any price discrimination makes it more likely that a 5 per cent average price rise by a hypothetical monopolist would be profitable.

Emap's views on the CC's survey evidence

- 4.67. Emap considered that the results of the CC survey clearly showed that it would be unprofitable for a hypothetical monopolist to increase prices by 10 per cent. It pointed out that when asked whether they would continue with a subscription if prices rose by 10 per cent, 22 per cent of Glenigan customers and 25 per cent of ABI customers said that they would cancel their subscription. Emap said that:

the responses to [this] question imply a price [elasticity of] demand of about 3.4 (if it is assumed customers said they didn't know how they would actually respond in the same proportions as those who expressed a view) and 2.3 (if you assume that none of the 'don't knows' would have stopped subscribing). Both these elasticities unambiguously show that it

¹⁷We use the term 'price discrimination' in its technical economic sense, to describe where firms set different prices for different customers for the same product, unrelated to cost differences. The term has no negative connotations, indeed price discrimination might increase total welfare if, as a result of reducing prices to marginal customers, output is increased. However, many of the welfare benefits of price discrimination may be gained by the supplier rather than the customer.

would be unprofitable for a hypothetical monopolist to increase prices by 10 per cent.

4.68. Given that the CC was heavily involved in the design of the survey and was well aware of the importance of churn in this market, Emap did not accept that the survey results need to be adjusted to reflect what proportion would leave in any event. However, it submitted that:

if it is considered necessary to take account of 'underlying churn', then the question about reservation prices gives a straightforward way of doing this. In response to this question about reservation prices, 29 per cent of customers said that they would stop subscribing if prices rose by up to 10 per cent. Even if the 15 per cent of respondents who said that they would not subscribe at their current subscription price are assumed to be those that would have churned anyway, this still leaves 14 per cent of customers who would have switched in response to a price increase of between 1 per cent and 10 per cent. The CC's own calculations show that if 14 per cent of customers switch in response to a 10 per cent price increase then the price rise would be unprofitable (ie it would not be profitable for a hypothetical monopolist of sales leads providers to increase prices by 10 per cent).

4.69. We have considered these points carefully, but in examining customer responses to the question on the 10 per cent price increase, we need to take account of the fact that a significant proportion of customers (34 per cent of Glenigan and 26 per cent of ABI) did not know, or were not sure, what their response would be. Moreover, among those that said they would stop subscribing, as stated in paragraph 4.60, we first need to take out those customers who would have stopped subscribing in any event for non-price reasons but who nevertheless responded to the question by

saying that they would stop subscribing. Nevertheless, we recognize that Emap's assumption on churn in paragraph 4.68 indicates that a 10 per cent price increase would reduce profits to an extent of making such a hypothetical price rise unprofitable.

4.70. However, we remain concerned as to how much weight can be placed on these results. The survey attempted to measure responses to a hypothetical situation.¹⁸ Assumptions are needed to take account of customers that would leave in any event. As the survey report states (Appendix B), the relatively high number of people who were not able to give a definitive answer to this question can most probably be explained by the complexity of the decision. We remain of the view that the range of assumptions that needs to be made about the interpretation of the survey evidence relating to how customers would respond to a price rise prevents a clear conclusion from being drawn. Even if, on balance, the calculations from the survey evidence showed that a price increase of 10 per cent was likely to be unprofitable, this needs to be seen in a context where over a third of customers believe there is no effective substitute for the sales lead generating products, where price is not the main reason for customers switching away from the product, and where prices have been profitably increased. Taking the evidence as a whole, we consider that it shows that the principal competitive constraints on Glenigan and ABI operate from within the supply of PICD, which should accordingly be the starting point for assessing the competitive constraints that will remain on Emap post-merger.

¹⁸ Respondents might have had difficulties in answering these particular hypothetical questions, which came at the very end of the survey. Moreover, we note the evidence of inconsistencies in responses between the questions where customers were asked whether they would continue to subscribe if prices rose by 10 per cent and the question where respondents were asked what was the maximum price they were willing to pay; for example 12 per cent of those who said their subscription would continue following a 10 per cent price rise quoted a maximum price below 10 per cent higher than their current price. 35 per cent of those who would stop subscribing quoted a maximum price over 10 per cent above current prices. See also Appendix B.

Conclusions on the product market

4.71. The characteristics of PICD and the way it is used indicate that PICD is an economic market. Although many customers use a variety of means of finding new business, PICD is used for a very specific purpose, for which over a third of customers do not see an alternative product. The other sources of information on potential sales do not provide the comprehensive and timely supply of relevant leads required by such customers. The qualitative and quantitative evidence, taken as a whole, indicates that PICD is the appropriate set of products to use as a basis for assessing the competitive constraints on the merged business. In our view, given the disparate nature of other products and methods used by companies to identify new business, and the fact that over a third of Glenigan and ABI customers saw no effective substitute for PICD, such products do not sufficiently compete with PICD to be sensibly regarded as competing in the same market.

Geographic market

4.72. There is a geographic dimension to the product market. Both Emap Glenigan and ABI provide data with local, regional or national coverage, whilst some other providers only supply PICD with a limited geographic coverage. For example, DataServe Direct supplies PICD covering projects only in London, the Midlands and the South-East. (See Table 9, paragraph 5.3.)

4.73. The relevant geographic market for the purpose of market definition is, however, distinct from the geographic coverage of the products or services in question. In defining the geographic market, we seek to understand whether firms based in one geographic area impose an effective competitive constraint on firms based in another geographic area. This competitive constraint might come from demand-side or supply-side substitution.

- 4.74. In considering the demand side of the geographic market, we need to consider the cost to customers of switching to products supplied in other geographic areas. In defining the geographic market on the demand side, we ask whether a hypothetical monopolist of PICD based in one part of the country would be constrained in implementing a small but significant non-transitory increase in price by customers switching away to providers of PICD in other parts of the country.
- 4.75. In this inquiry we have seen no evidence to suggest that customers make the decision of which PICD supplier to use based on where that supplier is located. Indeed, we note that ABI and Glenigan are located in quite separate parts of the country and that they have been competing effectively across the UK. We also note that PICD customers currently do not have the option to buy PICD relating to UK projects from companies based outside the UK. We therefore agree with Emap's submission that the geographic market definition is the UK.
- 4.76. We have further considered whether it is appropriate to widen the geographic market definition on the supply side. We note that the project data collected in order to provide PICD involves understanding the way in which the UK construction industry works, including the UK planning process, and establishing contacts in the UK construction industry. Successfully to sell PICD also requires an understanding of the way in which customers might use the data to compete in the UK construction industry. We therefore believe that a UK presence would be necessary in order to compete effectively in the UK. We further believe that the costs of establishing UK expertise and customers would not be trivial, and hence supply-side substitution from outside the UK could not occur easily or quickly enough to affect market definition. We discuss the possibilities for entry or expansion into the UK market in section 6. Meanwhile, we conclude that these costs would be sufficient to prevent supply-side

substitution into the supply of PICD relating to UK projects from outside the UK. We therefore conclude that the relevant geographic market for PICD is the UK.

Conclusions on market definition

4.77. We conclude that the relevant economic market comprises PICD products and that it is UK-wide. Other means of generating sales leads, including personal contacts, exhibitions, conferences, and journals, do not provide the same comprehensive and timely supply of relevant leads, and are not sufficiently close substitutes to be included in the relevant economic market.

5. Existing competition in the market

Existing competitors

5.1 Following our conclusions on market definition, we have identified PICD in the UK as the relevant market. Glenigan and ABI are by far the main providers, but there are also a number of other firms. Table 8 shows the companies which with the help of Emap and ABI we have identified as providing PICD in the UK and their market shares.¹⁹ Table 9 shows the comparative range of services offered by these providers.

5.2 Table 8 shows that Glenigan had over 40 per cent of the market and ABI had over 30 per cent. The merger would therefore increase Glenigan's market share to about 71 per cent of the market. The Herfindahl Hirschman Index²⁰ (HHI) would increase from 2,648 to 5,131 for PICD, a very significant increase in a market that is already highly concentrated. No other individual supplier has more than 5 per cent of the market, and all others have PICD sales of substantially less than £1 million per year.

¹⁹Companies were asked to provide information for the latest financial year—in most cases this was 2003/04.

²⁰ See the CC Guidelines on Merger References (CC2), paragraph 3.10, for a definition of the HHI and how it is used.

TABLE 8 UK market shares of PICD

Supplier	Sales of UK PICD (£m)	Share of sales (%)	
Glenigan)	40.6	
ABI		30.6	
Reed (EGi and Contract Journal)))	
BiP			
Builders Conference			
Protel			
Barbour Index			
Contract Data Services			
Qualified Sales Leads			
City Offices Net			
Geo-UK Ltd			
BDS Marketing and Research			✂
DataServe Direct			✂
CIC Ireland			
Newmarket Information			
Focal Research			
Contact Info Services			
WIN Contracts			
UTL Research			
Wendover Corporation	*		
Maritime Contracts Journal			
Total		100	

Source: CC from information provided by the companies.

Notes:

1. The firms listed in Tables 8 and 9 are those which appear to us from the evidence we have received to be providers of PICD.
2. Asterisked figures in the first column are those used in the Emap submission where a company has not replied to CC enquiries. However, many respondents have provided sales estimates lower than Emap's. In addition, some of the very small competitors' figures have been rounded up to keep to one decimal point in the table.

Supplier	Projects covered	Sources	Information provided	Coverage	CRM software	Searchable database	Phone hotline
Glenigan	All classes of construction project (incl Design & Build)	Planning register, tender offers (OJEU), industry research	Stage, Contact, Project category, value, materials, contract, status	UK	✓	✓	✓
ABI	All classes of construction project (incl Design & Build)	Planning register, tender offers (OJEU), industry research, Builders' Conference and In relation to Northern Ireland, Newmarket	Stage, Contact, Project category, value, materials, contract, status	UK	✓	✓	✓
Reed (EGi)	Commercial developments (over 5,000 sq ft - 464.5 sq m.), large scale residential	Planning applications	Project type, location, applicant	UK	✗	✓	✗
Business Information publications (BIP)	Public sector tenders (incl construction)	OJEU, other publications containing Invitations To Tender	Description of work, timing, issuer	Intl	✗	✓	✗
Builders' Conference	Construction industry tenders	Membership, industry research	Tender, contract, sub-contract and contact details	UK	✗	✗	✗
Protel	Project information and contact details for the process sector (food/drink, pharmaceuticals & chemistry) & laboratories	ABI, industry research	Project details relevant to process engineering & scientific equipment suppliers	UK & Ireland	✗	✗	✓
Barbour Index	Limited list of building and construction projects	Customers requesting product information	Project type, contact details	UK	✗	✗	✗

Contract Data Services	Rationed supply. A sales lead is provided to one company per trade	Planning register & tenders	Architect & client	UK	x	x	x
Qualified Sales Leads	Information on companies that are about to invest in new premises, plant or equipment	Industry research	Project type, timing, client profile, contact details	UK	x	x	x
CityOffices.Net/ Metropolis	Office moves & construction	Research with corporations, property news	Contact details, size of property	Major UK cities, Dublin, Paris	x	✓	x
Geo-UK Ltd	Public sector tenders	OJEU & other public sources	Nature of project, timing, contact details	UK & Ireland	x	x	x
BDS Marketing & Research	Project leads in retail, leisure facilities and building materials	Planning register, industry research	Project type, stage, contact details	GB	x	✓	x
DataServe Direct	Data from application stage only	Planning register	Basic project details	London, Midlands, SE England	x	x	x
CIC/Ireland	Major construction projects (NI), all applications (Ireland)	Planning register, industry research	Project details, stage, contact details	Ireland & N Ireland	x	✓	x
Newmarket Information/ CIS Ireland	Construction projects	Planning register, industry research	Project details, stage, contact details	Ireland	x	x	x
Focal Research	Construction industry contact details, no project leads	Industry research	Contact lists, bespoke research	UK	x	x	x
Contact Info Services	Larger projects excluding infrastructure, covers only a fraction of projects monitored by ABI/Glenigan	Planning register, industry research	Project details, stage, contact details	UK	x	x	x
WIN Contracts	Public & private tender notice details	OJEU, industry research	Contact details, type of work	UK	x	✓	x
UTL Research	Relocation information	Industry research	Contact details	London & SE England	x	x	x
Wendover Corporation	Office movers	Surveys	Project and IT contact details	Main UK cities	x	✓	x
Maritime Contracts Journal	Contract leads in the commercial maritime sector	ABI, OJEU, industry research	Project type, value, contract, stage, contact details	EU	x	x	x

Source: CC from information provided by companies.

Notes:

1. For many of the larger businesses involved, the provision of PICD is one of a number of services provided.
2. OJEU = Official Journal of the European Union.

5.3 As is clear from Table 9, other providers do not offer as comprehensive a service as that of Glenigan and ABI. For example, ABI told us that EGi's service is focused on the supply of basic planning information in major conurbations and is seen by its customers as a news service for property buyers rather than a contract leads service. ABI also told us that Contract Data Services provides a monthly sales leads service for one company per industry sector.

- 5.4 Table 9 shows that some providers only supply PICD on a local or regional basis. They typically collate and pass on a relatively limited amount of publicly available data rather than adding their own researched information. They do not provide data that integrates with customers' databases and contract management software.
- 5.5 Tables 8 and 9 also include a number of providers of PICD in industry sectors or niche areas such as the Maritime Contracts Journal (commercial maritime), Protel (processing and scientific) and BDS (retail, leisure and building materials, in particular swimming pools). Business Information Publications (BIP) provides information on government tenders. These services are used by some Glenigan and ABI customers active in construction in these particular sectors to supplement the PICD provided by Glenigan or ABI.
- 5.6 Table 9 shows that there are some suppliers of PICD that cover only limited parts of the UK, such as the South-East, or metropolitan areas, where there is more business (details are given in Appendix C). But even in the areas they cover, they do not provide such detailed PICD as Glenigan and ABI. The CC quantitative survey showed that 34 per cent of Glenigan and ABI customers subscribed to all regions²¹ (and as such contribute a higher proportion of revenues to Glenigan and ABI). We were told (by CMPi) that comprehensive national data cannot be effectively substituted by assembling local data from different suppliers of basic PICD. The niche providers typically do not provide the depth of information on particular projects, for example with respect to sector, project stage, timeliness, and ability to search.
- 5.7 It has been put to us that the combined effect of these competitors could constrain the market power of Glenigan post-merger, especially when the high churn rates are

²¹Defined as at least 90 per cent of the UK.

taken into account. However, these companies provide specialist sector- or region-specific information that is only an effective substitute for customers interested in those specialist areas alone. It seems that most customers do not currently see these competitors as a realistic constraint. In our survey of Glenigan and ABI customers (Appendix B), only about one in ten could name a realistic and effective alternative provider that they could and would use if they had to stop using Glenigan and ABI. We consider that the PICD market is characterized by the two large firms, Glenigan and ABI, plus a number of smaller niche players who do not at present individually or jointly place a significant constraint on Glenigan and ABI. In paragraphs 6.22 to 6.25, we consider whether there is scope for smaller providers to expand to provide an effective competitive constraint.

Competition between Glenigan and ABI

5.8 Competition is the process of rivalry between firms. Price competition can be the most obvious manifestation of this, but firms can also compete on innovation, product quality, or other aspects. We consider the levels of competition between Glenigan and ABI in innovation, quality and price to assess the extent of existing rivalry before assessing how it would be affected by the merger.

Competition on innovation and quality

5.9 Both Glenigan and ABI have developed their products in recent years, and there is evidence that at least some of this has been in response to competition from each other. Although it is hard to be confident about a causal relationship of this type, ABI told us that for its part it had introduced new products as a response to Glenigan, and it believed that Glenigan had acted in a similar way. Emap denied this and stated (supported by its internal documents) that its innovations had not been in response to ABI, but because of the need to add value in order to retain customers. Some customers told us that they had provided feedback to Glenigan and ABI comparing

the products and pointing out relative weaknesses which had later been addressed.

Table 10 shows the innovations and new services provided by Glenigan and ABI in recent years.

TABLE 10 Major innovations by Glenigan and ABI, 1995 to 2004

<i>Date</i>	<i>Glenigan</i>	<i>ABI</i>
1995		Trackbase (lead management software)
1996		Business Moves
1997		Talking Projects (telephone service)
1999	Launched GCD 2000 CRM system	
2000	Glenigan online platform launched	Landmark (GIS) strategic relationship established to provide geo-referenced data and planning information through 'Plansearch' project
2001		ABI Interactive online platform launched to compete with Glenigan online
2001	First of the Definitive Guide series introduced*	Strategic alliance established with 'The Restaurant Game' providing a leads portal for catering suppliers
2002	Information Hotline launched to all clients 'Projection' newsletter launched* Key Specifiers and Key Projects manuals launched* Definitive Guide series	ABI Interactive major upgrade to provide client and competitor monitoring tools and activity monitoring on customer usage Touch-screen initiative launched in research to provide increased throughput and timeliness of information
2003	Glenigan Advantage 1 software launched to Tailored clients to replace GCD2000	Trackbase 3 launched, upgrade to compete with Glenigan Advantage features
2004	Glenigan enter banking and insurance markets	New markets identified in banking, insurance and risk with the provision of ABI electronic services
2004	Advantage 2 software (upgrade) introduced for Tailored clients Electronic sales leads for Bulletin clients	Business Builder launched to replace all standard bulletin products and provide tailored, lower-priced service compared with Databuild. Designed to combat aggressive Glenigan discounting Social Housing Black Book: launched—a range to combat Glenigan Definitive Guides

Source: CC from information provided by Glenigan and ABI.

Notes:

1. The ABI description is in ABI's own words. Glenigan does not accept that any of its innovation is in response to ABI.
2. Items marked * are a recasting for a specific purpose of existing data. Both companies have developed various methods of delivering data to customers including email, PDF, XML, as well as the categorization and coding of their databases to facilitate tailoring to customer needs.

5.10 There have been innovations in the way that the database is packaged for customers, for example in the fields and search criteria they can specify. There have been developments in product delivery, such as electronic provision of information in different formats, or Internet access. The firms have also produced software

packages with varying degrees of sophistication to make optimal use of project information and to integrate it into the customers' own processes.

- 5.11 Both Glenigan and ABI go to considerable lengths to add as much additional information to their project listing as possible, and also to gather information from sources other than planning applications. It appears that Glenigan has broader coverage in that regard than ABI, but there are differences. For example, ABI has exclusive access to Builders Conference data which covers projects in Southern England and Wales. Customers also perceive differences in quality. For example, some think Glenigan has better coverage of small projects than ABI. ABI believes that it is stronger than Emap on tender, contract and subcontract information. Overall, we have taken the view that ABI and Glenigan have competed to introduce new developments in their services over the years. They have been innovating in similar ways and some of this has been in response to developments introduced by the other. This rivalry has provided an incentive to improve their PICD products.

Pricing and information on customers

- 5.12 Glenigan and ABI both set their prices according to the criteria and categories that the customer has selected, with some discounting at the discretion of the salesperson.
- 5.13 Glenigan uses a spreadsheet model to generate the guide price for each of its customers. The salesperson inputs the customer requirements and produces a price that will be quoted to the customer; there is a minimum price for each subscription. Glenigan aims to price the bespoke services (the Tailored product) according to the extent of the database that is searched once the criteria are applied, and according to the type of data. There are additional charges for payment method and the number of recipients. Customers taking a subscription do not normally see the price

model but have the price changes generated by their selection of criteria described to them.

5.14 Similarly, ABI has a pricing matrix that sets the price of the product according to the criteria selected by the customer.

5.15 When they receive a new sales enquiry, Glenigan salespeople collect a range of information to check the scale of the potential sale, and therefore whether it warrants a visit as part of the selling process. This includes company turnover, the nature of the products sold, the size of the customer's sales force, the infrastructure of its sales and marketing departments, to whom it sells, and how it gains new business. This information is collected and attached to the appointment in the diary of the field salesperson. The ABI process is similar.

5.16 Glenigan and ABI continue to develop their understanding of the way customers use their products after the initial sale. Sales representatives from ABI will pay at least two visits a year to customers with order values above £[REDACTED], and they aim to contact all customers every four months. Emap told us that Glenigan's salespeople spend some hours with the higher-spending customers helping them make most effective use of the products. Emap said that when renewing a subscription, the salesperson will have information showing the customer's current selection, the total number of projects delivered to each recipient, the length of the subscription, and the customer care log and details of amendments, together with any details of complaints and enquiries.

5.17 Prices for products above a certain value are set by negotiations. ABI told us that, through the pay structure, its salespeople are given strong incentives towards

maximizing the value of the sales that they make.²² They are allowed to offer a maximum [X] per cent discount for new sales. ABI estimated that on average a [X] per cent discount is provided on new sales. It said that the maximum discount on renewal is [X] per cent.

5.18 Emap told us that Glenigan's sales team can offer discounts on new sales of the Tailored product (above [X] per cent they need the approval of their sales team leader) and a [X] per cent discount on renewal (subject to approval above this level). Emap said that discounts are not given in the majority of cases, and that the sales person will instead aim to narrow the criteria of the subscription to reduce the price.

5.19 We found that there was more discounting than would be suggested by the guidelines outlined above. [X]

5.20 ABI has identified the reasons given for 120 discounts of over [X] per cent between 5 February 2003 and 14 April 2004. For almost half of these (44 per cent), the reason given for agreeing to the discount was Glenigan. ABI told us that it is not uncommon for Glenigan significantly to lower its quote for a product where the customer has also received a quote from ABI. ABI does not keep records of this, but has provided some recent examples (Table 11).

²²Both ABI and Glenigan operate similar commission frameworks for their sales staff. For new sales both monthly and quarterly targets are set, and if these are achieved then commission is paid at differing rates. For example, Glenigan field sales consultants have a new sales target of £[X] a month before commission begins to be paid. On reaching the target they get [X] per cent, over £[X] to £[X] they get [X] per cent on the difference and above £[X], [X] per cent. ABI field sales team has a similar structure although there are more bands and a greater percentage range. For renewals, targets are again set but at a percentage based on the value of subscriptions up for renewal.

TABLE 11 **Competitive discounts (summer 2004)**

<i>Customer</i>	<i>Negotiation</i>
A ([§])	[§] pays ABI £[§] for part of the group [§] pays Glenigan £[§] for another part of the group ABI has worked to secure a group deal at a price of around £[§] In the last few weeks, Glenigan's Sales Director contacted a decision-maker from one of [§]Glenigan-supplied customers (which pays approximately £[§]) and offered 'the whole group for £[§]'. Glenigan initially quoted £[§] ABI quoted £[§] Glenigan discounted to £[§]
B ([§])	Glenigan initially quoted £[§] ABI quoted £[§] Glenigan discounted to £[§]
C ([§])	Glenigan initially quoted £[§] ABI quoted £[§] Glenigan discounted to £[§]
D ([§])	ABI quoted £[§] Glenigan quoted £[§] ABI matched to £[§] and customer orally accepted Glenigan contacted customer and discounted to £[§]

Source: ABI.

Price discrimination

5.21 Price discrimination refers to any situation where different customers are charged different prices for the same good or service for reasons which are not related to the cost of supply. Where suppliers can successfully charge customers who are willing to pay a higher price more than others whose valuation of the product or service is lower, the supplier can get more money from its customers. We have found that these conditions for price discrimination are met in the PICD market, as explained in the following paragraphs.

5.22 To discriminate between customers on price, producers need to be able to identify in some way the varying extents to which different customers are willing to pay for the product. This can be done either by directly observing their willingness to pay, by relating it to some proxy (willingness to pay may vary with firm or market features such as the customer's line of business or its size), or by the customer revealing its willingness to pay through its purchasing actions, eg what type of package of goods and services it buys, or its negotiations of price.

- 5.23 Emap told us that there was no price discrimination; Glenigan and ABI said that they could not price discriminate because they could not identify those customers who required the product more than others, and Glenigan said that it could not identify any features of customers that correlated with their willingness to pay, and said that churn rates did not vary with identifiable factors. Prices, it said, were complex to determine in that many of their products were highly customized to the needs of the individual customer. We have, however, seen that customers are given discounts of varying proportions for reasons unrelated to cost. The discount given arises from discussions based on price sensitivity and the ability to switch to ABI or to cease to use PICD. ABI and Glenigan have considerable information about their customers, arising from information gathered prior to the initial sale and post-sale contacts. As actual prices paid are determined by individual negotiation, the existing discount systems already constitute a form of price discrimination. Price discrimination is also demonstrated by the fact that the price increases that Glenigan sought to introduce in 2003 were different for customers with higher- or lower-value contracts.
- 5.24 We note that information is gathered during the initial sales process about the customer, its activities, and how it would use the product. There are also follow-up visits or contacts with high-value customers. These contacts will provide Glenigan with information on how well the product is working for the customer and how beneficial they perceive it to be. This information can be fed into price negotiations for renewals.
- 5.25 We therefore conclude that price discrimination occurs currently, and it would be possible and worthwhile for Glenigan to price discriminate post-merger. The loss of ABI as an alternative provider of PICD as a result of the merger would mean that those customers who would otherwise have been able to negotiate a lower price by threatening to switch to the other provider will no longer be able to do so.

5.26 In summary, Glenigan and ABI said that they could not price discriminate because they could not identify those customers who required the product more than others. However, we have seen that customers are given discounts of varying proportions. The discount given arises from negotiations in which factors are the customer's ability to switch to another PICD provider or to cease to use PICD. ABI and Glenigan have considerable information about their customers, arising both from what is gathered prior to the initial sale and from post-sale contacts. As actual prices paid are determined by individual negotiation, the existing discounts already constitute a form of price discrimination. As a more general illustration, the price increases that Glenigan sought to introduce in 2003 were different for customers with higher- or lower-value contracts. The discounts which some customers are able to obtain mean that Glenigan and ABI do practise price discrimination even if Glenigan and ABI do not recognize it as such. The loss of ABI as an alternative provider of PICD as a result of the merger would mean that those customers who would otherwise have been able to negotiate a lower price by threatening to switch to ABI will no longer be able to do so and Glenigan would be able to increase prices profitably.

Direct evidence of competition between Glenigan and ABI

5.27 Emap suggested that Glenigan and ABI were not in close competition pre-merger. It argued that the products offered by the two companies were highly differentiated, and, although their products were superficially similar, they were not perceived as substitutes by many customers—it said that customers who ended subscriptions were much more likely to move to other ways of obtaining sales.

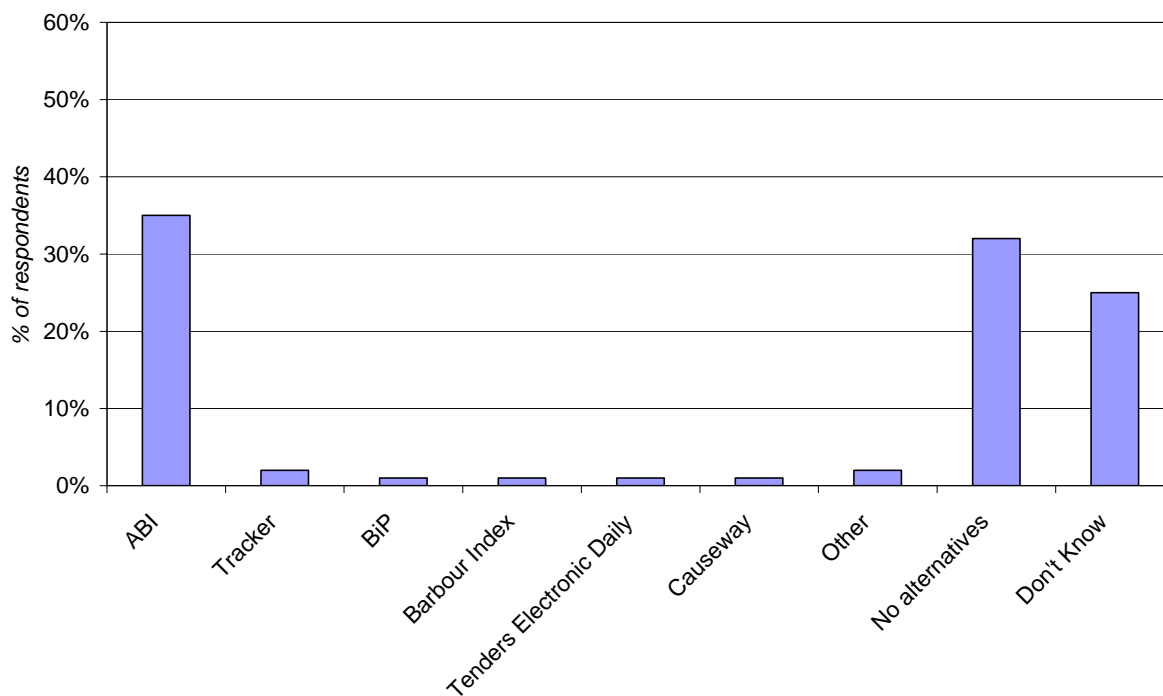
5.28 Emap's view that it was not in close competition with ABI is inconsistent with the result quoted in paragraph 5.20, that Glenigan was the driver for almost half the large discounts offered by ABI. It is also at odds with the results from our quantitative survey. Customers of Glenigan and ABI were asked whether there were any realistic

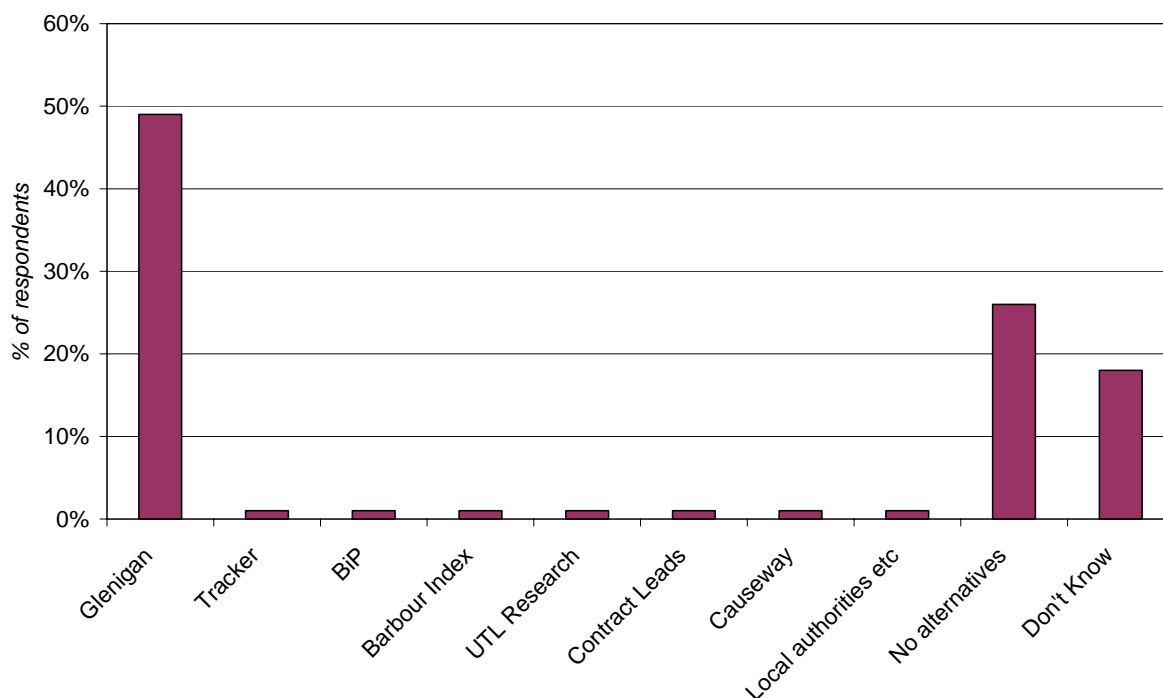
and effective alternative providers of sales lead generation services that they could and would use instead of their current supplier. ABI was cited by 35 per cent of Glenigan customers and Glenigan was cited by 49 per cent of ABI customers. Only 8 per cent of Glenigan customers thought they had alternative suppliers other than ABI, and only 7 per cent of ABI customers thought they had alternative suppliers other than Glenigan (Figure 1). 32 per cent of Glenigan customers and 26 per cent of ABI customers said that they had no alternative supplier (Appendix B).

FIGURE 1

CC survey responses on alternative providers of sales lead generation services

Question: Are there any realistic and effective alternative providers of sales lead generation services that you could and would use instead of Glenigan/ABI? (name of actual provider used)





Source: CC survey (Appendix B).

5.29 The main evidence Emap quoted to support its statement that it was not in competition with ABI was its switching analysis. By matching up Glenigan and ABI's sales databases,²³ Emap looked for examples of customers who had switched between the two companies over the last three years. It found that the rate of such switching was very low—[X] per cent of customers leaving Glenigan became customers of ABI within three months, and [X] per cent of customers leaving ABI became customers of Glenigan. However, as part of our qualitative survey, we contacted 15 former Glenigan customers, and of these, six were found to have switched between Glenigan and ABI during Glenigan's review period. Glenigan's results only identified two of the six. Although this was a small sample, it indicates that, in the comparison of databases that Glenigan was able to do in the period before the undertakings to the CC took effect, the volume of switching to and from ABI was inaccurate and likely to have been understated.

²³This exercise was done by Emap before the reference to the CC, following which undertakings were given by Emap which prevented it from having access to the ABI sales database (paragraph 3.3).

5.30 Other evidence contradicts Glenigan's low switching result. Glenigan's interviews with lapsed customers suggest a higher proportion of customers switching to a competitor than is shown by its switching analysis. For example, in a survey in November 2001, [redacted] per cent of the 29 Glenigan ex-customers who responded said that they were currently using another company to provide project information. A survey of 28 of Glenigan's ex-customers in January 2002 showed that [redacted] per cent who responded said that they were using an alternative information provider and all said they were using ABI. A similar survey of 56 of Glenigan's ex-customers in December 2003 asked whether (now that their Glenigan subscription was cancelled) they currently used any other sources to provide them with project information. [redacted] per cent said that they used other sources. Of these, [redacted] per cent said that they were using ABI. Although these interviews involved only a small sample of lapsed customers, they suggest a higher proportion of customers switching to ABI.

5.31 Glenigan's management records also identify ABI as its closest competitor. For example, in April 2004 Glenigan announced in its Key Performance Indicators that 'we are greeted with the news of EC [Emap Communications] acquiring our major competitor ABI'. The December 2003 report of interviews conducted by Glenigan with customers cancelling their subscriptions noted that 'The research also re-affirmed market trend of customers "bouncing" between Glenigan and ABI. However, a large proportion of those who cancelled (65 per cent) reverted to existing contacts and networks to gain new business rather than choosing an alternative leads provider.' This report concluded that 'of those who use sales leads sources ABI proves to be the main alternative [sic]'. A similar survey conducted in September 1996 noted that 'when asked whether there was any other information provider that was as closely linked to the building market as Glenigan, virtually all mentioned ABI'. Emap's plans to combine Glenigan and ABI products also show that it considers the products to be close substitutes for each other (Appendix D).

5.32 Any analysis of those who actually switch will underestimate the extent to which customers consider products to be substitutes, because it cannot take account of customers using the threat of switching in negotiating subscriptions. There are strong indications that Glenigan and ABI have acted as a constraint on each other's market power. ABI told us that its 'standard prices had found a reasonably competitive level through many years of competition against Emap'. The evidence provided by ABI of the reasons given for discounts to customers shows the impact of the threat of switching. As discussed in paragraph 5.20, of the 120 discounts given by ABI of over [X] per cent that were agreed by the sales manager between 5 February 2003 and 14 April 2004, 44 per cent were given because of Glenigan. ABI has provided some recent examples of customers who have obtained a significantly lower price from Glenigan where ABI had quoted a lower price for a similar product offering. These examples are shown in Table 11 (paragraph 5.20). ABI told us that 'discounting has become more commonplace in the last two years due to the perception of a more aggressive pricing policy by Emap Glenigan' and that 'the vast majority of agreed discounts on RRP are due to lower priced Glenigan quotes'. Emap said that it 'acknowledges that the threat of switching to ABI may have been used by some customers (amongst other techniques) in price negotiations. However, this does not weaken in any way the reality that there is very little switching between Glenigan and ABI in practice'.

5.33 A number of customers gave us evidence that they had compared the two services before choosing one or had got estimates from both (Appendix C). The qualitative survey also found several examples of customers who valued having two competitors in price negotiations, including some who saw the price of PICD products as low (Appendix B).

5.34 Most customers did not identify any significant switching costs between PICD providers. To some extent, Glenigan and ABI provide data in a form that can be fed into a customer's own IT systems. However, both companies supply Customer Relationship Management software that can be used to organize the data and to get as much information as possible from it. Glenigan supplies this software to all Tailored customers as part of the 'added-value' package and intends to supply similar software for all Bulletin customers. The data and software provided by both Glenigan and ABI are interoperable so that the CRM software provided by the parties does not present a major barrier to switching between providers, although some customers ([REDACTED]) identified costs in changing the link to their own sales management software.

5.35 We conclude that there has been considerable price competition between ABI and Glenigan.

6. Constraints from entry, expansion or buyer power

6.1 We have seen (paragraph 5.7) that the UK PICD market is characterized by the two large suppliers, Glenigan and ABI, plus a number of niche suppliers who do not currently individually or jointly place a sufficient constraint on Glenigan and ABI to limit price rises. We now consider whether there is scope for entry to that market on a sufficient scale to place a competitive constraint on price increases. We consider whether niche or regional providers already in the PICD market could readily expand their provision so as to place substantial competitive pressure on the merged firm. To do so, such entry or expansion would have to be sufficiently strong, timely and comprehensive to counteract the exercise of market power by Glenigan post-merger. We also consider whether buyers could exert countervailing power against the merged firm.

Barriers to entry

- 6.2 The businesses of Glenigan and ABI are characterized by high fixed and sunk costs and low marginal costs. It would therefore be necessary for an entrant or expanding smaller provider, entering on a national scale, to secure a substantial customer base as quickly as possible to be able to start recovering the high fixed costs of providing and researching national data, or data outside the provider's current specialization. We have seen that the key features that make PICD valuable to customers are that the information is accurate, detailed, timely and project specific. To challenge the merged firm, an entrant or smaller market player would therefore have to be able to provide a similar depth of information that is accurate, detailed and timely and have the resources to invest in development.
- 6.3 A further possible barrier to entry is the need for a supplier to have sufficient historic data. Information about projects is collected throughout their duration and is relevant to customers at different stages. This could mean that a new entrant or expanding small provider would have to collect historic data on projects that had been under way for some months, or in some cases perhaps years, to ensure that the information on the database was complete, thus delaying the time before which an entrant would recover its start-up costs. A potential overseas competitor ([REDACTED]) told us that entry to this market would require a minimum of six months to build a sufficient database, and two to three years to achieve sales amounting to 5 per cent of the total UK market. [REDACTED]
- 6.4 Emap has submitted that staff with the necessary skills do not need to be highly qualified and can be trained quickly. However, we think that it could take some time to acquire contacts and build up relationships with the range of professionals, contractors and firms in the construction industry from whom Glenigan and ABI currently collect information. An entrant would need to acquire knowledge of the

process of collecting PICD, its sources, and what information is valued, before being able to train staff to collect the data. Glenigan and ABI do have a reputational advantage having been present in collecting PICD relating to the construction industry for some time.

6.5 A new entrant might have difficulty in establishing necessary contacts and trust if the company was not well known in the industry, and recognized by the providers of relevant material as being expert in the systematic collection and processing of information. Entry or expansion by a company with some contacts in the industry would be easier, although it might still need to acquire more contacts and the knowledge of what information is valuable in other regions or sectors and what are the best sources.

6.6 Moreover, the economies of scale that Glenigan would have post-merger from its larger combined database of project information and combined customer base would give it a clear advantage in competing to provide PICD against a new entrant, which may itself be a barrier deterring entry.

Costs of entry

6.7 The market for PICD is characterized by high fixed and sunk costs and relatively low marginal costs, so that average costs are decreasing—the cost per subscriber declines with the number of subscribers supplied. With a large customer base, the post-merger entity would have significantly lower costs per subscriber than any new entrant. A new entrant would require enough financial backing to sustain short-term losses while developing its customer base, even assuming no retaliation by the merged firm in terms, for example, of lower prices.

- 6.8 Emap suggested that entry would occur regardless of the merger. It estimated that the cost of entry to provide very basic PICD was about £250,000, and on a more comprehensive scale about £750,000, in the first year. It believed that the most likely entrant would be a company with existing fixed costs in the information sector, and also considered that companies already supplying niche PICD products could develop their products to appeal to a greater proportion of Glenigan's customer base without significant extra cost. There would be costs in switching existing staff to perform new roles and adapting existing systems.
- 6.9 One niche PICD company ([redacted]) estimated that it would cost between £800,000 and £850,000 in the first year to establish a full national planning and project information service similar to the one provided by Glenigan and ABI—and said that it was considering doing so. However, this estimate excluded sales or marketing costs and we believe it is therefore an underestimate of the actual costs that it would face.
- 6.10 Other potential competitors estimated entry costs as much higher. One of these ([redacted]) estimated that the required annual cost of operating a similar national service at £3.5 to £4 million with a staff base in excess of 120 employees, and another potential overseas competitor [redacted], told us that the costs of £2 to £3 million at the lower end and £5 million at the higher end would be prohibitive and the market would be a tough one to enter. We note that Glenigan's and ABI's annual operating costs are both around the higher end of these estimates. It would take time to establish a customer base, but the new entrant would still incur all the research costs during this period. These cash flow costs would effectively be sunk costs.
- 6.11 Emap argued that the cost of entering the PICD market would be substantially reduced as a result of the Planning and Regulatory Services Online project (PARSOL). Under this Government-funded project, local authorities in England are

encouraged to make planning data available online. Many local authorities already provide this information free, but to the extent that more or all of them do so, costs to PICD providers will be reduced. Emap estimated that the cost to collect and aggregate into a database all planning data for the UK was £[redacted] per year (£[redacted] for England, £[redacted] for all major conurbations, and £[redacted] for London and the South-East).

6.12 However, the main costs to providers lie in the further research. Nor does PARSOL require local authorities to produce information in a consistent format, although there are proposals that, in time, PARSOL will start to aggregate data from different authorities. In our view the effect of PARSOL on entry costs is therefore likely to be marginal; this was also the view of all the others we heard from apart from Emap, including the PARSOL programme manager.

History and likelihood of entry

6.13 Emap considered that there were clear incentives for entry by virtue of the scope to differentiate the product offering and the large potential customer base in the construction industry, most of which was not currently reached. It said that a number of small and niche suppliers (shown in Table 8) have entered in recent years. Emap suggested that the most likely form of entry would be through [redacted], a new entrant would have major cost advantages. However, it would still be necessary for such an entrant to develop a suitable delivery system, since the timely delivery of accurate data is key, and it would still have to bear the research costs.

6.14 Most of the companies listed in Table 8 have entered this market on a small scale as niche or regional providers, and none has a significant market share compared with that of Glenigan or ABI. Emap identified a number of companies that it believed had the resources, expertise and assets required to enter the market with a service similar to that provided by Glenigan and ABI. In Appendix E we discuss the

likelihood of these firms entering the market. [REDACTED] was the only one who has expressed an interest in entering the PICD market on a substantial scale, and all the others who commented said that they would not consider doing so because of the high costs of entry or expansion.

- 6.15 Moreover, there is evidence of failed entry. An attempt at large-scale entry was made in 1998 by ex-directors of Glenigan, who set up a new company, InfoFirst. This company offered bulletins or a database on CD. The company reached a turnover of £624,000 in 2000, with 562 customers, and was the third placed supplier, though still well behind Glenigan and Emap. However, it failed in 2002; different views have been expressed to us for the reasons including insufficient funds and failure to meet market requirements in terms of searchability of project leads.
- 6.16 A company seeking to provide a sufficient service to provide a strong competitive constraint on the merged firm would face the barriers set out in paragraphs 6.2 to 6.5, including the necessity of establishing a reputation for quality with the customers and the time required to establish an archive of researched planning application leads that would be useful to the whole customer base.
- 6.17 The incentive to enter is also affected by the market-leading position of Glenigan and ABI, which would be significantly enhanced by the merger. The merged firm's low variable costs and ability to price discriminate would increase its ability to retaliate against an entrant. There is evidence that Glenigan would respond in this way. We noted that Glenigan's post-merger strategy included keeping down the price of the standard product, in part to deter new entry. The average costs of the merged firm would be relatively low, as its fixed costs would be spread across a large number of clients, so we were told by a customer ([REDACTED]) that the merged firm could manage with prices 'well below the price that a new entrant would have to charge to recoup the

high costs associated with entry, until the new entrant would be driven from the market'. So the strategic prospects for a new entrant or expanding niche provider competing head-on with the merged firm would be highly uncertain unless it were willing and able to tolerate an extended period of losses as revenues were built up while the costs of full national coverage were incurred. We also think that similar considerations would inhibit a niche entrant or an expanding niche provider that did not want to compete with the merged firm head-on. These considerations are likely to affect the incentive for potential entrants or expanders and are themselves a barrier to entry.

Entry at regional or sectoral level

- 6.18 The CC quantitative survey showed that a high proportion of the revenue received by Glenigan and ABI related to national coverage: [X] per cent of Glenigan respondents and [X] per cent of ABI customers subscribed to all regions nationally. The survey data also showed that higher-spending customers were much more likely to be interested in national coverage: [X] per cent of the top 20 per cent of customers by value bought national data, compared with [X] per cent of the lowest 20 per cent of customers by value. This suggests that an entrant would have to provide national coverage to attract many high-value customers from Glenigan and ABI.
- 6.19 A regional or sectoral entrant could place competitive pressure on the merged firm but to do so it would have to provide similar depth of coverage in the relevant region or sector to that provided by the merged firm, and it would face the revenue disadvantage of not having a national customer base. It would have the same costs per lead as a national one, but its revenue potential would be substantially lower unless it could compete for customers who need national coverage or provide other services of value to its customers.

6.20 If coverage were limited to a specific geographic region or a specific sector then the number of researchers would be reduced pro rata, but the level of fixed support costs (for example, IT systems) would not be likely to be significantly different, so it is hard to see how a regional or sectoral entrant could achieve a lower fixed cost per lead for the same quality service as Glenigan and ABI, and the potential customer base would by definition be smaller than for a national provider. It would also have to establish a reputation for delivering high-quality information.

6.21 We also considered whether a new entrant could profitably start up in one or more major regions such as the South-East (which accounted for 31 per cent of new construction contracts in 2002) to develop a solid base, and then offer PICD services to other parts of the country. We believe that the costs per region facing such an entrant would correspond to those for entry on a national basis, if similar depth of coverage to that of Glenigan or ABI were to be provided for the region in question. The considerations in paragraphs 6.23 and 6.24 would also apply to its expansion plans.

Expansion by an existing provider

6.22 The current alternative providers of PICD offer customers a specialist service, focused on a specific sector or region, or in some cases focused on a specific sector in a specific region. (See paragraphs 5.3 to 5.7 and Tables 8 and 9.) These suppliers typically collate and pass on a relatively limited amount of publicly available data rather than adding their own researched information. We have seen that they do not provide as comprehensive a service as that of Glenigan or ABI. They do not normally provide data that integrates with a customer's database and contract management software. Other PICD providers offer leads on a local or regional basis. None of these provides a fully researched product with national coverage and full

information on all sectors of the construction industry and none has more than 5 per cent of the total PICD market.

6.23 We were told (by [X]) that comprehensive national data cannot be effectively substituted by assembling local data from different suppliers of basic PICD, and niche suppliers do not provide the depth of information on particular projects, for example with respect to sector, project stage, timeliness and ability to search. Since we do not expect these smaller PICD suppliers to place a sufficient competitive constraint on Glenigan post-merger, we must consider the likelihood of entry in the context of it being on a sufficient scale and with a PICD product that has sufficient coverage of national data together with supporting delivery systems in order for it to provide an effective competitive constraint on the merged firm in the short to medium term, which we consider is one to two years.

6.24 Although a regional provider of PICD could readily switch to providing a service at a similar level of coverage in other regions, it would not place significant competitive pressure on the merged business unless it also stepped up the depth of its coverage. Therefore, whilst entry by a niche provider on a regional or sectoral basis is credible, as evidenced by the existence of companies currently operating in this way, expansion by such a company to provide a service with coverage and similar comprehensiveness to that of Glenigan and ABI would require investment per region or sector in information gathering and infrastructure not dissimilar from that of new entry in that region or sector. It would also be affected by the same barriers to entry including a high capital expenditure and the merged firm's advantage in knowledge and reputation.

Conclusions on scope for entry or expansion

6.25 We conclude that entry or expansion to provide sufficient coverage to provide a strong competitive constraint would require considerable investment, the capacity to secure a sufficient customer base in reasonable time, and the confidence that the merged firm would not retaliate by reducing its prices below the average costs of the new entrant. There was no credible evidence to suggest that such new entry or expansion would materialize. All potential new entrants except one considered that the costs and risks made new entry unviable. The merger would also increase the barriers to entry because of the economies of scale and established position enjoyed by the merged firm, so entry or expansion would be less likely after the merger.

Countervailing buyer power

6.26 We also considered whether buyers would exert a substantial competitive constraint on the merged firm by switching to alternative providers of PICD, supporting new entry or turning to self-supply. The scope for this seems limited as pricing is not transparent and most customers are not price sensitive, although Glenigan sought to achieve lower price rises from its higher-value customers than from its lower-value customers in 2003. PICD makes up a small percentage of marketing budgets. Emap told us that Glenigan would find it difficult if it lost high-order-value customers which made up a high proportion of revenue. Both Glenigan and ABI have a few customers with large order values, but in general the customer base for the two suppliers is highly fragmented; for the two firms combined, the customers with orders over £[redacted] account for only [redacted] per cent of their turnover. Moreover, there is no system for pooling buyer power, as could happen if a trade association or buying consortium negotiated discounts. It is possible in theory that a buyer could use leverage over Glenigan if it was a major customer of another Emap company, but we saw no evidence of this and Emap told us that its companies were run completely separately.

- 6.27 Emap put it to us that a large customer could collect the data it required internally. Emap estimated that it would cost around £79,000 a year to collect national planning applications. It argued that gathering the information would become easier because of the PARSOL project as all planning applications could be accessed online. However, as noted in the section on entry, Glenigan and ABI offer value-added information and it would cost far more to replicate their offering. Evidence presented by third parties indicated that the price of products supplied by Glenigan and ABI would need to more than double before they would move to self-supply.
- 6.28 Many customers told us that the price of these services was low compared with the value of the business they stood to gain from them. In the absence of self-supply, the main mechanism by which these customers might leverage buyer power must be the threat of switching supplier, between Glenigan and ABI, and this opportunity disappears with the merger.
- 6.29 We conclude that there is effectively no countervailing buyer power in this market.

7. Counterfactual

- 7.1 In deciding whether the merger gives rise to an SLC, we need to evaluate the competitive constraints on the merged business compared with the situation that would have been expected to prevail without the merger. We need to consider what situation would arise in the absence of the merger. (See Appendix D.)
- 7.2 ABI has operated, and would appear to be able to continue to operate, as a stand-alone business. It has been profitable and cash-flow positive for at least the last five years and has not required parent company support in the normal course of business either to trade or to develop its products and services. Cinven and Candover told us that they would have continued to operate it as part of Springer if it had not been sold

to Emap. However, the business was not of strategic interest to Cinven and Candover or to Springer. We consider that it would probably have been offered for sale in the short to medium term. Emap pre-empted any such process through its offer to purchase ABI.

7.3 There are other potential acquirers that are not in direct competition with ABI and Glenigan to supply PICD, but operate in sectors such as journal publishing. It is likely that under any such ownership ABI would have continued to compete with Glenigan at least to the extent that it did before the merger.

7.4 It would also have done so if it had remained part of Springer. Although Cinven and Candover have stated that it was unlikely that they would have invested further in the business, ABI has been profitable and cash-flow positive for at least the last five accounting periods,²⁴ and has not required parent funding to develop its business in this period. It has continued to introduce new products (Table 10). There is nothing to suggest that ABI would not have continued to be profitable and able to fund its own development internally.

7.5 There have not been, nor are there expected to be, any changes in the construction industry environment that are sufficient to render a comparison with the pre-merger competitive situation inappropriate. We therefore conclude that the appropriate counterfactual for comparison is a situation with Glenigan and ABI in competition and ABI operating as an economically viable and competitive firm.

8. The effects of the merger

8.1 If the merger is allowed to continue, and Emap integrates ABI's business with Glenigan, customers will no longer have a choice between Glenigan and ABI, the two

²⁴Years to June 1999, 2000 and 2001, 18 months to December 2002, year to December 2003.

major PICD suppliers. We have found that the two suppliers currently compete actively for business; this competition will cease. We expect the merger to result in a reduction of the incentive to compete on price, in scope for the merged firm to increase prices, and in reduction of the incentive to innovate at the present level and to maintain quality, and reduction in customer choice. These effects are considered below.

- 8.2 First, we briefly consider the potential for coordinated effects, that is, the potential for the merged entity to coordinate prices or output with other suppliers. We have heard no evidence raising concerns about this. In the main, third parties have regarded this merger as a move from two to one significant suppliers of PICD, and so there would be no-one post-merger with whom to coordinate. We therefore concentrate on unilateral effects.

Effect on prices

- 8.3 We consider that the incentive to compete on price would be lessened by the removal of ABI as a competitive constraint on Glenigan and the reduction in rivalry which has been seen to be driving price negotiations.
- 8.4 Principally as a result of the considerable cost savings arising from the synergies of combining Glenigan and ABI businesses, Emap was able to pay a premium for ABI over the market level suggested by comparable deals (see Appendix D). Glenigan will nearly double its customer base with only a marginal running cost increase, following its initial rationalization costs. The pro-forma profit and loss account shows contribution margin (before acquisition cost and central overhead allocation) increasing from [X] per cent pre-merger to [X] per cent in the first year after the merger and rising to [X] per cent by the fourth year. There is no evidence from Emap's business plan that any of these cost savings will be passed on to the

customers, which would be expected if the business were to be subject to competitive pressure. Moreover, these cost savings and the economies of scale that Glenigan would have post-merger from its larger combined database of project information and the combined customer base would enhance the profitability of post-merger price increases.

8.5 Emap's pricing strategy in the year following the merger, as set out in Emap's valuation model, has two principal elements, covering Bulletin and Tailored products. First, it plans to maintain the price structure on renewal for current ABI SiteData customers, whilst migrating them to Glenigan's Bulletin product. The model includes a [X] per cent price rise in the first year after the merger for these customers. As part of this strategy, Emap envisages decreasing the price to Glenigan's current Bulletin customers to match ABI's price level for the basic product. Second, it plans to increase the price by [X] per cent on renewal to ABI's current Databuild customers whilst migrating them to Glenigan's Tailored product. The model includes a [X] per cent price rise for Glenigan's Tailored customers in the first year after the merger. All new customers will pay according to Glenigan's Tailored price structure (a [X] per cent increase on current prices) (Appendix D).

8.6 The price movements included within the valuation model in the first year of the merger cannot be taken as exact representations of the future prices Glenigan will charge. This is due to their being based on estimated AOVs, which represent a combination of both price and product mix. Emap has submitted that the price increase will reflect the value of the superior product and that it had budgeted for quality enhancements. However, customers will not have the choice of whether to continue to take a lower-priced product such as that currently offered by ABI. Moreover, it would be expected that there would be developments and improvements as part of the normal competitive process in any information-based business. We do

not consider that the 'added value' changes Glenigan made in 2003 are sufficient to explain past price increases. Glenigan has increased prices above levels explained by quality enhancements and we expect that also to be possible after the merger.

8.7 Emap told us that it was not possible to be clear about whether the price increase of [X] per cent will actually be achieved. Some customers may decide to narrow their search criteria to avoid increasing their subscription cost. Some may decide to use an alternative provider, and others may simply do without. Emap commented that following the addition of the 'added value' components in 2003/04, Glenigan did not achieve its target price increases.

8.8 In our view, reducing search criteria to reduce purchase cost is equivalent to accepting a price increase; customers are taking less for the same price. Moreover, Glenigan achieved a significant price increase, even if lower than targeted, at a time when ABI was providing an alternative product. Post-merger, we do not consider that there would be effective alternative providers of PICD to which customers could switch. Moreover, Emap's suggestion that customers could reduce their requirements or go without the product demonstrates that customers would otherwise have to accept higher prices.

8.9 Post-merger, Glenigan and ABI would no longer be competing with each other, which would increase the scope for increasing prices. This effect would be reinforced by the ability to price discriminate. The merged company would be able to target its greatest price increases on those who are least sensitive to price increases and thereby gain greater profits from the increase in its market power.

- 8.10 Some customers would also have been in a position to use the threat of switching to ABI as a negotiating tool. The merger would eliminate this option, so could permit significant rises in prices to these customers.
- 8.11 A number of customers told us that they were concerned that the merger could force them to take price increases. For example, we were told that before the merger a journal ([X]) would probably have accepted a price rise of around [X] per cent before switching to ABI, but post-merger might accept a significantly higher price (perhaps a [X] per cent increase) before ceasing to purchase comprehensive PICD altogether.
- 8.12 We also considered whether it might be possible for Glenigan to reduce the supply of information to journals other than those owned by Emap or supply the data on less favourable terms. However, we do not consider that it would have any incentive to do so, because of the benefit it derives from the publicity it gets from having its data appear in the journals. The ability of the combined business to discriminate against a journal owned by a competitor would also be constrained by the risk that it would find itself subject to action by the OFT under section 18(1) of the Competition Act 1998 (the Chapter II or Article 82 prohibition), which prohibits conduct amounting to an abuse of a dominant position.

Effect on customer choice

- 8.13 Following the merger, Emap intends to cut the number of products available to remove repetition and overlap between the Glenigan and ABI product offerings. It will offer ABI's Databuild customers Glenigan's Tailored product at a higher price but with a number of additional features. Emap considers that the higher price is supported by the additional features. However, we are concerned that the rationalization of product lines and the combination of features in the Tailored product means

that customers will be less able to pick and choose the services they require. We conclude that there would be a reduction in customer choice arising from the merger, which will not be constrained by the ability of customers to switch to effective alternative PICD products, or by effective new entry.

Effect on quality and innovation

8.14 We found in paragraphs 5.9 to 5.11 that Glenigan and ABI have had a similar pattern of innovation in recent years, and both also put considerable effort into filling and extending their databases and to do so on a timely basis. After the merger, having lost their closest competitor, the incentive to innovate and improve quality would be weaker. Glenigan will continue to need to invest to retain customers in response to high churn rates, and has said that it will continue to innovate, but the incentive to invest will still be reduced in the absence of competition from ABI.

8.15 Against this, at least in the short term, customers of each company would benefit from having access to a larger database at a lower cost than subscribing to both services. Any efficiency gain from this would, however, have to be set against the loss of competition which would otherwise have had the effect of keeping down prices and encouraging quality and innovation through rivalry.

Provisional conclusions on the SLC question

8.16 Customers requiring the PICD products supplied by Glenigan and ABI for sales and marketing leads, for other purposes, or for reproduction in journals, will have a single effective supplier instead of having a choice between two. We consider that this reduction in rivalry and the increase in Glenigan's market power may be expected to result in an SLC manifested in Glenigan having greater scope and ability to continue increasing prices, there being a reduction in choice, and Glenigan having a reduced incentive to innovate and to maintain and improve the quality of its products. The

possibility of new entry, expansion or countervailing buyer power is not sufficient to be a constraint on the lessening of competition.

8.17 Accordingly, we conclude that the merger may be expected to result in an SLC.