

Anticipated acquisition by Web Reservations International (through its parent company Hellman & Friedman) of Hostelbookers.com Limited

ME/6062/13

The OFT's decision on reference under section 33(1) given on 2 August 2013. Full text of decision published 15 August 2013.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

1. **Web Reservations International ('WRI')** is an online travel agency, headquartered in Dublin, and is focused on budget accommodation, in particular hostels. WRI's websites – primarily hostelworld.com, hostels.com and bedandbreakfastworld.com – advertise accommodation and allow consumers to make online bookings. WRI also supplies property management systems to accommodation providers to manage their accommodation capacity. In 2012 WRI's worldwide turnover was around €[] (around £[]) and its UK turnover was around £[]. WRI is (indirectly) owned by **Hellman & Friedman LLC ('H&F')**, a private equity investment firm with over US\$ 8.9 billion (around £6.0 billion) of committed capital.
2. **Hostelbookers.com Limited ('HB')** is an online travel agency, headquartered in London, and, like WRI, is focused on budget accommodation, in particular hostels. HB's main website is hostelbookers.com. In 2012 HB's worldwide turnover was around £[] and its UK turnover was around £[].

TRANSACTION

3. On 10 April 2013 H&F agreed, through group companies, to acquire the majority of shares in HB (the '**Acquisition**'). Members of WRI's management and the current owners of HB will have a minority indirect shareholding in HB after the Acquisition.

JURISDICTION

4. As a result of the Acquisition, H&F will have legal control over HB and hence H&F, including its group company WRI, and HB will cease to be distinct. These enterprises overlap in the supply of hostel accommodation services in the UK,¹ with a combined share of supply to hostels in the UK exceeding 25 per cent (see paragraphs 48-49 below). The OFT considers that the share of supply test in section 23 of the Enterprise Act 2002 (the '**Act**') is therefore met. Therefore, the OFT believes that it is or may be the case that arrangements are in progress or contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
5. The OFT's administrative deadline for a decision is 2 August 2013. The Acquisition does not trigger merger control notification in any other jurisdiction than the UK.

RATIONALE

6. The parties submitted that the rationale for the Acquisition is to achieve significant efficiencies in the face of mounting competitive pressures from large online travel agencies ('**OTAs**'), such as Priceline's Booking.com, and other newer entrants. According to the parties, they are too small to withstand these pressures individually, particularly when compared to the far larger resources of the other players in the sector. The parties' intention is that these efficiencies will generate cost savings, allowing the parties to invest in areas of expenditure that are required to compete more effectively and sustainably with the other players, such as 'pay-per-click' ('**PPC**') advertising on search engines² and innovations to their websites to increase their attractiveness to consumers and accommodation providers.

¹ For convenience, in this decision the OFT uses the term 'accommodation services' to describe the parties' business in line with the parties' submissions. These accommodation services consist of listing accommodation providers' properties on the parties' websites and providing a distribution channel for them enabling consumers to search for and book these properties on the parties' websites, as set out in more detail below.

² The parties submitted that PPC advertising is critical to the success of accommodation services providers, as this is the primary way to drive consumer volume to a website. PPC advertising consists in this context primarily of bidding on specific search terms on Google and other search engines with the aim of increasing the prominence of the advertiser's website in the sponsored links on search results pages.

7. Further, HB told the OFT that []. HB stated that its position as a small, independent provider was becoming unsustainable given the entry of large OTAs and the fast pace of change in the market.
8. The parties' submissions on the rationale for the Acquisition are supported by internal documents, which refer, for example, to 'cost synergies, improved competitive position, ability to compete against Booking.com and others on PPC' as 'upsides' of the Acquisition.³ Internal documents also suggest that [] is a reason for the Acquisition,⁴ in addition to [].⁵

MARKET DEFINITION

9. Both parties are OTAs with websites that list hostels and other budget accommodation providers' properties and enable consumers to search for and book accommodation in these properties. The parties historically specialised in hostels but they stated that the accommodation they currently offer on their websites consists also of other budget accommodation, such as hotels rated three stars and fewer, bed and breakfast properties and guesthouses.
10. The parties submitted that the accommodation services sector in which they are both active, comprises the supply of two separate but connected services to two distinct sets of customers: (a) the supply of accommodation search/booking services to prospective accommodation users, and (b) the supply of accommodation advertising services to accommodation providers. They stated that the sector therefore operates as a two-sided market with a consumer and an accommodation provider side.

Product scope

11. The parties submitted that the market should be defined as a broad accommodation services market, encompassing both consumer-facing and accommodation provider-facing services.

³ H&F document, headed '[]', February 2013 (Annex 21(a) to the submission, slide 3).

⁴ For example, WRI document, headed '[]', undated (Annex 20(e) to the submission, page 1, second item) and H&F document, headed '[]', October 2012 (Annex 21(b), slide 3).

⁵ WRI document, headed '[]', May 2012 (Annex 20(d), slide 32).

12. When selecting a candidate market, the OFT will include at least the substitute products (narrowly defined) of the merging parties.⁶ Put differently, the starting point for market definition is the narrowest plausible candidate market in which the parties' products overlap. In this case, this is the provision of online budget accommodation services, in particular relating to hostels. The OFT considers below (a) whether it is appropriate to focus on hostel accommodation services only rather than budget accommodation services more widely, (b) whether bookings through accommodation providers' own websites should be included in the market, and (c) whether the market should be expanded to cover traditional 'bricks and mortar' travel agents in addition to OTAs.⁷
13. In considering this, the type of evidence that the OFT typically seeks relates to the closeness of substitution between different product offerings, their relative prices, customers' and competitors' views, and internal documents of the parties.⁸

Distinction between hostels and other budget accommodation types

14. The parties stated that they both historically focused exclusively on hostel services but that they found this unsustainable in view of (a) increased consumer 'agnosticism' between accommodation types, (b) accommodation providers' ability and incentive to make their properties available for consumers across as many channels as possible, and (c) the entry into the budget accommodation segment by larger OTAs. The parties have therefore expanded their offering to include other types of budget accommodation. The parties submitted that, in view of these factors, it is not credible to segment the market according to price/comfort level or the grading or stars awarded to a particular accommodation and hence suggested the market should cover accommodation services for all accommodation or at least for budget accommodation.
15. The parties referred to previous decisions by the European Commission to support their submission that a distinction between different types of

⁶ *Merger Assessment Guidelines* (CC2 and OFT1254, September 2010), paragraph 5.2.11.

⁷ The OFT considers it appropriate not to widen the market to other types of travel services, such as flights and car rentals, consistent with its recent *Priceline/Kayak* decision (OFT's decision of 9 May 2013, paragraph 32) and in view of the parties' exclusive focus on one type of travel service (that is, accommodation). Neither the parties nor third parties submitted that other types of travel services should be included in the market.

⁸ *Merger Assessment Guidelines*, paragraph 5.2.15.

accommodation services is not appropriate. However, the OFT notes that in these decisions the Commission found it was not necessary to decide this point and the Commission did not rule out the possibility of such a distinction.⁹

16. The OFT notes that the parties have [] a significant expansion of their listings of such accommodation. The parties stated that hostels now account for only around [] of their total worldwide property listings and around [] of their UK listings, but in 2012 hostels still accounted for [] majority of the parties' bookings and revenues and accounted for [] in each of 2010, 2011 and 2012 (with [] as the only exception).¹⁰
17. The parties [].
18. In identifying the scope of the relevant product market as regards services for different accommodation types, the OFT has considered the likely degree of switching by (a) consumers and (b) hostel owners away from a hostel OTA to an OTA listing other budget accommodation in response to a small increase in price by the hostel OTA.¹¹ The OFT has taken account in this respect of the interdependence of consumers' and hostel owners' responses given the impact on an OTA's attractiveness to hostel owners of the number of consumers visiting that OTA and to consumers of the number of properties listed by that OTA.

Consumers

19. The parties stated that consumers are increasingly 'agnostic' in respect of different types of budget accommodation, since they book primarily on the basis of price rather than accommodation type, as shown for example by the fact that accommodation is generally listed by price on accommodation websites and in guidebooks. The parties pointed to an increasing blurring of distinctions between types of budget accommodation, with increasing

⁹ The most recent European Commission decisions referred to by the parties were *TUI/First Choice* (case M.4600, 4 June 2007), *KarstadtQuelle/MyTravel* (case M.4601, 4 May 2007), as well as *Ascott Group/Goldman Sachs/Orville* (case M.3068, 13 February 2003, see paragraph 16), which in fact involved the provision of accommodation itself rather than the provision of accommodation services.

¹⁰ For WRI and HB respectively, in 2012 hostel bookings accounted for [] and [] per cent of total bookings and [] and [] per cent of total revenues (OFT calculation and H&F document, headed '[]', February 2013 (Annex 21(a) to the submission, slide 35)).

¹¹ The hypothetical monopolist test is discussed in the *Merger Assessment Guidelines* from paragraph 5.2.9.

numbers of hostels offering private rooms in addition to beds in shared rooms and, conversely, increasing numbers of budget hotels offering shared facilities like communal areas and shared rooms.

20. In support of their submission, the parties further referred to consumer surveys conducted for each party,¹² which show that price is important in choosing accommodation¹³ and that most consumers consider other types of accommodation besides hostels when booking accommodation. In addition, booking data from WRI show that nearly half ([] per cent) of customers who booked at least three stays in the last three years, including at least one in a hostel, made at least one booking in non-hostel accommodation, and only a very small share (less than [] per cent) of consumers searching for accommodation on the parties' websites search only for hostels by 'un-clicking' other accommodation types. Survey evidence also suggested that the majority of hostel users would have been equally happy to book a hotel, B&B or apartment that met all the criteria they considered important.¹⁴ In terms of the substitutability between hostels and hotels, the parties submitted that [30-40] per cent of the UK hotels listed with WRI in 2012 had an average bed price of £[] or less (which equates to the price band of 90 per cent of the hostels listed with WRI).
21. However, the OFT notes that other results from the parties' consumer surveys show that a significant proportion of consumers have a preference for hostels over other types of budget accommodation.¹⁵ It is also not clear

¹² The parties referred in their submissions to three consumer surveys: a brand awareness survey carried out by OnePoll for WRI in October 2012 ('**WRI's OnePoll survey**'), a survey for WRI carried out in April 2013 (the '**WRI consumer survey**') and a consumer survey for HB carried out in September 2012 (the '**HB consumer survey**'). These surveys were conducted before or around the time that the parties agreed the Acquisition and the OFT has no reason to believe that they were conducted specifically in relation to the Acquisition or the OFT's assessment. The OFT notes that all survey data on consumers' preferences assumed static prices and not a SSNIP and therefore are informative but not determinative in identifying the relevant market.

¹³ For example, the WRI consumer survey identified price as the most common factor behind their choice of accommodation, with around [25-35] per cent of respondents stating that it was the most important factor.

¹⁴ The WRI consumer survey shows that of all respondents that had booked a hostel for their last trip, [60-70], [60-70] and [55-65] per cent would have been equally happy to book a B&B, hotel and apartment respectively if they met all the criteria the respondents considered important.

¹⁵ Nearly half ([40-50] per cent) of customers in the HB consumer survey responded that they were very likely to stay in a hostel while fewer than one-fifth ([10-20] per cent) responded that they were very likely to stay in a hotel, which the OFT considers may give an indication of the strength of hostel customers' preferences. Further, less than a third ([25-35] per cent) of

how the evidence from these surveys is informative about the proportion of 'marginal' consumers, that is, the proportion of consumers who would switch away from a hostel OTA in response to a small price increase.

22. The OFT also considers that the continued focus of the parties' websites on hostels rather than other budget accommodation suggests that in their view a significant group of consumers is looking specifically for hostels. For example, both parties' home pages contain links to 'all hostels' in specific cities but contain notably fewer references to other types of budget accommodation.
23. Third-party comments supported the importance of price as a factor for consumers in choosing accommodation. Almost all hostel owners as well as some other third parties stated that there were also non-price factors that distinguished hostels from other accommodation types such as budget hotels. The main factors that were mentioned were the social atmosphere in hostels, with the opportunity to meet other travellers, and the existence of shared facilities such as kitchens. There is some support for this in HB's and WRI's consumer surveys.¹⁶ Set against this, some non-hostel budget accommodation providers and competitors did not indicate that there were factors limiting consumers' choice between hostels and other types of budget accommodation.
24. Given the importance of price to consumers, as indicated by both the parties and third parties, the OFT has taken account of data from WRI's database of bookings in UK properties in 2012, which give an indication of price differences between hostels and other types of budget accommodation. While, as the parties pointed out (see paragraph 20), these data show some overlap between the range of prices for hostels and the range of prices for hotels, guesthouses and apartments, most of these other accommodation types are more expensive than hostels and some significantly so.

respondents to the WRI consumer survey who had booked a hostel, indicated that they had also considered booking a hotel (the equivalent figure for B&Bs was [30-40] per cent and for apartments [10-20] per cent).

¹⁶ For example, [70-80] per cent of respondents in the HB consumer survey (question 12) indicated that a 'great atmosphere' was (very) important when booking accommodation. Also, several respondents in the WRI consumer survey who indicated that they would not want to book a hotel, referred to the importance of meeting people as the reason for this (column AM of the spreadsheet with raw data provided by the parties in their response of 15 May to OFT question 5).

25. The OFT notes that it can only attach limited weight to these data, because the parties' analysis of WRI's database does not control for accommodation characteristics (such as location) and, since it consists only of properties listing on WRI's websites, may not be representative of the budget accommodation sector as a whole. However, given the significant differences in price between hostels and most other budget accommodation as well as the non-price factors that typically distinguish hostels, and taking a cautious approach, the OFT considers that it is unlikely that there would be sufficient switching by consumers to OTAs offering non-hostel budget accommodation to constrain a five per cent increase by hostel OTAs in booking fees¹⁷ for hostel bookings (or in hostel accommodation prices more generally).¹⁸ The OFT notes in this context that booking fees (and commission rates) are low compared to accommodation prices.

Hostels

26. As regards switching by the hostels themselves in response to all relevant OTAs increasing commission rates (by around five per cent), the OFT's investigation found that this would be limited by the technical functionality of OTA websites that offer only non-hostel budget accommodation. Some hostels told the OFT that it is difficult to list on these websites if they do not enable consumers to book beds in shared rooms. A large majority of hostels also told the OFT that hostel-specific accommodation websites such as the parties' sites were a critical route to market, and several hostel providers noted that larger OTAs, such as Booking.com, do not specifically target their main customer base (budget travellers and backpackers). The OFT also notes that concern about the Acquisition appears to be much greater among hostel operators than among other providers of budget accommodation, which suggests that hostels may have fewer alternative OTAs or other routes to market than these other providers. Therefore, the evidence is not compelling that other OTA sites which currently do not

¹⁷ Booking fees are charged by WRI's websites to most consumers. This also applies to a similar increase in commission rates to hostels, which then passed these on (at least partly) to consumers in the form of higher accommodation prices (this pass-through appears likely given that third-party comments suggest that hostels typically have low margins).

¹⁸ As regards the parties' websites, the parties informed the OFT that accommodation prices on their websites are set by accommodation providers and that the parties have no control over them.

offer hostel accommodation services constrain the prices and behaviour of those which do.

Conclusion

27. In view of the factors set out above, taking a cautious approach, the OFT considers that it is not appropriate to extend the relevant market to cover OTAs offering non-hostel accommodation. The OFT has therefore considered the Acquisition on the basis of hostel accommodation services rather than a wider market of all (budget) accommodation services.

Bookings made directly on accommodation providers' websites

28. Consumers can book accommodation directly with accommodation providers, such as on their website, through email or by phone, in addition to booking through third-party websites such as those of the parties. The OFT has therefore considered whether this 'self-supply' should be included in the relevant market, which would generally be the case if the ability of accommodation providers to choose the option to 'self-supply' affects the profitability of a price rise by all relevant OTAs offering hostel booking services.¹⁹ To reach a view on this question, below the OFT has first considered the current importance of hostels' own websites as a source of bookings and the ways in which they can attract consumers.
29. According to the parties, many properties have their own websites on which consumers can book accommodation. This was confirmed by third-party comments received by the OFT. Evidence provided by the parties also suggests that, although hostels receive more bookings through third-party websites than through their own websites, their own websites are nevertheless an important source of bookings. For example, a WRI consumer survey shows that [40-50] per cent of respondents had booked a hostel through the hostel's own website in the past 12 months.²⁰ Further, a WRI survey of UK hostels shows that more than [65-75] per cent of hostels received bookings through their own websites, filling an average of [25-35] per cent of beds through this channel compared to an average of [40-50] per cent of beds through third-party websites.²¹ A report produced

¹⁹ *Merger Assessment Guidelines*, paragraph 5.2.20 (fourth bullet).

²⁰ WRI's OnePoll survey.

²¹ Responses by UK hostels to a budget accommodation property survey carried out [] for WRI in [] 2013 ('WRI's [] property survey') (Annex to the parties' response of 15 May to OFT

by a trade association on the basis of a survey of hostels worldwide, including the UK, also shows that, while third-party websites are generally a larger source of bookings (35 per cent at UK hostels) than hostels' own websites (22 per cent), the latter represent a significant share of bookings.²² There is therefore consistent evidence from various surveys that hostels' own websites account for a significant share of bookings.

30. The OFT further notes that the Youth Hostel Association in England and Wales (yha.org.uk) and the Scottish Youth Hostel Association (syha.org.uk) have websites that allow consumers to book their hostels and attract a substantial number of consumers (see Table 2 below). This also applies to the website of Hostelling International (hihostels.com), the global network of national Youth Hostel Associations.²³
31. The parties stated that some hostels have invested in PPC advertising on Google and as a result appear in the sponsored links at the top of Google's search results.²⁴ They noted that hostels can allocate the commission savings from bookings on their own websites to PPC spend. WRI also identified this in a recent internal 'Update on competitive environment': 'Hostels increasingly focusing on developing their own sites and promoting them on PPC'.²⁵ As the parties provided only a few examples of hostels' own websites appearing at or near the top of the sponsored links on Google, the current significance of PPC spend by hostels is unclear. However, as these examples cover both a relatively large chain of hostels and an individual hostel, they suggest that it is possible for hostels of

question 5). This survey was conducted before the parties agreed the Acquisition and the OFT has no reason to believe that it was conducted specifically in relation to the Acquisition or the OFT's assessment.

²² Report 'The Youth Travel Accommodation Industry Survey' by STAY WYSE, a worldwide trade association of organisations involved in youth travel accommodation, September 2012 (Annex 19(c) to the submission, page 24). Similarly, for hostels worldwide around 30 and 16 per cent of bookings came from third-party websites and from their own websites respectively (page 60).

²³ Hostelling International's website lists not only the member hostels of the national Youth Hostel Associations but also some independent hostels in countries where such an Association is not present. To that extent this website is comparable to a third-party OTA.

²⁴ The parties provided Google screenshots showing that St Christopher's Inns Backpacker Hostels outbids both them and Booking.com on the generic terms 'hostels in London' and 'hostels in Paris', resulting in St Christopher's Inns having the first ad on the Google search results page, although the OFT's own Google searches show that this is not invariably the case. The parties also provided an example for Brodies Hostel, which is listed in the top three ads for 'hostels in Edinburgh'.

²⁵ WRI document, March 2013 (Annex 20(a) to the submission, slides 16-17).

different sizes to attract consumers directly to their websites through PPC spend.

32. The parties further submitted that the importance of hostels' own websites is growing with the emergence of metasearch sites as an additional distribution channel, as metasearch sites often list these websites as an option for booking beds alongside third-party websites. The OFT notes that currently metasearch sites appear to list hostels' own websites to only a limited extent or not at all.²⁶ However, the parties pointed out that TripAdvisor, which according to its website is the world's largest travel site by visitor numbers, will launch a new 'TripAdvisor Connect' service in late 2013, which is 'an online platform that will give independent hotels and B&B's of all sizes the ability to participate in metasearch pricing display'.²⁷ The parties expect TripAdvisor to push this service aggressively to switch bookings to hostels' own websites, since they can bid more than the entire commission they would pay to an OTA for a better placing on TripAdvisor and hence represent a potentially larger revenue source for TripAdvisor than OTAs. The parties also referred to Google Hotel Finder as a way for hostels to attract consumers to their own sites, as accommodation providers, including hostels, can bid to list their own sites alongside OTAs' sites when consumers search for accommodation in a specific location at a specific date. The OFT considers that it is therefore likely that metasearch sites will provide hostels with additional ways to attract consumers to their sites.
33. Hostels told the OFT that they preferred to receive bookings through their own websites, since they are not paying commission to a third-party booking site for these bookings. However, most hostels stated that their own website could not replace third-party booking sites as the source of online bookings entirely given the wider reach and greater brand recognition of these third-party sites and the preference of consumers for websites that allow them to compare several accommodation options. The OFT notes in this respect that, for the purposes of defining the relevant market, it is relevant only whether a sufficient proportion of consumers

²⁶ This currently applies to Tripadvisor.com, Trivago.com and Kayak.com, as well as to the specialised hostel metasearch sites Hostelz.com and Hostelzoo.com.

²⁷ See <http://tripadvisor4biz.wordpress.com/2013/07/12/coming-soon-tripadvisor-connect/> (last accessed on the date of this decision).

switch to hostels' own websites for their bookings to constrain hostel OTAs.

34. Several hostels also expressed concerns about a new contract that WRI is currently asking hostels to sign up to, which includes a 'price parity' clause that provides that hostels cannot offer their beds at a lower price on other sites, including their own site. WRI's new contract further contains an 'availability parity' clause that provides that hostels must offer all of their beds on WRI's sites. This clause would mean an end to the current practice that some hostels engage in of reserving some beds for booking through their own website. Several hostels were concerned that these clauses will make it significantly more difficult for hostels to attract consumers to their own website.
35. WRI's previous contract also contains a price parity clause, but the parties stated that this clause is []. It is not clear to what extent WRI intends to []. The parties stated that HB also includes price parity clauses in its contracts []. The lack of (current) enforcement of price parity clauses is also suggested by some third parties and by (mostly small) price differences in hostel prices between the parties' sites and also with Booking.com's site that are shown in the parties' price comparisons (see also at paragraphs 75-76 below). Nevertheless, the OFT considers that the extension of 'price parity' and 'availability parity' clauses to hostels' own websites is not inconsistent with the parties' submission that these websites compete with them for consumer bookings.
36. In respect of the likely response of consumers to a small price increase by hostel OTAs, given that their search and switching costs are low, the OFT considers that switching to hostels' own websites in the event of a price increase²⁸ is likely to be sufficient to constrain hostel OTAs. As well as (increasingly) searching via metasearch sites, consumers can also use hostel OTAs to identify the hostel they wish to stay at and then, at low cost, verify whether the hostel's own website offers a better deal, in which case consumers are likely to make the booking via the hostel's own website. This is particularly likely to be the case here, since consumers are likely to be price-sensitive as highlighted by survey evidence submitted by

²⁸ This price increase could take the form of a five per cent increase in booking fees (which are charged by WRI's sites to most consumers) or commission rates, which hostel comments to the OFT suggested may be (at least partly) passed on to consumers in the form of higher accommodation prices.

the parties (see paragraph 20 above). The OFT also notes that such switching by consumers away from hostel OTAs will reduce the attractiveness of hostel OTAs to hostels, which may amplify the effect of consumer switching.

37. As regards switching by hostels, the OFT considers, in view of the factors set out above (in particular the already significant use of hostels' own websites and the distribution channels hostels have for their own websites), that it is likely that the number of hostels that would switch to self-supply if all commission rates were to be increased by five per cent would be sufficient to make this rate rise unprofitable. The OFT notes that this switch may be easiest for the largest hostels that represent [] of the parties' revenues ([] and [] per cent of UK hostel revenues for WRI and HB respectively came from their top [] hostel chains), as it will be relatively less costly for these chains to attract consumers to their sites through PPC spend.
38. Taking all of the factors set out above into account, the OFT considers that it is appropriate to include hostels' own websites in the product scope of the relevant market for the purposes of assessing the competitive impact of the Acquisition.

Distinction between online travel agents and traditional travel agents

39. The parties submitted that it is not credible to segment the market according to whether services are provided online or offline, because consumers will search for and book accommodation across a wide range of sources, and accommodation providers will reflect this by also using a wide range of sources to advertise their properties.
40. However, most accommodation providers and some other third parties told the OFT that traditional 'bricks and mortar' travel agents are not substitutes for online travel agents for both consumers and accommodation providers, as very few bookings are made through these traditional travel agents (with the possible exception of some group bookings, which were mentioned by a few third parties). In its *Priceline/Kayak* decision, the OFT also assessed the transaction on the basis of online travel services only,

based partly on previous decisional practice.²⁹ The OFT further notes that both parties are active only online and do not offer offline services.

41. Therefore, taking a cautious approach, the OFT has assessed the Acquisition on the basis of the provision of online accommodation services.

Conclusion on product scope

42. On the basis of the evidence provided in this case, as set out above, and taking a cautious approach, the OFT has considered the Acquisition on the basis of the provision of online hostel accommodation services to consumers and hostel owners. However, the OFT notes that for differentiated products, such as those provided by the parties and their competitors,³⁰ it may not be possible to seek to define strictly delineated relevant markets and market shares are less informative about the degree of competition between merging parties than if their products were undifferentiated.³¹ The OFT has therefore in its analysis of the competitive impact of the Acquisition focused on closeness of competition between the parties and their competitors rather than on precise market definition and has relied on this to assess whether the parties' market shares provide an accurate indication of the degree of competition that will be lost by the Acquisition.

Geographic scope

43. The parties submitted that the geographic scope of the accommodation services market is global, since theirs and their competitors' websites are visited by consumers and list properties from across the world.
44. The OFT notes that in its recent *Priceline/Kayak* decision, the OFT, consistent with previous decisional practice, adopted a UK-wide frame of reference. The OFT left open the possibility that the geographic scope may be wider.
45. In the present case, the OFT has received very limited evidence regarding the geographic scope of the market from either the parties or third parties and the OFT cannot exclude the possibility that there are, for example,

²⁹ OFT decision of 9 May 2013, paragraph 21.

³⁰ Differentiation in this sector manifests itself in a number of ways, such as commission levels, accommodation listings, advertising mix or differences in the quality of websites and services.

³¹ See *Merger Assessment Guidelines*, paragraph 5.2.2.

cultural or linguistic factors that mean that a wider than national market is not appropriate. The OFT notes that in any case there are no reasons to suggest a narrower than national scope. While competition between accommodation providers may be sub-national, the present case regards competition between OTAs that are active on at least a national basis.

46. Taking a cautious approach, the OFT has therefore focused its competitive assessment of the Acquisition on UK accommodation providers and UK consumers, while taking full account of the competitive constraint on the parties from accommodation services providers based outside of the UK.

HORIZONTAL UNILATERAL EFFECTS

47. Horizontal mergers give rise to unilateral effects where a firm merges with a competitor that pre-merger provided a competitive constraint, allowing the merged firm profitably to raise prices and/or reduce quality or service post-merger. Where products are differentiated, as is the case in relation to the accommodation services provided by the parties and their competitors, unilateral effects are more likely where the products compete closely with one another.³² The OFT has considered the parties' and their competitors' market shares below, and the OFT has then focused its assessment on evidence regarding the closeness of competition between the parties and evidence regarding the competitive constraints they face from other providers of accommodation services to assess whether market shares provide an accurate indication of the degree of competition that will be lost by the Acquisition.

Market shares

48. The parties estimated their UK shares of online budget accommodation services and hostel accommodation services based on a number of different metrics (the number of bednights booked, the gross booking value (that is, the value of rooms/beds that were booked) and the number of bookings). The parties' shares of online hostel accommodation services in the UK are substantial, as set out in Table 1 below. Table 1 below contains the parties' estimates of their share of (a) online bookings made by UK consumers at hostels worldwide, and (b) online bookings made at UK

³² *Merger Assessment Guidelines*, section 5.4.

hostels by consumers worldwide. The parties' shares in Table 1 include bookings made at hostels' own websites.

Table 1: Provision of online hostel accommodation services (per cent)

	WRI	HB	Combined
Share of UK consumers (2011)			
By number of bednights	[30-40]	[10-20]	[45-55]
By gross booking value	[30-40]	[10-20]	[45-55]
By number of bookings	[35-45]	[10-20]	[45-55]
Share of UK hostels (2012)			
By number of bednights	[30-40]	[10-20]	[45-55]
By gross booking value	[25-35]	[10-20]	[40-50]
By number of bookings	[30-40]	[10-20]	[45-55]

Source: parties' estimates.

49. The parties did not have the information necessary to calculate their competitors' shares on the same basis. As an alternative, the parties provided estimates of their competitors' shares based on WRI's [] property survey. These estimates are set out at Table 2 below and are calculated based on the number of bednights booked in UK hostels, including through hostels' own websites.

Table 2: Provision of online hostel accommodation bookings at UK hostels by number of bednights

Company	share (%)
WRI	[20-30]
HB	[10-20]
Combined	[35-45]
Hostels' own website	[35-45]
Booking.com	[10-20]
Laterooms.com	[0-5]
Yha.org.uk	[0-5]
Hihostels.com	[0-5]
Others	[0-5]
Total	100

Source: parties' estimates based on WRI's [] property survey.

50. The OFT has treated the shares in Tables 1 and 2 with caution, given that the parties had to rely on a number of assumptions to calculate their share estimates and given that the products of the parties and their competitors are differentiated.³³ Nevertheless, the parties' shares are not at a level at which concerns over unilateral effects can be ruled out.³⁴ In particular, their shares are around or significantly above 40 per cent on all measures. The OFT also notes that the shares of the parties' competitors, with the exception only of Booking.com, are very small.

Closeness of competition between the parties

51. The parties submitted that they are not close competitors and that the constraint they impose on one another is insignificant such that the combined market shares above overstate the degree of competition lost by the Acquisition. They stated that competition in the budget accommodation sector is not a function of competition between them but instead their main competitive constraint is formed by other providers of online budget accommodation services, in particular the large OTAs such as Booking.com, but also niche booking websites such as Airbnb.com and a range of other websites. The parties also noted that for accommodation

³³ See, for example, *Mergers Assessment Guidelines*, paragraph 5.3.2.

³⁴ See also *Merger Assessment Guidelines*, paragraph 5.3.5.

providers different sales channels, including the parties' websites, are to a large extent complements rather than substitutes, because accommodation providers have the ability and incentive to list on as many websites as possible to gain access to the widest possible range of consumers and maximise their occupancy rates.

52. The OFT notes that, although there are a few differences between the parties' offerings,³⁵ in many respects the parties are similar to each other, which was remarked on in internal documents and which suggests closeness of competition between the parties:³⁶

- they both focused historically on hostels and, while both continue to do so to a significant degree, both have also expanded into other types of budget accommodation (as noted above, in particular paragraphs 16-17) and
- the parties offer a similar breadth of hostel coverage (see Table 3 below), which is likely to be particularly valuable to consumers looking to search and compare across a wide accommodation portfolio and which is superior to almost all other suppliers and
- the parties focus their PPC advertising on similar terms (as suggested by the key words for which the parties recorded PPC spend with Google in 2012), suggesting they are seeking to attract a similar clientele and
- their business models are similar, as they both charge a commission rate of 10 per cent, which is charged to consumers who book accommodation as a deposit; as a result, the parties ultimately collect their commission directly from the consumers and typically there are no further transfers to/from the accommodation providers ([]) as the parties introduce increased commission rates linked to an accommodation providers' ranking on the parties' search results pages).

53. In this section the OFT has considered evidence regarding the extent to which the parties compete against each other, while the OFT has

³⁵ In particular, WRI's sites charge a booking fee of £1 (or US\$2/€1.50) to most consumers and offer bookings in three currencies (GBP, USD and EUR), while HB's site does not charge a booking fee and offers bookings only in GBP.

³⁶ For example, WRI document, headed '[]', undated: '[]' (Annex 20(e) to the submission, page 1, second item) and H&F document, headed '[]', October 2012: '[]' (Annex 21(b), slide 2).

considered the evidence regarding the competition from other providers in the following sections (from paragraph 86 below). The OFT has assessed the closeness of competition between the parties, including evidence on consumer preferences, property offering, evidence on marketing activity, internal documents and third-party comments.

Evidence on competition for consumers

Consumer survey evidence

54. The parties stated that consumers search across many websites before making a booking, in addition to offline search sources such as guidebooks and traditional travel agents. In support, the parties provided evidence from consumer surveys conducted for each of the parties, showing for example that three-quarters of respondents typically used three or more information sources to research a trip (HB consumer survey) and that just over half of respondents search on at least one other accommodation booking website in addition to the one they eventually book on (WRI's OnePoll survey).
55. As regards consumer use of the parties' websites specifically, the parties submitted that only very few consumers visit both parties' sites exclusively and are therefore directly affected by the Acquisition. For example, WRI's OnePoll survey shows that in the 12 months before the survey only three per cent booked hostels with both parties' websites but no other sites. Further, the parties stated that the HB consumer survey shows that out of all UK respondents that had booked accommodation on HB's site, only [10-20] per cent had used WRI's Hostelworld.com as the only alternative website for making a booking in the past. The parties stated this is supported by comScore visitor data for February 2013 showing that only [0-5] per cent of consumers visited the sites of both parties but not Booking.com.
56. However, the OFT notes that the survey evidence submitted by the parties can at best constitute only indirect evidence of the likely consumer switching patterns following a price rise by the merged entity, since the surveys did not ask the survey participants which site they would have used in such cases but asked instead for respondents' typical choices over a defined period of time. The surveys can therefore not be determinative of switching patterns by consumers.

57. Furthermore, the OFT considers that these data underestimate the importance of the parties' websites to consumers, because they relate only to consumers visiting the sites of both parties and exclude consumers visiting the site of one of the parties. If these are included, WRI's OnePoll survey shows that more than half of consumers indicated they had booked a hostel only on either or both of the parties' sites without having used another site ([50-60] per cent). Further, the HB consumer survey shows that the majority of respondents ([55-65] per cent) had used either or both of the parties' sites exclusively to book accommodation.³⁷ In addition, the comScore visitor data provided by the parties show that over one quarter ([20-30] per cent) of consumers visited both or either of the parties' sites without visiting Booking.com.³⁸ This evidence is indicative of the parties being as close competitors as suggested by their market shares set out above.
58. According to the parties, the pre- and post-Acquisition situation for consumers who visit or use only one of the parties' sites will be identical. However, these consumers will be affected by the Acquisition if it results in a worsening of the parties' offering, for example through the increase of WRI's booking fees or the introduction of booking fees on HB. Such a worsening will affect all consumers using the parties' sites, not just those who use both parties' sites.³⁹
59. The OFT therefore considers that the parties' consumer survey evidence suggests that, while some consumers use other websites than, or in addition to, the parties' sites to search for and/or book hostels, there is a significant number of consumers who use only one or both of the parties' sites. The OFT has also seen some evidence of consumers comparing website functionality and the services offered by the parties' websites.⁴⁰

³⁷ Calculated by combining the [40-50] per cent of UK respondents that had booked accommodation on HB's site without having used any other sites to do so, with [10-20] per cent of respondents who had used both parties' sites (OFT calculation based on HB consumer survey responses (Annex to the parties' response of 15 May to OFT question 5)).

³⁸ Figure 6.3 of the submission.

³⁹ See *Merger Assessment Guidelines*, paragraphs 5.4.6 to 5.4.9.

⁴⁰ For example the parties' websites (Hostelworld.com and Hostelbookers.com) are compared on consumer blogs to assess which site is preferable to use to search for and book hostels. See for example www.backpacking-tips-asia.com/hostelbookers.html#.UeGKkeAvHlo, www.runawayjane.com/hostel-world-vs-hostel-bookers-part-2/ and www.backpackingdiplomacy.com/travel-articles/hostels/how-to-choose-a-hostel/ (last accessed on the date of this decision).

The OFT is not aware of similar comparisons involving competing sites. The OFT considers that this lends further support to the parties' sites being close competitors in consumers' eyes.

Number of hostels listed on the parties' and their competitors' websites

60. The parties provided the OFT with the number of hostels listed on their and their competitors' websites for a set of key cities in the UK and abroad in June 2013.⁴¹ This is set out at Table 3 below. The overall number of hostels listed is important because of the network characteristics of the market, that is, hostels wish to list where there is the most traffic looking for their offering. As such, hostels are more likely to list where many other hostels are already listed. Similarly, hostel users are more likely to search for a hostel where they know that they will be offered many to choose from.

⁴¹ The UK cities are Belfast, Birmingham, Brighton, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, London and Manchester, while the cities outside the UK are Amsterdam, Barcelona, Berlin, Bangkok, Madrid, Sydney, Paris, Prague and Rome. The parties considered that these cities provide a good and representative example of the respective presence of the relevant websites.

Table 3: Number of hostels listed on accommodation services websites

	key UK cities	key non-UK cities
Hostelworld.com (WRI)	136	520
Hostels.com (WRI)	133	517
Hostelbookers.com	137	402
Youth-hostels.co.uk	115	340
Gomio.com	85	162
Booking.com	63	304
Travelstay.com	55	126
Budgetplaces.com	47	322
Laterooms.com	43	120
Airbnb.com	43	289
Hostels247.com	40	296
Hostelsclub.com	35	235
Hotels.com (part of Expedia)	20	106
Expedia.co.uk (part of Expedia)	16	88
Venere.com (part of Expedia)	13	96
Hihostels.com	13	54
Lastminute.com	0	31

Source: the parties.

61. The OFT notes that the number of hostels listed on the parties' websites is comparable to the other party and significantly larger than the number on most other websites. Given that an important aspect of differentiation between OTAs is the coverage of properties they provide to consumers, these differences are likely to explain a significant part of the survey results discussed above, which suggest that the parties are as close competitors in the eyes of consumers as their market shares imply. By contrast, the parties' largest competitors in terms of market share (see Table 2 above), Booking.com and Laterooms.com, listed significantly fewer hostels. Some specialised hostels or budget accommodation websites list several hostels, but the share of these websites in hostel bookings is very small, as shown in Table 2 above and as confirmed by third-party comments (see further at paragraph 97 below). The significance of the parties' sites for hostel listings is consistent with the results from WRI's [] property survey and data scrape set out at paragraph 70 below.

62. The OFT considers that, although this comparison of the number of hostels listed on OTAs' websites does not take account of the competitive constraint from hostels' own websites, the similarity in the number of hostels listed on the parties' websites, and the significantly smaller number of hostels listed on their competitors' websites, nevertheless provides further support for the parties being as close competitors as their market shares imply.

Consumer claims under HB's 'lowest price' guarantee

63. The OFT also considered the number of claims made by consumers under HB's 'lowest price' guarantee. HB advertises this guarantee on its website and promises consumers to refund double the price difference if they find any HB-listed properties cheaper elsewhere on the internet for the same travel dates. Refund claims made by consumers under this guarantee (both successful and unsuccessful claims) show that WRI's websites, in particular Hostelworld.com, were the most common websites against which HB was compared, accounting for around [] per cent of claims. Accommodation providers' own websites accounted for around [] per cent of claims. Booking.com, the next largest third-party accommodation services provider, accounted for only [] per cent of claims, followed by Hostelsclub.com, which accounted for [] per cent. All other third-party sites accounted for less than [] per cent of claims.
64. The parties explained the large proportion of claims based on WRI's websites by reference to HB's PPC campaigns informing consumers that HB's site was cheaper than WRI's Hostelworld.com site, which claim is also advertised prominently on HB's home page. Although the OFT does not know the exact timing of HB's introduction of its 'lowest price' guarantee and its price comparison campaign, the parties' internal documents suggest that the former does not significantly pre-date the latter. The OFT therefore considers that the parties' explanation is likely to form an important reason for the differences in claim numbers between Hostelworld.com and other sites, although it is not clear that closeness of competition between the parties may not also have played a role. Indeed, as also noted below (paragraphs 75-76), the very fact that HB's marketing campaign focused only on Hostelworld.com strongly indicates that HB considered that this site was its key competitor in the eyes of the consumer.

65. The OFT considers that the above evidence further indicates that the parties are close competitors.

Evidence on competition for hostel providers

66. As noted above, the parties submitted that for accommodation providers different sales channels, including the parties' websites, are to a large extent complements rather than substitutes, because accommodation providers have the ability and incentive to list on as many websites as possible to gain access to the widest possible range of consumers and maximise their occupancy rates. The OFT considers that such 'multi-homing', if true, would be likely to reduce competition concerns, in particular when combined with some 'multi-homing' by consumers (as suggested by survey evidence set out at paragraphs 60 to 65 above). The OFT has therefore carefully considered the evidence for the use of multiple sales channels by hostels.
67. The parties noted that accommodation providers typically do not have to pay upfront to list through third-party websites and only incur a cost (commission) once a booking has been made through a third-party website. They also stated that listing on as many websites as possible is especially important for hostels, because they are very rarely fully booked and occupancy tends to be seasonal. This means they prefer even a booking from a site with a higher commission rate (such as Booking.com) to an unsold bed advertised through a site charging a lower rate (such as the parties' sites).
68. The parties submitted that the continuing adoption by budget accommodation providers of channel management software is of particular relevance to the Acquisition. They stated that, although even without this software accommodation providers are able to allocate beds across a large number of different distribution channels, this software automates bed allocation between different channels and hence makes it easier for accommodation providers to list on different channels simultaneously.
69. Third-party comments to the OFT confirmed that several hostels and other budget accommodation providers use channel management software. However, the share of UK hostels listed on WRI's websites that employ this software is still relatively small (13 per cent, in addition to 10 per cent employing property management systems that also allow for some automatic bed allocation). The OFT has therefore not put much weight on

the increased ability for hostels to list on multiple channels due to channel management software. The OFT also notes that the level of concern was not lower among hostels that used channel management software.

70. In support of their submission that budget accommodation providers, and specifically hostels, list their properties on several websites, the parties referred to WRI's [] property survey, which shows that most budget accommodation providers ([70-80] per cent) said that there was no limit to the number of online booking sites they could use. Further, the parties suggested that an online data scrape conducted by WRI in January 2013 shows that budget accommodation providers list their properties on a wide variety of websites, with only a very small proportion ([0-10] per cent) listing on the parties' websites but not on other sites. However, the OFT notes that this data scrape also shows that if budget accommodation providers listing on either of the parties' websites (instead of on both of them) are included, almost half ([40-50] per cent) list only on one or both of the parties' sites but not on other sites. If hostels only are considered, a significant majority ([65-75] per cent) lists only on one or both of the parties' sites without listing on another site, while [25-35] per cent lists also on Booking.com and smaller proportions on other sites.⁴²
71. These data are broadly supported by WRI's [] property survey, which shows that almost all hostels ([90-100] per cent) list on at least one or both of the parties' sites. Several hostels also listed on Booking.com ([35-45] per cent) and on Laterooms.com ([20-30] per cent), while other websites came up much less frequently.⁴³ Further support can be found in the number of hostels for key cities listed on several OTA websites, as set out at Table 3 above.
72. This evidence suggests that, although hostels indeed list their properties on a variety of websites (as also confirmed by the number of hostels listed on various sites referred to at paragraphs 60-61 above), the parties' sites are very important to hostels, with almost all hostels listing their website on at least one of the parties' sites and a significant proportion of hostels listing *only* on one or both of the parties' sites. As regards competitors' websites, while a smaller but still significant number of hostels list on Booking.com

⁴² OFT calculation based on the parties' response of 15 May 2013 to OFT question 10.

⁴³ OFT calculation based on WRI's [] property survey responses (Annex to the parties' response of 15 May to OFT question 5).

and Laterooms.com, listings on other sites are limited. This is also supported by comments from hostels to the OFT, the large majority of which emphasised the importance of both parties in achieving bookings, even though almost all hostels list their property also on other websites. The significance of the parties' sites and the lack of significance of other sites suggests that 'multi-homing' by hostels is significantly more limited than suggested by the parties in their submissions. The OFT therefore considers that 'multi-homing' cannot remove competition concerns about the Acquisition.

Evidence from internal documents and benchmarking

73. As discussed below, there are several indications that the parties perceive each other as close competitors, not only in the parties' internal documents but also in the way the parties compare hostel prices on each other's websites and focus on each other in their PPC spending.

Internal documents

74. The parties' internal documents show that they monitor each other closely and benchmark against each other on several aspects of their performance.⁴⁴ The parties submitted that this is for historical reasons, when they identified each other as their main competitor given their common focus on hostels, but that they now benchmark against a wide range of competitors in the broader budget accommodation segment. This is indeed borne out by the parties' internal documents, which show, in any case for the most recent documents (late 2012 and 2013), that they both benchmark their performance not only against each other but also increasingly against Booking.com and a number of other booking sites.⁴⁵ The OFT therefore considers that the parties' internal documents suggest that they are increasingly seeing these other firms as significant competitors, while still also seeing the other party as a competitor.

⁴⁴ Recent example examples showing WRI's monitoring of HB and a link between their shares are WRI's documents headed '[]' (undated but given the subject matter likely to have been produced in 2013, Annex 20(e) to the submission, page 2) and '[]' (11 October 2012, Annex to the parties' response of 15 May to OFT questions 6 and 7, document 36, slide 3). HB's monitoring of WRI is shown, for example, in its documents headed '[]' (March 2013, Annex to the parties' response of 15 May to OFT questions 6 and 7, document 11, slides 23-24) and '[]' (September 2012, Annex to the parties' response of 15 May to OFT questions 6 and 7, document 15, slide 10).

⁴⁵ The parties referred to several examples in their response of 11 June 2013 to OFT question 10.

Price comparisons

75. The OFT has also seen evidence that the parties undertake price benchmarking against each other. HB conducted a price comparison survey comparing hostel prices on its website with those on Hostelworld.com and prominently displays the resulting claim that it is 'on average 7.9% cheaper than Hostelworld.com' on its home page, as well as on other pages in the form of a banner. HB's home page also advertises in the same box on its home page that consumers do not pay a booking fee on its website (while most consumers on Hostelworld.com do pay a booking fee).
76. The parties stated that WRI also []. While this supports that WRI perceives [] as a competitor alongside HB, the OFT notes that WRI has not conducted significant price comparisons against []. The OFT also notes that, to its knowledge, HB has not conducted significant price comparisons against []. The OFT therefore considers that the parties' price comparisons and the way they are advertised supports that the parties see each other as close competitors.

PPC spending

77. The parties provided the OFT with a list of search terms and the PPC expenditure on Google that these accounted for in 2012. These data show that, for both parties, [] of PPC expenditure linked to other OTAs' names was in relation to the other merging party's name.
78. The parties submitted that the extent to which they could invest in certain PPC terms was related to the affordability and the patterns were a result of the cost of PPC advertising rather than an indication of competitive dynamics. For example, the parties stated that PPC spend on [] is not an effective allocation of resources, as it would also attract consumers looking for non-budget accommodation. The OFT however notes that this may not apply to competitors that are, like the parties, similarly focused on hostel and other budget accommodation. Therefore, the OFT considers that, while the PPC spend evidence is not definitive, it provides further support that the parties are close competitors.

Evidence from marketing campaigns and removal of booking fee

79. The parties provided the OFT with an econometric analysis of the relationship between (i) their respective booking volumes, (ii) one party's marketing spend and the other party's booking volumes and (iii) the impact

of WRI's experiment with the removal of its booking fee on HB's booking volumes. The parties submitted that if the parties competed closely, then one would expect to see a negative relationship between the specifications detailed above, since the parties' services would be close substitutes for their customers.

80. In particular, the parties submitted that:

- the absence of any obvious relationship between their booking levels for UK properties demonstrates that they do not appear to take bookings from each other
- data showing the relationship between one party's PPC spend on the one hand and both the other party's and its own bookings on the other hand demonstrate that, while PPC spend by a party is associated with an increase in bookings for that party, it is not associated with a decrease in bookings for the other party
- an analysis of the impact of a TV marketing campaign for Hostelworld.com that WRI ran in the UK intermittently in 2011 and 2012 shows that the campaign had a positive impact on the popularity of Hostelworld.com search terms but did not have an effect on the popularity of Hostelbookers.com search terms, and
- WRI's experiment with removing its booking fee to some customers has not had an impact on HB, since it has not led to a drop in the number of bookings carried out by HB, a statistically significant decrease in HB's conversion rate or margins, or a negative association with HB's PPC spend.

81. The OFT notes that the lack of impact of one party's activities on the other party is not in line with the parties' expectations that are shown in their contemporaneous internal documents. For example, a WRI document states: '[]'.⁴⁶ Another WRI document shows that it was surprised to see less impact of its marketing on HB than it expected, which suggests that other factors may explain this lack of impact rather than a lack of competition between the parties: '[]' and '[]'.⁴⁷

⁴⁶ WRI Commercial Board update, headed '[]', September 2012 (Annex to the parties' response of 15 May to OFT questions 6 and 7, document 16, slide 12).

⁴⁷ WRI document, headed '[]', undated (Annex 20(e) to the submission, pages 1 and 2).

82. In deciding the level of weight to put on the econometric analysis submitted by the parties, the OFT has taken into account that this analysis suffers from some weaknesses. In particular, the fact that the results of the analysis have relatively few 'degrees of freedom' (that is, are somewhat imprecise)⁴⁸ means that the analysis cannot be determinative for the OFT's assessment, notwithstanding that the results are directionally supportive of the parties' submission that they are not close competitors.

Third-party comments on closeness of competition between the parties

83. Virtually all hostels and some other budget accommodation providers and competitors stated that the parties are close competitors. They referred to the parties' common focus on hostel bookings, the similarity in their commission rates and method of collecting commission (that is, through deposits paid by consumers), and the importance of both parties to hostels as a source of bookings. Some hostels also told the OFT that they currently have the ability to exert some influence over the parties' offering to them, because they can (threaten to) switch some bed allocation from one party to the other or de-list completely from one of the parties' sites.

Conclusion on closeness of competition between the parties

84. The OFT has carefully considered evidence regarding consumers' and hostels' use of the parties' websites, the parties' internal documents and benchmarking, quantitative evidence, and third-party comments. On balance, taking all of the evidence set out above together, the OFT considers that this evidence supports that the parties are close competitors to each other, both for UK consumers looking to book hostel accommodation and for UK hostel owners, suggesting that the parties are at least as close competitors as suggested by their shares of supply set out at Tables 1 and 2 above.
85. In the next section, the OFT considers the extent to which other providers compete with the parties' services.

⁴⁸ For example, the OFT notes that the econometric analysis is based on a small sample size given the number of explanatory variables used by the parties to appropriately control for seasonal and demand factors, which is likely to lead to large errors and imprecise estimates. As a result, inference drawn from such estimates is likely to fail to identify the true relationships between the explanatory variables and the dependent variable.

Competition from other providers of hostel accommodation services

86. The parties submitted that the budget accommodation services segment is highly competitive and is undergoing rapid change. They stated that they are faced with significant competition from the large OTAs and that these are growing their share of volume and consumer traffic at a pace that cannot be matched by the parties. They stated this applies in particular to Priceline with its Booking.com site (and its Priceline.com and Agoda.com sites), but also to Expedia (with sites including Expedia.com, Venere.com and Hotels.com), Orbitz (with sites including Ebookers.com, Hotelsclub.co.uk and Ratestogo.co.uk) and Sabre (with sites including Lastminute.com and Travelocity.co.uk), which the parties together referred to as the '**Majors**'.⁴⁹ The parties stated they also face competition from more regional providers of hostel accommodation services, such as Wotif, Budgetplaces.com and Hostelsclub.com. The parties further stated that they also face significant competition from the entry and exponential growth in importance of new business models, such as consumer-to-consumer sites like Airbnb.com and metasearch sites.
87. In this section the OFT has considered the current presence of competing firms in the provision of hostel accommodation services. The OFT has considered the parties' submissions about the rapidly changing nature of the market and the ease of entry and expansion in the section below on barriers to entry and expansion (see from paragraph 103).

Submissions by the parties regarding their competitors

88. The parties stated that in the last two years the Majors have rapidly expanded into the budget accommodation segment and that their higher priced business proposition (with higher commission rates than the parties) does not appear to have hindered them to any material extent. The parties noted that the Majors offer consumers a 'one-stop shop' (including, for example, flight and car rental bookings, although for some of the Majors' accommodation sites these must be booked on affiliated sites) and have strong brands, which helps them gain consumers' accommodation bookings. The parties also referred to the much larger size of the Majors and their vastly superior resources compared to the parties, reflected for example in the Majors' high levels of PPC marketing. The parties stated

⁴⁹ For convenience, the OFT has used the term 'Majors' below as well, although this should not be regarded as indicative of how the OFT views the competitive landscape in relation to OTAs.

that these factors allow the Majors to draw large numbers of consumers, which in turn makes them attractive to accommodation providers and helps justify their higher commission rates.

89. The parties submitted that Booking.com in particular has aggressively targeted the budget accommodation segment, including hostels. The parties provided data showing that Booking.com has increased significantly as a source of both upstream clicks from the parties (that is, as a site consumers visited before visiting Hostelworld.com) and downstream clicks (that is, as a site consumers visited after visiting Hostelworld.com). They also noted that Booking.com has targeted the budget accommodation segment, including hostels specifically, through PPC advertising on Google. As a result, it has risen significantly in the rankings for key PPC terms relative to the parties, and the share of paid clicks for the Majors, including Booking.com, on a set of hostel-specific terms has increased from [0-5] per cent in 2011, to [10-20] per cent in 2012 and [15-25] per cent in 2013. The parties also noted that in May 2013 Booking.com started making PPC bids on the parties' brands (that is, Hostelworld and Hostelbookers), which resulted for example in [] of WRI's PPC costs for its own brands during May 2013. The parties further referred to public statements by Priceline.com, Booking.com's parent, showing its aim to continue expanding its hostel offering.⁵⁰
90. The parties further referred to websites primarily focused on Asia, such as Ctrip.com, Qmango.com, Wotif.com and sites operated by the Majors, such as Priceline's Agoda.com and Expedia's Elong.com. The parties also referred to competition from Hostelsclub.com and Budgetplaces.com, which also have a regional focus, and Gomio.com, which all are accommodation services websites focusing on hostels and other budget accommodation. The parties stated that all of these sites list UK hostels and can be used by UK consumers to book hostels anywhere in the world. The parties further referred to Airbnb.com as a notable example of a niche booking website that offers hostel bookings and is expanding.

⁵⁰ For example, statement by Daniel Finnegan, Priceline's Chief Financial Officer: '[Booking.com] have been fanning out and padding bed and breakfast in hostels and guest apartments to the website. And our hope overtime is that we would continue to add all types of properties that our customers are interested in staying in and can be booked over the Internet. So I think we'll continue down that path and they've done a great job till now.' (Earnings call transcript of 9 May 2013, <http://seekingalpha.com/article/1421911-priceline-com-s-ceo-discusses-q1-2013-results-earningscall-transcript?find=hostel&all=false>, last accessed on the date of this decision)

91. The parties submitted that the influence of Booking.com and other firms can be seen, for example, in recent improvements to the parties' websites, where the parties have sought to emulate innovations from the Majors.⁵¹ The parties further stated that their performance has [] in the past few years with the increased activities of Booking.com and other firms: the parties' [], and their marketing spend [].⁵²
92. The parties' internal documents support that the parties see Booking.com as a significant competitor.⁵³ These also regularly mention other firms, including [], suggesting these are likely to act as an increasingly important constraint (see paragraph 108 below).

Other evidence regarding the current position of the parties' competitors

93. The OFT considers that other evidence, as set out below, supports that Booking.com currently has a significant position in the provision of hostel accommodation services. However, the evidence in relation to the other firms is mixed, with substantial variation in the extent to which these are currently competing with the parties in the provision of hostel accommodation services.
94. While Booking.com's current share of supply is similar to HB's share, the shares of other firms are very small (see Table 2 above). Further, as shown at Table 3 above, while a significant number of hostels are listed on Booking.com (though still substantially fewer than on each of the parties' sites), only a small number are listed on the other Majors' sites. A significant number of hostels are also listed on some specialised sites, but this does not translate in a material share of bookings at UK hostels or by UK consumers.⁵⁴

⁵¹ The parties referred to their recent introduction of ratings and expanded information for properties, urgency messages, discounted room rate displays, property commission bidding to improve rankings, website own recommendations and 'flash' deals, all as on Booking.com and other OTAs.

⁵² However, the OFT notes it is not clear that the increased activities of Booking.com and/or other firms caused [] or whether other factors were (at least partly) the cause.

⁵³ For example, WRI document headed '[]', 28 November 2012 (Annex 20(c) to the submission, slides 17-18 and 22-23), WRI document headed '[]', 6 March 2013 (Annex 20(a) to the submission, slide 10) and HB document headed '[]', September 2012 (Annex to the parties' response of 15 May to OFT questions 6 and 7, document 15, slide 10).

⁵⁴ This may be explained, at least partly, by the regional focus of some of these sites, as referred to by the parties.

95. The OFT notes that hostels' own websites have a significant combined share of bookings (see Table 2 and also paragraphs 29-30 above). The OFT also notes that hostels' own websites' inclusion in the parties' 'price parity' and 'availability parity' clauses suggests that the parties regard these websites as exercising a competitive constraint (see further from paragraph 34).
96. Third-party comments on the constraint imposed by Booking.com were mixed. Many hostels who provided comments to the OFT listed their property on Booking.com, with Booking.com accounting for a significant proportion of bookings for some hostels. The OFT however notes that even for these providers, the merger between the parties gave rise to concerns as the parties accounted for a significant proportion of bookings. Several hostels also submitted that Booking.com does not attract their main customer category (budget travellers and backpackers).
97. Hostels did not suggest any significant position in the market for other Majors or more specialised independent firms, as most indicated that they do not list their properties on their sites and, where they do, the number of bookings made through these sites is very small. Some third parties also noted that many sites operated by the other Majors do not currently have a functionality specifically allowing consumers to book beds in shared rooms (dorms), which is an important requirement for hostel bookings. However, the OFT notes that several sites currently do allow bookings of individual beds (see further below).
98. []

Conclusion regarding the current position of the parties' competitors

99. In view of the evidence set out above, the OFT considers that there is sufficient evidence only that Booking.com currently has, besides the parties, a significant position in the provision of hostel accommodation services. Hostels' own websites also have a significant share in aggregate but not on an individual basis. While several other firms list some hostels on their websites, they currently have (very) small shares of supply and third-party comments did not show that the actual current position of these firms was more significant than suggested by these shares. The OFT has considered possible future changes in the position of these firms, in view of the dynamic nature of the market, below in its assessment of barriers to entry and expansion.

Conclusion regarding horizontal unilateral effects

100. As set out above, although the shares of supply submitted by the parties need to be interpreted cautiously, at around 50 per cent (or around 40 per cent according to a different estimate) they are not at a level at which concerns over unilateral effects can be ruled out. Other evidence assessed by the OFT suggests that the parties compete at least as closely as suggested by these share figures. While several firms offer hostel bookings, there is currently only one other firm, Booking.com, which has a significant position in the market.
101. Hostels expressed concerns to the OFT that, as a result of the Acquisition, the parties will be able to worsen their offering in a number of ways, including through higher commission rates, worse contractual terms, and the introduction of services that carry higher commission rates and towards which accommodation providers are forced (such as higher ranking on a search results page).⁵⁵ Hostels suggested that prior to the Acquisition they could discipline the parties in the event of any such worsening in a number of ways, such as by shifting allocation between the parties or removing their property from one of the parties' sites altogether.
102. The OFT therefore considers that the evidence set out above gives rise to significant competition concerns. Below the OFT has considered whether entry or expansion may prevent a realistic prospect of a substantial lessening of competition ('SLC') resulting from the Acquisition.

COUNTERVAILING FACTORS

Entry and expansion

103. The OFT has considered whether the prospect of supply-side responses in the form of entry and/or expansion could prevent an SLC. When assessing possible supply-side responses, including entry, expansion and

⁵⁵ Some hostels also expressed a concern about a potential reduction of the parties' investment in advertising or in innovation and development of new services, but the OFT considers that the evidence suggests that OTAs will in any case need to continue to invest in innovation and new services to remain competitive in this dynamic market (as noted further from paragraph 103 below).

repositioning, the OFT will consider whether the response would be (i) timely, (ii) likely, and (iii) sufficient.⁵⁶

104. The parties submitted that, for established OTAs, the cost of moving into the budget accommodation segment, or into the hostels segment specifically, is negligible because this requires only minor technical changes, such as adding a bed booking function and additional search filters, which would take an OTA only one person's time for three to four months to develop and implement. The parties stated that the only significant cost for established OTAs would be PPC advertising costs. The parties' competitors broadly supported that expansion for existing firms offering accommodation services can be done relatively quickly and at limited cost.

Timeliness of entry and expansion

105. The parties emphasised that the market in which they operate is rapidly evolving. They submitted that this is driven by consumers' increasing agnosticism as to accommodation type and their fragmentation across distribution channels, which results in a fight for consumer attention and the creation of new opportunities for established OTAs seeking ways to increase revenues as well as for firms with new business models such as consumer-to-consumer websites or mobile platforms. According to the parties, these firms are expanding their offering of hostels to better meet consumers' demand, while hostels need to follow consumers to the sites where they can increasingly be found.
106. The parties submitted that many firms have already introduced the possibility for consumers to book beds (in addition to rooms) on their websites, which makes them more suitable for hostel listings. This applies to all of the firms listed at Table 3 above, which all list at least some hostels on their sites. The parties also noted that several firms have shown their intent to expand further by investing in PPC spend for hostel-related search terms. The parties provided the OFT with screen shots of Google search results pages showing several of their competitors appearing in the sponsored links, including in the top three, for searches for 'hostels in' several cities and regions in the UK and elsewhere. Booking websites that occur relatively frequently are Booking.com, Laterooms.com, Airbnb.com

⁵⁶ *Merger Assessment Guidelines*, paragraph 5.8.3.

and Budgetplaces.com, in addition to the parties' own sites. Expedia's websites Hotels.com and Expedia.co.uk are also occasionally listed.⁵⁷ Metasearch sites also appear regularly, in particular Expedia's Trivago.com.

107. The parties noted that Booking.com was able to achieve a significant share of supply within around two years of actively expanding its hostel listings (from late 2010/early 2011) and within only around one year of adding dormitory bed booking options (around early 2012). The parties submitted that there is no reason why other firms cannot replicate this.
108. The parties' concern about expansion of the hostel offerings of other firms is reflected in their internal documents, in particular more recent ones (but pre-dating the date the Acquisition was agreed). They contain several references to movements on the market. For example, WRI's 'Update on competitive environment' of 6 March 2013 states that '[o]ur competitive environment has changed more in the last 3 years than in the previous 10' and notes the '[i]ncreasing pace of competitive threat'.⁵⁸ This document refers to Booking.com as having led the expansion into hostel bookings, and identifies an increasing competitive threat from several other firms, such as Expedia, Budgetplaces.com, Airbnb.com and more regionally focused OTAs like Wotif.com, as well as the increasing activities by hostels to attract consumers to their own sites.⁵⁹
109. The parties noted that Expedia's Hotels.com website has not only a bed booking functionality but also an accommodation filter that allows consumers to search only for hostels. The parties stated that Expedia's technology has recently been upgraded in this and other respects and has now caught up with Priceline's technology. They also submitted that, like Priceline, Expedia has a significant consumer base which would be attractive to accommodation providers. The parties also noted that, like Priceline (see paragraph 89 above), Expedia has an incentive to capture a

⁵⁷ The OFT notes that the paid results headings for Expedia.co.uk refer to hotels, even though the search was for hostels, but it is not clear that this would reduce the effectiveness of the results. The headings for Expedia's Hotels.com site do refer to hostels.

⁵⁸ Annex 20(a) to the submission (slides 6 and 10).

⁵⁹ Similar observations are made in several other internal documents, for example a WRI document headed '[]', 28 November 2012 (Annex 20(c) to the submission), a H&F document headed '[]', February 2013, describing the '[d]ynamic landscape of online accommodation booking' (Annex 21(a) to the submission, slide 12, as well as earlier documents) and HB's '[]', September 2012 (Annex to the parties' response of 15 May to OFT questions 6 and 7, document 15, slide 10).

share of the typically young hostel customer base, in particular given Priceline's and Expedia's wide range of offerings that are likely to appeal to that customer base as it grows older and becomes interested in other accommodation types. The parties further noted that Expedia has far greater resources than they do to invest in further updates to its websites and in PPC spend. The parties' internal documents suggest that Expedia is amongst a number of OTAs which the parties consider likely to increasingly act as a constraint (see paragraph 108 above).

110. []

111. As regards smaller established OTAs focused on budget accommodation, the OFT notes that Budgetplaces.com and Laterooms.com both already offer a substantial number of hostels (see Table 3), actively invest in PPC spend relating to hostels (see paragraph 106) and are likely to face low barriers to expand the number of hostel bookings they already have (see at Table 2 and paragraph 98 above).

112. The OFT also notes that the increasing importance of metasearch sites such as Tripadvisor.com, Trivago.com and Kayak.com is likely to intensify competition between OTAs offering hostels.⁶⁰ This is also likely to make it easier for hostels' own websites to attract bookings from consumers, given also the increasing presence of Google's Hotel Finder and the planned introduction of TripAdvisor Connect in late 2013 (see further paragraph 32 above).

113. In view of the evidence set out above, the OFT considers that entry and/or expansion in any case by established OTAs such as Expedia would be timely in this case. That Expedia has already invested in the functionality and bids on hostel-related PPC terms indicates that entry/expansion is timely, a position corroborated by the relative success that Booking.com has achieved within the space of only around two years.⁶¹

Likelihood of entry and expansion

114. The OFT further considers that the evidence indicates that expansion of established OTAs is likely in this case. In any case both Booking.com and

⁶⁰ The increasing role of metasearch sites is also identified in the parties' internal documents, for example in WRI's 'Update on competitive environment', 6 March 2013 (see above).

⁶¹ See *Merger Assessment Guidelines*, paragraph 5.8.11.

Expedia have already entered and have the ability and incentive to expand, as noted above.

115. In terms of other providers, the parties stated that Airbnb.com started as a consumer-to-consumer website allowing travellers to rent rooms directly from private individuals, but now covers a range of budget accommodation. The parties noted that Airbnb is growing rapidly and since mid 2011 has more hits than either of the parties' sites. The parties' consumer surveys show that some of their customers ([five-10] per cent for WRI and [five-15] per cent for HB) had previously used Airbnb to book hostel accommodation.
116. The parties submitted that Airbnb's consumer base has a strong overlap in demographic terms with the parties' consumer base. They also noted that Airbnb's main consumer-to-consumer business model is under increasing regulatory pressure, as these bookings are declared illegal in certain jurisdictions. According to the parties, these factors mean that Airbnb is incentivised to expand its existing hostel offering. This is also suggested by Airbnb's PPC spend relating to hostel terms, as noted above, although the OFT notes that Airbnb does not currently have an accommodation filter that allows consumers to search only for hostels. The parties' internal documents support that the parties perceive Airbnb as serving the same consumers and forming an increasing competitive threat.⁶² []
117. The OFT therefore considers that the evidence pertaining to Airbnb suggests that Airbnb is likely to expand its offering in the event of a post-merger price rise. However, it is not clear that such an expansion would be timely given Airbnb's currently different business model and lack of an accommodation filter for hostels, nor sufficient given Airbnb's relatively small size compared to established OTAs. However, the OFT has not found it necessary to conclude on this point in view of the OFT's conclusion regarding the entry and expansion of established OTAs, in particular Expedia (see further below).

⁶² For example, an internal WRI document headed '[]' (May 2012) states: '[]' (Annex to the parties' response of 15 May to OFT questions 6 and 7, document 22, slides 27-28). Also, a WRI document headed '[]' (28 November 2012) refers to '[]' on a slide headed '[]' (Annex 20(c) to the submission, slide 22).

Sufficiency of entry and expansion

118. The parties submitted that the expansion by Expedia and other firms is likely to be sufficient to prevent any substantial lessening of competition from arising from the Acquisition. They stated that Expedia in particular has well known brands in the UK and considerable resources at its disposal. Moreover, according to the parties, it has invested in the technology to compete effectively against the merged entity and at a standard that is at least comparable to Priceline's (including Booking.com).
119. The experience of Booking.com has been that a new entrant with investment in technology and marketing can compete successfully and rapidly build up a significant market share (see paragraph 107 above). The OFT also notes that Booking.com's share is already similar to HB's share (see Table 2 above) and hence Booking.com has replicated the constraint formed by HB pre-Acquisition in a short period. As noted above, the barriers for Booking.com to expand further are low.
120. Moreover, the OFT is conscious that the profit margins of the merging parties appear [] and at such a level that [] level of switching to competitors would be sufficient to defeat a post-merger price rise. []
121. The OFT therefore considers that entry and/or expansion by in any case established OTAs, in particular Expedia and Booking.com, will be sufficient at least to replicate HB's current position in the market and hence to replicate the constraint lost by the Acquisition and prevent a post-merger price rise.

Conclusion regarding entry and expansion

122. The OFT considers that there is significant evidence that, as the parties submitted, they operate in a dynamic marketplace that is rapidly evolving. Both the parties and third parties stated that barriers to expansion by firms offering accommodation services into hostel offerings are low. Further, the interest of a number of firms, including Expedia, in expanding their hostel booking activities is shown by their introduction of technical functionalities that facilitate hostel bookings, such as the possibility for consumers to make bed bookings and search specifically for hostels, as well as their investment in PPC spend relating to hostel terms. This is also reflected in the parties' internal documents, which show increasing concern about the competitive threat from these firms. That significant entry is possible is

shown by Booking.com's success in achieving significant growth of its hostel accommodation services business in the past two years.

123. The OFT considers that this dynamic evidence on developments in the market shows that the static evidence discussed above on the current market structure does not provide a good indication of the competitive impact of the Acquisition. The OFT has also considered whether direct or indirect network effects could mean that the market may be prone to 'tipping', where one firm gains an unassailable advantage and entry or expansion by other firms becomes unlikely.⁶³ However, there is no evidence to suggest that in the present case the market has reached a tipping point, given the recent evidence of strong growth by a new entrant (Booking.com), the indications that the market is expanding, and the low switching costs for consumers.
124. For these reasons, although the OFT has not received significant evidence that each of the several firms referred to by the parties is actively planning to expand its hostel bookings, the OFT considers that there is sufficient evidence that entry/expansion by in any case established OTAs such as Expedia and further expansion by Booking.com is timely, likely and sufficient such that the parties face a significant competitive constraint that is sufficient to prevent the Acquisition resulting in a substantial lessening of competition. The entry/expansion by firms with other business models such as Airbnb may also form a competitive constraint, but it was not necessary for the OFT to conclude on this point.

Efficiencies

125. While mergers can harm competition, they can also give rise to efficiencies. Efficiencies may be taken into account in the competitive assessment of a merger in two different ways. Firstly, efficiencies arising from the merger may enhance rivalry, with the result that the merger does not give rise to an SLC. Secondly, efficiencies may be taken into account in the form of relevant customer benefits.⁶⁴
126. In the present case, the parties submitted that efficiencies resulting from the Acquisition will generate cost savings, allowing them to invest in areas

⁶³ See *Merger Assessment Guidelines*, paragraphs 5.8.6-7.

⁶⁴ *Merger Assessment Guidelines*, section 5.7, and *Exception to the duty to refer and undertakings in lieu of reference guidance* (OFT1122, December 2010), section 4.

of expenditure, such as PPC advertising, that are required to compete more effectively with the large OTAs, in particular Booking.com (see further paragraph 6 above). However, given the OFT's views on barriers to entry and expansion there was no need for the OFT to reach a conclusion regarding efficiencies.

THIRD-PARTY VIEWS

127. The OFT received comments from several hostels and other budget accommodation providers in the UK in response to its enquiries. The majority of these hostels expressed concerns about the Acquisition, while there was very little concern among other budget accommodation providers. In addition, several hostels from across the world expressed concerns in response to the invitation to comment on the OFT's website. The OFT also received comments from competitors, most of which were not concerned, and other third parties active in the hostel industry, most of which did express concerns. Third-party comments are discussed further above where relevant.

ASSESSMENT

128. WRI and HB are OTAs that list hostels and other budget accommodation providers' properties and enable consumers to search for and book accommodation in these properties. The parties have in the past few years significantly expanded their listings of non-hostel budget accommodation, but hostels still account for the vast majority of the parties' bookings and revenues. The OFT considers that hostels' own websites constrain OTAs, given for example the current levels of bookings at hostels' own websites and the ease of switching by consumers from OTAs to these websites. The OFT further considers that, taking a cautious approach, there is insufficient evidence that OTAs listing non-hostel accommodation or 'bricks and mortar' travel agents constrain the offering of hostel OTAs. The OFT has therefore assessed the Acquisition on the basis of online hostel accommodation services to UK consumers and hostels.

129. The parties' combined market share, at around 40 to 50 per cent with an increment of around 15 per cent, is not at a level at which the OFT can rule out concerns over unilateral effects. Also, there is only one competing OTA, Booking.com, with a significant share (similar to the increment from the Acquisition). Although hostels' own websites have a significant aggregate share, their individual shares are small.

130. Given the differentiated nature of the products, the OFT has carefully considered evidence on closeness of competition between the parties, including evidence from surveys and other sources on consumers' and hostels' use of the parties' websites, the parties' internal documents and benchmarking, quantitative evidence and third-party comments. The OFT considers that this evidence shows, on balance, that the parties are at least as close competitors as suggested by their market shares.
131. The OFT further considers that the evidence shows that Booking.com is the only other firm that currently has a significant position in the provision of online hostel accommodation services. There are several other firms that list some hostels on their websites, but they currently have only small market shares and third-party comments and other evidence did not show that their current position is more significant than suggested by these shares. The Acquisition therefore gives rise to significant competition concerns on the basis of the current structure of the market.
132. However, the OFT considers that this static evidence does not provide an accurate prediction of the impact of the Acquisition, because there is significant dynamic evidence that the market in which the parties operate is rapidly evolving. This evidence strongly suggests that barriers to entry and expansion by established OTAs are low, as shown by Booking.com's success in building, in only around two years, a position in hostel accommodation services that is similar to the constraint lost by the Acquisition. Other firms, such as Expedia, have also shown their interest in expanding their activities in hostel accommodation services by their introduction of technical functionalities that facilitate hostel bookings and by their investment in PPC spend relating to hostel search terms. The parties' internal documents also show increasing and significant concern about the competitive threat from these firms. The OFT therefore considers that there is sufficient evidence that entry/expansion is timely, likely and sufficient such that the parties face a significant competitive constraint that is sufficient to prevent a realistic prospect of a substantial lessening of competition as a result of the Acquisition.
133. Consequently, the OFT does not believe that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

134. This merger will therefore **not be referred** to the Competition Commission under section 33(1) of the Act.