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## Completed acquisition by Idox plc of Grantfinder Limited

ME/4579/10

The OFT's decision on reference under section 22(2)(a) given on 2 September.  
Full text of decision published 23 September 2010.

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**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.**

### PARTIES

1. **Idox Plc** (Idox) is a supplier of software solutions and services, principally to the UK public sector. Through its j4b subsidiary, Idox provides on-line systems to support economic development for Government, private and third sectors through published grant support information. Idox's turnover for the financial year ending 31 October 2009 was £32.2 million, of which the UK turnover for j4b was [ ] million.
2. **Grantfinder Ltd** (Grantfinder) provides grant and funding information to local authorities, the voluntary and charitable sector, universities and colleges, housing associations, the health sector and business support organisations. These services include the provision of on-line searchable databases of statutory and trust funding information, grant management systems to facilitate applications for funding and policy information relating to trust awarding bodies. The turnover for Grantfinder Ltd in the financial year to 30 September 2009 was approximately £1.67 million.

### TRANSACTION

3. The transaction involved the purchase of the entire issued share capital of Grantfinder for a consideration of £3.3 million. The transaction completed on 4 May 2010, and the statutory deadline for a decision is therefore 3 September 2010. The OFT examined this merger on its own-initiative. The administrative deadline was 12 August 2010.

## **JURISDICTION**

4. As a result of this transaction Idox and Grantfinder have ceased to be distinct. The parties overlap in the supply of paid-for grants and trust funding information services in the UK, with a combined share of over 25 per cent, and the share of supply test in section 23(4) of the Enterprise Act 2002 (the Act) is met. The OFT therefore believes that it is or may be the case that a relevant merger situation has been created.

## **MARKET DEFINITION**

5. The parties are both active in the supply of various paid-for grants and trust funding information services.

### **Product scope**

6. There are thousands of grant and trust funding organisations in the UK that award funding to businesses, organisations and individuals each year. Awarding bodies include, for example, governmental departments or the European Commission, the National Lottery, trust funds, and individual companies. Those seeking such financial assistance will come from a broad range of organisations, including local authorities, the voluntary and charitable sector, universities and colleges, housing associations, the health sector, business support organisations and businesses.
7. A simple search of the internet will reveal a large number of grant and trust funding bodies. The parties' principal paid-for products add value by collating all or some of this available information on the various funding opportunities into searchable on-line databases, accessible either directly through their websites or through on-line portals used by their clients (so called 'white label' products).
8. There are a wide range of differing services provided within the overall grant and trust funding information sector. The specific areas of overlap between the parties include: (i) searchable databases of grant and trust funding, (ii) on-line portals, (iii) grant management systems, (iv) policy information databases. In addition, j4b also supplies services related to

grants for individuals (for example for adult learning), and the supply of data feeds. Grantfinder also supplies related training services.

9. In these areas of overlap, the parties' principal funding solutions are as follows. j4b offers a range of different on-line options.<sup>1</sup> These include a database<sup>2</sup> of funding solutions, a funding management solution and 'white label' on-line portals as a means of providing accessible funding information on their client's websites.
10. Grantfinder similarly offers a grants and trust funding database, which includes details of over 6,000 funding opportunities.<sup>3</sup> Other products offered by Grantfinder include Policyfinder, an on-line search tool, which includes details of funders' policies. Grantnet allows subscribers to offer a search facility of grant and trust funding opportunities to their clients, through an on-line search tool. GRANTtracker allows an applicant to store and track its applications.
11. Following completion of the merger Idox has retained both parties' products. This is because Idox regard the parties' core products – albeit that they are designed to fulfill the same essential function – as supplying a partially differentiated solution, apparent from the product's depth of information and functionality, price and method of marketing going forward.<sup>4</sup>
12. As noted above, the parties' core products are searchable on-line databases and portals. j4b also supplies the related product of data feeds to government funded/subsidised websites. These activities collectively account for the majority of their revenues (over 80 per cent in each case).

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<sup>1</sup> For example, j4b Grant Advisor — an on-line funding database covering public, community and business sector funding; BidTrack — which enables the user to manage external funding processes; Open4Funding — a suite of on-line information portals for community groups, social enterprises and businesses to gain access to local funding and support information databases.

<sup>2</sup> See: [www.j4b.com/downloads/O4F\\_unique.pdf](http://www.j4b.com/downloads/O4F_unique.pdf), which states: 'The j4b database (UK wide) currently contains 4322 schemes (grants and preferential loans) updated every 24 hours and researched by a team of professional researchers within j4b. In addition to our 4322 schemes we also have a partnership with the Directory of Social Change and Funderfinder to publish over 4500 trust funds.'

<sup>3</sup> See: [www.grantfinder.co.uk](http://www.grantfinder.co.uk).

<sup>4</sup> For example the Grantfinder grants database is considered to have a greater depth of grant information and is being sold for around [ ] per annum [ ], while j4b's GrantAdvisor database is considered to have a more limited depth of grant information and is being sold [ ] for [ ] to [ ] depending on the level of access.

13. The revenue attributed to the other products listed in paragraph 8 other than on-line searchable databases and on-line portals is extremely small (less than £225,000 in total). Given that the OFT did not receive any customer concerns relating to these more marginal activities, the OFT has focused its investigation on the parties' overlapping core activities of on-line searchable databases and on-line portals.

Defining the market by product type

14. The core overlapping products – paid-for searchable databases and portals – provide similar but distinct services:
- the database stores the underlying information on the available grants and trust funds. From a customer perspective, the searchable databases may be used for an organisation's own benefit (that is, to research for funding) or for an organisation's employees to use it to disseminate the information more widely (for example, to members of the public), whereas
  - the portals are outward facing, allowing a local authority, or other customer, to provide a service via a dedicated website. The portal, in effect, provides a refined means for people to access the underlying information contained in the database.
15. The OFT has considered whether on-line searchable databases and on-line portals are substitutable from a demand-side perspective. It is plausible that to the extent that these products fulfil different (albeit related) functions, it would not be expected that they would be substitutable for one another. However, the OFT has seen some evidence that local authorities – the largest customer group for each of these products – may view on-line portals (complete with their underlying databases) on the one hand and the wider searchable databases on the other as substitutable in some circumstances and may therefore be prepared to switch between them in response to a price rise. This is because a local authority that wishes to provide an advisory service to individuals or organisations within their local area may either purchase the portal or may purchase the database and provide staff, such as an external funding officer,<sup>5</sup> to access it on behalf of third parties. One local authority told the OFT that they purchased both

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<sup>5</sup> Whose remit may cover assisting on external funding for some or all of: business, voluntary and community sectors.

simultaneously: the portal to increase the capacity of local groups to search for information themselves, but also the (standalone) database to allow for more detailed reports to be accessed by the council.

16. From a supply-side perspective, there is no evidence to suggest that any firm researching grant and trust finding information for the purposes of supplying an on-line database would find it difficult to also supply an on-line portal.
17. On the basis of the evidence outlined above, the OFT believes that it is appropriate for the purposes of this decision to consider the product market as the supply of on-line searchable databases and portals.

#### Defining the market by customer type and/or source of funding

18. A market may also be defined by the type of customer. j4b funding opportunities are typically targeted at specific types of organisation or project. This is reflected in the fact that j4b's combined Open4Funding portal can also be supplied in refined form as Open4 Business, Open4 Community and so forth.
19. Alternatively, it may be appropriate to define the market by the type of funding source. At least one market participant, the Directory for Social Change, offers different subscriptions split by the source of funding itself rather than who it is aimed at.<sup>6</sup> The range of funding sources covered by the different providers also varies quite widely. Funderfinder, for instance, only offers information on charitable trusts and foundations, whereas the parties draw on a much wider range of sources.
20. Idox argued that since Grantfinder's database contained a fraction of j4b's information on trust funding provision, some 300 or so possibilities against over 4,000 on j4b's product, this sector of funding information should be omitted from the relevant market. However, since it is not known whether those 300 or so trust funds listed by Grantfinder represent the bulk (by revenue) of the overall funding available from trust funds or not, nor the extent to which organisations seeking funding may substitute between

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<sup>6</sup> The Directory of Social Change retails subscription to separate databases containing information on (i) trust funding; (ii) government funding; (iii) company funding.

different funding sources, the OFT believes that it would not be appropriate to exclude this source of funding from the relevant market definition.

21. Overall, the OFT did not consider it necessary for the purposes of its decision to segment the market by customer and/or by source of funding. Nor did it consider it appropriate to exclude trust funding from the market.

#### Inclusion/exclusion of free grant information sources

22. All information on grants and funding is published and available free at source<sup>7</sup> (see paragraph 7). Moreover, there are also a number of free (at the point of use) web resources that fulfil a broadly similar function. These include Businesslink and Funding Central, both funded by the government, as well as smaller players such as Grantsnet. As such, Idox submitted that the appropriate market definition should be wider than just paid-for grant and trust funding information services, and should include both these free resources and the potential for customers to self-supply by accessing information on grants and finding directly.
23. Idox also highlighted that there was likely to be increased pressure on the budgets of the merged entity's customers going forward, especially those in the public sector. This in turn could increase the price sensitivity of these customers, and further increase their willingness to switch to free alternatives. This is discussed further below.
24. The OFT has considered the potential constraint represented by free resources and the potential to self-supply. The OFT has not received sufficient information during its investigation to be clear that free resources or the potential to self supply would prevent a monopolist of paid-for services from profitably increasing prices by five per cent (or equivalently reducing service, quality or innovation levels). As such, on a conservative basis, the OFT has analysed the merger on the basis of paid-for services as a distinct market. However, due account of the constraint from free providers and in-house supply has been taken in the competitive assessment below.

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<sup>7</sup> Notwithstanding that some providers may supplement information which is freely available online, for instance, in terms of accuracy or by adding supplementary information on the fund awarding body (for instance, typical application rates and number of grants awarded).

## Conclusion on product scope

25. In light of the preceding paragraphs, the OFT believes that, on a cautious basis, the relevant product market for this case should comprise the supply of grant and trust funding information by way of paid-for on-line databases, on-line portals and underlying databases to a range of customers, excluding free at the point of use services. This is hereafter referred to as 'paid-for grant finding services'.

## Geographic scope

26. Idox has argued that the relevant market is UK wide, since knowledge of local, national and international grants and trust funds are necessary inputs to grant information services, and that the main demand substitutes are the UK Government's own grant information and publishing initiatives.
27. Idox suggested that any variations in demand for the merged entity's products between England, Scotland, Wales and Northern Ireland are likely to be similar, and no more tangible, than those between the different regions within England.
28. Conversely, the OFT notes, however, that the arrangements for two centrally funded information sources on funding opportunities, Businesslink and Funding Central,<sup>8</sup> differ between England and each of the devolved administrations (Scotland, Wales and NI). Furthermore, the OFT cannot discount that there may be aspects of local demand for the service, reflecting the varying degree of local authority provision of information, and potentially local pricing.
29. The OFT has treated the geographic market for the supply of paid-for grant finding services as being UK wide. The OFT does not believe that its conclusion would alter even if the geographic scope could be assessed more narrowly.

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<sup>8</sup> Funding Central only covers opportunities for organisations based in England.

## COMPETITIVE ASSESSMENT: UNILATERAL EFFECTS

### Market shares

30. The parties overlap in the supply of paid-for grant finding services. In this market Idox estimated that their combined share of supply will be around [75-85] per cent (increment [10-20] per cent). Idox has identified a limited competitor set comprising the paid-for grant finding services of the parties, Grants Online, Funderfinder and Directory for Social Change.

**Table 1: Market shares of paid-for grant finding services<sup>9</sup>**

		Idox/j4b	Grantfinder	Grants Online	Funderfinder	Directory for Social Change	Total Market Size (£)
Parties' estimates	Value (£)	[ ]	[ ]	[ ]	[ ]	[ ]	2,414,980
	Market share (per cent)	[10-20]	[60-70]	[5-15]	[0-10]	[0-10]	100
OFT best estimate (based on parties and third party data)	Value (£)	[ ]	[ ]	[ ]	[ ]	[ ]	£3-3.5m
	Market share (per cent)	[5-20]	[40-55]	[ ]	[ ]	[ ]	100

Source: Idox and OFT estimates based on third party information

31. The OFT has carried out its own estimates of market shares based on data from third parties as well as Idox. On this basis, the OFT has concluded that Idox's upper estimate of market share is likely to be on the high side. OFT estimates are that the merged entity is likely to have a lower market share, of [48-62] per cent, given that the value of the paid-for market may be greater overall than that estimated by Idox.<sup>10</sup>
32. The OFT's market enquiries suggest that the combined market share of the merged parties would also vary substantially according to how narrow or wide the competitor set is drawn. For example in the market comprising suppliers of any paid-for grant finding services, the merger results in a 'five to four' in terms of number of suppliers. However, if only suppliers of

<sup>9</sup> Including trust funding.

<sup>10</sup> The parties' estimated a market value of around £2.6 million, while the OFT's estimate was closer to £3 - £3.5 million.

searchable databases and portals are included within the market (that is those that provide a similar range of products to the parties) the merger results in a 'three to two' in terms of number of suppliers, with Grants Online as the remaining competitor. For an assessment of the competitive strength of the remaining paid-for competitors, see below.

### Closeness of competition

33. Idox accepted in their submission that the parties were probably each other's closest competitors. However, it argued that they were not (in absolute terms) close competitors. The OFT found some support for Idox's arguments with respect to price, functionality and product scope, as set out below.
34. In relation to **price**, the evidence supplied by the parties showed that there were some price differentials between the parties' product offerings. For instance, Idox provided evidence that the j4b portal - Open4 - sells for [ ] to [ ] whilst Grantnet retails for [ ] per annum. Other differences in relation to price observed by the OFT include the fact that, following the merger, [ ], see paragraph 11 above.
35. In relation to **functionality**, some of the parties' products are different in qualitative terms. For example, in a paper prepared for the acquisition Idox described the Grantfinder portal – Grantnet – as being 'much less functional' than the j4b portal. This view was supported by a third party who told the OFT that the search function of the two firms database products was quite different (with the j4b GrantAdvisor product having the simplest search function).
36. In relation to **product scope**, the parties' products are partially differentiated by the funding sources provided by their respective products. For instance, j4b claims to offer information on 4500 trust funds, while Grantfinder's database only contains some 300 to 400 trust funds.

### Win/loss data

37. Idox also argued that the occasions in which they found themselves in direct competition were very few. To support this argument, Idox submitted an analysis of what it described as Grantfinder win/loss data that recorded that out of [ ] sales pitches made on behalf of Grantfinder in 2009, in only [ ] instances did the potential client refer to j4b as potential

competition,<sup>11</sup> while Grants Online was only referred to once by a potential Grantfinder client.

38. The OFT does not, however, find this evidence compelling since the parties encounter each other much more regularly if pitches to local authorities only are considered. For instance, of sales pitches to councils during 2009, approximately [20-30] per cent of pitches resulted in a sale to Grantfinder but another [20-30] per cent were to customers who had purchased a j4b product.

#### Parties' internal documents

39. The parties' internal documents did not support Idox's claim that the parties were not close competitors in absolute terms. An internal acquisition paper prepared by Idox prior to the acquisition of Grantfinder indicated that competition between them was 'fierce'. The acquisition paper also referred to the companies following similar strategies and that the parties were bidding for the same business (especially in the government sector) and of increasing competition between them over time. This same paper also suggests that the parties' services were perceived as being very similar and, though differentiated, represented potentially viable substitutes to one another.
40. In addition, Idox submitted monthly Grantfinder sales team meeting minutes for the period 2007 to 2009. These demonstrated that Grantfinder regularly monitored j4b sales activity and product development. The OFT also notes that there is some evidence that competition between them may have extended to product innovation. For example, Idox submitted that when j4b launched its external funding management and collaboration tool (Bidtrack) about five years ago, Grantfinder launched a similar product GRANTtracker.<sup>12</sup> There are also a couple of references in these sales minutes to each party trying to poach the other's customers and a reference to potential undercutting.

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<sup>11</sup> The OFT notes that this data is not of the same probative value of conventional win/loss data. The [ ] occasions were sales pitches for Grantfinder's products; hence many of those approached would have had no intention of acquiring a product from any supplier. As such the relatively small figure of j4b mentions provides limited support for the parties' argument.

<sup>12</sup> The acquisition paper states that 'When j4b launched its external funding management and collaboration tool, Bidtrack, GF decided to compete directly with the development of its own product 'Grantracker'.

### Third party views

41. Third parties' views on the closeness of competition between the parties were mixed. A number of third parties, including local authorities, saw the parties as close competitors.
42. Further, one third party commented that the parties were the only providers in the market that had such a comprehensive range of funding sources (business, statutory, charitable etc.) Idox commented that this third party was clearly unaware of Grants Online, a competing paid-for grant finding service. One local authority told us that when they put out a tender for a portal and database, only the parties responded.
43. On the other hand, a number of business customers (including accountants, breweries, hospitals, housing associations) either stated that they did not consider the other party when they had acquired the service from one party or were not aware of them.

### Conclusion on closeness of competition

44. The parties admit that they are each other's closest competitors. Overall, based on the evidence available, and in particular internal documents and third party views, the OFT considers that they were also close competitors in absolute terms, despite there being a degree of differentiation between their product offerings.

### Constraint from paid-for competitors

45. Idox argued that the merged entity would remain subject to a number of constraints – including from other paid-for suppliers – that would prevent it from increasing price or reducing quality, range or service.
46. In the paid-for grant finding services market Idox identified three other competitors: Grants Online, Funderfinder and the Directory for Social Change.
47. Grants Online is closest to the parties in terms of the services offered (databases and portals), customers served (broad range, though customers are primarily third sector and public sector) and the sources utilised (covering 5,000 funding schemes including statutory sources, government sources, councils, EU, charitable trusts). Grants Online entered the market

eight years ago, and current supplies its portal products to [ ] local authorities in competition with the parties. Idox estimated that Grants Online had a turnover of some [ ] per annum. [ ]. However, the OFT is aware that it [ ] was not mentioned by many third parties.

48. Funderfinder<sup>13</sup> is a charity, specialising in information and advice about charitable trusts and foundations that fund in the UK to voluntary organisations and community groups or individuals. Some of the funders for individuals are interested in funding for educational purposes, some for social needs like poverty, ill-health and disability. Funderfinder does not cover funding opportunities appropriate for businesses. Their activities overlap with the parties' only in the field of charitable trust funding.
49. The Directory of Social Change<sup>14</sup> is an independent charity catering to medium sized voluntary organisations, schools, universities and some local authorities. It has four separate databases: 'Trustfunding' provides information on more than four thousand trusts, 'Government funding' provides information on funding for the voluntary and community sector from local, regional and national government, independent grant administrators and European sources, 'Grants for individuals' provides information for individuals in need and for educational purposes, while 'Company giving' lists all companies that give cash donations.
50. Idox also submitted that they will face some constraint from other paid-for services in a wider grant funding market (such as news on funding opportunities and grant consultancy services). However, these do not generally provide databases or related services<sup>15</sup> and so cannot be regarded as an immediate constraint on the merged entity.
51. In terms of product offering, Grants Online offers the most similar range of services and breadth of coverage as the parties. Funderfinder and the Directory for Social Change only offer searchable databases and do not cater for businesses
52. In response to the OFT's investigation, one local authority mentioned that it could use Funderfinder instead of the merging parties, while another stated it had switched to Funderfinder (from a Grantfinder product). As

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<sup>13</sup> See: [www.funderfinder.org.uk/products.php](http://www.funderfinder.org.uk/products.php).

<sup>14</sup> See: [www.dsc.org.uk/FundingWebsites](http://www.dsc.org.uk/FundingWebsites).

<sup>15</sup> Unless they form part of a broader product offering.

noted above, some customers of the parties were aware of other providers of paid-for searchable on-line databases, most commonly Funderfinder or the Directory for Social Change, while others had no knowledge of even the other party.

53. Overall, on the basis of the evidence before it, the OFT is not persuaded that the merged entity will face sufficient competitive constraints from alternative paid-for searchable databases and on-line portals to prevent a substantial lessening of competition from the merger. Specifically, Funderfinder and Directory for Social Change are limited in the extent they can constrain the parties' activities since they do not provide a full service offering. It is only Grants Online that will continue to provide a constraint across all customers post-merger and it is a smaller player than the merged entity.

#### **Constraint from free sites**

54. Idox submitted that the most significant competitor to each of the parties' businesses is the Government itself, which funds (via the Cabinet Office and BIS) the free Funding Central<sup>16</sup> and Businesslink<sup>17</sup> websites.
55. Competitors to the parties also referred to facing competition from Government funded websites. There is a perception from at least one paid-for provider of searchable databases that a reason they have recently lost customers (together with competition and the impact of the economic downturn) is a belief among customers that information is freely available.
56. Idox also referred to Grantsnet,<sup>18</sup> a private entity, as a recent market entrant that provides a free on-line grants search facility via its website and has a prominent ranking on Google. Grantsnet is basically a search engine for grants available to a broad range of UK organisations.
57. The OFT's investigation indicated that free sources of funding information achieve high levels of internet traffic. However, customers of the parties that the OFT spoke to during its investigation generally regarded them to be inferior sources of supply, with a much narrower range of information sources than the paid-for providers and significantly less functionality. Although, as the parties submitted, the OFT's investigation did show that

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<sup>16</sup> See: [www.fundingcentral.org.uk/Default.aspx](http://www.fundingcentral.org.uk/Default.aspx).

<sup>17</sup> See: [www.businesslink.gov.uk/bdotg/action/aboutus?page=AboutUs](http://www.businesslink.gov.uk/bdotg/action/aboutus?page=AboutUs).

<sup>18</sup> See: [www.grantsnet.co.uk](http://www.grantsnet.co.uk)

many local authorities are aware of these free services and that some of them use both paid-for services and free sources, it was also clear that few local authorities considered free sites to be substitutable for paid-for services or that they would switch to free sites. In other words, customers of paid-for services value the better functionality and range of services and expressed a willingness to pay for this service over and above the existence of free sites. Whilst it is clear that one third of local authorities do not purchase any form of paid-for grant finding service, and this may be explained at least, in part, by the use of free sites as an alternative, the OFT is primarily concerned with the responses of existing customers of the parties.

58. Overall, the OFT did not consider that free sites would be expected post-merger to provide a significant degree of constraint over the merged entity.

#### **Constraint from customers – self-supply and price sensitivity**

59. The parties also argued that customers themselves would constrain their ability to raise prices by virtue of two inter-related factors: the ability to self-supply and the fact that certain classes of their customer base may increasingly be more sensitive to price. Taking each of these submissions in turn.

##### **Self-supply**

60. Idox argued that a strong constraint the merged entity will face is the ability of customers, including local authorities, to self-supply grant and trust fund information, which is freely available. The parties suggest that regular internet search engines such as Google, Bing or Yahoo can be used to collect this information.
61. Idox also argued that a third of local authorities currently do not purchase paid-for granting finding services. These authorities either do not provide such a service, opt to employ individuals to perform the same function as the parties' websites, or utilise the free services of sites such as Business Link and Funding Central. Such in-house solutions are, they argue, an effective constraint on the prices at which they are able to sell their products.

62. The OFT notes that third parties generally suggested that it would be time consuming and costly to replicate the parties' offering in-house. One third party did consider that they could adopt an in-house solution, but they would only be able to focus on a limited range of funds.
63. The OFT also notes that a significant proportion of potential customers do not in fact purchase a paid-for grant finding product, relying instead on free web sites and/or on self supply. However, the OFT was not provided with compelling evidence that the impact of reduced public spending would lead to a reduced demand for the parties' products. It is also plausible that the converse could be true, that is that in some situations budgetary constraints might actually increase demand for the parties' products as organisations become more reliant on grants and/or trust funding, or as a result of public spending restrictions that could lead to less central funding for government sponsored websites. The OFT was not provided with sufficient evidence to prove which of these two outcomes was more likely, and in any event, in a period of falling demand it can be appropriate to preserve any remaining competition left in a market. [ ].
64. On the basis of the evidence available to it, the OFT accepts that there is the possibility that customers could turn to self-supply but it is not convinced that the vast majority of customers would do so in response to a worsening of the parties' offering.

#### Customer price sensitivity

65. The parties also argued that customers and, in particular, local authorities have become more price sensitive as a result of the current economic climate, that is that demand for the parties' products falls as public sector spending falls. Moreover, since, as far as local authorities are concerned (in turn providing services for organisations and individuals), paid-for grant-finding services are a discretionary spend, rather than being a legal requirement, and, as mentioned above, could be satisfied without purchasing one of the parties' products this will have an impact on the merged entities' ability to raise prices.
66. To support this argument, the parties submitted that in the last 12 months [ ].
67. Specifically, Idox put forward the following:

- a. That demand for paid-for grant finding services would likely decline as the amount of funding available contracts.
  - b. That the current round of spending cuts would see a reduction in the absolute number of grants available and, since many grants operate through a matching process where the applicant has to match the amount of the grant with self funding (often a loan), given the apparent reluctance on the part of banks to offer loans the number of applications for grants may also be reduced.
  - c. That reduced (or falling) demand would either be translated into an increased demand for in-house supply or even a reduction in the demand for services altogether.
68. According to the parties' submission, it is this reduction in the size of the market – and customers' ability simply not to purchase the paid-for product at all – that acts as the greatest constraint on the parties.
69. In relation to price sensitivity, the OFT was presented with evidence, both by Idox and third parties (especially, local authorities) which lent some support to the Idox's arguments. In particular, local authorities confirmed that providing grant information was discretionary and that budget reductions may impact their ability either to purchase the product at all or their willingness to pay a higher price for the merged entity's solutions. However, the OFT does not consider that this is sufficient evidence to support the proposition that the parties will be unable profitably to raise prices post-merger. Local authorities would already have faced a choice between taking the product or not pre-merger since it is in the nature of any public organisation that it must make choices as to where to spend resources. The OFT remains concerned that a local authority which has made that choice is faced with sufficient competitive alternatives. Therefore, whilst there is some evidence that local authorities, in particular, may become more price sensitive, it does not follow that this would lead to a sufficient constraint on the merged entity's ability to raise prices especially in the context of uncertainty concerning self-supply.
70. On the basis of the evidence currently available to it, the OFT believes that the constraint represented by the threat of customers self supplying these services and the increased sensitivity of a proportion of the merged entity's

customers is not sufficient to outweigh the loss of competition resulting from this merger.

## **BUYER POWER**

71. The OFT has considered to what extent local authority and other purchasers could exercise buyer power so as to constrain the merged entity.
72. These products are generally purchased by individual organisations. The IDOX acquisition paper states that of Grantfinder's £1.6 million turnover, approximately [ ] million was repeat business. This purchasing dynamic suggests that for individual customers the only threat to the parties is that they do not purchase the product. Having threatened not to renew the customer may have a choice of the alternative paid-for providers (Grants Online, Funderfinder or the Directory of Social Change), large free sites (Funding Central and Business Link) or smaller players such as Grantsnet.
73. Some third parties commented on their ability as customers to coordinate their behaviour in order to negotiate better prices. Other third parties commented that customers, in particular local authorities, may decide to commission their own grant finding service, although not on the scale of the parties, if it was felt that prices were too high.
74. Overall, the OFT believes that certain customers may have some degree of buyer power so as to be able to resist price rises by the merged firm to some extent. However, even if a few customers did benefit from a degree of buyer power (and the OFT is not convinced on this point), the OFT notes also that a merger in a concentrated market may reduce the degree of pre-existing buyer power by removing a switching threat option.
75. Overall, the OFT believes that certain customers may have a degree of buyer power so as to be able to resist price rises by the merged firm to some extent. However, as prices are negotiated individually; this would not enable other customers in the market to resist price rises. As such, while buyer power should be viewed as a relevant constraint, the OFT does not believe that it, would act as a sufficient constraint to prevent a price rise in the market for paid-for granting finding services.

## **Conclusion on strength of existing constraints**

76. The OFT believes, on the evidence available to it, that on a narrow basis the market results in a 'three to two' in the market for paid-for online searchable databases for grant and trust funding information. In spite of evidence of some differentiation between the parties' offerings and the existence of another full service competitor, Grants Online, the parties' internal documents and third party comments support the fact that these were close competitors in this market. The evidence available to the OFT has not demonstrated that there are sufficient constraints on the merged entity post-merger to be likely to prevent an increase in prices or reduction in quality, range or service.

## **BARRIERS TO ENTRY AND EXPANSION**

77. Idox submitted that there are low barriers to entry into the supply of grant and trust funding information, and therefore the threat of entry represents a real constraint on the parties' behaviour. Information is freely available; no particular skill set is required, such that a new entrant could become active within a year. The parties point to the recent entry of free provider Grantsnet.
78. However, it is notable that the parties' acquisition paper states that the parties expect that providing 'a full coverage of market on price/quality will raise barriers to potential competitors'.
79. Views from third parties on prospects for entry were mixed. Some perceived high barriers to entry, stating that it would be very resource intensive to be able to compete against j4b/Grantfinder, or that the relevant sector was highly complex in nature. It was mentioned that it was necessary to invest significantly in the core information, with people gathering information and making sure it is up to date. Although one person working full time might be able to put together a static picture over 12 months of research, it is necessary to continually update such information.
80. Conversely, some third parties suggested that barriers to entering on a limited scale may be low in this sector given the freely available quality of the information. One third party considered that as there are around 300 to

350 major grant awarding bodies, it is not hugely difficult to keep track of what is going on. Another thought that there is no real barrier to entry, since anyone with a database and a research team could pull the information together. However this third party also considered that a small firm would never be enticed to enter the market in the event of a price rise, especially given the incumbency advantage that would be enjoyed by the merged party, although a price rise might entice a larger firm to enter.

81. Idox considered that [ ], might be a viable potential entrant. Its website states [ ].
82. The parties also highlighted [ ] as a potential entrant to the UK. [ ]. [ ].
83. The OFT acknowledges that the technical and financial costs of setting up a small operation within this market are relatively low. Indeed, the OFT received one estimate of under £100,000 to set up (albeit on a smaller scale than the parties). Third parties also suggested that setting up a portal where a database is already operated appeared low cost (perhaps less than £10,000).
84. However, in order to assess whether entry or expansion would be timely, likely or sufficient to act as a competitive constraint on the merged entity, it is necessary to look not only at the absolute level of barriers to entry, but at their size relative to the potential benefits from entry or expansion. In this case, the market is relatively small, and the current economic climate may well mean that demand for paid-for grant finding services is likely to decrease going forward. Both of these factors are likely to reduce the likelihood of entry or expansion. The OFT notes also that the parties themselves state that 'the market has failed to attract many new entrants not because the barriers are high, but because a) the market is too small, b) there are significant constraints on the availability of money to buy the products and c) the same information is available for free on government websites.' The view that new entry or expansion is unlikely has also been put forward by third parties.
85. Overall, while the OFT considers that barriers to entry may be relatively low in this market, it also notes the small size of the market, the absence of any company with plans to enter this market, and the concern the market may not be attractive to potential entrants given the predicted round of public sector spending cuts and consequent reduction in demand.

Consequently, on the basis of the evidence before it, the OFT is not persuaded, taking a cautious view, that the market is capable of attracting entry or expansion on a timely, likely and sufficient basis.

## **VERTICAL ISSUES**

86. There were no vertical links between j4b and Grantfinder prior to the merger. IDOX (j4b) provides technology and data to the Funding Central website and supplies hosting/database design/construction services to the Directory for Social Change. [ ]. [ ]. However, there is in any event no merger impact arising from this vertical link with Funding Central and the Directory for Social Change.

## **THIRD PARTY VIEWS**

87. This was an own initiative investigation by the OFT. The only comments received were as a result of third party enquiries carried out by the OFT in the course of the inquiry. Where relevant these comments have been incorporated in the text above.
88. In terms of competitor concerns, many of the points raised by other paid-for providers in this market concerned the fear that the combined firm will be a stronger competitor going forward, with the ability to either undercut its competitors, or to focus its business away from its historic areas of interest.
89. The OFT received some customer concerns in relation to this merger. Three local authorities were concerned that the lack of competition may potentially result in an increase in prices; although at least one of them, as mentioned above, considered that they would have alternatives or would have sufficient buyer power to resist an increase in price.

## **ASSESSMENT**

90. The OFT believes that this case is most appropriately analysed by reference to the market for the supply of paid-for grant and funding information services, with the constraint from free services and in-house supply being considered as part of the competitive assessment.

91. The parties overlap in the supply of paid-for grant and funding information services. The OFT's investigation indicates that they were each other's closest competitors and that there was evidence of close competition between them pre-merger in spite of some differentiation between their product offerings.
92. In terms of full service offerings, there is only one other provider remaining post-merger of paid-for online databases and portals (the parties' core products), Grants Online, which appears to have fewer customers for its portals than either merging party. Other paid-for firms, Funderfinder and the Directory for Social Change have a restricted offering limited to the voluntary sector. As such, the constraints from paid-for competitors on the merged entity would be limited post-merger.
93. The OFT considered the constraint on the merged entity from free sites and the threat of self-supply. It considers that these factors are unlikely to provide a sufficient constraint on the merged entity since neither is considered to be a good substitute for the merged entity's product offering, with self-supply being costly and difficult for customers and free sites having a relative lack of content and reduced range of services and functionality.
94. While barriers to entry appear relatively low in absolute terms, not least given the freely available base information, the OFT considered that entry was not likely, timely or sufficient in this case, given the small size of the market, the fact that no third party has expressed any intention to enter this market and the concern that the market may not be attractive to potential entrants given the predicted round of public sector spending cuts.
95. As a result of the above, the OFT believes 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.

## **EXCEPTIONS TO THE DUTY TO REFER**

97. The OFT's duty to refer under section 22(1) of the Act is subject to the application of certain discretionary exceptions, including the markets of insufficient importance, or 'de minimis', exception under section 22(2)(a).<sup>19</sup>
98. The parties argued that the OFT should apply the 'de minimis' exception on the basis that the total annual UK revenue of any market that might be regarded as affected by the merger is well below £10 million.

### **'De minimis' and availability of undertakings in lieu**

99. As stated in the *Dunfermline/BRN* case,<sup>20</sup> the OFT believes that it would be proportionate to refer a problematic merger (that is, not to apply the 'de minimis' exception) where it is 'in principle' clearly open to the parties to offer a clear-cut undertaking in lieu of reference. This is because the recurring benefits of avoiding consumer harm by means of undertakings in lieu in a given case, and all future like cases, outweighs the one-off costs of a reference.
100. However it is not clear to the OFT that there is 'in principle' a clear cut undertaking in lieu available in this case. The competition concerns essentially arise in relation to the entire activity (paid-for grant finding services) of the acquired business. The OFT does not include what would effectively be tantamount to an unwinding of the entire transaction when considering whether an undertaking in lieu is 'in principle' available.<sup>21</sup> On this basis, the OFT has proceeded to examine whether it is appropriate to apply the 'de minimis' exception in this case.

### **Impact of the merger**

101. In deciding whether to apply the 'de minimis' exception, the OFT considers whether the impact of the merger is likely to be particularly significant such as to outweigh the public cost of a reference. The factors that the OFT

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<sup>19</sup> OFT516b, November 2007.

<sup>20</sup> Completed acquisition by Dunfermline Press Limited of the Berkshire Regional Newspapers business from Trinity Mirror plc 4 February 2008.

<sup>21</sup> It is not the role of the undertakings in lieu process effectively to invite parties to abandon their own transactions.

considers in making this determination have been set out in a number of previous decisions and are considered in turn below.<sup>22</sup>

102. **Market size** – the OFT considers that the merger creates a realistic prospect of a substantial lessening of competition in the market for the supply of paid-for grant finding services. There is some uncertainty about the precise current<sup>23</sup> size of this market, but it is likely to fall within a range of around £2.4 to £3.5 million.
103. **Strength of the OFT's concerns** – the OFT's belief on the likelihood of a substantial lessening of competition is above fanciful but below a balance of probabilities (that is on the 'may be the case' standard).
104. **Magnitude of competition lost by the merger** – the OFT is conscious that, for certain areas of activity (such as the supply of portals) the merger results in a reduction in the number of major providers from 'three to two', and that the parties are each other's closest competitors. Set against this, however, is the fact that there is more of a constraint from other providers in other service areas and that the OFT expects free providers also to exercise some degree of constraint, at least for certain customers. In addition, there is relatively little evidence of direct competitive interaction (in terms of switching) between the parties. Overall, then, the OFT considers that the magnitude of competition lost by the merger would not be as much as might be expected in other cases of a 'three to two' merger between closest competitors.
105. **Durability of the merger's impact** – although the OFT has not been able to conclude that entry or expansion would be timely, likely and sufficient such as to allow it to clear the merger, it does believe that there are not high entry barriers into this market. As such, there is no reason to consider that any substantial lessening of competition would last for a particularly long time.

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<sup>22</sup> See for example Anticipated acquisition by FMC Corporation of the alginates business of ISP Holdings (UK) Limited 30 July 2008 and Completed acquisition by Stagecoach Bus Holdings Limited of Cavalier Contracts Limited 18 September 2008.

<sup>23</sup> The parties argued that the size of the market should be reduced to reflect the possible impact of 25 per cent public sector spending cuts. However, the OFT does not consider this appropriate given that it is unclear how, and to what extent, any such cuts would impact on spending on paid-for grant finding services.

106. **Deterrence** – the OFT has not seen any evidence that this transaction was motivated by a desire to reduce competition. The parties have argued that the rationale for the merger was to derive efficiencies and assist innovation and development, potentially leading to price reductions. The OFT is also conscious that grant-funding software is a relatively niche area and that the exercise of 'de minimis' exception in this case would not be expected to encourage other transactions in the same industry.

#### **Conclusion on 'de minimis'**

107. Overall, the OFT considers that the evidence in this case points towards the probable impact of the merger being limited. This is consistent with the OFT's experience that the 'de minimis' exception will often apply where the size of the market is around £3 million. The OFT has not identified any factors to suggest that, despite the small market size, the impact of the transaction will be particularly significant. As such, the OFT has decided to exercise its discretion not to refer the transaction to the Competition Commission on the grounds that the market is of insufficient importance.

## **DECISION**

96. This merger will **not be** referred to the Competition Commission under section 22(2) (a) of the Act.

**2 September 2010**

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<sup>i</sup> The merged entity has used different sales teams for different products.