

## Anticipated acquisition by IPC Media Ltd of Horse Deals Ltd

The OFT's decision on reference under section 33(1) given on 16 August 2006.  
Full text of decision published 1 September 2006.

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**Please note that square brackets indicate figures or text which have been deleted or replaced with a range at the request of the parties for reasons of commercial confidentiality.**

### **PARTIES**

1. **IPC Media Ltd** (IPC) is a UK consumer magazines publisher owned by Time Inc., the publishing division of Time Warner Inc. One of IPC's six business divisions called IPC Country & Leisure Media publishes a large range of specialist consumer interest magazines including, and of most relevance to this merger assessment, the equestrian magazines: Horse & Hound, Horse and Eventing.
2. **Horse Deals Ltd** (Horse Deals) is a private company that publishes a monthly advertising only equestrian magazine in the UK called Horse Deals, which was established in 2001. It also maintains an associated website, [horsedeals.co.uk](http://horsedeals.co.uk). Horse Deals' UK turnover in the year ending 31 December 2004 was just under [ ] million.

### **TRANSACTION**

3. IPC agreed to purchase the entire issued share capital of Horse Deals on 10 May 2006.
4. The parties notified the OFT of the transaction on 21 June 2006. The OFT's administrative deadline is 16 August 2006.

### **JURISDICTION**

5. As a result of this transaction IPC and Horse Deals will cease to be distinct. The parties overlap in the supply of equestrian magazines in the UK, for which their combined share of supply based on paid for circulation exceeds 25 per cent. The share of supply test in section 23 of the Enterprise Act 2002 (the Act) is therefore

met. Accordingly, the OFT believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

## MARKET DEFINITION

### Product scope

6. Equestrian magazines operate in a two-sided market, in which readers (who demand information of one kind or another) and advertisers (who demand space to advertise/promote their goods and/or services) are closely inter-linked. The willingness of advertisers to pay for advertising space in a magazine will depend on the number and type of readers. Readers' willingness to read a particular magazine may in certain cases depend on the amount and type of advertising and/or editorial content within that magazine.
7. The parties' titles each seek to provide a differentiated equestrian magazine in terms of style/content. IPC's titles contain a mixture of editorial and advertising content. As the leading equestrian title, *Horse & Hound* has almost 50 per cent editorial content covering a wide range of equestrian activities with the remaining 50 per cent taken up with display and classified advertising for a wide range of equestrian products/services including horses for sale. *Horse* is a more general interest equestrian magazine aimed at the committed rider with more limited advertising content (than *Horse & Hound*) including repeat coverage of classified advertisement of horses for sale in *Horse & Hound*. *Eventing*, as the name suggests, is a slightly more specialist equestrian magazine with some advertising content. *Horse Deals* has been described as an advertising-only equestrian magazine and contains minimal editorial content. In addition to the parties' titles, there are a range of equestrian magazines which cover a range of equestrian topics; with varying levels of classified and display advertising; and which, to a greater or lesser extent, seek to compete with the magazines of the parties.
8. There are also other types of media containing varying degrees of equestrian content, including the internet<sup>1</sup>, newspapers<sup>2</sup> and regional publications<sup>3</sup>. The parties' submit that equestrian magazines compete with other types of media and in particular, the internet for advertising content. However, evidence obtained by the OFT indicates that whilst some readers and advertisers use other types of media and the internet in addition to magazines, they are not a strong substitute for equestrian magazines. Third parties have suggested that customers use a range of equestrian websites and magazines and that whilst internet use is

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<sup>1</sup> For example [horsemart.co.uk](http://horsemart.co.uk), [horsequest.co.uk](http://horsequest.co.uk), [adhorse.com](http://adhorse.com).

<sup>2</sup> For example *Farmers Guardian*.

<sup>3</sup> For example *Yorkshire Post*, *Western Daily Press*.

increasing, equestrian websites still require the pull of a recognised magazine to generate attention.

9. As a result of the mixed and limited information the OFT has received from the parties and third parties, the OFT believes that whilst the relevant product frame of reference encompasses the sale of advertising space in equestrian magazines, the sale of the magazines containing such advertising, as well as the wider market for the sale of equestrian publications, it is not appropriate to define it more precisely here without further and more detailed information. The extent to which the sale of internet advertising space constrains sales in printed media is considered further in the competitive assessment below. The OFT has therefore left the product frame of reference open and focussed on evidence it obtained regarding the competitive interaction between the parties and other competitors both for readers and for advertisers.

### **Geographic scope**

10. The parties' equestrian publications are national titles. Most other equestrian publications mentioned by third parties are also national titles. In the absence of evidence to suggest a different geographic frame of reference, the OFT has assessed the effects of the merger on a national basis.

### **SHARE OF SUPPLY DATA**

11. In the light of more direct evidence of competitive dynamics discussed below, the OFT believes that the best available share data in this case provides a misleading portrait of the relative competitive constraints facing suppliers of equestrian advertising space.
12. The parties provided estimates of shares of supply based upon a number of methodologies including circulation of all equestrian media and annualised number of advertisements. The former appears very wide and included local papers with any equestrian section (the market leader was Yorkshire Post at [12 to 17] per cent; Horse & Hound was [10 to 15] per cent). The latter methodology gave the parties some [25 to 30] per cent (IPC [20 to 25] per cent; Horse Deals [2 to 7] per cent) with National Horsemart Weekly next largest at [5 to 10] per cent. However, these volume shares may differ substantially from value shares if there are large differences in circulation. In addition, the parties' estimates of shares do not reflect third party comments. On this basis, the OFT does not believe that these figures are a good indication of the competitive constraint in advertising that Horse Deals provides on Horse & Hound.

## **UNILATERAL EFFECTS**

### **Magazine cover price and quality of content**

13. Evidence obtained by the OFT did not point to competition concerns in relation to editorial readership, because Horse Deals is essentially an advertising publication, with little editorial content. As such, there are no grounds for believing that the merger will have an impact on the cover prices or quality of the relevant titles. Therefore, this aspect of the merger is not considered further.

### **Sale of advertising space**

14. In contrast, the OFT gathered substantial evidence that the merger combines closest competitors in respect of the sale of advertising space (display and classified) in equestrian magazines. The parties overlap in the supply of such advertising space for two main segments: horses for sale; and other classified/display advertising (such as for horse boxes and other equestrian products and services) in their magazines. The parties also have associated websites on which advertising is often sold as a bundled offer together with magazine advertising. However, IPC told the OFT that it had recently allowed advertisers to buy website entries alone [ ]. The OFT has therefore focussed on the competitive interaction between the parties and their competitors in the supply of classified and display advertising space in equestrian magazines, in particular such advertising space suitable for advertising horses for sale. Consideration is also given to competition from other types of media containing equestrian content, including the internet, newspapers and regional publications.

### **Competition between IPC and Horse Deals**

15. IPC submits that the parties are not each other's closest competitors in equestrian advertising on the basis that that Horse & Hound is a premium brand, advertising horses of higher value and, as such, does not seek to compete with Horse Deals which the parties submitted advertises low to mid range valued horses for sale.
16. The weight of evidence [ ] suggests however, that IPC has regarded Horse Deals as the primary competitive threat to its equestrian advertising business (which accounts for approximately [ ] of Horse and Hound revenues) although it is not the sole pricing constraint. IPC's reaction to this threat led to competitive interaction between Horse & Hound and Horse Deals on advertising prices, quality of service and innovation.

## Advertising prices

17. IPC submitted that Horse & Hound first started having price promotions on their classified advertising in June 2003 and had not undertaken any promotions prior to this. This was, it said, not solely in response to the entry of Horse Deals but to address the increasing success of internet websites (such as Horsemart.co.uk). Documents [ ] indicate that Horse & Hound reacted to competition from Horse Deals for classified advertisers by [ ]. Horse Deals classified advertising customers were particularly targeted by the Horse & Hound offering of free adverts for horses under £3,000. [Note 1] In addition, certain customers noted that the entry and relative success of Horse Deals increased their ability to negotiate favourable terms with Horse & Hound. These customers feared that these would be lost post merger and that advertising rates would be higher than they would be without the merger.

## Non-price competition

18. Customers were concerned that the quality of service they receive may decrease post merger. One third party commented that it had noticed a marked improvement in Horse & Hound's flexibility, service and willingness to negotiate when Horse Deals became a significant force.
19. Documents provided to the OFT show that IPC conducted customer research and surveyed customers who indicated that [ ]. IPC submitted that it did not change the presentation of its adverts. However, the OFT believes that the evidence shows that Horse Deals had some influence in prompting Horse & Hound to [ ], which might not occur absent the merger.

## Title closure

20. Some third parties mentioned that IPC had in the past acquired a rival magazine, Horse Exchange and subsequently closed it down. They feared the same might happen with Horse Deals. Horse Exchange launched in 1992 as a monthly classified advertising-only publication. It targeted the low-end of horses for sale, namely horses under £3,000 [ ]. However, it sought to compete directly for advertisers in Horse & Hound and began to pose a more substantial competitive threat. In 1994 IPC launched Which Horse [ ] but without success. IPC then acquired Horse Exchange in 1995 (or 1996)<sup>4</sup>. Documentation provided by IPC suggests that [ ] but IPC submitted that it closed Horse Exchange in 2000 because [ ].

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<sup>4</sup> Conflicting dates, 1995 and 1996, were given by IPC.

21. In this case, the OFT is not persuaded that it would be profit-maximising for IPC to acquire Horse Deals in order to eliminate the title. However, the OFT's concerns on the unilateral effects of the proposed acquisition do not depend on the closure of the title. The OFT believes that there may be higher prices and/or lower non-price competition even on the basis of the retention of both titles post-merger.
22. Accordingly, the evidence establishes a strong prima facie case that the merger combines closest magazine competitors in the sale of classified and display advertising space in equestrian magazines, in particular such advertising space suitable for advertising horses for sale. The OFT then considered whether there may be other existing magazines which currently compete, or whether there are supply side responses by other competitors, either by repositioning their products, or entering or expanding their presence in equestrian advertising space which would compensate for the merger's elimination of direct competition between Horse Deals and Horse and Hound.

### **Other potential constraints**

#### Current national magazine competitors

23. In the OFT's view, the nearest competitive constraint on Horse and Hound (apart from Horse Deals) is the new entrant, National Horsemart Weekly, which was introduced as a weekly publication in April 2006 by owners of an existing equestrian website and free magazine (although it has recently reduced its frequency to monthly publications). As a monthly equestrian advertising publication with minimal editorial content this title is most similar to Horse Deals. The owner of this title, Friday Ad Publishing, also runs a related website, [horsemart.co.uk](http://horsemart.co.uk) (originally launched in 1998) and also publishes has a regional publication, Regional Horsemart Monthly launched in 2005.
24. However, the OFT has difficulty relying on National Horsemart Weekly as a sufficient constraint on the merging titles to resolve its concerns under the test for reference in light of the cumulative weight of the following considerations:
  - the parties provided documentation which showed that they offered 'buy 1 get 1 free' colour photo advertisements, followed by 'half price' colour photo advert offers in May 2006. One third party suggested that this might be in response to National Horsemart Weekly. However, [ ] the parties stated that this was [ ] part of on-going price promotions. Furthermore, they were unable to supply any recent business documentation referring to National Horsemart Weekly or IPC's response to its entry

- customers showed considerably less awareness of National Horsemart Weekly than Horse Deals as an alternative magazine in which they could advertise or did not demonstrate an inclination to use it as a substitute for the parties' titles
- the weight of the parties' arguments [ ] focused on the constraint they faced from the internet and did not highlight National Horsemart Weekly as a particularly strong competitive constraint to date, and
- considerations relevant to timely, likely and sufficient entry, discussed in the Entry and Expansion section below.

25. There are also a number of other equestrian magazines available such as British Eventing and Horse & Pony. However, their competitive interaction with IPC's titles did not materially feature in customer responses or [ ] as significant actual or potential competitors to the parties in the sale of equestrian advertising.

#### **Entry and expansion of magazine competitors**

26. Aside from the national and regional Horsemart titles considered above, the parties' cite examples of entry in recent years including, the introduction of Horse Deals itself in 2001, British Eventing in 2002 and Horse & Pony in 2005. Certain third parties also indicated that there has been 'recent' new entry in the equestrian sector (citing, in addition to those mentioned, Horse Health, ShowScene, England's Equestrian, Newmarket Magazine, Northern Horse) but none of these appeared to be particularly strong competitors and others stated that they only consider that Horse Deals has developed as a viable alternative to Horse & Hound for horses for sale classified and display advertising.

27. However, while examples of entry in the sector generally are clearly relevant, they do not in themselves establish that entry would be timely, likely and sufficient to replicate the competitive constraints the parties currently place one on another in supplying both classified and display equestrian advertising space, in particular suitable for advertising horses for sale.

- some of the entrant titles cited are niche products and insufficiently close to the merging parties' products to be reliable constraints
- there are high failure rates for national titles, possibly due to the need to establish a critical mass of brand awareness – both among consumers buying the publication and the advertisers to whom the supplier sells the advertising space – and sufficient national distribution. Accordingly, the challenge presented by an entrant to demonstrably successful incumbent titles is unclear:

one third party claimed that 80 per cent of consumer magazines fail. Concrete examples in this sector include IPC's own experience with Horse Exchange (see above) and Country View, an equestrian supplement launched by United Business Media in 2004 to insert into its Farmers Guardian publication which made losses until it was withdrawn within one year of launch

- some competitors stated that barriers to entry in equestrian magazines would be higher post merger, since IPC would have a broader 'portfolio' of products and secure better distribution for Horse Deals, to the exclusion of similar titles. The OFT notes this issue but observes that better distribution for Horse Deals may also be a pro-competitive efficiency though in itself does not alleviate the concerns raised.

28. In light of evidence that both Horse Exchange and Horse Deals took a few years to demonstrate their viability as a significant competitive constraint, the OFT considers that the extent to which new titles may provide a sufficient constraint on the merged firm is unclear. The OFT therefore does not believe that it can be assumed with sufficient confidence that recent entry by National Horsemart Weekly or by other players will be sufficient and timely such as to replicate the competitive constraints between the parties lost by the merger.

#### Internet

29. The parties submit that they face competition from numerous equestrian websites. However, there is no indication of awareness of, or reaction to, competitive constraint from the internet or any particular equestrian website [ ]. In addition, third parties have stated that whilst internet use is increasing, it is not yet the preferred medium for advertising as customers for horses for sale and other classified advertising still like to read magazines. This is consistent with evidence the OFT has obtained which suggests that equestrian websites still require the pull of a recognised magazine to generate significant attention.
30. The OFT considers that the fact that customers are willing to pay a cover price for magazines with equestrian advertising and little editorial content indicates that equestrian websites (which are free to use) are not a full substitute for equestrian magazines; they will therefore be a lesser constraint on either party than another equestrian magazine. In addition, the example of National Horsemart Weekly, which is a magazine developed from a website, suggests that magazines and the internet are still regarded as complements rather than substitutes.

## Regional Publications

31. The parties submit that they also face competition from a number of regional publications that do not have an equestrian focus, such as the Yorkshire Daily Press and Western Daily Press. Third party evidence obtained by the OFT indicates that some advertisers, particularly of equestrian products/services, will advertise in a range of various equestrian magazines and other media including regional publications at different times. However, [ ] do not suggest that they face a significant competitive constraint from any particular regional publications.

## Buyer power

32. Individual readers who buy magazines have no buyer power. Retail customers (supermarkets and other magazine retailers) have indicated that they have no influence over price but have the ability to choose which magazines they place on their shelves. Advertisers can be agencies, companies or individual customers. Agencies have indicated that they have some buyer power but have expressed doubt that individual customers do. The OFT believes that any buyer power held by agencies or other customers is not sufficient to counter the anti-competitive effects of the merger.

## VERTICAL ISSUES

33. The merger raises no vertical competition concerns.

## THIRD PARTY VIEWS

34. A range of third parties were contacted including advertising customers, advertising agencies and competitors. Some third parties have raised concerns about the loss of competition between the parties. These comments are reflected above.

## ASSESSMENT

35. The parties are closest competitors in the supply of classified and display advertising space in equestrian magazines, in particular such advertising space suitable for advertising horses for sale. This is a two-sided market in which publishers seek to meet the needs of readers and advertisers. In terms of advertisers (and those seeking advertising content) the market may be segmented between classified advertising (for example, horses for sale) and the advertising (both display and classified) of other equestrian products and services.

36. For the advertising of horses for sale in equestrian magazines however, the OFT considers the parties to be close competitors. Evidence received by the OFT indicates that customers of Horse & Hound and Horse Deals have benefited from the competition between them, whether in terms of lower prices or better quality service or both. [ ] support such contentions: Horse Deals was clearly seen by IPC as a significant competitor to Horse & Hound and IPC sought to respond to that competition. The OFT does not believe there will be sufficient remaining competition post merger to constrain the parties from exercising market power by raising advertising prices, lowering the quality of service or lowering levels of innovation. In light of third party comments and evidence of difficulties faced by previous and recent entrants, the OFT does not believe that new entry would be sufficient, likely and timely and that the prospect would constrain the parties so as to remove the competition concerns outlined above post merger.
37. National Horsemart Weekly, which entered in April 2006, is a similar magazine to Horse Deals. However, customers currently consider it a much less viable option for horses for sale advertising than Horse Deals. The OFT considers it is plausible that National Horsemart Weekly will become a more effective competitor over time. However, given the lack of supporting evidence from customers and from the parties at this stage, the time taken for Horse Deals to develop and the failure of other equestrian magazines previously entering the market, the OFT is unable to rely on this recent entry to remove its concerns. Accordingly, the OFT does not believe it can rely on this entrant or entrance of other rivals as being timely, likely and sufficient such as to alleviate the concerns raised by the elimination of demonstrable close competition between the parties since Horse Deals established itself as a success. Nor do lesser constraints posed by the internet or other existing titles alter the conclusion that the merger at least raises a realistic prospect of a substantial lessening of competition.
38. Consequently, the OFT believes that it may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

#### **UNDERTAKINGS IN LIEU**

39. Where the duty to make a reference under section 22(1) of the Act applies, pursuant to section 73(2) of the Act the OFT may, instead of making such a reference, accept from the parties concerned undertakings as it considers appropriate for the purpose of remedying, mitigating or preventing the substantial lessening of competition concerned or any adverse effect which has or may be expected to result from it.

40. The OFT has therefore considered whether there might be undertakings in lieu of reference which would address the competition concerns outlined above. The OFT's guidance states that in order to accept undertakings in lieu of reference 'the OFT must be confident that the competition concerns identified can be resolved by means of undertakings without the need for further investigation. Undertakings in lieu of reference are therefore appropriate only where the competition concerns raised by the merger and the remedies proposed to address them are clear cut, and those remedies are capable of ready implementation'<sup>5</sup>.
41. IPC offered undertakings in lieu of a reference to the Competition Commission to [ ]. However, the OFT does not believe that [ ] would provide sufficient competitive constraint to the parties post merger so as remove the competition concerns identified by the OFT. [ ]. The OFT therefore does not believe the undertaking is sufficiently clear-cut to address the competition concerns outlined above.

## **DECISION**

42. This merger will therefore be referred to the Competition Commission under section 33(1) of the Act.

## **END NOTES**

1. Factual correction: IPC's Horse magazine (not Horse & Hound) offered free adverts for horses under £3,000.

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<sup>5</sup> See paragraph 8.3 of OFT *Mergers Substantive Assessment Guidance*.