

## Anticipated acquisition by United Business Media Group of part of the hospitality division of Mondiale Publishing

The OFT's decision on reference under section 33(1) given on 19 August 2005. Full text of decision published 24 August 2005.

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### **PARTIES**

1. **United Business Media Group (UBM)** provides business information services, including magazines, exhibitions, conferences, awards, directories and websites for business professionals. Its focus is in the areas of technology, healthcare, media automotive and financial services industries but of relevance to the merger are the Flavour and The Publican publications and the annual Pub and Bar exhibition.
2. **Mondiale Publishing (Mondiale)** provides business information services to the UK hospitality and technology industries, including the Night and Theme publications and the Bar Show exhibition. Mondiale's turnover in the UK to the year ending 30 June 2004 was approximately £4.9 million.

### **TRANSACTION**

3. On 17 July 2005, UBM announced its intention to acquire Mondiale's Theme magazine and its Bar Exhibition Limited, which runs the Bar Show. Mondiale will retain its Night magazine which will continue to compete with UBM's titles.
4. The parties notified on 17 June 2005 by merger notice. This was withdrawn at the OFT's request and the resulting administrative deadline is 19 August 2005.

### **JURISDICTION**

5. As a result of this transaction UBM and part of Mondiale's business will cease to be distinct. The parties overlap in the supply of magazines and of exhibition space to the pub and bar industries and the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met. The parties will supply over 40 per cent of advertising space in magazines to the pub and bar industries. The OFT therefore 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.

## RELEVANT MARKET

6. Broadly speaking, both parties overlap in the supply of information to the hospitality sector, which can be considered to consist of the pub, bar, hotel and restaurant industries but may be subdivided into narrower segments such as pubs and bars. The parties publish journals and organise exhibitions aimed at promoting and offering marketing opportunities for companies' products and services in segments of the hospitality sector.

### Magazines

7. The merger brings together Flavour and Theme, both monthly titles targeting a bar, restaurant and pub audience and has an advertising customer base consisting mainly of drink and food companies. UBM's other title is a weekly, The Publican, which primarily targets a pub and gastro pub audience and mainly carries advertising from drink companies. Mondiale's remaining title, Night, targets late licence venues, nightclubs, entertainment venues and bars and attracts advertisers for the design, sound & light and drinks companies.
8. The magazines under consideration, in common with most titles in this sector, derive their revenue from advertising as the magazines are circulated free to a list of registered readers who satisfy the criteria of the readership advertisers are wishing to reach. As such the majority of advertisers (or the media buyers acting on their behalf) primarily consider the title's target audience, who in turn are attracted by quality editorial content, and to a lesser extent the cost of advertising and reputation of the publication. Given the primacy of the target audience it is unlikely that advertisers would switch to titles covering the adjacent hotel and restaurant segment. This also means that it may be possible to see publications (such as The Publican and William Reed's Morning Advertiser) as a discrete segment aimed at the pub trade, as opposed to others (such as Theme, Flavour and Night) catering for the bar trade. Within each of these titles some aspects, such as bar catering, may be covered in titles with an otherwise unrelated audience e.g. Caterer and Hotel Keeper. The varying degree of overlapping content between different titles, and the apparent absence of any switching costs, may mean that the product frame of reference is a continuum with certain titles overlapping to a lesser or greater extent.
9. Some third parties have suggested that in the event of a 5-10 per cent price increase, there may be limited switching to other forms of advertising such as the internet. Whilst it is reasonable to consider that alternative advertising methods servicing the pub and bar sector do pose some form of competitive constraint, as it is not possible at first phase to gauge the extent of this limited switching, it is not appropriate to consider them in the same frame of reference.

10. From a supply side perspective, third party responses suggest that publishers with titles in neighbouring hospitality sectors would easily be able to launch titles focusing on the pub and bar segments. This is considered further in barriers to entry.
11. As it is unclear where the exact boundaries of the relevant product frame lies, and as there are no competition concerns on a narrower product frame, a cautious approach is taken and the transaction will be assessed with regard to the supply of publications to the pub and bar sector.
12. The parties and third parties suggest that the majority of publications targeting the hospitality sector, including those under consideration, are distributed to readers across the UK. Similarly, companies advertising in such publications are predominantly active across the UK. As such the geographic frame of reference is the UK.

### Exhibitions

13. Trade exhibitions, such as those run by the parties, derive revenue primarily from renting stand space to exhibiting companies to promote their products or services to the visitors of the show.
14. Most customers suggested they would exhibit at the exhibition that best targets the audience they are trying to reach, with some saying they prefer the largest show or the one with the most large brands exhibiting. In this regard the Bar Show and Pub and Bar both target bar and pub owners, managers and designers, with the Bar Show also catering for nightclub owners and managers. In both cases exhibitors consist mainly of drinks companies, with some food companies. The Bar Show also has entertainment and design companies exhibiting.
15. While acknowledging this broad overlap, and that the two shows are arguably each others closest competitors, several third parties argued that their focus somewhat differed, with the Bar Show attracting more bar managers and bar designers than pub owners and managers. Only 10 per cent of visitors to the Bar Show in 2005 were from the pub trade, with around 40 per cent from the bar sector. Visitors to Pub and Bar in 2004 were in the opposite proportions. Around 5-10 per cent of the remainder in both cases comes from the restaurant trade. In this respect customers suggest that the two shows are somewhat complementary and though the same companies may exhibit at both they will usually be promoting different brands at each exhibition. In 2005 only 28 of 200 exhibitors attended both shows.
16. Despite the difference in focus, the degree of overlap would suggest pub and bar exhibition as the narrowest reasonable frame of reference. This is supported by third parties indicating that they are unlikely to switch to exhibitions targeting other sub segments within the hospitality sector such as restaurant or hotel exhibitions in the event of a 5-10 per cent increase in prices. This is because the lack of focus means that exhibitions in adjacent segments do not attract the critical mass of visitors from desired sector to make the marketing investment worthwhile. For example, The Restaurant Show only has 10 per cent of visitors from a pub or bar business.

17. However, there are examples of switching, although the reason for it is not always clear, by drink and food companies. For example, Diageo switched from Pub & Bar to a combination of Northern Restaurant and Bar Show and the Bar Show in 2003 and food companies Gaggia UK and Brasilia switched away from the Bar Show to Restaurant Show in 2005. Similarly, according to visitor surveys there is some visitor overlap between pub and bar exhibitions and exhibitions in neighbouring segments with 15 per cent also attending restaurant shows, around 25 per cent both the parties' shows and some 30 per cent the combined Northern Restaurant and the Bar Show.
18. Many third parties stated that they had fixed budgets such that their response to an increase in price would be to reduce the size of the stand, switch to another exhibition or switch more of their brand promotion budget to other media. As such other media at least form a competitive constraint, given the low switching costs that exhibiting companies face.
19. As with magazines, exhibitions in the hospitality sector can be seen as a continuum with certain shows having overlapping visitors and exhibitors to a lesser or greater extent with pub and bar exhibitions appearing to have the greatest overlap. As such it is difficult to delineate the precise boundaries of the market. Accordingly a cautious approach is adopted and, the product frame is considered to be the supply of pub and bar trade exhibitions.
20. The parties suggest that the relevant geographic frame for pub and bar exhibitions is also UK wide but the majority of third parties see there being a southern and northern regional audience, with the parties exhibitions both being in the south. Exhibitors therefore see shows such as Northern Restaurant and Bar and the Bar Show as complementary. The cost of attending both, however, may mean that exhibitors active across the UK would switch from one or both to the other in any given year and there are examples of three drinks companies switching between the Bar Show and Northern Restaurant and Bar in 2005.
21. Again a cautious view is taken and it is considered appropriate to assess the effect of this merger at the regional level of London and the South East, though it is important to acknowledge that exhibitions in different regions do constrain each other to some extent.

## **HORIZONTAL ISSUES**

### **Market shares**

#### Magazines

22. Due to the ambiguity over which titles fall within the frame of reference and in the absence of figures on revenue, the OFT has considered data provided by UBM on

circulation and number of advertising pages for different titles. On this basis, UBM will have about 20 per cent of circulation (increment less than 5 per cent) and about 40 per cent (increment 10 per cent) of advertising pages post-merger.

23. The other leading supplier of publications to the pub and bar sector will be William Reed with around 20 per cent of circulation and 35 per cent of advertising pages. Mondiale will still have about 5 per cent of circulation and 10 per cent of advertising pages. Low switching costs will enable customers to advertise in these, and other, competing titles should the merged entity raise prices.
24. It should also be noted that this transaction will not result in the reduction of competitors active in the supply of publications to the bar and pub trade sector. Post merger, Mondiale will continue to compete against Theme with its 'Night' publication. Indeed responses suggest that Night and Theme are relatively similar in focus. This is likely to have a pro competitive effect.

### Magazines

25. Post-merger UBM will have both of the dedicated pub and bar exhibitions in the south. As discussed above the degree of overlap between them is judged to be limited by third parties. However, as they are each others closest competitors, the remaining constraints post-merger must be considered.
  - Bar Scene is a stand-alone exhibition within the biennial Hotelympia show which third parties mentioned as a competitor to the parties. Bar Scene's visitors who indicated that they had an interest in Bar Scene were almost as numerous as the visitors to Pub and Bar over an equivalent two year period.
  - Several third parties also mentioned the London Wine and Sprints Fair as a competitor to the Bar Show for exhibitors, though less so for visitors. Data was not available for those visitors with a pub and bar interest. Overall the Fair attracted almost as many visitors as the parties exhibitions combined.
  - Exhibitors also saw the Northern Restaurant and Bar Show as a competitor. William Reed's Restaurant Show may also be a constraint. In both cases there are examples of exhibitors switching to these shows from the parties.
  - Exhibitors can easily switch between shows and have indicated that in response to price increases they could rebalance their advertising budget in favour of promotion on other forms of media. Only one exhibitor expressed concerns as although one of the parties' shows was a poor alternative for the other, they were the two main shows at which they would consider exhibiting.
  - Barriers to entry appear to be low, as discussed below.

## Barriers to entry and expansion

### Magazines

26. Barriers to entry in the publications in the hospitality sector appear to be relatively low and entry occurring on a regular basis, with recent examples in the hospitality sector including Eat Out in 2004 and Chain Leader 2005.

### Exhibitions

27. The parties and all but one third party considered barriers to entry to be low, with the cost of entry between £0.3 and 0.5 million and profitability as expected within two or three years. This is supported by a number of factors and examples of entry. Most significantly was the Bar Show, which entered in 2000 and has succeeded in overtaking three incumbents (including the two shows that became Pub and Bar) despite Mondiale being a relatively small organiser. Others recent examples include Restaurant Live and there are a number of identifiable entrants, such as Bar Scene becoming an annual stand alone exhibition and William Reed, who could spin off a show from its successful Morning Advertiser publication or its exhibitions in neighbouring hospitality segments. Third parties state that switching costs for exhibitors are low and there are no specific barriers to expansion, for example the Bar Show has succeeded in finding bigger venues as it has grown.
28. In general, incumbency advantages in exhibitions are low as shows tend to be annual or biennial events. Even regular customers choose not to exhibit in some years.
29. The one third party that contended that barriers to entry were high argued that they were created by three incumbent advantages. As discussed below, the OFT does not believe, in light of all the evidence available to it, that any of these alleged advantages are material.
  - The first is the contention that incumbents have a verifiable performance history and an existing brand. It is clear that exhibitors look at the level of attendance and the profile of the visitors. However, developing a brand to acquire the number of visitors with the right profile is a matter of marketing and using established brands, such as publications or exhibitions in a neighbouring hospitality segment.
  - The second is a reduced need for advertising. As noted above advertising expenditure will be higher for the new entrant but it is still high for the incumbent e.g. William Reed advertises its Food and Drink Expo in over a 100 third party publications, as well as its own.
  - The third is having access to a suitable venue at a suitable time. No evidence has been forthcoming as to why there would be problems in gaining access to Olympia (the venue used by the parties) or to other London venues, such as the Business Design Centre which hosted the Bar Show.

30. In sum, the OFT, having weighed up the evidence, believes that new entry would be sufficiently timely, likely and of sufficient scope to defeat any attempt by the merging parties to exploit the reduction in rivalry flowing from the merger.

### **Buyer power**

31. Media buyers, purchasing on behalf of a number of clients, are likely to have a degree of buyer power in the publication sector.
32. A few very large companies such as Diageo or Bacardi may have some buyer power since their presence may draw a larger audience or more exhibitors but generally exhibitors at pub and bar exhibitions do not appear to possess significant purchasing power, other than their ability to easily switch to other exhibitions or decide not to exhibit.

### **VERTICAL ISSUES**

33. This case does not raise any vertical issues.

### **THIRD PARTY VIEWS**

34. No third parties contacted had any concerns with transaction with regard to publications and only a minority raised competition concerns with regards to exhibitions. The issues raised by those two are addressed above.

### **ASSESSMENT**

35. The parties overlap in the supply of publications to the pub and bar sector in the UK and in the supply of pub and bar trade exhibitions to the southern part of the UK.
36. Post merger the parties will account for 20 to 40 per cent of circulation and advertising space in publications to the pub and bar sector. With several remaining competitors, including Mondiale and William Reed, low barriers to entry and no concerns raised by third parties, no issue arises with regard to this aspect of the merger.
37. In the supply of pub and bar trade exhibitions the parties are each others closest competitors, although differences in focus means that competition between them for exhibitors or visitors is rather limited. Significant competitive constraints remain in place post-merger. There are several existing competitors identified by third parties. Only one exhibitor expressed concern, as they felt one of the parties shows was the only alternative to the other, however poor a substitute it would be. However, they and other exhibitors believed they would switch budget to other media if costs rose. All exhibitors felt they faced little in the way of switching cost and all but one considered

barriers to entry or expansion to be low. There are examples of new entry and the success of Mondiale as a small company with the Bar Show entering in 2000 when facing three incumbents supports this. The concerned third party felt that the parties had incumbent advantages in terms of an existing brand, lower advertising costs and having secured a suitable date and venue. The first of these is addressed by marketing, which may lead to higher advertising costs but these are also high for the incumbent. No evidence was forthcoming as to why venues used by the parties could not be used or alternatives which had previously been used by them.

38. Consequently, the OFT does not believe that it is or 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.

## **DECISION**

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