

Completed acquisition of Teddington Studios Limited by Pinewood Shepperton plc

The OFT's decision on reference under section 22(1) given on 26 August 2005. Full text published 1 September 2005.

Square brackets indicate information removed or replaced for confidentiality reasons at the parties' or third parties' request.

PARTIES

1. **Pinewood Shepperton Plc (Pinewood)** is active in the rental of film stages, back lots and associated facilities. Pinewood is also active in the rental of television studios and accommodation to third parties, in addition to providing ancillary services to film and television production work. UK turnover for Pinewood for the year ended 31 December 2004 was £38,667,000.
2. **Teddington Studios Limited (Teddington)** is a production company active in the rental of television studios and associated facilities. Teddington also supplies ancillary services to the rental of television studios. Teddington has however not been active in film production since the 1950's. UK turnover for Teddington for the year ending 30 April 2004 was £8,260,097.

TRANSACTION

3. Pinewood acquired the business and assets of Teddington; as well as The Studio Broadcasting Company Ltd (SBC). Teddington was in administration at the time of the acquisition. The parties notified the OFT on 19 July 2005. The statutory deadline expires on 26 August 2005.

JURISDICTION

4. As a result of this transaction Pinewood and Teddington have ceased to be distinct. The parties overlap in the supply of television studios and post-production facilities. Post merger, the parties will supply over 25 per cent of all studio space within the London [and the M25] area; the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met. The OFT therefore believes that it is the case that a relevant merger situation has been created.

RELEVANT MARKET

5. The parties overlap in the provision of television studios and post production facilities.¹

Product market

6. A television studio (TV studio) is a studio in which television programmes are recorded, equipped with smooth flooring, producer's gallery/network control room and suitable lighting facilities. On the demand side, third parties submit that there are no alternatives to utilizing a TV studio for most productions, although one third party did accept that outdoor production may be an alternative for limited types of productions that did not require fixed sets or audiences and that a film studio may be suitable for drama. No third party submitted that supply side substitution could be switched into TV production quickly or easily from other sectors including film studios.²
7. Four wall studios (generally used as films studios) offer an indoor space suitable for recording television programmes. However, some third parties suggested that although four wall studios may be a substitute for producing some television programmes (such as dramas), lack of smooth flooring, permanent lighting and producer's control room may make four walls unsuitable for producing studio-based television programmes. It is however not necessary to reach a definitive conclusion as to whether to include four walls in the product scope as no competition issues arise under either product definition.
8. Although the parties do not overlap in the provision of film studios, it may be possible for Teddington to convert one of its TV studios to a film studio. However, as suggested earlier, third parties have submitted this would be unlikely to occur due to the smaller size of TV studios and the significant investment required. This evidence appears to point to the fact that film studios are unlikely to be an appropriate substitute for TV studio production; however due to the lack of overlap in film production, it is not necessary to reach a definitive conclusion.
9. Post production involves picture editing, graphics and sound modifications for programmes. As regards post-production facilities, there do not appear to be any possibilities for either demand or supply-side substitutions.

Geographic market

10. Factors such as staff travel costs and accommodation, as well as 'star' preference for London point to difficulties in utilizing a TV studio outside the London area and suggest a regional rather than national scope. However as no competition concerns arise

¹ The OFT last investigated this sector in the Proposed Merger between Carlton Communications Plc and Granada Plc, 11 March 2003 (Carlton/Granada).

² Utilizing a film studio would apparently require significant investments in lighting, flooring and soundproofing.

under both definitions, a cautious approach is therefore adopted and the analysis of this investigation will focus on the London area.

11. As regards post production facilities, Carlton/Granada found the geographic scope to be national and third parties in this investigation have suggested customers are prepared to consider facilities outside London, such as Bristol and Manchester. The frame of reference therefore remains unchanged from the previous case.

HORIZONTAL ISSUES

Market shares

12. Post acquisition, the parties will supply less than 20 per cent (increment less than 10 per cent) of TV studios in the London and M25 area³, with several remaining competitors holding significant shares. Some third parties saw the parties as competing pre-merger, with one suggesting both were at the cheaper end of the market and competed on price. It was suggested that this was mainly as a result of Teddington's financial difficulties which lead to Teddington cutting prices to win additional business (ending in administration). Conversely, third parties suggested that due to the distinct nature of Pinewood's facilities, the parties competed less for major productions.
13. Although the parties appeared to have been close competitors pre-merger, customers have confirmed that there remains sufficient scope for customers to switch to an alternative TV studio in the event the parties increased prices post-merger. Customers pointed to several other options including the BBC; Elstree; Fountain Studios and London Studios, were seen as capable of producing major productions, while studios such as Capital; ITN; Sky; Talkback and Millbank, were adequate for smaller productions. Furthermore, as noted above, some customers submitted they were additionally able to utilize four wall studios or alternative venues for some types of TV productions.
14. Although the parties do not overlap in film production, one third party however submitted it was possible to produce both electronic and conventional television production in a film studio, although other third parties did not generally support this view. Even if Pinewood's film studios (some of which are huge film stages) were included when considering television production, the combined share of supply would still only be [35-45 per cent (increment around 1 per cent) within the area under consideration.]⁴

³ This figure would drop to less than 10 per cent if studios not mentioned by third parties, such as a 3 Mills in East London, and studios identified as suitable for TV work but at not currently used for such work, were included. The parties also point out that on a national basis, their combined share would be less than 0.5 per cent.

⁴ Business secret removed at the request of the parties.

15. As regards post-production facilities, [one supplies audio and the other visual services]. Both customers and competitors had no concerns in this area and suggested that while desirable, it was unnecessary to have post-production facilities on site as the hiring of such facilities was relatively easy.

Barriers to entry and expansion

16. There has been no new entry into this sector for many years; and entry continues to appear unlikely due to current overcapacity in this sector and therefore little incentive for potential entrants to make the necessary investment.

Buyer power

17. Customers are generally able to negotiate discounts on volume purchases. Third parties have also confirmed that they can switch to alternative facilities with relative ease, suggesting that they may be able to exert a degree of countervailing buyer power.

VERTICAL ISSUES

18. This transaction raises no vertical issues.

THIRD PARTY VIEWS

19. During the course of this investigation, we contacted customers, competitors as well as industry bodies. All but one of the third parties contacted during the course of this investigation were unconcerned about this transaction and the concerns raised have been addressed above.

ASSESSMENT

20. The parties overlap in the provision of television studio rental space and post-production facilities in the London area. Post merger, the parties combined share of TV studios in the London area stands below 20 per cent and they will continue to face competition from several competitors offering customers an alternative to switch to should the parties increase prices following the merger. In addition, some customers submitted they were also able to utilize four wall studios or other alternative venues for some types of TV productions. Furthermore, third parties were generally not concerned about this transaction and some suggested that absent this acquisition, Teddington would not have survived much longer due to its financial difficulties.
21. As regards post-production facilities, there remains several options post merger, and no third party raised any concerns relating to this area.
22. One third party raised concerns about Pinewood's alleged dominance in film studios. There is however no overlap in the parties' activities in this area although in theory

Teddington may be able to convert its TV studios into film studios. This investigation suggested that there would be little incentive for them to undertake such a major investment (due to the current overcapacity in this sector). The same complainant additionally raised concerns relating to the parties position in TV studios post merger, however others felt there will remain sufficient alternative providers in the London region. The OFT considers that the likelihood of either of these concerns giving rise to substantial lessening of competition is too remote to be credible.

23. Consequently, the OFT does not believe that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

24. This merger will therefore **not be referred** to the Competition Commission under section 22(1) of the Act.