

Anticipated acquisition by Acxiom Corporation of Consodata SA

The OFT's decision on reference under section 22 given on 17 May 2004

Please note text in square brackets indicates range inserted at request of parties

PARTIES

Acxiom Corporation (Acxiom) is a multinational firm with operations in the US, UK, France, Australia and Japan. Acxiom is a supplier of data management solutions for companies worldwide. Acxiom's worldwide turnover in the year ending 31 March 2003 was approximately £571.46 million, of which £60.5 million was attributed to the UK.

Consodata SA (Consodata) collects sells and analyses consumer data with an organisation based in the UK, France, Germany and Spain. The worldwide turnover of Consodata and its subsidiaries in 2002 was approximately £55 million, with £11.8 million turnover attributed to the UK.

TRANSACTION

On 31 March 2004, Acxiom acquired Consodata SA (consisting of companies based in England, France and Spain) for approximately \$36.4m.

The transaction was notified to the OFT on 16 March 2004 and the administrative deadline expires on 17 May 2004. A previous acquisition by Acxiom in the same sector (the acquisition of Claritas Europe Group) was cleared by the OFT on 11 March 2004.

JURISDICTION

As a result of this transaction Acxiom and Consodata have ceased to be distinct. The parties overlap in the supply of Customer Relationship Management Services (CRM) and the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met. A relevant merger situation has therefore been created.

RELEVANT MARKET

Product market

Direct marketing covers all marketing activities where an actual or potential customer is contacted directly by the company. This is a 'one to one' relationship e.g. financial institutions attract credit card customers by writing to them directly. To maximise

response rates and profitability companies utilise a CRM process to optimise the value of their relationships with existing customers and identify potential new customers.

On the basis of the information available, it appears that CRM processes can be classified under:

- **Data collection and sale** – here data is collected from a number of sources and sold on to customers. This segment can be further subdivided by type of data where possible categorisations include: list data; credit data; electoral roll data; modelled/aggregated data and lifestyle data. (Lifestyle data is list data augmented with additional information on variables such as lifestyle, demographics and purchasing habits.) Data collection and sale accounts for virtually all of Consodata's revenue and Acxiom is also active in this segment.
- **Data analysis** – this is a process used to maximise leads for specific campaigns. Both parties supply this service.
- **Database management** – as data can be fragmented and stored in disparate systems which may not be compatible, database management allows the data to be processed more efficiently and stored in useful formats. Both parties are active in this segment.

Comments from third parties confirm that different segments serve different purposes and are distinct. Customers are not required to purchase CRM services together and a majority of customers purchase data collection and sale, data analysis and database management from different suppliers, with some supplying in-house.

On the supply side, responses from third parties indicate that there are a number of suppliers active in each segment. Comments indicate that companies have the capability to start supplying data analysis and database management services quickly and at minimal cost. However, this is not necessarily the case for all forms of data collection, particularly lifestyle data (see discussion on barriers to entry below).

Overall, due to the distinct nature of data collection and sale, data analysis and database management services, it seems reasonable to consider each segment separately in this assessment.

Data collection and sale

Third party responses indicate that the distinction and substitutability between data categories within data collection and sale is complex. Acxiom contends companies decide on what type of information they require for a specific marketing campaign and specify the data source. Budgetary constraints and how targeted the company wants the campaign to be influences such purchasing decisions. If one type of data is not available another type would be an adequate alternative. Other responses agree with this and submit that it is incorrect to analyse lifestyle data in isolation, maintaining datasets interact with each other and list data, electoral roll, credit data and modelled/aggregated data may supplement lifestyle datasets. Different industries and different campaigns require different data types and this will influence the value attached to them. For example, it is vital that the financial sector has access to credit

rating data and value this highly. Lifestyle data may be useful to supplement this information but its requirement may be marginal. One third party contended that lifestyle suppliers would be unable to raise prices without losing sales.

Some comments however contended that lifestyle data is a distinct segment as all other data is less detailed and less personal, and lifestyle data fulfils specific client requirements. There was an indication that customers would not switch to other data sources due to a potential reduction in response rates. But such information was refuted by other third parties. They expressed the view that whilst it was appreciated response rates may decline, alternative data sets can be used to achieve the same result.

On the supply side, the ease with which suppliers can supply different data types is unclear. It appears list data is easy to obtain and is relatively inexpensive. Electoral roll data and credit data can be purchased at a cost. Modelled/aggregated data can be extrapolated or derived from existing raw datasets. One third party submits that access to raw data, such as raw credit or raw lifestyle data may be difficult. It appears collecting and selling lifestyle data is costly and would take in excess of a year if starting from scratch. But responses do indicate that suppliers actively engage in cross-licensing data - for example, Acxiom submits that the percentage of turnover (in respect to data collection and sales) derived from re-selling data procured from third parties is [5 per cent – 15 per cent] while its revenue derived from data sales to competitors stands at [10 per cent – 20 per cent].

Overall, there appear to be cogent arguments in favour of either a frame of reference covering all data categories or separating lifestyle and other data categories. However, it is not necessary to decide between these perspectives because similar considerations apply whichever frame of reference is considered.

For data analysis and database management, no third party responses suggested any further subdivision.

Geographic scope

Acxiom submits that the geographic scope is at least national, and possibly wider. Responses from some third parties suggest that customers may require a pan European or worldwide service. However, the majority of third parties contend the geographic scope is national.

For the purposes of this paper, the relevant frames of reference will be taken to be the national supply of:

- data collection and sale (all data categories or lifestyle and other data categories);
- data analysis; and
- database management services.

HORIZONTAL ISSUES

Data collection and sale

Figures provided by Acxiom show that post-merger, the parties combined shares of supply for data collection and sale is [10 per cent – 20 per cent], increment [0 per cent- 10 per cent]. A number of other competitors remain in this sector the main ones being Experian and Equifax with [30 per cent – 40 per cent] and [20per cent – 30 per cent] share of supply respectively. Analysing lifestyle data separately, the parties combined shares of supply is [25 per cent – 35 per cent] increment [5 per cent – 15 per cent]. Further details of shares of supply in this segment are given in the table below.

UK Share of Supply for 'Data collection and sale – lifestyle only'

Company	Revenue (000s)	Share of Supply per cent
Acxiom	[15-25m]	[15-25]
Consodata	[5-15m]	[5-10]
<i>Combined</i>	<i>[25-35m]</i>	<i>[25-35]</i>
Experian	[15-25m]	[15-25]
Equifax	[5-15m]	[5-15]
Data locator	[5-15m]	[5-15]
Eurodirect	[5-15m]	[0-10]
My Offers	[0-10m]	[0-10]
Wegener	[0-10m]	[0-10]
Psycographics	[0-10m]	[0-10]
Bounty	[0-10m]	[0-10]
Preference Service	[0-10m]	[0-10]
Others	[0-10m]	[0-10]
Total	[90-110m]	100

Source: Acxiom derived from Marketing Direct Magazine

As can be seen from the above, post-merger the merged entity faces competition from a number of alternative suppliers. Customers may use a portfolio of data sources within a campaign and source from different companies. Considering lifestyle data in isolation, some competitors commented there are a limited number of alternative suppliers available. But Acxiom submits, and this is backed up by the table above, that there is a degree of choice in terms of the companies present in the sector. The presence of Experian, in particular, may constrain Acxiom's activities.

Data analysis

Acxiom estimates that the overall size of the data analysis segment is [£70-90m] million and that, post-merger, the parties combined shares of supply will be [0 per cent – ten per cent], increment [less than 1 per cent]. With a minimal accretion to the share of supply, there does not appear to be any prima facie competition concerns.

Database management services

Acxiom values this sector at [£150 - £170 million] and considers that the parties combined shares of supply for database management is [20 per cent – 30 per cent], increment [less than 1 per cent]. With a minimal accretion to share of supply and other suppliers active, there does not appear to be any prima facie competition concerns.

Portfolio effects

One third party raised concerns about the impact of the merger on the portfolio power of the parties. Although the transaction may enable the merged entity to offer a wider range of services, it seems very unlikely that it could tie services together anti-competitively because there is no evidence of customer preference for bundled products; the degree of market power is not enhanced significantly to enable leverage; and there are numerous suppliers active in data collection and sale, data analysis and database management segments.

Barriers to entry

Data collection and sale

Third parties have informed the Office that to collect and supply data, a company would need to gain accreditation from the Direct Marketing Association (DMA) and Institute of Direct Marketing (IDM); abide to the relevant legislation and consumer data protection schemes; hire experienced staff; and purchase the appropriate software and server to hold and manage the data. Acxiom submits that if a non-UK company wishes to enter the UK it will generally either set up a subsidiary or find a partner to act on its behalf.

Third parties maintain that the ease of supplying data depends on whether lifestyle data is collected. As discussed above, suppliers do engage in cross-licensing. List data, electoral roll, credit data and modelled/aggregated data can be purchased at a cost. For lifestyle data, third parties contend a supplier would have to sustain losses until a critical mass was achieved and estimated the cost of a national survey to be in the region of £1-3 million.

Comments from third parties do not suggest that barriers to entry are significant in respect of either data analysis and data management.

Buyer power

Given the lack of competition concerns arising from this merger, the issue of countervailing buyer power can be left open. However, all third parties submit that

customers have negotiating strength due to the choice of suppliers available and the volumes and frequency of purchase.

Vertical issues

A concern was raised that, following the transaction the merged entity will control the supply of data which is a necessary input for data analysis and database management services. As mentioned above, Acxiom licenses its data to competitors which are active downstream. One third party had some concerns that the merged entity would change pricing strategy (setting prices higher than they otherwise would have been), especially to low volume suppliers that did not hold long term contracts. However, analysis of the shares of supply data and barriers to entry outlined above shows that the merged entity does not hold any market power at any level of the supply chain.

Third party comments

The majority of third parties did not express any concerns about the transaction. A few raised concerns that the merger would result in a change in pricing strategy and potential refusal to supply. This has been discussed under vertical issues above.

ASSESSMENT

The merger qualifies on the share of supply test under the Act. The appropriate frames of reference are taken to be the UK supply of data collection and sale (all data categories or lifestyle and other data categories), data analysis and database management services.

At a horizontal level, a number of competitors remain and the evidence suggests that the shares of supply and accretions to these are not problematic. In addition, customers appear to have some negotiating strength and barriers to entry are generally low.

At a vertical level, a concern was raised that the merged entity will control the supply of data which is a necessary input for others in the supply chain. Due to the lack of market power this does not appear to raise any competition issues.

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

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