

# Anticipated acquisition by Mapil Bidco Ltd of Chain Reaction Cycles Ltd, Hotlines Europe Ltd and Decade Europe Ltd

## Decision on relevant merger situation and substantial lessening of competition

**ME/6595-16**

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 30 June 2016. Full text of the decision published on 3 August 2016.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

### SUMMARY

1. Mapil Bidco Ltd (**Wiggle**)<sup>1</sup> has agreed to acquire Chain Reaction Cycles Ltd (**CRC**) and its affiliated companies, Hotlines Europe Ltd and Decade Europe Ltd (together referred to as the **Target Companies**) (the **Merger**). Wiggle and the Target Companies are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) considers that it is or may be the case that the Parties will cease to be distinct as a result of the Merger, that the share of supply test is met and that accordingly arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the online retail supply of tri-sport goods in the United Kingdom (UK). The CMA assessed the Merger on the basis of four separate product frames of reference, in each case limited to the UK: (1) online retail supply of bikes, (2) online retail supply of bike components, (3) online retail

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<sup>1</sup> Mapil Bidco Ltd trades under the name of Wiggle.

supply of bike and multi-sports accessories; and (4) online retail supply of general multi-sports goods.

4. The CMA found that the Parties are one of each other's closest competitors in the UK online retail supply of bike components on the basis of a range of evidence including shares of supply, internal documents, the Parties' own competitor tracking data, and the views of third parties who responded to the CMA's merger investigation. However, the CMA found that there are several other online competitors that will continue to compete with the parties post-merger. The CMA also found that certain features of the online supply of bike components enable these competitors to do so including a degree of price transparency afforded by search engines and other online marketplaces, lack of price discrimination and supplier exclusivity. In light of these factors, the CMA found that sufficient competition will remain to constrain price, range, service and quality offered by the Parties across bike components following the Merger. The CMA also noted that several rivals of the Parties had recently received investment from private equity firms or others, enabling them to expand their offerings.
5. In the online retail supply of bikes, accessories and general multi-sports goods, the CMA found that the Parties faced even more competitors. In addition, with regard to the online retail of bikes, the Parties' were not close competitors due to their different focus, with Wiggle selling more road bikes and CRC selling more off-road bikes.
6. The CMA believes that, in each frame of reference, the constraints from competitors, taken together, are sufficient to ensure that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects.
7. The CMA also considered whether competition concerns relating to vertical effects would arise as a result of the Merger. In terms of input foreclosure, the CMA found that the combined entity would not have the ability and incentive to foreclose other retailers through its wholesale affiliates, in particular in light of the presence of a wide range of alternative brands and upstream wholesalers, and CRC's small position in distribution. In terms of customer foreclosure, the CMA found that the combined entity would not have the ability and incentive to foreclose other distributors as there are sufficient alternative retailers and wholesalers who supply their products on a non-exclusive basis.
8. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

## ASSESSMENT

### Parties

9. Wiggle is incorporated in the UK and owned [%] by Bridgepoint, a private equity investor. The turnover of Wiggle in 2015 was around £179 million worldwide and around £[%] million in the UK.
10. CRC is a family business based in Northern Ireland, founded in 1984. It launched its website in 2000. CRC's warehouse and two bricks and mortar stores are situated in Northern Ireland. Decade Europe Ltd (**Decade**) and Hotlines Europe Ltd (**Hotlines**), affiliated companies to CRC, are wholesale distributors to small bricks and mortar stores and small online retailers. The turnover of CRC in 2015 was around £[%] million in the UK. CRC provides all logistics, warehousing and back-office functions, as well as some limited marketing functions for Decade and Hotlines, in return for a management fee. CRC does not hold any shares in Hotlines and/or Decade, nor do Hotlines and/or Decade hold shares in CRC. A private individual holds 33% of the shares in each of Decade and Hotlines and 50% of the shares in CRC.

### Transaction

11. Wiggle will acquire the entire issued share capital of CRC, Hotlines and Decade.
12. The Parties informed the CMA that the Merger is also the subject of review by the Austrian competition authority. The Merger was cleared by that authority on 13 June 2016.

### Jurisdiction

13. As a result of the Merger, the Parties will cease to be distinct.
14. The Parties overlap in the online retail supply of bikes, bike components, bike and multi-sport accessories and general multi-sports goods encompassing footwear, clothing, protection, nutrition and training and workshop. Based on the information provided by the Parties and third parties, the CMA has calculated that the Parties (specifically CRC and Wiggle) have a combined share of supply in excess of 25% with regard to the online retail supply of bike components in the UK. The CMA therefore believes that the share of supply test in section 23 of the Act is met.

15. The CMA 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.
16. The CMA notes that Hotlines and Decade were not controlled by CRC pre-Merger. However, in light of the nature of the transaction, and having regard to section 23(1)(a) and section 26 of the Act,<sup>2</sup> the CMA is of the view that the Merger is capable of review as a single relevant merger situation.
17. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 4 May 2016 and the statutory 40 working day deadline for a decision is therefore 30 June 2016. The Merger was considered at a Case Review Meeting.<sup>3</sup>

## Counterfactual

18. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.<sup>4</sup>
19. In this case, the CMA has found no evidence supporting a different counterfactual, and the Parties and third parties have not put forward arguments in this respect. Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual.

## Frame of reference

20. The CMA considers that market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgment. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation

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<sup>2</sup> See also *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, from paragraph 4.7.

<sup>3</sup> See *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, from paragraph 7.34.

<sup>4</sup> *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.<sup>5</sup>

### **Product scope**

21. The Parties overlap in the retail supply in the UK of:
  - (i) bikes<sup>6</sup> (**Bikes**),
  - (ii) bike components<sup>7</sup> (**Components**),
  - (iii) bike and multi-sports accessories<sup>8</sup> (**Accessories**) and
  - (iv) general multi-sports goods, encompassing footwear<sup>9</sup>, clothing<sup>10</sup>, protection<sup>11</sup>, nutrition and training<sup>12</sup> and workshop<sup>13</sup> (**GMG**).
22. Wiggle only sells its products through its website. Although CRC operates two bricks and mortar stores in Northern Ireland, its main focus is also the sale of its products through its websites, and it earns a small proportion of its turnover offline.
23. Wiggle submitted that the appropriate frame of reference is all general multi-sports products because most competitors offer a range of products across a range of categories. It said that supply-side substitution is easy and the costs of selling different products is low.
24. In determining the appropriate product frame of reference, the CMA considered whether there is demand or supply-side substitution between (i) different product types within each of the four categories or between any of

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<sup>5</sup> [Merger Assessment Guidelines](#), paragraph 5.2.2.

<sup>6</sup> Bikes include a range of off-road and road bikes, such as mountain bikes, BMX bikes, electric bikes, hybrid and city bikes, cyclo-cross bikes, time trial bikes and bike trailers.

<sup>7</sup> Bike components include a wide range of componentry ancillary to operating a bike, for example frames, forks, wheels, tyres, pedals, brakes, cassettes, group sets, crank sets, derailleurs, seat posts and handle bars.

<sup>8</sup> Accessories include a range of goods which complement other multi-sports products, such as bags, lights, pumps, mudguards, hydration packs, sunglasses and bike racks.

<sup>9</sup> Footwear includes sport, active or sport-style footwear worn for leisure or specific sporting pursuits, including cycle shoes, running shoes, casual shoes, overshoes and sandals.

<sup>10</sup> Clothing comprises apparel designed for various sporting uses, including cycling use (such as anti-pollution masks, cycling caps, high visibility clothing, compression wear and race wear) as well as apparel which is suitable for running and other outdoor pursuits (such as base layers, beanies and caps, belts, gloves, jackets, shorts, tights, t-shirts) and also swimwear. It also includes casual clothing worn for sport or leisure.

<sup>11</sup> Protection includes apparel designed to protect participants of various types of sports, such as helmets, goggles, neck braces and "body armour" (protective clothing).

<sup>12</sup> Nutrition and Training comprises items designed for maintenance of general fitness (such as heart rate monitors, energy drinks and gels, protein supplements and respiratory trainers) as well as items specific to training for particular disciplines, such as turbo trainers (for cycling) or runner GPS watches (for running).

<sup>13</sup> Workshop includes tools and other items which are used to maintain bikes and other sporting equipment, such as workstands, pressure washers, tool kits and multi-tools.

the four categories set out in paragraph 21; and (ii) between online and offline retailing for each of the four categories. The CMA notes that these two questions are inter-related to some extent.

### *Types of product*

25. Different product types are not substitutable on the demand side (eg a bike chain is not substitutable for a bike helmet). However, while the CMA generally determines the boundaries of the relevant product frame of reference by considering demand-side substitution,<sup>14</sup> it may widen the scope of the frame of reference where there is evidence of supply-side substitution.<sup>15</sup>
26. Suppliers and competitors which responded to the CMA's investigation indicated that the four overlap categories listed in paragraph 21 reflect a delineation used widely within the industry. The CMA noted that suppliers of products in each category (eg Accessories) appear to supply the same broad groups of products within that category (eg helmets, lights, etc), even if the individual products they sell within those groups are different (ie different retailers stock different brands of helmet). This implies that the conditions of competition are similar between many of the groups of products within each category and that supply side substitution occurs within the product categories, as retailers increase or decrease their stocks of different groups of products within a category. The CMA also noted that the competitor set for each category reflected the same competitor set across most of the groups of products within that category. For these reasons, the CMA decided that it was not necessary to assess the impact of the Merger using narrower product frames of reference than the four product overlap categories set out in paragraph 21.
27. The CMA then considered whether it was appropriate to widen these frames of reference. The CMA considered the likelihood of demand-side substitution between different product categories to be remote (for the reasons set out in paragraph 25) and therefore focussed on supply-side substitution. In order to assess supply side substitution, it analysed data on sales by channel for the different product categories, reviewed internal documents from the Parties about their competitor sets and gathered third party views.

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<sup>14</sup> [Merger Assessment Guidelines](#) (OFT1254/CC2), September 2010, [paragraph 5.2.17](#).

<sup>15</sup> This is where firms can quickly and easily shift capacity between different products depending on demand, the same firms compete to supply different products and the conditions of competition are the same for each product.

*Sales channel data*

28. The CMA estimated the following shares of supply in each of the four frames of reference:<sup>16</sup>

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<sup>16</sup> These shares may overestimate the parties' true shares since they may not capture the entire market.

**Table 1: Estimated online shares of supply in the UK for each product category**

<b>PRODUCT CATEGORY</b>	<b>PARTIES' COMBINED SHARE OF SUPPLY ONLINE IN THE UK (%)</b>
<b>Components</b>	[50-60%]
<b>Accessories</b>	[30-40%]
<b>Bikes</b>	[10-20%]
<b>GMG</b>	[40-50%]

*Source: CMA analysis of Parties' data and competitors' responses to CMA's merger investigation*

29. The table is based on data submitted by 17 competitors of their online and offline sales split into product categories.<sup>17</sup> In the CMA's view, these differences in the Parties' shares of supply between categories are indicative of differences in the conditions of competition for the supply of each of Bikes, Components, Accessories and GMG, and of limited supply-side substitution between these categories.

#### *Competitor sets*

30. The Parties both track competitors' prices and the proportion of matched stock keeping units (**SKUs**). For each of the Parties, this internal analysis indicates that their key competitor set is different for each of the four categories. The data also shows that, for each of the Parties, there are differences between the four categories in which retailers are among the lowest priced and in which retailers stock which products, in particular indicated by how the stock of each competing retailer overlaps with the stock of each of the Parties. In addition, an internal CRC document notes, that while some customer segments have a preference for [X] and [X], they prefer [X].
31. In the CMA's view, all this evidence indicates that the nature of competition is different between the different product categories and there is little evidence of supply-side substitution between the categories.

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<sup>17</sup> Evans, Halfords, Amazon and Amazon Marketplace, Sports Direct, Ribble, Tredz, Tweaks, Decathlon, ProBikeKit, a competitor based abroad, SourceBMX, Sportsshoes.com, Edinburgh Bike Cooperation, Activ-Instinct, Merlin Cycles, Cycle Surgery and one IBD. The categories were accessories, bikes (sub segmented into hard-tail mountain bikes, full suspension, mountain bikes, road bikes, commuter bikes, BMX bikes, children's bikes), bike components, bike frames and forks, bike wheels and tyres, protection apparel other clothing, footwear, nutrition & training and workshop. Some competitors did not split their turnover according to these categories.



### *Third party views*

32. Third parties which responded to the CMA's merger investigation also said that the nature of competition is different between the four product categories. For example:
- (a) Several competitors stated that a consumer would switch to purchase Bikes offline if the online price were to increase by 5%, whereas all but one competitor indicated that consumers would not switch to offline if the online price of Components were to rise by 5%. This indicates that, whereas the offline sales of Bikes appears to constrain the online sale of Bikes, this is not the case with Components.
  - (b) Only one of a large number of customers who responded to the CMA's investigation said it primarily purchased Bikes from the Parties (ie online),<sup>18</sup> whereas many customers stated that they purchased Components from the Parties.

### *Conclusion on product/category type segmentation*

33. For the reasons set out above, the CMA believes that the different conditions of competition between the four candidate product categories set out in paragraph 21 support analysing the impact of the Merger in four separate product frames of reference.

### *Online and offline*

34. The Parties overlap in the online retail of Bikes, Components, Accessories and GMG. The CMA then considered whether the product frame of reference for each type of product should be widened to include offline retail as well.<sup>19</sup>
35. Wiggle submitted that the market for the retail sale of general multi-sports products includes both offline and online retailers. Wiggle said:
- (a) there are no types of products sold online which are not also sold offline;
  - (b) the Parties monitor and price match competitors with offline stores; and
  - (c) multi-channel retailers (ie retailers that sell online and offline, eg Halfords) attract large numbers of their online customers into their

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<sup>18</sup> Not all consumers commented on this issue.

<sup>19</sup> The CMA has previously distinguished between online and offline retailing of luxury goods, in part because the parties and other online retailers were closer competitors than offline retailers (see [CMA decision of 2 September 2015, ME/6538-15 Richemont, Yoox and Net-A-Porter, 2015](#)).

bricks and mortar stores to pick up their online ordered products, and these retailers charge the same price for the same product online as offline. Wiggle added that most multi-channel retailers offer a price match guarantee regardless of whether that price is online or offline.

36. The CMA considered the constraints between offline and online retail separately for the four product categories.

#### *Online versus offline for the retail supply of Bikes*

37. An [X] shows that all [X].
38. Several competitors who responded to the CMA's investigation stated that a consumer would switch to purchase Bikes offline if the online price were to increase by 5%.
39. The CMA evaluated the price tracking data of the Parties and found that Wiggle's closest competitors for Bikes are [X], and [X]. Of these, only [X] has a strong offline presence in the UK. The CMA found that CRC's closest competitors in its price tracking data are the online retailers Wiggle, [X] and [X].
40. On the basis of the price tracking data for Bikes and third party comments, the CMA has taken a cautious approach and, for the purpose of its assessment in this case, it has assessed the impact of the Merger in an online-only frame of reference for Bikes. However, it has taken into account the constraints from offline in its competitive assessment.

#### *Online versus offline for the retail supply of Components, Accessories and GMG*

41. For each of the three product categories the CMA considered whether there is demand-side substitution from online to offline and whether the conditions of competition are different between online and offline.
42. With regard to demand-side substitution, the CMA asked the Parties' online competitors if they thought consumers would switch to offline retailers if there were a 5% price increase in Components sold online. Almost all competitors which responded to the CMA's merger investigation stated that, in these circumstances, customers would not switch to offline. The reasons given

were: (i) there is a larger range of products online, with good stock availability; and (ii) prices online are more than 5% lower.<sup>20</sup>

43. With regard to the conditions of competition, the CMA examined:

(a) *Competitor sets*. The CMA found that:

- i. many offline competitors do not have a substantial online presence;
- ii. few online competitors have a material offline presence;
- iii. competitors' shares of supply are significantly different between their online and offline sales;
- iv. information from the Parties on closeness of competition (price tracking data, etc) demonstrates that the Parties [redacted] (see paragraphs 68-73).

(b) *Range*. Most competitors and customers which responded to the CMA's merger investigation stated that Wiggle and CRC have very extensive ranges for Components, Accessories and GMG. According to an independent market study (**Mintel Report 2015**),<sup>21</sup> online retailers have far larger ranges than independent bike dealers (**IBDs**)<sup>22</sup> for Components, Accessories and GMG due to the storage limitations of IBDs, although IBDs may be able to order products to meet customer requests. The same market study indicated that prices for these products are driven by online retailing.<sup>23</sup> One multi-channel competitor indicated that it sells different ranges of products online than offline;

(c) *Price*. The CMA reviewed the price matching offers made by some large multi-channel competitors and noted that they are only made public to a certain extent. In some cases, price matching is not automatic but at the discretion of the firm; and in some cases it is either made conditional on various requirements, such as the stock being available, or limited in various ways, such as to certain sizes of colours of the product, within a certain time period or to certain types of customer<sup>24</sup>; and

(d) *Convenience*. The CMA found that products can be ordered from online retailers via any internet-connected device and can be delivered to the

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<sup>20</sup> Half of the suppliers and several customers who responded to the CMA's merger investigation stated that online-only retailers like Wiggle and CRC are significantly cheaper for Components, Accessories and GMG than offline retailers.

<sup>21</sup> Mintel Report 2015 on bike accessories, p. 48.

<sup>22</sup> IBDs are bricks and mortar stores which are not part of retail chains.

<sup>23</sup> See Mintel Report 2015 on bike accessories, p. 37.

<sup>24</sup> For example auction-, Amazon Marketplace retailers or competitors based abroad are excluded.

home (or to another location, eg using collect+); whereas for offline purchases, third parties indicated that a customer needs to go to a physical store and, if the item needs to be ordered in, the customer will need to go a second time. Most of the competitors which responded to the CMA's merger investigation stated that comparing products, eg with regard to price and other characteristics, is convenient online. The Parties said that there may be a preference to buy offline in some instances, eg to try out a product before buying, though both an online competitor and a supplier stated that customers who know what they are looking for shop online and see no need to try before buying.

44. Wiggle submitted that many customers would need to visit a bricks and mortar store for Components for fitting and technical assistance. However, the CMA noted that Wiggle's website contains detailed information about its products, their measurements and compatibility, and has a specific Q&A tab where customers can ask technical questions. The CMA considers that this indicates that Wiggle clearly tries to replicate the assistance offered offline. The CMA notes that evidence from the Mintel Report 2015 suggests that specialist assistance, or 'try-before-you-buy', is less important for Accessories and GMG items.<sup>25</sup>
45. The Parties submitted that retailers which operate offline stores would be able to switch supply rapidly into the online sector at low cost, either by rapidly reallocating resource to existing online stores, or by launching online stores.
46. Two competitors which responded to the CMA's merger investigation said that there were large sunk costs involved in building a website, noting that it can cost millions of pounds to include all of the functionality (eg advanced search features) which it said are 'required' to compete strongly against the Parties. A competitor also noted significant costs in order to build an online brand. However, the CMA notes that some retailers already supply both online and offline so the costs of increasing supply online might not be so significant for some firms.<sup>26</sup>
47. On the basis of the evidence set out above, the CMA considers that online retailing of Components, Accessories and GMG will be constrained to some extent by offline retailing. However, on a cautious basis and for the purpose of its assessment in this case, the CMA has treated online retailing of

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<sup>25</sup> See the Mintel Report 2015, p. 15: "*Although it might seem slightly counter-intuitive to buy clothing online without trying it on, the success of online fashion retailers [...] has demonstrated that consumers are happy to take that chance in return for the cheaper prices and wider choice of products and sizes they can access online. Additionally, most such business offer free returns to provide further reassurance. The two major PAC retailers in the online channel are Wiggle and Chain Reaction Cycles (CRC).*"

<sup>26</sup> The online sales of such multi-channel retailers are included in the online frame of reference.

Components, Accessories and GMG as a separate frame of reference from offline retailing of these products. Nevertheless, the constraint on online retailing of these products from offline retailing is taken into account in the competitive assessment.

#### *Conclusion on product frame of reference*

48. For the reasons set out above, the CMA has assessed the impact of the Merger in the following product frames of reference:
- (i) Online retail supply of Bikes;
  - (ii) Online retail supply of Components;
  - (iii) Online retail supply of Accessories; and
  - (iv) Online retail supply of GMG.

#### ***Geographic scope***

49. Wiggle submitted that the relevant geographic market is at least EEA-wide, if not worldwide, because the Parties and most of their competitors which are incorporated in the UK sell on a worldwide basis, and there are a number of non-UK incorporated multi-sports products retailers which already sell into the UK. The Parties said that price differences between UK suppliers and importers are insignificant, and transportation costs are similar, accounting for a small proportion of total costs.
50. The evidence available to the CMA during its investigation supported a UK-wide frame of reference. In particular:
- The majority of supplies in the UK are made by UK-based firms, with limited sales from non-UK firms (although there is evidence of some pricing constraint from non-UK firms, discussed in paragraph, 86, 87 and 99 in the competitive assessment).
  - In relation to each of the four product frames of reference, there is only evidence of monitoring by the Parties of [redacted] non-UK competitors ([redacted] based in [redacted]), though the Parties could be using these firms as proxies for a wider set of overseas competitors.
51. On the basis of this evidence, the CMA believes, on a cautious basis, that the appropriate frame of reference for all four product types is at least UK-wide. Given the findings in its competitive assessment on this basis, the CMA did not find it not necessary to conclude on whether the appropriate geographic

frame of reference is wider. Where the CMA found evidence of specific competitors outside the UK constraining the Parties, it took them into account in its competitive assessment.

### ***Conclusion on frame of reference***

52. For the reasons set out above, the CMA has assessed the impact of the Merger in the following frames of reference:

- (i) Online retail supply of Bikes in the UK;
- (ii) Online retail supply of Components in the UK;
- (iii) Online retail supply of Accessories in the UK; and
- (iv) Online retail supply of GMG in the UK.

## **Competitive assessment**

### ***Horizontal unilateral effects***

53. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without needing to coordinate with its rivals.<sup>27</sup> Horizontal unilateral effects are more likely when the merger parties are close competitors.

54. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to unilateral horizontal effects in the online retail supply of Bikes, Components, Accessories and GMG in the UK. The following sections set out the evidence for each product category on the extent to which the Parties are each other's closest competitor and on the competitive constraint imposed by other rivals.

### ***Online retail supply of Bikes in the UK***

55. The CMA estimates that the Parties have a combined share of supply of approximately [5-10]-[10-20]% for the online retail supply of Bikes in the UK, with a combined turnover of around £[~~20~~] million. There are two competitors with larger shares than the Parties, one being significantly larger.

56. The CMA also notes that the Parties have very limited stock overlap with each other in this category as Wiggle focuses on retailing road bikes, while CRC

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<sup>27</sup> [Merger Assessment Guidelines](#), from paragraph 5.4.1.

focuses more on off-road bikes. This indicates that they are not close competitors in this category. [X] and [X] have the largest overlap in matched products with regard to CRC; and [X] and [X] have the largest stock overlap with regard to Wiggle.

57. In addition, the Parties' price tracking data indicates that there are several competitors typically pricing below the Parties in this product category, including [X] and [X].
58. The CMA also notes that the Parties face a stronger competitive constraint from offline retail in relation to Bikes than for the other frames of reference, as both customers and competitors told the CMA that 'trying before you buy' was more important for these products. Given that there are over 3,000 IBDs in the UK selling Bikes, which are not included in the share of supply estimates above (see paragraph 55), as well as significant national offline and multi-channel retailers, the offline sales of which are also not included in the shares of supply estimates, the CMA believes that the Parties face many competitive constraints in this category.
59. On the basis of this evidence, the CMA believes that the Merger will not give rise to a realistic prospect of an SLC in relation to the online retail supply of Bikes in the UK.

#### *Online retail supply of Bike Components in the UK*

##### *Shares of supply*

60. The Parties submitted that market shares and the size of the total market for Bikes and/or bike parts, accessories and clothing (**PAC**) are not readily available. Third parties which responded to the CMA's merger investigation confirmed this.
61. A 2015 Mintel Report on the sector states that, in 2014, the PAC market amounted to £1.2 billion, with parts representing £336 million, Accessories £359 million and clothing £558 million.<sup>28</sup> These figures include both online and offline sales. Using these figures, the Parties would have a combined share of supply in the combined online and offline retailing of Components (using parts from the Mintel report as approximately equivalent) of [5-10]%.
62. To calculate online-only shares of supply, the CMA used data submitted by the Parties and by their competitors for sales of a number of products (including sub-categories). The CMA notes that these figures may overstate

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<sup>28</sup> Page 36-39 Mintel Report 2015 on Accessories.

the Parties' shares since they may not capture the entire market (eg sales via Ebay are not included and there is likely to be a long tail of smaller online competitors, including some suppliers based outside the UK). Using this data, the CMA estimated that the Parties have a combined share of supply of approximately 50-60% in the online retailing of Components in the UK, with a combined turnover of around £[redacted] million. The next largest competitor to the Parties by turnover has an estimated share of [10-20%].

63. The Parties submitted that the turnover figures used by the CMA do not represent the whole online market. They pointed out that the Mintel report calculated a significantly larger market size and that another recent study had found that the online retail market for Components is around 60% larger than the CMA's estimate.
64. The CMA notes that the Mintel Report 2015 is Mintel's first attempt to map UK cycling PAC and that the report itself notes the difficulties in obtaining reliable market share information. One competitor which responded to the CMA's merger investigation estimated that the UK Bike and PAC market amounts to roughly £[1-1.5] billion, which suggests that the £1.2 billion PAC-only market size estimate from Mintel is an overestimate. Furthermore, the CMA notes that its methodology included all the online-only and multi-channel retailers tracked by the Parties, except for Ebay and foreign competitors.
65. However, for the reasons stated above (see paragraph 62), the CMA noted that its share of supply estimate would overstate the Parties' actual share of supply. Therefore, it considered this estimate as an upper bound. The CMA placed more weight on the Parties being the two largest online suppliers of Components than on the size of their estimated combined share. Nevertheless, given that the share indicated prima facie competition concerns, the CMA investigated further by considering the closeness of competition between the Parties in online retailing of Components and the effectiveness of constraints from smaller competitors.

#### *Closeness of competition*

66. The Parties submitted that they have differentiated offerings. Wiggle focussed on road cycling, running and swimming, and CRC focussed on off-road cycling. The Parties submitted that their pre-Merger internal documents reveal that there is no greater level of overlap between them than with their other online competitors.



- *Third party comments*

67. Most suppliers and competitors which responded to the CMA's merger investigation said that Wiggle and CRC were close competitors in relation to Components. Some suppliers mentioned Probikekit, BikeDiscount and Bike24 as also being close competitors to the Parties for these products. A few suppliers, customers and competitors mentioned Merlin, Evans and Amazon. Some customers said that Evans and Merlin were not close competitors to the Parties as they do not have the same range of products.

- *Internal data*

68. The CMA examined the Parties' price tracking data. This data is used by the Parties to monitor competitors' pricing activity and in some cases is used as [REDACTED]. CRC submitted [REDACTED] pricing data [REDACTED] from December 2015 to May 2016, and Wiggle submitted [REDACTED] pricing data [REDACTED] from February 2015 to August 2015 and from February 2016 to March 2016. In addition, the CMA analysed the number of SKUs that Wiggle was able to match to each competitor and, in CRC's data, [REDACTED]. Finally, the CMA used the internal data to analyse how often each competitor had the lowest price amongst those tracked.<sup>29</sup>

69. The Parties submitted that the price tracking data does not accurately show the conditions of competition in the online supply of Components in the UK given that (i) they only [REDACTED]; (ii) they only [REDACTED]; and (iii) the data (in particular the data that Wiggle provided to the CMA) is [REDACTED]. The Parties stated that their price tracking data provides a broad indicator for management [REDACTED]. Both Parties said that [REDACTED].<sup>30</sup>

70. However, the CMA notes that both Wiggle and CRC aim to capture pricing information [REDACTED]. The CMA also notes that, on a revenue-weighted basis, [60-70]% of CRC's products are matched to at least one competitor's product. For these reasons, the CMA believes that the Parties' price-tracking data provides relevant information on the Parties' price setting and insight into the companies which constrain them.

71. Wiggle's price-tracking data showed that, with regard to Components, CRC is one of three rivals which have a high degree of stock match with Wiggle, alongside [REDACTED] and [REDACTED]. On average, [REDACTED] is Wiggle's lowest priced competitor for Components, with CRC ranking second. This data suggests that CRC is

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<sup>29</sup> The CMA split CRC's data according to the product types defined in the frame of reference. The CMA notes the following caveats: (1) [REDACTED]; and (2) [REDACTED].

<sup>30</sup> [REDACTED].

one of Wiggle's closest competitors for Components but other competitors which are close to the Parties include [REDACTED], [REDACTED] and [REDACTED].

72. CRC's price-tracking data [REDACTED]. This data shows that, for Components, Wiggle is the cheapest tracked retailer for [30-40]% of its tracked products, weighted by value of sales, indicating that in [60-70]% of cases, another tracked retailer is cheaper. The CMA also notes that CRC [REDACTED].
73. The CMA found that, in terms of the proportion of SKUs price-tracked by CRC which are also sold by competitors, Wiggle came second amongst the [REDACTED] competitors tracked, with [10-20]% of its tracked Component products also being stocked by Wiggle. [REDACTED] came first with [30-40]%. The next largest competitor was [REDACTED] with [10-20]%.
74. The CMA found that CRC's best price guarantee<sup>31</sup> has been invoked most frequently against [REDACTED] products ([40-50]% of all price match requests) followed by [REDACTED] ([20-30]%), [REDACTED] ([10-20]%), [REDACTED] ([10-20]%) and [REDACTED] ([0-5]%). However, the CMA noted that this price match was invoked relatively infrequently ([REDACTED]).
75. The CMA also noted an internal econometric analysis by CRC which [REDACTED]. The document states that [REDACTED].
76. However, the CMA also noted various customer web forum comments which indicated that many customers consider other retailers, in particular foreign retailers such as Bike Discount, an alternative to the Parties for Components.
77. On the basis of this evidence, the CMA believes that the Parties are one of each other's closest competitors for Components. The Merger therefore raises prima facie competition concerns and the CMA has then assessed the extent to which sufficient competitive constraints exists to prevent the Parties from raising price or lowering or reducing quality, range or service.

#### *Competitive constraints*

78. This section sets out the competitive constraints (in other words, rival competitors) that constrain each of Wiggle and CRC in the online retailing of Components in the UK. It assesses the evidence relating to their relative competitive strength.

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<sup>31</sup> CRC's 'Best Price Guarantee' entails that CRC agrees to refund the difference in price of any of its products which are offered for sale at a lower price by certain UK competitors (Halfords, Wiggle, Ribble, Evans and Merlin). [REDACTED].

- *Parties' views*

79. The Parties submitted that they are constrained by a range of competitors. They also submitted that the market is characterised by complete price transparency, facilitated by commonly-used online search tools, and very limited price discrimination between customers. In addition they said that there was little supplier exclusivity, meaning that competitors can change their stock profile easily. The Parties added that, as switching between retailers was easy, there was very limited retailer brand loyalty. The Parties submitted that, for all these reasons, the conditions of competition in the online supply of Components will mean that they will continue to face a sufficient constraint from several competitors post-Merger.
80. The Parties submitted a recent Google shopping price comparison for CRC's top 20 Components, which account for [20-30]% of its revenue from Components. This indicated that Wiggle offered the lowest price for seven products, with Probikekit, Evans and Mantel being among the competitors offering the lowest prices with regard to the other thirteen products. The CMA notes that, for five of the seven products where Wiggle was cheapest, the next lowest competitor was within a 3% price range, indicating close price competition across a wider competitor set.
81. The Parties also submitted an economic analysis of CRC's pricing data showing that pricing is dynamic. At the beginning of the six month period in the study, Wiggle was lowest priced against more CRC products than any other retailer, but other competitors took over the lowest price position at some point in the period for [50-60]% of those products (sales weighted). The data also shows that there are several competitors with significant SKU range overlaps with CRC that price lower than CRC, including [X], Wiggle, [X],[X]and [X].
82. Wiggle said that [X] is a strong competitor on price in Components. It undertook a study of its sales of all products under its two largest Components brands in a four week period. It found that [X] was its single cheapest competitor for products which represent [20-30]% of its [X]sales and [50-60]% of its [X] sales.<sup>32</sup>
83. Wiggle also submitted in relation to range that there are several competitors with wide product ranges, for example Amazon, BikeDiscount, Evans, Bike24

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<sup>32</sup> Wiggle submitted that these two brands constitute a large part of its Components sales ([X] [30-40]% and [X] [10-20]).

and Tredz and submitted that BikeDiscount and Amazon had larger ranges on their website than either of the Parties.

- *Third party views*

84. Responses from third parties to the CMA's merger investigation indicated that there were several competitors which supply Component products online, some with broad product ranges. Many of these competitors are tracked by the Parties.<sup>33</sup> Competitors also said that there is clear price transparency between online retailers of these products, facilitated by common online search tools.

85. Suppliers and competitors confirmed that there is little supplier exclusivity for Components products, meaning that retailers can change their stock profile easily.

- *Assessment of competitors*

86. Wiggle's price tracking and stock matching data indicates that its closest online competitors for Components are [redacted], CRC, [redacted] and [redacted] (see paragraph 71).

87. CRC's price tracking, stock matching and price matching data indicates that its closest competitors for Components are Wiggle, [redacted],[redacted],[redacted] and [redacted] (see paragraphs 72 to 74).

88. One competitor which responded to the CMA's merger investigation indicated that brand loyalty may be a problem when trying to win customers from the Parties. However, the Parties submitted a recent study, which showed that, on average, [redacted], indicating that brand loyalty is not strong.

89. Two multi-channel rivals which responded to the CMA's investigation indicated that there would be significant investments required to broaden their online product range, setting up a website comparable to that of the Parties and costs of advertising online, eg on adwords. Set against this evidence, three online-only competitors said that they did not consider that they would face any financial difficulty in expanding their services including their product range and serving greater numbers of customers if the Parties were to raise prices.

90. The CMA also noted that some of the Parties' online rivals have recently received private equity investment, and that the largest multichannel retailer,

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<sup>33</sup> Wiggles tracks: [redacted] and [redacted]. CRC tracks [redacted].

Halfords, had recently bought a smaller online retailer Tredz, in order to increase its online presence. This evidence suggests that the Parties' online rivals are seeking to grow, indicating strong competition between them.

- *CMA views on competitive constraints*

91. The CMA noted that the Parties face competition from a few large competitors and a long tail of small competitors online, including both online-only competitors and multi-channel competitors. The CMA noted that most of these competitors (i) have been supplying for several years, with established relationships with suppliers, (ii) offer extensive ranges of Components and (iii) face few barriers to growing their sales.
92. The CMA also noted that the online supply of Components is characterised by certain features which support the ability of existing online rivals to constrain the Merging parties including (i) price transparency, where search engines facilitate easy price searches (although the CMA notes that there can be limitations including costs of adwords and high positioning on search results pages, (ii) limited price discrimination between customers given that the same price is offered to all customers online; and (iii) the lack of supplier exclusivity in this market. To the extent that there is any exclusivity, the CMA notes that it is more apparent for online suppliers with an offline presence. In other words, the Parties do not benefit from such exclusivity generally.
93. Given the ease of consumer switching and retailers' focus on price, and the Parties evidence of substantial multi-sourcing by consumers, the CMA noted that there also appeared to be limited retailer brand loyalty.

*Conclusion in relation to the online retail supply of Components in the UK*

94. On the basis of the evidence that Wiggle and CRC compete with several other large online retailers, and many other small online retailers, for the supply of Components, and that these suppliers would be readily able to respond in the event of a post-Merger price increase to attract consumers, the CMA believes that the Merger will not give rise to a realistic prospect of an SLC in relation to the online retail supply of Components in the UK.

*Online retail supply of Accessories and GMG in the UK*

95. The CMA assessed the Parties' internal documents and third party comments with regard to Accessories and GMG and found that the Parties having a relatively weaker position in the online retail supply of Accessories than in Components, and an even weaker position in GMG.

96. The CMA estimates that the Parties have a combined share of supply of approximately 35-40% in the UK online retail supply of Accessories (again noting that this is likely to overestimate given uncertainty over market size), with a combined turnover of around £[redacted] million. The next largest competitor by turnover has an estimated share of [10-20%].
97. The CMA estimates that the Parties have a combined share of supply of approximately 40-50% in the UK online retail supply of GMG, with the next largest competitor having an estimated share of [20-30%]. However, the CMA noted that this is likely to significantly overstate the Parties' share of online supply since (i) there are numerous other general sports retailers and OEM manufacturers which are also active in the retail supply of GMG and not included in these estimates; and (ii) certain suppliers were only able to provide meaningful estimates for a much narrower definition of GMG than applied for the Parties. For these reasons, the CMA put no weight on its market share estimates for GMG.
98. A time series of Wiggle's price tracking showed that the Parties are close competitors in Accessories when considering prices and stock matching together. However, there are several other competitors ([redacted] and [redacted]) which price closely to Wiggle, with [redacted] being the closest competitor to Wiggle with regard to pricing. Wiggle's price tracking data also showed several close competitors in relation to GMG.
99. CRC's price tracking data indicated that Wiggle is most frequently the cheapest tracked retailer weighted by sales ([20-30]%) for Accessories, but this suggests that other retailers [redacted] are cheaper for [70-80]% of tracked products. In terms of the proportion of items price matched by CRC, Wiggle came only third out of [redacted] competitors tracked (with [10-20]% of Accessories products matched being against Wiggle). [redacted] came first with [20-30]% of products matched.
100. The Parties submitted an economic analysis of CRC's pricing data showing that pricing is dynamic. At the beginning of the six month period, Wiggle was lowest priced against more CRC Accessories products than any other retailer, but other competitors took over the lowest price position at some point in the period for [70-80]% of those products (sales weighted).
101. The Parties also offered snapshot data and showed that, according to a Google shopping price comparison for CRC's top 20 Accessories, which account for [40-50]% of its Accessories revenues, Wiggle offered the lowest price on only four of the top 20 products. Other competitors offering the lowest prices included SigmaSport and Freestylextreme.

102. Wiggle also submitted that [X] and [X] were the biggest drivers on price. Wiggle submitted that [X] was its highest selling Accessories brand and said that these three retailers were the cheapest competitor in respectively [20-30]%, [10-20]% and [10-20]% of Wiggle's [X] sales in a four week period. Wiggle said that [X] and [X] are pricing competitively across the top 20 products of this brand, and added that [X] prices competitively with regard to the most sought-after products.<sup>34</sup>
103. The CMA found that, due to the high numbers of non-bike specialist retailers selling GMG products, the Parties faced significant online competition for the retail supply of these products.
104. The CMA also noted that the market characteristics which apply to the online retail of Components also apply to the online retail of Accessories and GMG, and there is a similar potential for competitors to expand.
105. On the basis of this evidence, the CMA believes that the Merger will not give rise to a realistic prospect of an SLC in relation to the online retail supply of either Accessories or GMG in the UK.

#### *Conclusion on horizontal unilateral effects*

106. As set out above, the CMA believes that the Parties are one of each other's closest competitors in the UK online retail supply of Components and also compete in relation to Bikes, Accessories and GMG. However, the CMA's investigation has found, for the reasons given above, that the Parties will face constraints from a range of online rivals in each of Components, Bikes, Accessories and GMG who will sufficiently constrain the Parties' PQRS (price quality, range and service) offer post-Merger. The CMA also notes that in each of these product markets that there are certain characteristics which serve to support this competitive constraint including a degree of price transparency, limited price discrimination and supplier exclusivity.
107. Overall, the CMA believes that, in each frame of reference, the constraints from competitors, taken together, are sufficient to ensure that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects.

#### **Vertical effects**

108. Vertical effects may arise when a merger involves firms at different levels of the supply chain, for example a merger between an upstream supplier and a

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<sup>34</sup> Wiggle submitted that this [X] ([30-40]%).

downstream customer, or a downstream competitor of the supplier's customers. The CMA considered whether competition concerns relating to vertical effects would arise as a result of the Merger.

109. In terms of input foreclosure, the CMA found that the combined entity would not have the ability and incentive to foreclose other retailers through its wholesale affiliates, in particular in light of the presence of a wide range of alternative brands and upstream wholesalers, and CRC's small position in distribution. In terms of customer foreclosure, the CMA found that the combined entity would not have the ability and incentive to foreclose other distributors as there are sufficient alternative retailers and wholesalers who supply their products on a non-exclusive basis.

### ***Barriers to entry and expansion***

110. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC.<sup>35</sup>
111. In this case, the CMA has incorporated its consideration of barriers to entry and expansion within its competitive assessment (see paragraphs 89-90).

### **Third party views**

112. In the period 10 May to 18 May 2016, an invitation to comment on the Merger was brought to the attention of customers of the Parties by way of a signpost in the 'order dispatched' e-mails sent to customers who bought items from either Party. According to the Parties, the signpost was sent to more than [X] customers. A large number of customers responded, all of whom expressed some concern about the Merger. Many of these customers told the CMA that the Parties had driven down prices, undercutting traditional shops, and offered a wide range of products which other competitors do not supply. Some said that prices would rise following the Merger.
113. The CMA also contacted competitors and suppliers of the Parties, many of which responded. Most suppliers did not raise concerns with the Merger, though some said that the Parties could circumvent the wholesale level and contract with manufacturers directly. Most competitors were concerned about the Merger, mentioning the increased buyer power of the Parties. However, in relation to efficient disintermediation and increased buyer power, the CMA generally regards such issues as pro-competitive, since they can be expected

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<sup>35</sup> [Merger Assessment Guidelines](#), from paragraph 5.8.1.



to lead to lower prices to end customers, provided sufficient competition remains in the market.

114. Third party comments have been taken into account where appropriate in the competitive assessment above.

## **Decision**

115. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the UK.

116. The Merger will therefore **not be referred** under section 33(1) of the Act.

**Sheldon Mills**  
**Senior Director**  
**Competition and Markets Authority**  
**30 June 2016**