

# Completed acquisition by Cardtronics plc of DirectCash Payments Inc.

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

**ME/6648/16**

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 3 May 2017. Full text of the decision published on 7 June 2017.

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.

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### SUMMARY

1. On 6 January, Cardtronics plc (**Cardtronics**) acquired DirectCash Payments Inc. (**DCP**) (the **Merger**). Cardtronics and DCP are together referred to as the **Parties**.

2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that the Parties' enterprises have ceased to be distinct and that the share of supply test is met. The four-month period for a decision has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
3. The Parties overlap in: (i) the supply of automated teller machines (**ATMs**) to site owners (Cardtronics and DCP deploy approximately 16,000 and 6,000 ATMs in the UK, respectively); and (ii) the supply of ATM services to ATM users/consumers (referred to as the supply of ATMs to ATM users in this decision). Each of these overlaps are dealt with in turn below.

#### *Site owners*

4. The CMA found that, for site owners, there is limited demand-side substitution between: (i) free-to-use (**FTU**) and pay-to-use (**PTU**) ATMs; (ii) through-the-wall (**TTW**) and internal ATMs; and (iii) merchant refill and full placement service models. However, the CMA found that most independent ATM deployers (**IADs**) supply all of these ATM variations. The CMA therefore did not segment the product frame of reference further according to these ATM characteristics. However, the CMA found that different competitors may have different business models focusing on one type of ATM and/or service model, and therefore competing more weakly with respect to the other. The CMA has taken into account any differentiation between the Parties' and their rivals' ATM and service model offerings in the competitive assessment.
5. The CMA found that banks and building societies (**BBSs**) typically only target specific large corporate customers (ie supermarkets, transport hubs), whereas only IADs are set up to supply ATMs to small non-corporate customers. Therefore, the CMA considered whether it may be appropriate to segment the relevant product frame of reference into the following customer segments, based on the competitor set serving them:
  - (a) BBSs' branch ATM estates;
  - (b) site owners for which the competitor set would only include IADs, as BBSs would not compete for these customers (**IAD Dependent Customers**); and
  - (c) premium large multi-site customers, limited to large supermarket chains, and sites with particularly high footfall, such as major transport hubs and some shopping centres, for which the competitor set would include IADs and a limited number of BBSs (**Premium FTU Customers**).

6. The evidence collected by the CMA suggests that there is a continuum of customers and it is therefore not clear where exactly to draw the line between the IAD Dependent and Premium FTU customer segments. Therefore, the CMA did not segment within the product frame of reference. However, the CMA took into account the differing competitive constraint offered by the Parties and their rivals, and the extent to which different ATM deployers may compete more or less for different customers, in the competitive assessment.
7. The CMA found that, although ATMs supplied to site owners are deployed on a local basis, the IAD competitor set remains the same as at the national level, with no significant variation in the Parties' and their competitors' shares of supply across different regions of the UK. The CMA has not identified any geographic restrictions in relation to where a deployer can locate an ATM, subject to site availability at a local level. The CMA therefore assessed the impact of the Merger on the supply of ATMs to site owners in the UK (taking into account the extent to which different ATM deployers may compete more or less for IAD Dependent Customers and Premium FTU Customers).
8. With respect to IAD Dependent Customers, the CMA found that, even though the Parties compete with each other, they are not each other's closest competitors. The bidding data showed that: (i) Cardtronics and DCP bid for different customer types; (ii) the frequency with which both Parties participate in a tender process is relatively low; and (iii) when both Parties do participate they are effectively constrained by other rivals, in particular NoteMachine, which win these contracts. This was also supported by customer switching data, evidence from internal documents, as well as third party views on closeness of competition.
9. The CMA found that NoteMachine UK Limited (**NoteMachine**) is the closest competitor to Cardtronics, and that DCP is competing equally closely with Cardtronics and YourCash Ltd (**YourCash**), and, to a lesser extent, with PayPoint plc (**PayPoint**). The CMA found that there will remain sufficient competitors to effectively constrain the merged entity post-Merger in the supply of ATMs to IAD Dependent Customers. Accordingly, the CMA found 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 in relation to the supply of ATMs to IAD Dependent Customers in the UK.
10. With respect to Premium FTU Customers, the CMA found that the Parties' combined share of supply of ATMs to Premium FTU Customers in the UK is not high enough to raise *prima facie* competition concerns, and the increment arising from the Merger is negligible. This is because the CMA found that two BBSs (RBS and Barclays) also compete effectively for Premium FTU customers. The CMA found that even though the Parties compete with each

other, they are not each other's closest competitors with respect to the supply of ATMs to Premium FTU Customers in the UK, and that there will remain sufficient competitors post-Merger to effectively constrain the merged entity. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of ATMs to Premium FTU Customers in the UK.

#### *ATM users*

11. The CMA found that, once it has been agreed with a site owner to locate the deployer's ATM at that site, the ATM deployer will choose, together with the site owner, whether the ATM at that site will be FTU or PTU. This is typically based on the number of transactions expected at that ATM, as FTU ATMs need to generate a high number of transactions to be profitable for the deployer and attractive for the site owner, whereas PTU ATMs are sustainable at far lower levels of transactions.
12. If it is decided that the ATM will be PTU, then the deployer and the site owner will agree what the surcharge fee will be. The level of surcharge is based, in part, on the location and proximity of other ATMs in the vicinity, and also on the cost of any surcharge on those nearby rival ATMs. Therefore, price is set locally and depending on local competitive conditions. As such, once an ATM deployer has agreed with a site owner to establish an ATM in a particular location, ATM deployers then compete with each other to win ATM users' custom through the level of surcharge set.
13. The CMA assessed the impact of the Merger on the supply of ATMs to ATM users on a local basis. The CMA used Cardtronics' submission and internal guidance (stating 0.2 mile and 500 metres as distances within which a PTU ATM would constrain a FTU ATM) as an appropriate starting point for the assessment. However, the evidence collected by the CMA was mixed and the Parties and their Business Development Managers (**BDMs**) explained that the distance within which ATMs compete is area-specific. Therefore, the CMA has taken a cautious approach by looking at alternative local geographic frames of reference, by flexing the area considered in order to identify whether there are local overlaps in which there may be competition concerns.
14. The CMA assessed whether, in certain local areas, the Merger could lead to a change in the incentives of the Parties, in alignment with site owners, which would then lead to: (i) reduced availability of FTU ATMs (through conversion of FTU ATMs into PTU ATMs, ie an increase in price for cash withdrawals); and/or (ii) increased surcharge fees on existing PTU ATMs.

### *Conversion of FTU ATMs into PTU*

15. Prior to the Merger, DCP may have chosen, with a site owner, for an ATM at a particular site to be FTU, in part, due to the presence of a Cardtronics' FTU ATM nearby. However, in the absence of the constraint from the Cardtronics' site, DCP (and the site owner) may find it profitable to convert an existing ATM from FTU to PTU in order to earn higher ATM revenues. Indeed, it is plausible that the Parties could choose, with the agreement of the site owner and depending on local competitive conditions, to convert both the DCP and Cardtronics ATMs from FTU to PTU in order to capture higher revenues per transaction.
16. Based on terms specified in the Parties' contracts with site owners (which generally only allow conversion from a FTU ATM into PTU ATM when a FTU ATM becomes economically unviable), as well as third party submissions, evidence from interviews conducted with each of Cardtronics' and DCP's BDMs and conversion data provided by the Parties, the CMA found that the Parties would have a limited ability to convert their FTU ATMs into PTU ATMs at their discretion. In addition, site owners (such as a convenience store) would be unlikely to agree to such conversion due to the potential reduction in footfall to their site and it would be costly, and likely unprofitable, to compensate a site owner sufficiently to agree to a conversion. The CMA therefore does not believe that the Merger gives rise to a realistic prospect of an SLC in the supply of ATMs to ATM users on a local basis through the reduced availability of FTU ATMs (through conversion of FTU ATMs into PTU ATMs).

### *Increase in surcharge fees for PTU ATMs*

17. In relation to the Parties' ATMs which are already PTU, the Merger may change the incentives of the Parties in relation to the surcharge fee they set. For example, the surcharge fee of a DCP ATM in a particular area may be constrained pre-Merger by the surcharge fee charged on a nearby Cardtronics' ATM. However, following the Merger, a surcharge fee increase may be profitable because the Parties would recapture the transaction revenues of those ATM users switching to the Cardtronics ATM, as well as earning higher revenues per transaction for those ATM users who continue to use the DCP ATM. Indeed, depending on the local competitive conditions, it may be profitable post-Merger for the Parties to increase the surcharge fee at both the DCP and Cardtronics ATMs.
18. Based on terms specified in the Parties' contracts with site owners (which may allow for site owners to retain a share of the increment of the increased surcharge fee and thereby be compensated for any loss of revenue or footfall

following a surcharge increase), as well as third party submissions, evidence from interviews conducted with each of Cardtronics' and DCP's BDMs and internal documents provided by the Parties, the CMA concluded that the Parties have the ability to increase surcharge fees on existing PTU ATMs post-Merger and that the incentives of site owners are likely to be aligned with those of the Parties. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC in the supply of ATMs to ATM users on a local basis through increased surcharge fees.

19. The CMA found that the lack of suitable sites (ie the market being close to saturation) and significant up-front costs of installing a new ATM constitute barriers to entry and expansion in the deployment of ATMs in local areas of potential concerns. The CMA therefore concluded that entry and/or expansion by third parties cannot be considered to be timely, likely and sufficient to mitigate the adverse effects of the Merger on competition.
20. The Parties proposed a number of rules and sensitivities to filter out local overlapping areas where concerns are unlikely to arise. The CMA applied rules and sensitivities based on the evidence collected. The CMA found that the Merger gives rise to the realistic prospect of an SLC in 848 local areas.
21. Having found a realistic prospect of an SLC in relation to the supply of ATMs to ATM users on a local basis (through increased surcharge fees on existing PTU ATMs), the CMA is considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). Cardtronics has until 10 May 2017 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 22(1) and 34ZA(2) of the Act.

## **ASSESSMENT**

### **Parties**

22. Cardtronics is a fully integrated ATM deployer, offering all related ATM services (eg maintenance, transaction processing, reporting and settlement), and trading under the brand names Cashzone and Bankmachine in the United Kingdom (**UK**). The ultimate parent company of Cardtronics is Cardtronics plc – a UK domiciled public limited company with operations in the US, Puerto Rico, Germany, UK, Poland, Canada and Mexico. The turnover of Cardtronics in 2016 was around £980 million worldwide and around £[~~9~~] in the UK.
23. DCP is a Canadian listed company with operations in Canada, Australia, New Zealand, the UK and Mexico. In the UK, DCP's operations consist primarily of the deployment of ATMs. The bulk of its ATM deployment operations resulted

from DCP's acquisition of InfoCash in 2012. DCP is trading under the DCP brand name in the UK, although its ATMs are branded DCATM and all marketing is under DCPayments. The turnover of DCP in 2016 was around £167 million worldwide and around £[X] in the UK.

## **Transaction**

24. On 6 January 2017, Cardtronics acquired DCP.

## **Jurisdiction**

25. As a result of the Merger, the enterprises of Cardtronics and DCP have ceased to be distinct.
26. The Parties overlap in the supply of ATMs. The Parties submitted that their combined share of supply by number of ATMs deployed (considering IADs only) is [50-60]% (increment [10-20]%). The CMA therefore believes that the share of supply test in section 23 of the Act is met.
27. The Merger completed on 6 January 2017 and the CMA was informed about it on the same day. The four month deadline for a decision under section 24 of the Act is 6 May 2017.
28. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
29. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 6 March 2017 and the statutory 40 working day deadline for a decision is therefore 3 May 2017.

## **Counterfactual**

30. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For completed mergers the CMA generally adopts the pre-merger 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>1</sup>

31. In this case, there is 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 pre-Merger conditions of competition to be the relevant counterfactual.

## Nature of competition

32. Nearly every ATM in the UK is connected to the LINK platform,<sup>2</sup> which enables BBSs (ie card issuers) to offer their customers access to cash across the whole of the UK, regardless of the deployer of a particular ATM (ie the card acquirer). All of the UK's main card issuers are LINK members.
33. The Parties submitted that there are two types of cash withdrawals:
- (a) 'on-us': withdrawals from ATMs that are deployed by a BBS holding the user's account (eg when a card issued by Lloyds Bank plc (**Lloyds**) is used on a Lloyds' ATM). These transactions are not processed through a third party payment network such as LINK; and
  - (b) 'not-on-us': withdrawals from ATMs, where a card used in the transaction is issued by a BBS which is not a deployer of the ATM used (eg when card issued by Lloyds is used on a Cardtronics' ATM). These transactions go through one of the payment networks, typically, LINK.
34. The Parties submitted that when an ATM is used for a 'not-on-us' cash withdrawal, a deployer of that ATM earns a transaction fee in the form of:
- (a) a consumer surcharge (if the ATM is PTU); or
  - (b) a per transaction interchange fee paid by the issuer of the user's card (if the ATM is FTU).
35. The Parties submitted that, on FTU ATMs, the interchange fee is set by LINK and is £0.289 for withdrawals and £0.187 for balance enquiries and declined transactions (deployers receive an additional £0.10 on withdrawals at Financial Inclusion<sup>3</sup> sites), whereas on PTU ATMs a consumer surcharge

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<sup>1</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).

<sup>2</sup> <http://www.link.co.uk/>.

<sup>3</sup> LINK's *Financial Inclusion Programme* started in 2006. It supports the installation of FTU ATMs in target areas previously without FTU ATMs.



typically ranges from £1 to £2. Given the lower per transaction revenue for an FTU ATM, the number of transactions required to make an FTU ATM profitable for both the deployer and a site owner is higher than for a PTU ATM.

36. The CMA found that there are two stages of competition between ATM deployers:
- (a) first, ATM deployers compete to secure and retain sites for their ATMs (**competition for site owners**). Site owners are typically retailers (eg supermarkets, convenience stores, pubs, etc). Deployers compete mainly on the contract terms ATM deployers offer a site owner, ie the share of transaction fees offered to a site owner as a percentage of the interchange fee or surcharge fee and/or fixed up-front or monthly payments); and
  - (b) second, after an ATM is deployed, ATM deployers and site owners compete for ATM users (**competition for ATM users**). The main competitive factor at this stage is the price, including (i) whether it is a FTU or a PTU ATM; and (ii) the surcharge fee.

#### *Competition for site owners*

37. The Parties submitted that hosting an ATM benefits site owners by:
- (a) generating additional income;
  - (b) enabling them to recycle cash (where the merchant refill model<sup>4</sup> is employed);
  - (c) attracting customers to their site; and/or
  - (d) facilitating payment for their goods and/or services.
38. From an ATM deployer's perspective, each deployed ATM is a source of revenue. Therefore, competition between ATM deployers is primarily focused on securing sites to deploy ATMs and retaining those sites at the end of the contract term.<sup>5</sup> The main parameters of competition for winning site owners' business are set out in the contract terms, and include the share of transaction fees offered to a site owner as a percentage of the interchange fees or surcharge fees and/or fixed up-front or monthly payments (these are

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<sup>4</sup> See footnote 11.

<sup>5</sup> The Parties submitted that, for large/medium site owners (eg supermarkets or convenience store chains), the typical contract length is 3-4 years, whilst small independent site owners (eg social site owners) typically agree terms of 3-6 years.

referred to as ‘commissions’ in this decision). Service quality factors, such as seamless service offering and support in maintaining the ATM, may also be considered by a site owner. For example, some competitors submitted that poor service may be a reason for switching, and this was supported by some site owners who noted that their reason for switching was poor service.

39. ATM deployers compete for the site owners either through participating in tenders or through bilateral negotiations. The Parties submitted that site owners who issue tenders typically want deployers to meet high minimum quality standards (including support and maintenance standards). The Parties submitted that all deployers can meet these standards and, thus, compete primarily on commissions.
40. The evidence collected by the CMA indicates that smaller site owners (eg single-site owners and small multi-site owners, which are typically independent convenience stores) are more likely to contact several deployers to ask for a quote rather than issue a tender. IADs also directly approach smaller site owners themselves.

#### *Competition for ATM users*

41. BDMs<sup>6</sup> on behalf of each Party explained that the revenue received from a particular ATM is directly related to the number of transactions (cash withdrawals) on that ATM (see paragraph 34). Site owners and deployers share the revenue received (ie site owners receive a share of transaction fees and/or receive fixed up-front or monthly payments). Therefore, both site owners and ATM deployers are incentivised to attract ATM users.
42. The evidence collected by the CMA indicates that, from an ATM user’s perspective, the nature of the service received from an ATM is commoditised, ie withdrawal of cash. For example, one competitor submitted that ATM users are not loyal to a particular brand of ATM deployer and that whilst an ATM’s functionality (eg provision of alternative services such as bank statements or the possibility to deposit cash) might be important to some extent, and to some ATM users, it is not a significant factor in competition for ATM users.
43. The Parties’ respective BDMs told the CMA that an ATM user’s choice of ATM depends on its location (mainly whether it is on the ATM user’s usual route, or particularly convenient at that point in time) and whether the ATM charges a fee. Therefore, ATM deployers will initially compete for sites at which site owners will accept ATMs and which are likely to generate high levels of

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<sup>6</sup> The CMA held interviews with Cardtronics’ and DCP’s BDMs – employees who are involved in day-to-day contact with customers and have responsibilities for specific postcode areas.

transactions. The Parties' BDMs explained that, given an ATM's location, ATM users are chiefly concerned with: (i) whether an ATM is FTU or PTU; and, if it is PTU, (ii) the amount of the surcharge fee.

44. The Parties' BDMs further explained that ATM users have a strong preference for not paying for their cash withdrawals and may therefore travel some distance to reach a FTU ATM or a PTU ATM with a lower surcharge fee. However, willingness to travel depends on: (i) the distance and relative cost; (ii) whether there are any obstacles on the way (eg busy road); (iii) awareness of other ATMs in the area; and (iv) whether the site is enclosed.<sup>7</sup>
45. The preferences of site owners will often determine whether an ATM is FTU or PTU.<sup>8</sup> The local competitive conditions, and in particular the proximity of other FTU and PTU ATMs (as well as their surcharge fees), may influence the type of the ATM (ie whether it is PTU or FTU) and the surcharge fee set at a particular site. The type of ATM and the surcharge fee may be adjusted during the contract in order to influence the number of withdrawals and, therefore, the revenue received from that ATM. These changes may be a result of biting performance requirements set out in contracts between deployers and site owners, or a reaction to a change in the competitive environment. Taking each in turn: (i) contracts may specify the number of transactions below which the ATM may be converted from FTU to PTU in order to ensure it remains economically viable; and (ii) an ATM deployer and/or site owner may react to another ATM being deployed in a local area by reducing the surcharge fee or converting a PTU ATM into FTU in order to continue to attract ATM users.<sup>9</sup> Therefore, once ATM deployers have established their ATMs at attractive sites, they will compete for ATM users by choosing whether to charge a fee or not, and what fee to charge, based on local conditions and how that ATM performs over time.

## Frame of reference

46. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. 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 within the

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<sup>7</sup> Some competitors submitted that PTU ATMs are more likely to be located in enclosed locations (eg casinos, gentlemen's clubs), where the competition for ATM users might be limited as, at that moment, ATM users do not have any incentives to travel and are captive audience.

<sup>8</sup> See paragraphs 154-155.

<sup>9</sup> Evidence from the interviews with Cardtronics' and DCP's BDMs.

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>10</sup>

47. The Parties overlap in (i) the supply of ATMs to site owners; and (ii) the supply of ATM services to ATM users.

### **Product scope**

#### *Supply of ATMs to site owners*

48. The Parties submitted that the appropriate product frame of reference for the purposes of the assessment of the Merger is the deployment of ATMs. The Parties submitted that, within the ATM deployment market, there could be a number of hypothetical segments (see Table 1 below). However, the Parties submitted that they do not consider it appropriate to assess the impact of the Merger by reference to these segments, not least due to the high degree of supply-side substitutability between them.

**Table 1 Potential segmentation of the ATM deployment market**

<b>Means of segmenting the ATM deployment market</b>	<b>Segments</b>	
<b>Whether consumers are charged</b>	FTU ATMs	PTU ATMs
<b>Merchant market / self supply</b>	IADs and BBSs supplying third parties	BBSs' self-supply
<b>Identity of deployer</b>	IADs	BBSs
<b>Destination of ATMs</b>	Multiple segments according to Payments UK: BBS branches; post offices; supermarkets and other retail; social and leisure; motoring and transport; services, workplace and mobile. These segments could be further segmented according to the LINK data into the following destination types: BBS branches; post offices; supermarkets; convenience; other retail; social; leisure; motoring; transport; services; workplace; and mobile.	
<b>Size of site owner</b>	Large (multiple sites)	Small / Independent
<b>Service model</b>	Processing / merchant refill	Full placement / cash in transit

Source: the Parties

49. The CMA assessed whether segmentation between (i) FTU and PTU ATMs; (ii) TTW and internal ATMs; and/or (iii) merchant refill<sup>11</sup> and full placement<sup>12</sup> service models is appropriate.

<sup>10</sup> [Merger Assessment Guidelines](#), paragraph 5.2.2.

<sup>11</sup> Where deployers provide processing services (including the provision of maintenance and service support) for an ATM maintained and cash loaded by the site owner or a third party.

<sup>12</sup> Where deployers own, maintain and load cash for site owners.

50. The evidence collected by the CMA indicates that from a site owner's perspective, there is limited substitution between: (i) FTU and PTU ATMs; (ii) TTW and internal ATMs; and (iii) merchant refill and full placement service models. In particular:
- (a) with respect to FTU and PTU ATMs, the CMA found that FTU ATMs are only economically viable when transaction numbers are above a certain level and, therefore, FTU ATMs may not be suited to lower footfall locations. In such situations, a site owner would not be able to switch from a PTU to a FTU ATM. In addition, certain customers would only consider a particular type of ATM; for example, typically large multi-site supermarket customers would only consider FTU ATMs;
  - (b) with respect to TTW and internal ATMs, the CMA found that the choice is made primarily by a site owner and is largely determined by the extent to which there is passing trade and the physical features of the site, ie whether there is an appropriate space to fit in a TTW ATM, or whether only an internal (standalone) ATM is feasible;<sup>13</sup> and
  - (c) with respect to merchant refill and full placement service models, the CMA found that the former service model is only economically viable when a site owner's business generates enough turnover in order to keep an ATM loaded with cash, while the latter service model is only viable if the ATM generates enough transactions (in terms of number of withdrawals) to cover higher maintenance costs from the deployer's perspective.
51. While the boundaries of the relevant product market are generally determined by reference to demand-side substitution, the CMA may widen the scope of the market where there is evidence of supply-side substitution.<sup>14</sup>
52. The evidence collected by the CMA<sup>15</sup> indicates that all or most IADs<sup>16</sup> do or could supply all of: (i) FTU and PTU ATMs; (ii) TTW and internal ATMs; and (iii) merchant refill and full placement service models.<sup>17</sup> Therefore, as a result of this supply-side substitutability, the CMA has not segmented between: (i) FTU and PTU ATMs; (ii) TTW and internal ATMs; or (iii) merchant refill and full placement service models, and has considered them within the same product frame of reference. The CMA notes, however, that different competitors may focus on one type of ATM and/or service model, and

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<sup>13</sup> TTW ATMs tend to require work to the façade of the building, which may be costly. However, as it faces the street, it may gain use by passers-by.

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

<sup>15</sup> For example, actual multiple strand deployment (eg LINK data), as well as competitor responses.

<sup>16</sup> Unless specified otherwise, the CMA refers to Cardtronics, NoteMachine, DCP, YourCash and PayPoint as 'IADs' in this decision. Other ATM deployers that are not BBSs are referred to as 'other IADs'.

<sup>17</sup> For example, by outsourcing installation, maintenance and/or cash refill services to third party suppliers.

therefore compete more weakly with respect to the other. For example, an IAD which does not have cash-in-transit services in-house may compete less effectively for site owners requiring a full placement service model as a result of needing to outsource these services. The CMA has taken into account any differentiation between the Parties' and their rivals' ATM and service model offerings where appropriate in the competitive assessment.

### *Customer segmentation*

53. The Parties submitted that there are no legal, commercial or technical restrictions preventing any deployer, including BBSs, from deploying ATMs at sites. On the other hand, the Parties submitted that BBSs appear to have a slightly different business model to IADs and may only target certain customers which demand FTU ATMs at high footfall locations. Furthermore, the Parties explained that, whilst all IADs are generally looking to deploy ATMs, BBSs are reducing costs by generally deploying fewer new ATMs (including closing branches and removing off-site ATMs) and focussing on high footfall locations. The Parties also submitted that BBSs tend to deploy only a limited number of ATMs at destinations other than branches, supermarkets and transport locations, but suggested that there is no technical reason why they cannot change this approach.
54. Based on the evidence it has gathered from third parties, the CMA understands that only IADs are set up to supply ATMs to small non-corporate customers or customers with low numbers of transactions on their ATMs,<sup>18</sup> whereas BBSs typically only target specific larger corporate customers requiring FTU ATMs. This suggests that customer segmentation, based on the competitor set serving different customers, may be appropriate. The CMA sets out this evidence below.
55. Third parties indicated that the business models between IADs and BBSs are differentiated, and therefore segmentation may be appropriate. The evidence collected by the CMA indicates that only two large BBSs (ie RBS and Barclays) compete for site owners located at off-branch locations, and only for certain types of customers situated in high footfall locations, such as transport hubs, large multi-site supermarkets (see paragraph 146) and possibly shopping malls. There is a small number of other ATM deployers (eg Travelex, Raphaels Bank) which target particular (small) niches in ATM

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<sup>18</sup> For example, site owners with PTU ATMs receive a relatively low number of transactions on their machines. On average, a PTU ATM generates 9 transactions per day, while a FTU ATM generates between 84 (deployed by an IAD) and 184 (deployed by a BBS) transactions per day (*UK Cash and Cash Machines*, Payments UK, 2016).

deployment [✂]. Another BBS – Bank of Ireland (**BoI**) – has mainly competed for a single customer (the Post Office).<sup>19</sup>

56. Third party evidence shows that the remaining BBSs (ie other than RBS and Barclays) do not have an interest in deploying ATMs at off-branch locations. For example:
- (a) one IAD submitted that banks have not installed a single off-branch ATM in the last 12 months;
  - (b) three BBSs submitted that they would not compete for the deployment of ATMs at other sites since they only deploy ATMs in their own premises; and
  - (c) five BBSs submitted that they either have no intentions or have limited plans in expanding their current ATM fleet in the next 2 years.
57. Differences in the business models of IADs and BBSs were also reflected in third party views on the closeness of competition between the Parties and BBSs. The majority of customers submitted that, in their view, Cardtronics and DCP do not compete closely or do not compete at all with BBSs (regardless of the size of BBSs). The majority of competitors submitted that BBSs and IADs do not compete strongly, in particular because banks are selling off their remote ATM estates to IADs.
58. On the basis of the above evidence, given the lack of interest from BBSs in expanding their existing ATM fleet and their focus on large multi-site customers with a preference for FTU ATMs, the CMA considered whether it may be appropriate to segment the relevant product frame of reference into the following customer segments, based on the competitor set serving them:
- (a) BBSs' branch ATM estates;<sup>20</sup>
  - (b) site owners for which the competitor set would only include IADs, as BBSs would not compete for these customers. These site owners may demand either PTU or FTU ATMs and be located at various destinations. The customer sizes vary but include: (i) larger multi-site customers, some of which may go out to tender for their requirement but for whom BBSs do not compete; and (ii) smaller multi-site operators, single-site owners and

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<sup>19</sup> LINK data shows that BoI has a very limited number of branch ATMs in the UK, which indicates its limited interest in ATM deployment.

<sup>20</sup> These ATMs can be deployed by BBSs themselves or large IADs (ie Cardtronics and NoteMachine). The CMA has also seen evidence of ATM manufacturers participating in tenders for branch ATMs. Given a number of alternative deployers competing for this customer segment, as well as a significant competitive constraint from self-supply, this customer segment is not discussed further in this decision.

other site owners (typically small retailers and convenience stores) which do not typically go out to tender for their ATM requirements. In the remainder of this decision these customers are referred to as **IAD Dependent Customers**; and

- (c) premium large multi-site customers, limited to large supermarket chains, and sites with particularly high footfall, such as major transport hubs and some shopping centres. The contracts for these customers are typically awarded through tender processes and include only FTU ATMs. The competitor set for this segment would include IADs and a limited number of BBSs (see paragraph 55). In the remainder of this decision these customers are referred to as **Premium FTU Customers**.<sup>21</sup>

59. The evidence collected by the CMA suggests that there is a continuum of customers and it is therefore not clear where exactly to draw the line between IAD Dependent and Premium FTU customer segments. Therefore, the CMA did not segment within the product frame of reference. However, the CMA has considered the differing competitive constraint offered by the Parties and their rivals, and the extent to which different ATM deployers may compete more or less for different customers, in the competitive assessment below.

#### *Competition for ATM users*

60. As set out in paragraphs 41-45 above, ATM deployers compete to have their ATMs located in sites which are likely to have a high number of transactions by ATM users; the higher the number of transactions is, the greater the revenue an ATM will generate. Once it has been agreed with a site owner to locate the deployer's ATM at that site, the ATM deployer will choose, together with the site owner, whether the ATM at that site will be FTU or PTU.<sup>22</sup> If it is decided that the ATM will be PTU, then the deployer and the site owner will agree what the surcharge fee will be. The level of surcharge is based, in part, on the location and proximity of other ATMs in the vicinity, and also on the surcharge on those nearby rival ATMs. Therefore, the surcharge fee is set locally and depending on local competitive conditions. As such, once an ATM deployer has agreed with a site owner to establish an ATM in a particular

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<sup>21</sup> The CMA considered Post Office within the Premium FTU Customers segment. Although Post Office does not entirely fit the description of Premium FTU Customers outlined in paragraph 58(c), 85% of the Post Office locations in the UK are supplied by one BBS – BoI.

<sup>22</sup> Other elements of the deployer's service will also be decided in conjunction with the site owner, including whether the ATM is located inside the site (internal ATM) or through the façade of the site (TTW ATM), and whether the ATM will be filled with cash by the site owner (merchant refill service model) or the ATM deployer (full placement service model).



location, ATMs then compete with each other to win ATM users' custom through the level of surcharge set.

61. The evidence collected by the CMA confirmed the Parties' submission that the service which ATM users receive from an ATM (cash withdrawal) is commoditised. From an ATM user's perspective, the only difference between ATMs is whether one charges a fee or not (PTU or FTU), as essentially they both provide the same service. This is a highly substitutable service, with FTU ATMs imposing a stronger constraint on PTU ATMs than the other way around.<sup>23</sup> ATM users would switch between PTU and FTU ATMs, depending on the distance they need to travel to access a FTU ATM and other factors, such as whether the PTU ATM is located in an enclosed location such as a casino or a gentlemen's club. The level of demand-side substitutability from an ATM user's perspective may depend on the local circumstances.
62. In light of the above, the CMA assessed the impact of the Merger on the supply of ATMs to ATM users under a separate product frame of reference. Based on the commoditised nature of the service provided by an ATM, the CMA believes that, from an ATM user's perspective, PTU and FTU ATMs are likely to be within the same product frame of reference.

#### *Conclusion on product scope*

63. For the reasons set out above, the CMA assessed the impact of the Merger on the:
- (a) supply of ATMs to site owners (taking into account the extent to which different ATM deployers may compete more or less for IAD Dependent Customers and Premium FTU Customers); and
  - (b) supply of ATMs to ATM users.

#### **Geographic scope**

##### *Supply of ATMs to site owners*

64. The Parties submitted that the geographic frame of reference is national, as suppliers are active throughout the UK and the set of competitors is consistent across all regions. Specifically, the Parties submitted that (i) there are no differences in terms of preferences for ATM functionality across regions; (ii) there are no restrictions within the UK regarding the placement of ATMs (ie

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<sup>23</sup> For example, one competitor submitted that 'it is very difficult to make a PTU work when it is in the vicinity of a FTU as people will not pay when they can access their cash for nothing'.

they can be situated anywhere where there is a telephone line or mobile link to access the LINK network); (iii) the same LINK certification and software applies across the UK; (iv) tenders are typically centralised for all of a site owner's locations; and (v) the Parties' profit margins per ATM do not vary significantly across regions of the UK.

65. The evidence collected by the CMA indicates that geographic frame of reference may differ depending on the size of the customer. For example, for large multi-site owners competition may occur across a broad geographic area, whereas with respect to single-site owners, competition will be taking place for that particular site. However, even for these smaller customers the IAD competitor set remains the same as at the national level with IADs typically launching UK-wide marketing campaigns and each having the capability to install ATMs across the UK. In addition, DCP's internal document states that [REDACTED].
66. The CMA assessed whether there is any significant variation in the Parties' and their competitors' shares of supply across different regions of the UK. The CMA found that the competitor set is the same across different UK regions, with no significant variation in shares of supply across them. The CMA has not identified any geographic restrictions in relation to where a deployer can locate an ATM, subject to site availability at a local level.<sup>24</sup>
67. Third parties confirmed that the competition for site owners occurs on a national level.
68. Based on the above evidence, the CMA believes that, with respect to the supply of ATMs to site owners, it is appropriate to assess the impact of the Merger within a UK-wide geographic frame of reference. Although ATMs supplied to site-owners are deployed on a local basis, the CMA's assessment of competitors and their UK-wide market shares is likely to characterise the nature of competition for site owners at any given local level.

#### *Supply of ATMs to ATM users*

69. The CMA found that competition for ATM users occurs locally and differs on an area-by-area basis. BDMs speaking to the CMA on behalf of each of Cardtronics and DCP explained that the decision on whether or not to set a surcharge fee at a particular site and the surcharge fee set may typically depend on how busy the area is, demographics and 'cash drivers' of the area

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<sup>24</sup> As discussed at paragraphs 211-214 below, there may be limited availability of additional attractive new sites in which to deploy an ATM in a particular area. This will depend on the local circumstances, including the number of suitable sites locally and the extent to which they already have ATMs installed.

(eg takeaway, bus stop, shops that do not accept card payments), as well as other ATMs in the area. BDMs explained that there is no set distance to determine the size of an area within which ATMs could be considered to be competing with each other. The Parties also submitted that ATM users' willingness to travel to alternative ATMs is likely to depend upon the type of location and the individual involved. BDMs of Cardtronics and DCP confirmed that ATM users' behaviour is area-specific. For example, the distance which ATM users would travel to find a FTU ATM depends on the area and its topography (eg ATM users may not cross a busy road to find a cheaper ATM).

70. A Cardtronics internal document indicated that, when identifying locations at which to place new ATMs, Cardtronics is guided by the following criteria: [redacted]. The Parties also submitted that PTU ATMs are ideally not to be placed within 500 metres of a FTU ATM ([redacted]). These submissions indicate that the surcharge set on an ATM is most likely to be affected by the surcharges, or absence of a surcharge, set on other ATMs within the distances indicated.
71. Third party evidence collected by the CMA with respect to the distance within which ATMs compete with each other was mixed. For example, one site owner submitted that *'there is a very wide variation of competition distance'*, while another site owner submitted that the distance *'varies from one location to another, depending on availability of other ATMs in the locality'*.
72. Those site owners which provided an indication of the distances within which their ATMs compete with other ATMs, submitted varying estimates. However, although the distances varied, they were largely supportive of the internal criteria applied by Cardtronics (paragraph 70). For example, five site owners submitted that ATMs compete for ATM users within the distance of 100-200 metres, whereas another five site owners – within the distance of 350-450 metres.<sup>25</sup>
73. The CMA has used Cardtronics' internal guidance (paragraph 70) as an appropriate starting point for the assessment of the impact of the Merger on the supply of ATMs to ATM users. However, the evidence collected by the CMA was mixed and the Parties and both Cardtronics' and DCP's BDMs explained that the distance within which ATMs compete will be area-specific. Therefore, the CMA has taken a cautious approach by looking at alternative local geographic frames of reference, by flexing the area considered, in order

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<sup>25</sup> The CMA recognises that this is a relatively low sample of respondents. However, each of these site owners have between 3 and approximately 1,000 ATMs and, therefore, the CMA expects them to be reasonably well informed of the distances over which competition for ATM users is likely to occur and how this may vary between areas.

to identify whether there are local overlaps. This is explained in more detail when discussing the filtering analysis at paragraphs 197-205 below.

### *Conclusion on geographic scope*

74. For the reasons set out above, the CMA assessed the impact of the Merger on the:
- (a) supply of ATMs to site owners in the UK; and
  - (b) supply of ATMs to ATM users on a local basis.

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

75. For the reasons set out above, the CMA assessed the impact of the Merger on the:
- (a) supply of ATMs to site owners in the UK (taking into account the extent to which different ATM deployers may compete more or less for IAD Dependent Customers and Premium FTU Customers); and
  - (b) supply of ATMs to ATM users on a local basis.

## **Competitive assessment**

### **Horizontal unilateral effects**

76. 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>26</sup> Horizontal unilateral effects are more likely when the merger parties are close competitors. 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:
- (a) supply of ATMs to site owners in the UK; and/or
  - (b) supply of ATMs to ATM users on a local basis through the:
    - (i) reduced availability of FTU ATMs (through conversion of FTU ATMs into PTU ATMs); and/or

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<sup>26</sup> [Merger Assessment Guidelines](#), from paragraph 5.4.1.

(ii) increased surcharge fees on existing PTU ATMs.

77. The CMA also assessed whether there is a realistic prospect of the Merger resulting in increased bargaining power of the Parties within the LINK network leading to higher interchange fees faced by BBSs and possible collapse of the LINK network.

### **Supply of ATMs to site owners in the UK**

78. The concern under this theory of harm is that the reduction in competition resulting from the Merger could allow the merged entity to offer worse contract terms to site owners (eg lower share of transaction fees and/or lower fixed up-front or monthly payments); reduce the quality of their offering (eg quality of maintaining and servicing an ATM); and/or reduce innovation. The Parties may achieve this because there would be fewer alternative ATM deployers available to site owners, which may reduce site owners' ability to negotiate competitive terms.

79. In order to assess the likelihood of the Merger resulting in unilateral effects, the CMA has considered:

(a) shares of supply;

(b) the closeness of competition between the Parties; and

(c) competitive constraint from alternative deployers.

80. As discussed in paragraph 59 above, the CMA considered how closely the Parties compete, and the extent to which different ATM deployers may compete more or less for IAD Dependent and Premium FTU Customers. The CMA sets out its assessment for IAD Dependent Customers (paragraphs 81-139) and Premium FTU Customers (paragraphs 140-152) below. The CMA has not assessed BBSs' branch ATM estates (see footnote 20).

### ***IAD Dependent Customers***

#### *Shares of supply*

81. The Parties submitted that the number of ATMs deployed is not an appropriate measure for calculating shares of supply in the market for ATM deployment in the UK and that withdrawal data should be used instead. The Parties submitted that the volume of ATMs deployed significantly overstates their competitive positions because they, and in particular DCP, deploy a large number of ATMs that generate very low volumes of transactions, which materially inflates their shares of supply.

82. The CMA considers that the number of ATMs deployed is an appropriate measure for calculating shares of supply when considering competition for the supply of ATMs to site owners, as it indicates a deployer's ATM coverage across sites and customers. IADs compete to supply ATMs to site owners and, therefore, the share of ATMs supplied by IADs may provide an indicative measure of the relative competitive strength of each IAD. In addition, the number of withdrawals from an ATM does not necessarily indicate the revenue which an IAD would earn from that ATM, particularly because PTU ATMs generate relatively high revenues per transaction compared to FTU ATMs (see paragraph 35),<sup>27</sup> despite generating lower numbers of transactions. Therefore, shares of supply based on volume of transactions do not provide a good measure of competitive strength.
83. Table 2 below presents the Parties' and their rivals' shares of supply of ATMs to IAD Dependent Customers,<sup>28</sup> ie customers excluding BBSs' branch ATMs, as well as ATMs at Supermarket, Post Office and Transport Hub locations (as described in paragraph 58).

**Table 2 Shares of supply to IAD Dependent Customers in the UK (2016)**

	IAD Dependent Customers	
	Number of ATMs	%
Cardtronics	[X]	[30-40]%
DCP	[X]	[10-20]%
<b>Combined</b>	<b>[X]</b>	<b>[50-60]%</b>
NoteMachine	[X]	[20-30]%
YourCash	[X]	[5-10]%
PayPoint	[X]	[10-20]%
RBS	[X]	[0-5]%
Lloyds	[X]	[0-5]%
BOI	[X]	[0-5]%
Barclays	[X]	[0-5]%
Others	[X]	[0-5]%
<b>Total</b>	<b>[X]</b>	<b>100%</b>

Source: calculated by the Parties using LINK data

84. Due to difficulties in allocating customers correctly to the group which the CMA has characterised as IAD Dependent Customers, these figures are not precise. For example, a mini-supermarket on the high street could be

<sup>27</sup> The CMA notes that the share of revenue from a transaction (both on FTU and PTU ATMs) that is received by a deployer also varies for each site owner.

<sup>28</sup> The CMA notes that several BBSs deploy ATMs at IAD Dependent Customers' sites. However, the CMA considers that this is due to historic deployment by BBSs at off-branch locations. The CMA has seen evidence of the majority of BBSs pulling out of these off-branch locations and, based on BBSs' submissions (paragraph 56), believes that this trend will continue. For example, according to LINK data, the number of HSBC's off-branch ATMs has decreased from 902 to 202 since 2013. Similarly, the Parties submitted that Cardtronics acquired 310 off-site ATMs from Lloyds TSB in July 2016. In any case, BBSs account for a very small share of the ATMs supplied to those customers which we have characterised as 'IAD Dependent Customers'.

classified by different deployers as either a convenience store or a supermarket. However, the CMA considers that the shares provide a useful starting point in assessing the closeness of competition between the Parties and their competitors in supplying IAD Dependent Competitors. The Parties have a combined share of supply of [50-60]% ([10-20]% increment) in terms of the number of ATMs post-Merger supplied to this customer group.

85. Table 2 also shows that NoteMachine, with a share of supply of [20-30]%, is about half the size of Cardtronics but considerably larger than DCP. YourCash and PayPoint are slightly smaller than DCP and both are about a quarter of the size of Cardtronics. The remaining providers are far smaller than any of the five largest IADs. This share of supply information suggests that NoteMachine is the next closest competitor to Cardtronics, but also that DCP may be a slightly closer competitor to Cardtronics than YourCash or PayPoint.

#### *Closeness of competition*

86. The Parties submitted that they are not close competitors, on the basis of the type of customers they serve. The Parties submitted that Cardtronics primarily focuses on higher volume 'prestige' site customers, typically served by TTW ATMs and with a tendency to utilise more sophisticated purchasing processes, eg motorway and transport, convenience, supermarket and other retail destinations. In contrast, the Parties submitted that DCP's primary focus is lower volume social and leisure sites such as pubs and nightclubs, leisure facilities, holiday parks and amusement parks with a tendency to use freestanding ATMs. The Parties submitted that the large majority of Cardtronics' ATMs are FTU, whereas the slight majority (albeit declining) of DCP's ATMs are PTU.
87. The Parties also submitted that Cardtronics (with a workforce in excess of 1,100 employees in the UK) provides ATM maintenance and cash replenishment services in-house (including integrated cash-in-transit using third party sourced vault cash), with most customers taking full placement ATMs. The Parties submitted that, in contrast, DCP (with a workforce of just 65 employees) outsources key services like cash-in-transit and high volume maintenance services to third party providers.
88. The CMA assessed the closeness of competition between the Parties with respect to the supply of ATMs to IAD Dependent Customers. For the purposes of this assessment, the CMA has used the following evidence:
- (a) bidding data;

- (b) customer switching data;
- (c) evidence from internal documents; and
- (d) third party views on closeness of competition.

### *Bidding data*

89. The Parties submitted their bidding data for the period between 2011 and 2016. The CMA notes that there are certain limitations on the extent to which this data is informative about the closeness of competition between the Parties and their competitors. In particular, this data is limited to customers that typically go out to tender for a supplier and, therefore, the data does not reflect competition for site owners which do not go out to tender for their requirement and enter into contracts subject to bilateral negotiations. In addition, the data may not accurately identify other competitors,<sup>29</sup> as the Parties do not always have accurate information about the identity of other tender participants. For example, Cardtronics indicated that there were some occasions for which it presumed the identity of other bidders, while in a number of tenders DCP only recorded the winner of a tender. Therefore, the CMA treated the bidding data with caution. Nevertheless, the CMA believes that the bidding data provides an insight into the closeness of competition between the Parties and their competitors for customers that issue tenders.<sup>30</sup>
90. In the assessment below, the CMA assesses (i) the type of customers which the customers have bid for; (ii) the frequency with which the Parties have bid against each other and against other competitors; and (iii) the frequency with which one of the Parties won a tender when the other Party bid unsuccessfully for that tender.
- *Types of customers*
91. The Parties submitted that DCP and Cardtronics largely focus on different customer types (see paragraph 86 above). However, the bidding data shows that both Parties bid for a broad range of customers, including those other

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<sup>29</sup> The Parties provided bidding data which was matched, ie overlapping tenders in which both Parties participated were identified in the data. Therefore, the bidding data identifies the occasions when both Parties bid together, even when they were not aware of the other Party bidding. The CMA notes, however, that this matching may be inaccurate when there were several tenders from the same issuer at similar time.

<sup>30</sup> The CMA notes that the Parties submitted bidding data without splitting it by customer segment. Given that it is not clear where exactly to draw the line between Premium FTU Customers and IAD Dependent Customers, the CMA assessed the Parties' bidding data without splitting it into tenders for IAD Dependent Customers and Premium FTU Customers. However, the CMA notes that the majority of tenders submitted by the Parties were for IAD Dependent Customers. Therefore, whether the CMA considers tenders for IAD Dependent and Premium FTU Customers separately or not, is unlikely to be determinative of its conclusions.



than stated as their focus. For example, Cardtronics bid for a contract issued by [REDACTED] which is within DCP's stated focus as a leisure customer type, while DCP bid for [REDACTED] contracts which are within Cardtronics' stated focus as a motorway customer type. On the other hand, there do appear to be differences between each Party's focus on merchant refill or full placement service models: according to DCP's tender data, approximately [REDACTED] of the tenders in which it participated were for a merchant refill service model, whereas Cardtronics' data shows that only [REDACTED]% of tenders in which it participated were for a merchant refill service model.<sup>31</sup> This difference, which is apparent from the bidding data, is consistent with the fact that Cardtronics has a cash-in-transit capability in-house, whereas DCP outsources these services to third party cash-in-transit providers.

- *Frequency of participation in tender processes*

92. The Parties submitted that the analysis of bidding data indicates that the Parties are not close competitors due to the low frequency with which they bid against each other. The Parties also submitted that, according to Cardtronics' data, DCP has been participating in a declining share of tenders for which Cardtronics submitted bids. DCP explained that this reflects the different competitive focuses of the Parties, particularly that Cardtronics offers more competitive bids than DCP to site owners of transport and motoring sites.<sup>32</sup> In addition, the Parties submitted that in each tender where both Parties were invited to bid, there was competition from a number of other ATM deployers, most notably NoteMachine.
93. Cardtronics' bidding data indicates that DCP bid against Cardtronics in a minority of tender processes, while NoteMachine bid most frequently against Cardtronics. Cardtronics participated in [REDACTED] tenders, with DCP participating in just [REDACTED] of those ([REDACTED]%).<sup>33</sup> This indicates that DCP did not participate in [REDACTED]% of the tenders where Cardtronics submitted bids. Cardtronics' bidding data indicated that NoteMachine bid most frequently against Cardtronics ([REDACTED]% of the tender processes for which Cardtronics bid). In addition, YourCash participated in a higher proportion of these tenders than DCP ([REDACTED]%). Paypoint participated in [REDACTED] in which Cardtronics bid.
94. DCP's bidding data similarly indicates that the Parties competed against each other in a minority of the tenders in which DCP bid. DCP participated in [REDACTED] tenders, with Cardtronics participating in just [REDACTED] of those ([REDACTED]%).<sup>34</sup> This

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<sup>31</sup> This includes contracts that were for both types of service model, ie merchant refill and full placement.

<sup>32</sup> The CMA notes that Cardtronics' internal documents suggest [REDACTED].

<sup>33</sup> This excludes one tender that is in progress, in which DCP has not participated.

<sup>34</sup> This excludes six tenders that are in progress, of which Cardtronics has participated in one.

indicates that Cardtronics did not bid in [X]% of the tenders where DCP submitted bids. However, DCP's data does not necessarily provide an accurate indication of how often other competitors bid against it since, as noted in paragraph 89 above, DCP has not systematically recorded the identity of other tender participants.

95. Finally, tender data submitted by third parties confirmed that Cardtronics bid more often against NoteMachine than it did against DCP. Out of the tenders the CMA has seen, the Parties bid against each other in only 25% of them.
96. Overall, the tender data indicates that the Parties are not each other's closest competitors on the basis of the frequency of which they bid against each other.
  - *Success in tender processes*
97. Having considered the frequency with which the Parties bid against each other, the CMA also considered how often each of the Parties won when bidding against each other, and how frequently their competitors won.
98. Cardtronics' and DCP's bidding data indicates that Cardtronics is more successful when bidding against DCP than DCP is against Cardtronics. Nevertheless, the bidding data indicates that both Parties lose tenders most often to NoteMachine.
99. Cardtronics' data indicates that, out of [X] tenders it bid for, it lost [X]. Of those [X] tenders which Cardtronics lost, NoteMachine won [X]%, while DCP and YourCash won [X]% and [X]% of the tenders respectively.
100. DCP's tender data indicates that, out of [X] tenders in which it participated, it lost [X]. Of these [X] tenders, NoteMachine won [X]%, followed by Cardtronics, which won [X]%<sup>35</sup> of tenders; and then YourCash, which won [X]% of tenders; and finally PayPoint, which won [X] ([X]%).<sup>36</sup>
101. Therefore, the bidding data indicates that the Parties are constrained by a number of effective rivals, in particular NoteMachine, in those tenders in which both Parties participated.

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<sup>35</sup> This excludes a tender where Cardtronics was benchmarked against DCP. Cardtronics noted that this particular contract was re-signed early and that Cardtronics was not aware that this contract was tendered.

<sup>36</sup> In addition, Raphael won one contract, while another contract was not awarded to any deployer.

### *Customer switching data*

102. The Parties submitted a list of independent sites where IAD Dependent Customers requested that Cardtronics removes its ATM as a result of a competitor winning that site owner's business (referred to as 'losses' in Table 3 below). The Parties also submitted the list of sites where the site owner switched to Cardtronics (referred to as 'gains' in Table 3 below).<sup>37</sup>
103. The CMA notes that there are difficulties in making inferences from this data. The customer gain/loss data relates to a relatively short period, does not show gains and losses for DCP, and is not weighted by the value of ATMs accounted for by the customers lost or gained. Recognising the limitations of the quality of the gain/loss data, the CMA considers that it provides a useful insight into the competition between the Parties and their competitors for IAD Dependent Customers. The CMA has therefore used this data alongside other evidence.
104. The CMA notes that this gain/loss analysis complements the analysis of the Parties' bidding data discussed above, and in particular reflects closeness of competition between the Parties and their rivals for the supply of ATMs to those IAD Dependent Customers which negotiate their contracts bilaterally rather than through issuing tenders.

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<sup>37</sup> The data covers the period between 1 January 2016 and 31 December 2016.

**Table 3 Cardtronics' site losses and gains in 2016<sup>38</sup>**

	<b>Losses</b>	<b>Gains</b>
NoteMachine	[X]	[X]
PayPoint	[X]	[X]
DCP	[X]	[X]
Bol <sup>39</sup>	[X]	[X]
YourCash	[X]	[X]
RBS/Ulster Bank	[X]	[X]
Danske Bank/Northern Bank	[X]	[X]
Clydesdale Bank/Yorkshire Bank	[X]	[X]
Barclays	[X]	[X]
Lloyds/HBOS	[X]	[X]
Sainsbury's Bank	[X]	[X]
ChangeGroup	[X]	[X]
Co-operative Bank	[X]	[X]
Nationwide	[X]	[X]

Source: the Parties

105. Table 3 demonstrates that Cardtronics lost/gained the majority of sites to/from NoteMachine suggesting that site owners switch most frequently between Cardtronics and NoteMachine, and the next most frequently between Cardtronics and PayPoint (with Cardtronics losing/gaining more sites to/from PayPoint than DCP). Therefore, even though Cardtronics and DCP compete with each other for some of the same site owners, the data shows that more customers switch between Cardtronics and NoteMachine and PayPoint than between Cardtronics and DCP.
106. The CMA notes that, even though PayPoint was not active in bidding for tenders in which either DCP or Cardtronics participated (paragraph 93), the number of sites lost/gained to/from PayPoint suggests that PayPoint competes strongly for IAD Dependent Customers who do not go out to tender but rather negotiate their contracts bilaterally (although its competitive

<sup>38</sup> As discussed in footnote 28, several BBSs deploy ATMs at IAD Dependent Customers' sites due to historic deployment by BBSs at off-branch locations. The CMA has, however, seen evidence of the majority of BBSs pulling out of these off-branch locations. Table 3 includes gain/loss data from/to certain BBSs. However, the only BBS which gained a significant number of sites from Cardtronics was Bol (see footnote 39). The CMA notes that (i) the lost ATMs to Lloyds and Barclays are located at their branches; (ii) Danske Bank/Northern Bank only deploy ATMs in Northern Ireland; (iii) the lost ATMs to RBS are either at Tesco sites or RBS branch; and (iv) Cardtronics only lost 2 sites to Clydesdale Bank/Yorkshire Bank, while gaining a significantly larger number of sites from them. In any event, the CMA considers the number of sites lost by Cardtronics to BBSs to be negligible.

<sup>39</sup> The CMA notes that Bol deploys the majority of ATMs at Post Office locations (see footnote 21 and Table 5). The Parties submitted that the Post Office contract was awarded following a large competitive tender process in which Bol was successful. The Parties submitted that a Bol waiver is required for non-Bol ATMs to be installed in Post Office locations and that if a site owner terminates a Bol ATM agreement as part of the Post Office contract, the site owner is prohibited from installing an alternative deployer's ATM within twelve months of renewal. The Parties also submitted that convenience stores have an option to install Post Office facilities in the store, in which case Bol has the first right of refusal to install an ATM.

constraint is more focussed on a particular sub-segment of IAD Dependent Customers, see paragraphs 130-132).

*Evidence from internal documents*

107. The Parties submitted that their internal and public documents reinforce the statements about their respective positions (as set out in paragraph 86) and their differentiated customer focus. For example:
- (a) Cardtronics' Annual Report refers to the fact that it focuses upon major corporate site owners that tend to operate mostly in high traffic locations where FTU ATMs are more prevalent; and
  - (b) a presentation for the Cardtronics' Board Meeting relating to the transaction states that no site owner made up more than [REDACTED]% of DCP's 2015 ATM revenue, reflecting its focus upon smaller site owners.<sup>40</sup>
108. Internal documents submitted by the Parties<sup>41</sup> suggest that they do bid for similar customers but that [REDACTED]. More specifically, a DCP internal document suggests that whilst it considers high traffic locations and views these sites as an opportunity, it is unable to compete on price with Cardtronics: [REDACTED].
109. Combined with the bidding data, and noting the Parties' different business models under which Cardtronics supplies cash-in-transit services in-house and DCP does not, all of this evidence directionally supports the Parties' submission that the Parties have different customer focuses with Cardtronics being more successful in winning business from site owners with a preference for a full placement service model.
110. DCP submitted internal quarterly summaries of DCP's European (and in particular UK) business which are prepared in advance of meetings of the DCP Board of Directors. These documents contain comments on competitor activity, and list [REDACTED] as DCP's main competitors. This monitoring suggests that DCP is competitively constrained by all of these IADs.
111. Cardtronics' internal notes on customer feedback from tenders suggest that the Parties compete closely with each other for some customers. For example, one note stated: *'Decision between CTUK [Cardtronics] and DC*

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<sup>40</sup> The CMA notes, however, that DCP had [REDACTED] customers, which made up for more than [REDACTED]% of DCP's ATM revenue in 2016, with the largest being [REDACTED] with approximately [REDACTED]% of revenue. Although Cardtronics generated [REDACTED]% of its revenue from [REDACTED], all other customers did not make up for more than [REDACTED]% of Cardtronics' ATM revenue, indicating that Cardtronics' focus is not necessarily on significantly larger customers.

<sup>41</sup> The CMA notes that internal documents submitted by the Parties were not customer-specific, ie were not separated between IAD Dependent and Premium FTU Customers. However, the CMA believes that evidence from internal documents applies equally to IAD Dependent and Premium FTU Customers.

*Payments. DC payments were a very close second and pushed us hard to get the deal over the line. [redacted]'. However, customer feedback reveals that the Parties compete head-to-head with other IADs as well. For example, [redacted] feedback states: [Cardtronics] won on the basis of commercials. YC [YourCash] offer to retain was very strong they were a very close second'.*

112. Overall, although some of the Parties' internal documents indicate that the Parties clearly compete, the Parties are not mentioned more frequently in each other's internal documents than other rival IADs. Moreover, the Parties' internal documents also support the bidding data analysis (as set out above) in demonstrating that the Parties compete with greater frequency and success for customers in line with their respective business models; that is, Cardtronics is more successful in winning custom from site owners with high footfall locations and a preference for a full placement service model, whereas DCP is more focussed on customers with a preference for a merchant refill model.

#### *Third party views*

113. Customer responses to the CMA's market testing were mixed, with 12 out of 28 customers indicating that the Parties compete closely or very closely with each other.<sup>42</sup>
114. Customer responses suggest, however, that NoteMachine is the closest competitor to Cardtronics, and that DCP competes similarly closely with YourCash as it competes with Cardtronics. PayPoint is seen by the majority of customers as not competing closely with either Party. The CMA notes, however, that the majority of customers who responded to the CMA host five or more ATMs, which indicates that the views of customers with a very small number of ATMs, for which PayPoint competes most strongly (as discussed in paragraph 130-132), may be unrepresented.
115. Six out of 10 competitors who responded to the CMA submitted that the Parties compete very closely or closely; 3 competitors said the Parties compete moderately closely. One competitor said they do not compete closely, on the basis that the Parties have a different focus in terms of customers they serve.
116. Competitors mentioned NoteMachine, YourCash and PayPoint as competing with one or both of the Parties. For example, three competitors submitted that

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<sup>42</sup> The CMA notes that customer and competitor responses in relation to the closeness of competition between the Parties and their rivals were not customer-specific, ie were not separated between IAD Dependent and Premium FTU Customers. However, the CMA believes that evidence applies equally to IAD Dependent and Premium FTU Customers.

all other IADs, including NoteMachine, YourCash and PayPoint compete closely with both Parties, with the majority of competitors indicating NoteMachine as the closest competitor to Cardtronics. One competitor submitted that PayPoint is the closest competitor to DCP, as they both have a *'similar bias towards PTU and similar transactional throughput per ATM'*. Another competitor submitted that YourCash and PayPoint are the closest competitors to DCP, as they all target the merchant refill convenience sector.

#### *Conclusion on closeness of competition*

117. Even though the Parties compete with each other for the supply of ATMs to IAD Dependent Customers, they are not each other's closest competitors, with NoteMachine being the closest competitor to Cardtronics, and DCP competing equally closely with Cardtronics and YourCash, and, to a lesser extent, PayPoint. Therefore, based on the above evidence, the CMA considers that Cardtronics is a more important competitor for DCP than DCP is to Cardtronics.

#### *Competitive constraint from alternative deployers*

118. Unilateral effects are more likely where customers have little choice of alternative suppliers. The CMA assessed whether there are alternative deployers which would provide a competitive constraint on the merged entity with respect to the supply of ATMs to IAD Dependent Customers in the UK.
119. The Parties submitted that they face strong existing competition from other ATM deployers, both BBSs and foreign exchange providers (ie The Royal Bank of Scotland plc (**RBS**), Barclays Bank plc (**Barclays**), BoI, Lloyds, HSBC Bank plc (**HSBC**), Santander UK plc (**Santander**) and R. Raphael & Sons plc (**Raphaels Bank**), Travelex UK Limited (**Travelex**), Sainsbury's Bank plc (**Sainsbury's Bank**), TSB Bank plc (**TSB**), The Change Group Corporation Ltd (**ChangeGroup**), and Clydesdale Bank PLC (**Clydesdale Bank**))<sup>43</sup> and other IADs which have established positions in the market and which compete closely with the Parties, including NoteMachine, YourCash and PayPoint.
120. Table 4 below summarises the CMA's assessment of the strength of competitive constraint imposed by alternative deployers on the Parties with respect to the supply of ATMs to IAD Dependent Customers in the UK.

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<sup>43</sup> Yorkshire Bank is a trading name of Clydesdale Bank.

**Table 4 Competitive constraint from alternative deployers**

<b>Customer segment<sup>44</sup></b>	<b>Competitive constraint</b>	<b>Some competitive constraint</b>	<b>Limited or no competitive constraint</b>
IAD Dependent Customers	1. NoteMachine 2. YourCash	1. PayPoint	1. Large BBSs 2. Smaller BBSs and other IADs

Source: CMA's assessment

121. The CMA sets out more detail below on each alternative deployer's competitive strength with respect to the supply of ATMs to IAD Dependent Customers in the UK.

*Large BBSs*

122. As set out in the frame of reference section, the evidence collected by the CMA indicates that large BBSs do not compete for IAD Dependent Customers. Table 2 shows that large BBSs have negligible shares of supply of ATMs to customer segments which exclude Premium FTU Customers. This is consistent with the gain/loss data (Table 3), which shows that the number of IAD Dependent Customer sites lost by Cardtronics to large BBSs is negligible (see footnote 38). The CMA has therefore not considered large BBSs further for this customer segment.

*NoteMachine*

123. NoteMachine is the second largest ATM deployer in the UK after Cardtronics by the number of ATMs deployed (Table 2), and is the only IAD, besides Cardtronics, having cash-in-transit services in-house.<sup>45</sup> The bidding data, customer gain/loss data, Parties' internal documents, and third party views discussed above all indicate that NoteMachine is Cardtronics' closest competitor and also places a significant constraint on DCP. The Parties submitted that NoteMachine has grown aggressively in recent years and is expected to grow in the future.

124. NoteMachine submitted that [REDACTED]. NoteMachine also submitted that, [REDACTED]. NoteMachine noted that [REDACTED]. This evidence indicates that NoteMachine is

<sup>44</sup> As defined in paragraph 58.

<sup>45</sup> The Parties explained that having cash-in-transit services in-house provides a competitive advantage with respect to customers requiring full placement service model, which was confirmed by [REDACTED].



competing strongly for the supply of ATMs to IAD Dependent Customers in the UK.

125. Based on the above evidence, the CMA believes that NoteMachine imposes a significant competitive constraint on the Parties with respect to the supply of ATMs to IAD Dependent Customers in the UK.

#### *YourCash*

126. YourCash is the smallest IAD in the UK, similar in size to PayPoint (discussed in paragraphs 130-132) by the number of ATMs deployed (see Table 2).
127. The Parties submitted that YourCash operates PTU and FTU ATMs across the UK, Netherlands, Belgium and Ireland and offers a full spectrum of service models across the destination segments, although focusing upon the deployment of PTU ATMs at small independent sites. The Parties submitted that the acquisition of YourCash by Euronet Worldwide, Inc. (**Euronet**)<sup>46</sup> will prove to be transformative for the YourCash business by providing significant advantages in terms of infrastructure and access to capital. The Parties submitted that they have already noted an increase in competitive pressure from YourCash and expect this to intensify in the immediate future.
128. YourCash submitted that [REDACTED]. YourCash submitted that [REDACTED]. YourCash added that [REDACTED]. This evidence indicates that, even though YourCash's current focus is on smaller multi- or single-site customers, it is capable of serving larger IAD Dependent Customers as well. The bidding data, customer gain/loss data, the Parties' internal documents, and third party views discussed above all indicate that YourCash places a competitive constraint on both DCP and Cardtronics. Due to YourCash's business model focusing on the merchant refill service model (including the absence of cash-in-transit services in-house), the CMA believes that YourCash is a closer competitor to DCP than Cardtronics.
129. Based on the above evidence, the CMA believes that YourCash imposes a competitive constraint on the Parties with respect to the supply of ATMs to IAD Dependent Customers in the UK, but that it competes more closely with DCP.

#### *PayPoint*

130. PayPoint is the number four IAD in the UK and it is similar in size to YourCash by the number of ATMs deployed (see Table 2). The Parties submitted that whilst PayPoint aims to compete in the deployment of PTU and FTU ATMs at

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<sup>46</sup> Euronet acquired YourCash in October 2016.

all types of sites, it has a specific focus on independent retailers and therefore it is primarily in competition with DCP. Nevertheless, the Parties submitted that they consider PayPoint to be a large and effective competitor in the market.

131. PayPoint submitted that [REDACTED]. PayPoint submitted that [REDACTED] and that [REDACTED]. This evidence indicates that PayPoint is a more niche deployer with a focus on multi- and single-site retailers (eg convenience stores). Nevertheless, customer gain/loss data, the Parties' internal documents, and third party views discussed above all indicate that PayPoint places some competitive constraint on both DCP and Cardtronics (however, this constraint is limited to IAD Dependent Customers negotiating their contracts bilaterally rather than through issuing tenders). Due to PayPoint's business model focusing on a merchant refill service model (including the absence of cash-in-transit services in-house), the CMA is of the view that PayPoint is a closer competitor to DCP than Cardtronics.
132. Based on the above evidence, the CMA believes that PayPoint imposes some competitive constraint on the Parties with respect to the supply of ATMs to IAD Dependent Customers in the UK; however, it does not impose a competitive constraint with respect to IAD Dependent Customers requiring TTW ATMs and/or full placement service model.

#### *Smaller BBSs and other IADs*

133. With respect to IAD Dependent Customers, there are a few smaller BBSs which deploy a small number of ATMs at different IAD Dependent Customer sites (eg Yorkshire Bank/Clydesdale deploys 442 ATMs). Nevertheless, Table 2 shows that the combined share of supply of 'Others' was only 4% in 2016. This shows a limited competitive constraint imposed by smaller BBSs and other IADs with respect to this customer segment.
134. As discussed in paragraph 149 below, smaller BBSs and other IADs often focus on a niche customer segment and, in particular, Transport Hub locations with a foreign exchange requirement.
135. Based on the above evidence, the CMA believes that smaller BBSs and other IADs do not impose a competitive constraint on the Parties with respect to the supply of ATMs to IAD Dependent Customers in the UK.

### *Conclusion on competitive constraints from alternative deployers*

136. The CMA recognises that there is a spectrum of customers with differing requirements within the IAD Dependent Customer segment, and that the Parties and their rivals may focus on different points or ends of that spectrum.
137. Based on the above evidence, the CMA believes that NoteMachine and Cardtronics compete across the entire spectrum of IAD Dependent Customers. NoteMachine and Cardtronics are the only IADs with cash-in-transit services in-house, which makes them particularly strong at the top of that spectrum (ie large multi-site owners). DCP competes for the entire spectrum of IAD Dependent Customers as well, however, focusing more on the lower end (ie single-site owners) and the middle of that spectrum (ie small multi-site owners), but being able to provide both merchant refill and full placement service models (by outsourcing cash-in-transit to third party suppliers). YourCash is a closer competitor to DCP than to Cardtronics, competing strongly for the lower end and the middle of the spectrum and for the customers requiring merchant refill service model, whereas PayPoint competes strongly for the lower end of the spectrum of IAD Dependent Customers, and in particular for customers requiring merchant refill service model and who negotiate their contracts bilaterally rather than through issuing tenders.
138. Based on the above evidence, the CMA believes that there will remain sufficient competitors post-Merger to effectively constrain the merged entity with respect to the supply of ATMs to IAD Dependent Customers in the UK.

### *Conclusion on horizontal unilateral effects*

139. As set out above, even though the Parties do compete with each other for the supply of ATMs to IAD Dependent Customers in the UK, they are not each other's closest competitors. The evidence collected by the CMA shows that there will remain sufficient competitors post-Merger to effectively constrain the merged entity. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of ATMs to IAD Dependent Customers in the UK.

### ***Premium FTU Customers***

#### *Shares of supply*

140. Table 5 below presents the Parties' and their rivals' shares of supply of ATMs to Premium FTU Customers, ie customers located at Supermarket, Post Office and Transport Hub locations.

**Table 5 Shares of supply to Premium FTU Customers in the UK (2016)**

	Supermarket		Post Office <sup>47</sup>		Transport Hub		All Premium FTU Customers	
	Number of ATMs	%	Number of ATMs	%	Number of ATMs	%	Number of ATMs	%
Cardtronics	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%	[REDACTED]	[10-20]%	[REDACTED]	[0-5]%
DCP	[REDACTED]	[5-10]%	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%	[REDACTED]	[5-10]%
<b>Combined</b>	<b>[REDACTED]</b>	<b>[10-20]%</b>	<b>[REDACTED]</b>	<b>[0-5]%</b>	<b>[REDACTED]</b>	<b>[10-20]%</b>	<b>[REDACTED]</b>	<b>[10-20]%</b>
NoteMachin e	[REDACTED]	[0-5]%	[REDACTED]	[5-10]%	[REDACTED]	[10-20]%	[REDACTED]	[0-5]%
YourCash	[REDACTED]	[0-5]%	[REDACTED]	[5-10]%	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%
PayPoint	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%
RBS	[REDACTED]	[50-60]%	[REDACTED]	[0-5]%	[REDACTED]	[10-20]%	[REDACTED]	[30-40]%
Lloyds	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%
BOI	[REDACTED]	[0-5]%	[REDACTED]	[80-90]%	[REDACTED]	[0-5]%	[REDACTED]	[20-30]%
Barclays	[REDACTED]	[10-20]%	[REDACTED]	[0-5]%	[REDACTED]	[0-5]%	[REDACTED]	[10-20]%
Others	[REDACTED]	[10-20]%	[REDACTED]	[0-5]%	[REDACTED]	[50-60]%	[REDACTED]	[10-20]%
<b>Total</b>	<b>[REDACTED]</b>	<b>100%</b>	<b>[REDACTED]</b>	<b>100%</b>	<b>[REDACTED]</b>	<b>100%</b>	<b>[REDACTED]</b>	<b>100%</b>

Source: calculated by the Parties using LINK data

141. The CMA considers that the Parties' combined share of supply of ATMs to Premium FTU Customers in the UK is not high enough to raise *prima facie* competition concerns, and the increment arising from the Merger is negligible.

*Closeness of competition*

142. The CMA assessed the closeness of competition between the Parties with respect to the supply of ATMs to Premium FTU Customers. For the purposes of this assessment, the CMA has used the following evidence:

- (a) bidding data;
- (b) evidence from internal documents; and
- (c) third party views on closeness of competition.

143. The evidence from the above three sources is consistent between IAD Dependent and Premium FTU Customers, with additional bids from large BBSs (in particular, RBS and Barclays) and ATM manufacturers. The CMA therefore believes that even though the Parties compete with each other for the supply of ATMs to Premium FTU Customers, they are not each other's closest competitors, with DCP imposing the weakest competitive constraint of

<sup>47</sup> See footnote 21.

all the other rivals for this customer segment, ie RBS, Barclays, Cardtronics and NoteMachine.

*Competitive constraint from alternative deployers*

144. Table 6 below summarises the CMA’s assessment of the strength of competitive constraint imposed by alternative deployers on the Parties with respect to the supply of ATMs to Premium FTU Customers.

**Table 6 Competitive constraint from alternative deployers**

<b>Customer segment<sup>48</sup></b>	<b>Competitive constraint</b>	<b>Some competitive constraint</b>	<b>Limited or no competitive constraint</b>
Premium FTU Customers	<ol style="list-style-type: none"> <li>1. RBS</li> <li>2. Barclays</li> <li>3. NoteMachine</li> </ol>	<ol style="list-style-type: none"> <li>1. N/A</li> </ol>	<ol style="list-style-type: none"> <li>1. YourCash</li> <li>2. PayPoint</li> <li>3. Other large BBSs</li> <li>4. Smaller BBSs and other IADs</li> </ol>

Source: CMA’s assessment

145. The CMA sets out in more detail below each alternative deployer’s competitive strength with respect to the supply of ATMs to Premium FTU Customers in the UK.

146. Table 5 shows that only RBS and Barclays have large shares of supply with respect to customers at supermarket locations. RBS has a large share of supply with respect to customers at Transport Hub locations, whereas Bol deploys the majority of ATMs in Post Offices. The CMA has seen evidence that other large BBSs do not and would not compete for Premium FTU Customers,<sup>49</sup> including Bol, which will be focussed on serving its existing Post Office branches.<sup>50</sup>

147. Table 5 shows that NoteMachine is the second largest IAD within the Premium FTU Customer segment, similarly sized to both Parties. NoteMachine submitted that [REDACTED]. This confirms that NoteMachine is actively

<sup>48</sup> As defined in paragraph 58.

<sup>49</sup> A number of large BBSs are selling their off-branch ATM estates. For example, based on LINK data, the number of HSBC’s off-branch ATMs has decreased from 902 to 202 since 2013, of which 220 were acquired by DCP in 2015. Similarly, the Parties submitted that Cardtronics acquired 310 off-site ATMs from Lloyds in July 2016. This indicates that their competitive constraint with respect to off-branch locations will be limited.

<sup>50</sup> See footnote 39.

competing for Premium FTU Customers in the UK and will continue to do so. NoteMachine is a particularly close competitor to Cardtronics, as both are the only IADs having cash-in-transit services in-house, which enables them to be more successful when bidding for customers requiring full placement service model.

148. YourCash submitted that [X]. PayPoint submitted that [X]. Therefore, the evidence collected by the CMA indicates that YourCash and PayPoint do not impose a competitive constraint on the Parties with respect to Premium FTU Customers.
149. Consistent with the shares of supply data, smaller BBSs and other IADs have a niche focus on Transport Hubs, and in particular on locations with foreign exchange requirements, ie where ATM users are foreign card holders. This has been confirmed by the market testing undertaken by the CMA. Moreover, the CMA has not seen evidence of any of the smaller BBSs and/or other IADs planning to expand beyond their niche customer segment in the next two years.
150. Based on the above evidence, the CMA believes that RBS, Barclays and NoteMachine impose a significant competitive constraint on the Parties with respect to the supply of ATMs to Premium FTU Customers in the UK. The CMA found that YourCash and PayPoint, as well as smaller BBSs and other IADs (except for customers at Transport Hub locations) do not impose a competitive constraint on the Parties with respect to the supply of ATMs to Premium FTU Customers in the UK.

*Conclusion on competitive constraints from alternative deployers*

151. Based on the above evidence, the CMA believes that at least three alternative ATM deployers (ie RBS, Barclays and NoteMachine) will continue to impose a significant competitive constraint on the merged entity post-Merger, and that smaller BBSs and other IADs will impose a competitive constraint on the merged entity with respect to Transport Hub locations. The CMA therefore believes that there will remain sufficient competitors post-Merger to effectively constrain the merged entity with respect to the supply of ATMs to Premium FTU Customers in the UK.

*Conclusion on horizontal unilateral effects*

152. As set out above, the Parties' combined share of supply of ATMs to Premium FTU Customers in the UK is not high enough to raise *prima facie* competition concerns, and the increment arising from the Merger is negligible. The evidence collected by the CMA shows that the Parties are not particularly

close competitors with respect to the supply of ATMs to Premium FTU Customers in the UK, and that there will remain sufficient competitors post-Merger to effectively constrain the merged entity. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of ATMs to Premium FTU Customers in the UK.

## **Conclusion**

153. Overall, the CMA has concluded that the Merger does not give rise to a realistic prospect of an SLC in the supply of ATMs to site owners (including for IAD Dependent Customers and Premium FTU Customers) in the UK.

## **Supply of ATMs to ATM users on a local basis**

154. As mentioned in paragraph 60 above, ATM deployers compete to have their ATMs located in sites which are likely to have a high number of transactions by ATM users. Once it has been agreed with the site owner to locate the deployer's ATM at that site, the ATM deployer will choose, together with the site owner, whether the ATM at that site will be FTU or PTU. This choice is influenced by a number of factors:

- (a) the level of expected transactions on an ATM: FTU ATMs receive lower revenue per transaction (the LINK interchange fee) than PTU ATMs (a surcharge to the ATM user) (see paragraph 35). As such, FTU ATMs need to generate a high number of transactions in order to be profitable for the deployer and attractive for the site owner. In contrast, PTU ATMs are sustainable at far lower levels of transactions, although higher levels of transactions at a PTU ATM will make such ATMs highly profitable for the deployer and the site owner given the higher revenue per transaction relative to FTU ATMs.<sup>51</sup> Accordingly, FTU ATMs will not be suitable at sites where footfall would be insufficient to make these profitable.
- (b) the preferred strategy of the site owner: FTU ATM may also benefit the site owner by leading to greater footfall at the site which, along with the availability of cash from the ATM, may lead to ATM users making increased purchases at the site. This potential benefit is likely to be considerably weaker for PTU ATMs, given ATM users' preferences for withdrawing cash for free, ie using a FTU ATM (paragraph 44). Therefore, the potential number of transactions on an ATM, as well as its role in

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<sup>51</sup> See footnote 18.

attracting additional customers to a site, influences the choice between an FTU ATM and a PTU ATM.

(c) location and proximity of rival ATMs: the choice is also likely to be influenced by the location and proximity of other ATMs in the vicinity, and whether these are PTU or FTU, as these will affect the volume of transactions on that ATM.

155. If it is decided that the ATM will be PTU, then the deployer will choose, also in conjunction with the site owner, what the surcharge fee will be. The choice of the surcharge fee will also generally be influenced by the location and proximity of other ATMs in the vicinity, whether these are FTU or PTU and, if the latter, what surcharge fees they have. In this way, once the locations of ATMs have been established, ATM deployers compete with each other through the level of surcharge they set. Therefore, price is set locally, depending on local competitive conditions.
156. In light of the aforementioned factors, the CMA is concerned that, in certain local areas, the Merger could lead to a change in the incentives of the Parties as a result of insufficient remaining competition. This could lead to: (i) reduced availability of FTU ATMs (through conversion of FTU ATMs into PTU ATMs); and/or (ii) increased surcharge fees on existing PTU ATMs. The CMA has expanded upon the nature of these concerns below.
157. Prior to the Merger, DCP may have chosen, with the site owner, for an ATM at a particular site to be FTU, in part, due to the presence of a Cardtronics' FTU ATM nearby. If DCP were to choose to make the ATM at this site PTU, then a substantial proportion of ATM users may switch to the Cardtronics FTU ATM. This would reduce directly the ATM revenue at the DCP site and also reduce the additional purchases which ATM users may make at that site.<sup>52</sup> In this way, the Cardtronics' FTU ATM may constrain the DCP site to remain FTU.<sup>53</sup> However, in the absence of the constraint from the Cardtronics' site, DCP (and the site owner) may find it profitable to convert the ATM from FTU to PTU in order to earn higher ATM revenues.
158. After the Merger, the incentives of the Parties may be expected to change. By way of example, converting an ATM machine from FTU to PTU at a DCP site will still lead to a loss of footfall at that site. However, if ATM users continue to

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<sup>52</sup> The additional purchases which may be made at a site due to the presence of an ATM do not affect the revenue that the IAD receives, but do affect the benefit that the site owner receives from having an ATM at the site. Given that the decision on whether an ATM will be FTU or PTU is taken jointly by the IAD and the site owner, these additional revenues are relevant to the decision, even if they do not directly impact on the incentives of the IAD.

<sup>53</sup> Similarly, the Cardtronics' FTU ATM is likely to place a competitive constraint on the DCP's FTU ATM.



use the ATM at the DCP site (and pay a surcharge fee) or switch to the nearby Cardtronics' ATM, the Parties may be better-off due to the higher per-transaction revenue earned at the DCP site. Indeed, it is plausible that the Parties could choose, with the agreement of the site owner and depending on local competitive conditions, to convert both the DCP and Cardtronics ATMs from FTU to PTU in order to capture higher revenues per transaction.<sup>54</sup> Therefore, the loss of an independent competitive constraint may lead to a conversion of some of the Parties' ATMs from FTU to PTU, with ATM users being made worse-off.

159. The concern is similar in relation to the Parties' ATMs which are already PTU. The Merger may change the incentives of the Parties in relation to the surcharge fee they set, rather than whether they would convert the ATMs from FTU to PTU. For example, the surcharge fee of a DCP ATM in a particular area may be constrained pre-Merger by the surcharge fee charged on a nearby Cardtronics' ATM. If the surcharge fee at the DCP ATM were increased, then ATM users may switch to using the Cardtronics ATM, making the surcharge fee increase unprofitable (both for the deployer and the site owner). However, following the Merger, the surcharge fee increase may be profitable because the Parties would recapture the transaction revenues of those DCP ATM users switching to the Cardtronics ATM, as well as earning higher revenues per transaction for those ATM users who continue to use DCP's ATM. Indeed, depending on the local competitive conditions, it may be profitable post-Merger for the Parties to increase surcharge fees at both DCP's and Cardtronics' ATMs.
160. The CMA notes that, and as explained above, a site owner may resist these changes if it is not sufficiently compensated for any loss in revenue as a result of reduced ATM transactions and reduced footfall thereby leading to reduced in-store spend. In such circumstances, the incentives of the site owner and the Parties would not be aligned. Therefore, the CMA's assessment of this theory of harm considers the ability and incentive of both ATM deployers and site owners to: (i) convert FTU ATMs into PTU ATMs; and/or (ii) increase surcharge fees on existing PTU ATMs.

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<sup>54</sup> As discussed further below, this would necessitate gaining agreement from both site owners (that with DCP's ATM and that with Cardtronics' ATM) and the Parties compensating them both for any loss of revenue from foregone sales at the site which arose due to the presence of the FTU ATMs.

### **Conversion of FTU ATMs into PTU ATMs**

161. The CMA assessed whether the Merger would lead to a reduction in the availability of FTU ATMs, through conversion of FTU ATMs into PTU ATMs, and thus bring about an effective price rise to ATM users.
162. The Parties submitted that:
- (a) site owners are unlikely to accept a conversion because they typically look to attract footfall into their sites through the provision of the ATM service (ie site owners' and ATM deployers' incentives are not aligned);
  - (b) many site owner contracts (particularly with large site owners) prevent deployers from turning FTU ATMs into PTU ATMs and the provision of only FTU ATMs is often one of the main stipulations of tenders; and
  - (c) a conversion of a FTU ATM into PTU would lead to a reduction in the number of transactions and/or a loss of footfall, which ultimately could lead to a reduction of sales in that site owner's store. As such, a site owner agreeing to the conversion of a FTU ATM into PTU would need to be compensated by the deployer for the loss of this revenue and/or footfall. Revenue received from an ATM is shared with a site owner hosting that ATM by way of split commission. Therefore, any additional revenue from diverted and recaptured customers would have to be shared with the site owner recapturing those diverted transactions, watering down any additional revenue received from diverting customers and thereby reducing any incentive to convert the ATM from FTU to PTU.
163. One third party expressed concerns that if a deployer owns a large share (or all) ATMs in an area, it is likely to have incentives to convert all ATMs to PTU. Several other third parties also expressed concerns. For example:
- (a) *'There is a risk that the surcharge will become the rule rather than the exception'*;
  - (b) *'We envisage a lower number of FTU ATMs and customer usage fees increasing'*;
  - (c) *'Less competition could result in less free ATM's or even less ATM's available for users'*;
  - (d) *'Less competition between deployers could lead to more PTU ATM's and potentially limit number of transactions'*.
164. The CMA therefore assessed the Parties' ability to convert FTU ATMs into PTU ATMs post-Merger at their discretion and also whether site owners would

be likely to agree to such a change. For the purposes of this assessment, the CMA has considered:

- (a) contract terms;
- (b) third party submissions;
- (c) evidence from interviews conducted with each of Cardtronics and DCP's BDMs; and
- (d) conversion data provided by the Parties.

165. The terms outlined in the Parties' standard contracts with customers allow for the possibility to convert FTU ATMs into PTU ATMs, however, only in limited circumstances. For example, Cardtronics' contract terms state that it shall be entitled to introduce a surcharge fee on an ATM if, [X]. DCP's contract terms state that, [X]. The CMA therefore believes that the ability of the merged entity to unilaterally convert FTU ATMs into PTU ATMs would be limited to these specific situations under the current contractual terms.<sup>55</sup> Therefore, it is not clear that the Parties would have the ability to convert FTU ATMs due to the change in incentives that the Merger creates, described above.

166. In addition, the vast majority of site owners who responded to the CMA submitted that if a deployer asked them to convert their FTU ATM into a PTU ATM, they could and would refuse to do so. The majority of site owners explained that they could refuse such conversion under the terms of their contracts. For example, these customers submitted:

- (a) *'We would not convert our FTU ATMs into PTU ATMs, as our strategy is to have FTU machines. If a deployer insisted on replacing our FTU ATMs with PTU ATMs, we would need to go out to tender and choose another deployer'*;
- (b) *'I would ask them to remove it if it became a PTU'*;
- (c) *'Yes we would refuse - we want to encourage people to use it and spend money in our premises'*.

167. The CMA notes, however, that the majority of site owners which responded to the CMA were customers hosting five or more ATMs, which indicates that the views of customers with a very small number of ATMs may be unrepresented.

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<sup>55</sup> Although the Parties could seek to alter their contract terms, if they altered these in a way which was unappealing to the site owner, then the site owner could choose to switch to another ATM deployer whose terms were more agreeable.

168. Consistent with the contract terms (paragraph 165), competitor responses indicated that the conversion is most likely to happen on occasions where a FTU ATM is not economically viable due to transaction volumes. For example, one competitor submitted: [Conversion from FTU into PTU ATM] *very rarely happens as the customer would rather have no ATM if he can't have a FTU. [Conversion would happen] if a FTU is not transacting well, there are no other FTU ATMs nearby and the customer wants to retain an ATM even if it means applying a surcharge*'.
169. BDMs of both Parties explained that, although conversions of ATMs from FTU into PTU happen, these are rare and are usually initiated by a site owner. As discussed below, BDMs explained that it is highly unlikely that the site owner would accept any attempt to convert a FTU ATM into a PTU ATM, as it would have a large impact on the withdrawal volumes and footfall, leading to less in-store spending. This is reflected by the Parties' marketing material, which emphasises an ATM as a factor attracting customers to a store.
170. The Parties submitted that switching between PTU and FTU ATMs (and vice versa) usually becomes appropriate as a result of changing market dynamics, eg a new FTU ATM being placed in the vicinity. The Parties submitted ATM conversion data, which indicates that, between 2014 and 2016, Cardtronics converted [X] ATMs from FTU to PTU due to either 'contractual',<sup>56</sup> 'competition'<sup>57</sup> or 'loss making' reasons. In the context of a portfolio of approximately [X] FTU ATMs in 2016, the number of conversions has therefore tended to be relatively small and appears to be frequently due to contractual requirements when an ATM is underperforming against agreed thresholds. There is little evidence that conversions have occurred due to either of the Parties gaining greater concentration in a particular area.
171. The CMA recognises that contracts can be amended going forward, however, the CMA believes that any such amendments would face strong resistance from site owners, potentially leading to switching to other ATM deployers.
172. Based on the above evidence, the CMA believes that the Parties would have limited ability to convert FTU ATMs into PTU ATMs post-Merger. The CMA has nevertheless considered below the Parties' incentives to convert FTU ATMs into PTU ATMs post-Merger. The CMA also assessed whether site

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<sup>56</sup> Where a site-owner was required by its contract with the IAD to make the conversion. Such contractually required conversions tend to be prompted by market and environment changes or a change of ownership that may have taken place with the business/property. For example, if an ATM's level of transactions falls below certain thresholds, then the ATM may no longer be profitable to the IAD. The IAD may respond by requiring the ATM to be converted from FTU to PTU, or occasionally from PTU to FTU, in order to increase revenues at the ATM.

<sup>57</sup> Where a customer has been approached by a competitor with a competing offer, or where a competitor has installed another ATM within close proximity (thereby affecting ATM usage levels).

owners would be likely to agree to convert their ATMs from FTU to PTU, particularly if the Parties could not require this without the site owner's permission.

173. The Parties submitted that PTU ATMs are being replaced by FTU ATMs and that it would be irrational for site owners (and the Parties) to seek to convert ATMs in the other direction. The Parties submitted that site owners are likely to be interested in attracting customers to their shops, and that an ATM is likely to be a significant factor for customers to visit a store (paragraph 37), which is reflected in the Parties' marketing material.
174. Whilst the CMA has collected evidence which indicates that IADs have incentives to deploy as many PTU ATMs as possible for greenfield sites, determination of the type of ATM deployed at a particular site is driven by the local area characteristics, ie FTU ATMs will only be suitable for high footfall locations (see paragraph 50(a) above). Where the deployer, together with the site owner, agree that a FTU ATM is economically viable in a local area, it is also used by site owners to drive footfall and spend in-store.
175. As such, the CMA agrees with the Parties' submission that any site owner agreeing to the conversion of an FTU ATM into PTU would need to be compensated by the deployer for the loss of this revenue and/or footfall. Indeed, this conversion could lead to a large reduction in footfall and a fall in customer expenditure for the site owner, which would then need to be compensated by the deployer, in addition to any loss of ATM revenue due to the conversion.<sup>58</sup> Given that the required compensation to site owners would likely be high, and the strength of feeling against such conversions as expressed by the site owners, the CMA considers that the incentives of the Parties to convert an ATM from FTU to PTU, once established, are low. This is supported by the fact that only a very small number of conversions have happened in the last three years and typically in situations where an FTU ATM is no longer economically viable.

### *Conclusion*

176. Based on the above evidence, the CMA believes that the Parties would have a limited ability to convert their FTU ATMs into PTU ATMs at their discretion. In addition, site owners would be unlikely to agree to such conversion and that it would be costly, and likely unprofitable, for an ATM deployer to compensate a site owner sufficiently in order for it to agree to a conversion. The CMA

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<sup>58</sup> BDMs of the Parties also explained that some site owners saw their provision of an FTU ATM as a resource to their community and that site owners would be concerned about reputational damage were they to convert a FTU ATM to a PTU ATM.

therefore believes that the Merger does not give rise to a realistic prospect of an SLC as a result of FTU ATMs being converted into PTU ATMs.

### ***Increase in surcharge fees on existing PTU ATMs***

177. The CMA's evidence gathering indicated that there are a wide range of surcharge fees that IADs charge at ATMs, ranging from £0.5 to £10, but these are most frequently set at the following price points: (i) £1.50 at 17% of PTU ATMs; (ii) £1.75 at 23% of PTU ATMs; (iii) £1.85 at 21% of PTU ATMs; and (iv) £1.95 or £1.99 at 16% of PTU ATMs. In addition, the CMA found that surcharge fees are varied within contract periods and that the Parties review surcharge levels at their ATMs periodically and adjust them when it appears profitable to do so.<sup>59</sup> This evidence indicates that surcharges may be changed and that this may occur in response to local competitive conditions.<sup>60</sup>
178. On the other hand, DCP's BDMs explained that, although they may increase a surcharge, this rarely happens. Cardtronics' BDMs said that the only instance in which a surcharge fee would be increased is if the customer wanted to generate more revenue from an ATM. BDMs of both Parties said they do not proactively and systematically monitor the surcharge fees on their, or their competitors', ATMs, nor do they seek to re-optimize these surcharge fees on a regular basis given local competitive conditions, such as the surcharges of ATMs in an area. They do, however, monitor the number of transactions closely in the first few months of deployment to evaluate whether they have set the correct fee/ATM model.
179. The CMA assessed whether the Merger would lead to increased surcharge fees on existing PTU ATMs post-Merger. The CMA has considered whether, depending on local competitive conditions, the Parties would have the ability and incentive to increase surcharge fees on their ATMs as a result of the Merger. In making this assessment, the CMA has also considered whether site owners are likely to be sufficiently compensated such that their incentives would align with deployers' in increasing surcharge fees. For the purposes of this assessment, the CMA has considered:
- (a) contract terms and the alignment of incentives between ATM deployers and site owners;
  - (b) third party submissions; and

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<sup>59</sup> See paragraph 186.

<sup>60</sup> This view is supported by the views of third parties. For example, one third party indicated that '*Cardtronics has historically been fairly aggressive in their approach to raising surcharge value on its own estate*'.

(c) evidence from internal documents.

### *Contract terms and the alignment of incentives*

180. The Parties submitted that site owners' incentives would not be aligned with those of ATM deployers' because an increase in surcharge fees would reduce the number of ATM transactions at the site owner's premises and as such reduce both ATM transaction revenue and site footfall and associated spend at the site, which would in turn decrease any additional revenue from diverting customers (as the additional revenue would need to be shared with the site owner recapturing diverted transactions).
181. The terms outlined in the Parties' contracts with customers allow both DCP and Cardtronics to increase, at their discretion, surcharge fees on PTU ATMs. For example, Cardtronics' contract terms state: [redacted]. DCP's contract terms state that for a PTU ATM, [redacted].
182. Although the Parties have the ability to increase surcharge fees at their discretion, the CMA understands that an ATM deployer may wish to ensure that the site owner agrees to the change in surcharge. Otherwise, the deployer risks losing the site owner to a competitor deployer at the end of the contract. Customer views were mixed about whether they would support an increase in the surcharge fee; the majority indicated that they would not support this, however, the CMA notes that the views of smaller multi- and single-site owners are unrepresented (see paragraph 114).
183. The CMA recognises that compensating site owners for reduced transaction revenue and the associated spend from reduced footfall may be considerable for site owners converting an ATM from FTU to PTU. However, the CMA notes that footfall generation for PTU ATMs is generally significantly lower than for FTU ATMs.<sup>61</sup> In addition, PTU ATM site owners may be more driven by revenues delivered by a PTU ATM than by potential revenue from increased footfall.<sup>62</sup> The CMA has seen some evidence from the Parties' historic changes of surcharge fees at their behest and site owners agreeing to such alterations.
184. The Parties' contract terms may allow for site owners to retain a share of the increment of the increased surcharge fee and thereby be compensated for

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<sup>61</sup> Due to ATM users' preference to use FTU ATMs (see paragraph 44).

<sup>62</sup> For example, BDMs told the CMA that, at a site where both a FTU and a PTU ATM would be economically viable, a site owner will choose a PTU ATM if it wishes to make additional revenue from an ATM, or a FTU ATM if it wishes to increase footfall at the site. Therefore, when a site owner has already chosen to install a PTU ATM, this may indicate that it is less interested in additional footfall and more interested in ATM commission revenues.

any loss of revenue or footfall following the surcharge increase.<sup>63</sup> Therefore, if the Parties found it profitable to increase the surcharge fees on all of their ATMs in a local area, then the increase in ATM commission revenue would be automatically shared with the site owner. This mechanism enables ATM deployers to align the incentives of site owners with their own.

### *Third party submissions*

185. The evidence above was supported by concerns raised by several third parties. For example:

- (a) *'We envisage a lower number of FTU ATMs and customer usage fees increasing'*;
- (b) *'Less competition could reduce sites or increase costs to users'*;
- (c) *'Possible [...] increase in PTU surcharge fees'*;
- (d) *'Less price competition on PTU'*;
- (e) *'Cardtronics has historically been fairly aggressive in their approach to raising surcharge value on its own estate'*.

### *Internal documents*

186. The Parties' internal documents suggest that systematic surcharge fee reviews do happen:

- (a) DCP's internal document states: [REDACTED].
- (b) Cardtronics submitted the reasons behind each change in the surcharge fees on their PTU ATMs. Among others, the reasons included a number of [REDACTED], which is consistent with the evidence from DCP's internal documents suggesting that surcharge fee reviews do happen.
- (c) Cardtronics' internal document suggests that the surcharge revenue may be affected by competition: [REDACTED].<sup>64</sup>

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<sup>63</sup> If necessary, the Parties could also amend the terms of their contracts with the affected site owners in order to ensure that site owners receive sufficient compensation for any potential loss of ATM commission revenue or foregone sales due to lower footfall, provided that it would remain more profitable. Overall, the CMA believes that a renegotiation of terms is not a complicated process, especially if it means that the site owner would receive higher revenue.

<sup>64</sup> The CMA understands that this particular internal document does not relate specifically to the UK. However, this general statement may still be applicable to the UK market conditions.



187. This evidence suggests that the Parties have previously systematically increased surcharge fees and would do so again if it were in their financial interests.

### *Conclusion*

188. Overall, relative to converting ATMs from FTU to PTU, the Parties' contracts make it easier to increase a surcharge fee and it appears considerably easier and less costly to compensate site owners for an increase in surcharge fees relative to converting FTU ATMs to PTU (see assessment above). Evidence gathered by the CMA indicates that surcharge fee increases have been implemented in the past. Therefore, the incentives of deployers and site owners can be aligned in relation to increases in ATM surcharges if it is profitable for both parties to do so.
189. Based on the above evidence, the CMA concluded that the Parties have the ability to increase surcharge fees on existing PTU ATMs post-Merger. The CMA is also of the view that the incentives of site owners are likely to be aligned with those of the Parties in circumstances where there is limited post-Merger competition from rival ATMs in a local area thereby making it profitable to increase the surcharge for both parties to the contract.

### ***Out of market constraints***

190. The Parties submitted that there are a number of methods that consumers can use to withdraw cash, including ATMs, debit card cashback, card withdrawals at BBSs or post office counters, cheque encashment and passport withdrawal, although ATM withdrawals still remain the most popular method for withdrawing cash. The Parties also submitted that ATMs are competing with the increasing use of alternative payment methods (eg mobile payments, contactless) and that any switch of ATMs from FTU to PTU, increase in PTU surcharges or reduction in quality would further encourage consumers to switch to these payment methods.
191. According to Payments UK, the number of cash payments, as well as the cash share of total consumer payment values, has been declining since 2005. Meanwhile, regular payments by debit card have increased fivefold in the past ten years<sup>65</sup> and contactless payments increased by 26% in the last year.<sup>66</sup> The impact of these out of market constraints are set to result in the total

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<sup>65</sup> Payments UK, 'UK Cash & Cash Machines Trends in cash payments, cash machine deployment and usage, and other forms of cash acquisition' (2016) page 12.

<sup>66</sup> The UK Cards Association, 'Shift to cards continues as consumers go contactless and spend online' (2015) page 2.

volume of cash withdrawals declining by 2% per year going forward.<sup>67</sup> Forecasts predict that by 2025, cash payments will drop to being used for just over 27% of payments.<sup>68</sup> Moreover, with banks looking to develop payments through mobile and online channels, their focus is moving to prioritise these over ATM networks as the need for cash diminishes. Notwithstanding any decline, cash remains an important payment method, with a total of £17.2 billion cash payments being made in 2015, equating to 45% of all UK payments.<sup>69</sup> There were 2,797 million cash withdrawals in 2015, a slight decline from 2,830 million in 2014.<sup>70</sup>

192. The CMA notes that alternative payment methods may not be available 24 hours a day, or a user may need to queue and buy something from a shop to get the cash back. Some (in particular smaller) stores may not offer the possibility to pay by card, or may charge a fee for purchases that are lower than a specified amount. Moreover, in certain circumstances consumers may still require cash for other personal reasons (eg payment for services).
193. In light of the above, even though alternative payment or cash withdrawal methods will impose some out of market competitive constraint on the merged entity, this constraint will not be sufficient to ensure that there is no realistic prospect of an SLC arising from the Merger. The CMA has, however, taken account of the constraint from alternative payment or cash withdrawal methods in the assessment of the effect of the Merger on local areas.

### ***Conclusion on horizontal unilateral effects for ATM users***

194. Based on the above evidence, the CMA found that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of ATMs to ATM users and through an increase in surcharge fees on existing PTU ATMs. The CMA considers that an SLC may result in those local areas where the Parties will face an insufficient competitive constraint from rivals' ATMs post-Merger and, therefore, the CMA has carried out a filtering exercise to identify those areas where competition concerns arise.

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<sup>67</sup> Payments UK, 'UK Cash & Cash Machines Trends in cash payments, cash machine deployment and usage, and other forms of cash acquisition' (2016) page 12.

<sup>68</sup> Ibid (see also Global ATM Market and Forecasts to 2020 page 20-21).

<sup>69</sup> Payments UK, 'UK Cash & Cash Machines Trends in cash payments, cash machine deployment and usage, and other forms of cash acquisition' (2016) page 12.

<sup>70</sup> Payments UK, 'UK Cash & Cash Machines Trends in cash payments, cash machine deployment and usage, and other forms of cash acquisition' (2016) page 56.

## ***Catchment areas and filtering***

### *Catchment areas*

195. The Parties have undertaken a local area analysis and have presented results for different radii (using straight line distances),<sup>71</sup> while centring the analysis on the Parties' PTU ATMs – centroids.<sup>72</sup>
- (a) 200 metres and 500 metres for urban areas; and
  - (b) 500 metres and 1 km for rural areas.
196. As discussed in paragraph 73, the CMA considers 0.2 miles (ie 320 metres) and 500 metres to be an appropriate starting point for assessment of both rural and urban areas. The CMA, however, has not been able to verify that these distances are appropriate and can be applied to each local area. The CMA therefore believes that in some cases these distances may need to be adjusted in order to reflect local competitive conditions. Therefore, the CMA has taken a cautious approach by looking at both (i) 200 metres and 500 metres for urban areas; and (ii) 500 metres and 1 km for rural areas, in order to identify whether there are local overlaps.

### *Filtering exercise*

197. The CMA notes the following in relation to the supply of ATMs to ATM users on a local basis:
- (a) first, as set out in paragraph 42, from an ATM user's perspective, the nature of the service received from an ATM is commoditised, ie withdrawal of cash;
  - (b) second, as set out in paragraph 44, ATM users may travel some distance to reach a FTU ATM or a PTU ATM with a lower surcharge fee; and
  - (c) third, due to the commoditised nature of the services provided by ATMs to ATM users, the Parties are equally close competitors to each other as they are to any other deployer (including BBSs) in a particular local area.
198. The Parties submitted that a 3-to-2 or worse threshold is appropriate to reflect the combination of: (i) the almost entirely commoditised nature of the ATM offer; (ii) substantial and growing out of market constraints; and (iii) the

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<sup>71</sup> The CMA does not consider that, whether it applies straight line or walking distances, is likely to be determinative of its conclusions.

<sup>72</sup> Centroid ATM is the ATM on which the local analysis was centred.

influence of site owners. The Parties submitted that, in effect, those three factors in combination count for at least one extra fascia, and thus a 3-to-2 is in effect at least 4-to-3, by comparison to a local case without those factors.

199. In the specific circumstances of this case, the evidence the CMA received from third parties generally supported the Parties' submissions. Accordingly, in the present case the CMA considered local areas where the reduction of the number of competitors is 3-to-2 or lower as potentially raising competition concerns.
200. The Parties proposed a number of rules and sensitivities to filter out local overlapping areas which are not likely to cause competition concerns (see Annex 1).<sup>73</sup> However, based on the evidence collected, the CMA has not been able to verify all of the rules and sensitivities proposed by the Parties (mainly because the radius over which other nearby ATMs would constrain the centroid is not clear (paragraphs 71-72)). The CMA sets out the rules and sensitivities it applied for the filtering purposes in this case below.
201. The CMA has concluded that the Merger will not result in competition concerns through conversion of FTU ATMs into PTU ATMs (paragraphs 161-176). Therefore, the CMA believes that it is appropriate to only consider PTU centroid ATMs in its assessment of local competition for ATM users, ie by removing all FTU ATM centroids.
202. The CMA has also applied rules relating to 'captive' ATMs, ie ATM centroids at certain locations, where they do not constrain, and are not constrained by other ATMs because they are in enclosed locations where consumers are very unlikely to look for alternatives. These locations are: (i) bingo halls; (ii) casinos; (iii) gentlemen's clubs; (iv) night clubs; (v) race courses; (vi) holiday parks; (vii) theme parks; (viii) military bases; (ix) private ATMs;<sup>74</sup> and (x) workplace ATMs.<sup>75</sup> The CMA believes that these 'captive' ATMs should be removed from the analysis. This applies across the full range of ATMs:
- (a) ATMs being centred on (ie 'captive' centroids);
  - (b) the Parties' overlapping 'captive' ATMs; and

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<sup>73</sup> The Parties applied an incremental approach by first centring the local analysis on DCP's ATMs – centroids. DCP's centroids that led to a 3-to-2 or worse reduction in the number of competitors were notionally divested to a single new competitor. The analysis was then centred on all Cardtronics' ATMs and the incremental number of Cardtronics' centroids that led to a 3-to-2 or worse reduction in the number of competitors were identified.

<sup>74</sup> This means ATMs with no public access.

<sup>75</sup> The CMA has not been able to verify the appropriateness of removing centroid ATMs at pubs, as the CMA has seen evidence indicating that pub site owners may monitor nearby ATMs and adjust surcharge fees on their ATMs accordingly.

- (c) competitors' 'captive' ATMs.
203. Finally, the CMA found that FTU ATMs impose a stronger constraint on PTU ATMs than the other way around. For example:
- (a) one competitor submitted that *'it is very difficult to make a PTU work when it is in the vicinity of a FTU as people will not pay when they can access their cash for nothing'*;
  - (b) one competitor submitted that *'there is effectively no point operating a PTU machine where there is nearby FTU coverage'*;
  - (c) one competitor submitted that *'a PTU machine is unlikely to perform well if there are FTU machines close by'*.
204. Based on this evidence and the previously discussed internal guidance and submissions of the Parties (paragraph 70), the CMA believes that those PTU ATM centroids where a competitor's FTU ATM<sup>76</sup> is located within (i) 200 metres of the Parties' centroid ATM in urban areas; and (ii) 500 metres of the Parties' centroid ATM in rural areas, should be filtered out. The CMA also considered the potential constraint that a competitor's FTU ATM may have when it is located relatively closer to the centroid of interest. With respect to the catchment areas of (i) 500 metres in urban areas and (ii) 1 km in rural areas, the CMA believes that when a competitor's FTU ATM is located closer to centroid than other Party's ATM, these centroid ATMs should also be filtered out.

### *Conclusion*

205. Therefore, on a cautious basis, the CMA has filtered out only those local areas which did not lead to a reduction in the number of competitors from 3 to 2 or lower within each of the radii indicated in paragraph 195 (whereby the

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<sup>76</sup> The CMA recognises that another Party's FTU ATM might be located within 200 metres (in urban areas) and/or within 500 metres (in rural areas) from the PTU centroid. However, the CMA does not believe that it is appropriate to filter out such local areas, as any ATM users that switch away from a PTU ATM following an increase in surcharge fee would still be recaptured by the Parties. Even though interchange fees gained from a transaction on a FTU ATM are much lower compared to surcharge fees on a PTU ATM, the Parties may deliberately try to drive ATM users to the FTU ATM if, for example, the Parties pay lower commissions to the site owner hosting a FTU ATM.

320 metres radius is captured by using both the 200 metres and 500 metres radii).

### *Results of the filtering exercise*

206. Applying the above approach, there are 848 local areas that do not pass the filters and therefore raise competition concerns. These are listed in Annex 2.

### **Conclusion**

207. The CMA has concluded that the Merger gives rise to a realistic prospect of an SLC in 848 local areas where as a result of horizontal unilateral effects whereby the Parties may be incentivised to increase surcharge fees on existing PTU ATMs thereby harming ATM users.

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

208. The CMA has not received specific evidence of any third party intending to enter and/or expand into any of the local areas where competition concerns have been identified.

209. More generally, the Parties submitted that their activities post-Merger will be constrained given that (i) there will likely always be potential sites for the installation of new ATMs, in particular due to the availability of free-standing/standalone ATM units; and (ii) the barriers to expansion for existing competitors are low. Therefore, there could rapidly be additional ATMs installed in the vicinity in response to any increase in fees of the Parties ATMs following the Merger.

210. The CMA assessed whether entry into local areas of potential concern by deploying a new ATM could mitigate the adverse effects of the Merger on competition for ATM users. The CMA notes that barriers to entry and expansion are area-specific and will therefore depend on the characteristics of each individual local area. Nevertheless, the factors constituting barriers to entry and expansion are generally applicable to all local areas. For this purpose, the CMA has considered:

(a) availability of sites; and

(b) costs to deploy an ATM.

### *Availability of sites*

211. The ability of a competitor to enter an area of concern is directly dependent on the availability of suitable sites that could host an ATM in that particular local

area. If there are no suitable sites, a competitor will not be able to enter in a timely and sufficient manner so as to impose a constraint on the merged entity in an area of concern.

212. The lack of suitable sites might be due to (i) the lack of sites that could host an ATM (ie physical requirements of the site are such that an ATM cannot be located on that site); or (ii) the lack of sites that would be profitable (ie an additional ATM would not generate enough transactions to be profitable because the local demand would not sustain an additional ATM). If there are no suitable sites or if there is likely to be insufficient ATM usage to support a new ATM (due to saturation of ATMs in an area), entry in a particular area may not occur even if the Parties were to increase surcharge fees on their ATMs post-Merger.
213. The evidence collected by the CMA indicates that the overall deployment of ATMs is close to saturation and the availability of suitable sites in the future is likely to be limited. In particular, one third party submitted that the market is close to saturation and therefore entry or expansion might not be easy because there are not many locations where ATMs could be deployed. Another third party also believed the market to be saturated, although there might be situations where a new grocery store opens with a possible new location for an ATM. Two competitors submitted that in general entering new areas or finding a suitable location can be challenging, while another competitor submitted that to profitably expand by entering into new areas is difficult.
214. Evidence on the number of new ATMs deployed shows that while the total number of off-branch ATMs has been increasing in the last four years, the rate of increase has been diminishing (ie in 2014 the rate was 4.1%; in 2015 it was 3.3%; and in 2016 it was 1.1%).<sup>77</sup> This may indicate that the number of suitable sites is decreasing and the number of ATMs may be approaching saturation. In addition, the impact of out of market constraints are set to result in the total volume of cash withdrawals declining by 2% per year (see paragraph 191), indicating that the need for cash, and consequently the deployment of ATMs, is unlikely to expand significantly. This is supported by the report by Retail Banking Research,<sup>78</sup> which states that *'it is possible that UK is approaching its maturity [...] deployers are unlikely to find a large number of new places to install an ATM during the forecasted period.'*

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<sup>77</sup> CMA's calculations based on the LINK data provided by the Parties.

<sup>78</sup> Retail Banking Research, 'Global ATM market and forecasts to 2020, United Kingdom', 2016, page 20.

### *Costs to deploy an ATM*

215. One competitor noted that there is a significant up-front cost of installing a new ATM, which includes the site survey, installation of a communication line, the hardware (ATM) and the physical installation costs.<sup>79</sup> In addition, another competitor submitted that the costs of taking the TTW ATM out can be prohibitive. Given the up-front costs of installing an ATM, as well as removing an ATM, rapid entry is unlikely to occur in response to a price increase in a local area due to the Merger (even if there were sufficient incentives for such entry to occur).

### *Conclusion*

216. Based on the available evidence, the CMA believes that there may be barriers to entry and expansion in the deployment of ATMs in the local areas of potential concern and that therefore entry and/or expansion by third parties cannot be considered to be timely, likely and sufficient to mitigate the adverse effects of the Merger on competition.

### **Impact on the interchange fees faced by BBSs and possible collapse of the LINK network**

217. As discussed in paragraphs 33-34, LINK sets the interchange fee paid by the card issuers (ie BBSs) to IADs for 'not-on-us' transactions. For the purposes of calculating the interchange fee, [X]. This suggests that higher reported costs may result in higher interchange fees payable by BBSs.
218. Some third parties expressed concerns with respect to the Merger stating that it could lead to higher interchange fees faced by BBS, which may in turn lead to the collapse of the LINK scheme.
219. One third party submitted that *'there is a risk that Cardtronics' ATM servicing arm could drive cost into the ATM network.'* Specifically, this third party explained that by growing their share, Cardtronics could potentially drive costs by including maintenance and cash-delivery costs into the ATM network with the knowledge that it will be recovered by the interchange mechanism. This way the merged entity would be able to influence higher interchange fees post-Merger, which would lead to BBSs facing higher interchange fee costs.
220. Several BBSs submitted that they would like interchange fees to be lower, with one third party submitting that LINK's pricing has increased dramatically

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<sup>79</sup> The CMA notes that these costs will tend to be greater when the ATM is TTW due to changes which would often need to occur to the façade of the site.



and has not demonstrated to operate in the interests of end-users. One third party submitted that [REDACTED].

221. The CMA has seen evidence, however, that the Merger would not enhance the Parties' ability and/or incentives to increase the interchange fee by feeding inflated or unrelated costs into the interchange mechanism. With respect to the merged entity's bargaining power within LINK post-Merger, the CMA has seen evidence that the Parties will not gain an increment in voting powers, suggesting that the Merger will not increase the merged entity's bargaining position within LINK.
222. The majority of third parties that responded to the CMA did not foresee the Merger having an adverse impact within LINK, with one third party submitting that, in their view, the Merger would not impact on decision-making within the network.
223. Based on the evidence above, the CMA does not believe that there is a realistic prospect of the Merger resulting in a worsening of terms for BBSs through an increase the Parties' ability and/or incentives to inflate or negotiate higher interchange fees. Accordingly, the CMA does not believe that there is a realistic prospect of the Merger leading to the collapse of the LINK network.

### **Third party views**

224. The CMA contacted customers and competitors of the Parties. Some customers raised concerns in relation to the Merger, indicating that the Merger would lead to the reduction of choice of ATM deployers post-Merger. Some customers expressed concerns regarding local effects of the Merger, in particular through the conversion of FTU ATMs into PTU ATMs, and through increased surcharge fees on existing PTU ATMs. Some competitors also raised concerns regarding the reduction of competition and the size of the merged entity.
225. Third party comments have been taken into account where appropriate in the competitive assessment above.

### **Decision**

226. Based on the evidence set out above, the CMA believes that it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC within a market or markets in the United Kingdom.

227. The CMA therefore believes that it is under a duty to refer under section 22(1) of the Act. However, the duty to refer is not exercised<sup>80</sup> whilst the CMA is considering whether to accept undertakings<sup>81</sup> instead of making such a reference. Cardtronics has until 10 May 2017<sup>82</sup> to offer an undertaking to the CMA.<sup>83</sup> The CMA will refer the Merger for a phase 2 investigation<sup>84</sup> if Cardtronics does not offer an undertaking by this date; if Cardtronics indicates before this date that it does not wish to offer an undertaking; or if the CMA decides<sup>85</sup> by 17 May 2017 that there are no reasonable grounds for believing that it might accept the undertaking offered by Cardtronics, or a modified version of it.
228. The statutory four-month period mentioned in section 24 of the Act in which the CMA must reach a decision on reference in this case expires on 6 May 2017. For the avoidance of doubt, the CMA hereby gives Cardtronics notice pursuant to section 25(4) of the Act that it is extending the four-month period mentioned in section 24 of the Act. This extension comes into force on the date of receipt of this notice by Cardtronics and will end with the earliest of the following events: the giving of the undertakings concerned; the expiry of the period of 10 working days beginning with the first day after the receipt by the CMA of a notice from Cardtronics stating that it does not intend to give the undertakings; or the cancellation by the CMA of the extension.

**Kate Collyer**  
**Deputy Chief Economic Adviser**  
**Competition and Markets Authority**  
**3 May 2017**

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<sup>80</sup> Section 22(3)(b) of the Act.

<sup>81</sup> Section 73 of the Act.

<sup>82</sup> Section 73A(1) of the Act.

<sup>83</sup> Section 73(2) of the Act.

<sup>84</sup> Sections 22(1) and 34ZA(2) of the Act.

<sup>85</sup> Section 73A(2) of the Act.

## Annex 1 Filtering rules and sensitivities proposed by the Parties

The Parties suggested to apply the following filtering rules, in order to filter out non-problematic areas:

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**Rule 1:** Remove centroids at “Transport” sites

**Reason:** Wider geographic market as customers may be travelling

**Rule 2:** Remove centroids at “Motoring” sites and petrol stations

**Reason:** Wider geographic market as customers may be travelling

**Rule 3:** Remove centroids at “Supermarket” sites

**Reason:** Over 99% of ATMs at supermarkets in the LINK data are FTUs and landlord will not allow switch to PTU

**Rule 4:** Remove centroids at major landlords that host FTUs at >90% of their sites\*

**Reason:** Landlord will not allow switch to PTU

**Rule 5:** Remove centroids that have a competitor ATM at a bank branch within 500m

**Reason:** Bank ATMs are universally FTU and very obvious locations for withdrawing cash

**Rule 6:** Remove centroids that have a competitor ATM at a supermarket within 500m

**Reason:** ATMs at supermarkets are universally FTU and very obvious locations for withdrawing cash

**Rule 7:** Remove centroids that have a competitor FTU at a corporate landlord that has 100% FTUs across its sites\*\*

**Reason:** Large landlords may determine the nature of ATM provision and by virtue of being large landlords with universally free ATMS likely to be obvious destinations for consumers searching for a FTU

**Rule 8:** Remove centroids that have a competitor FTU 150m closer to the centroid than the other party’s nearest ATM to the centroid

**Reason:** Diversion will be likely to competitor FTU than other party’s ATM further away

**Rule 9:** Remove centroids where extending the radius 200m beyond the other party’s nearest ATM makes the centroid 4-to-3 or better

**Reason:** Customers can travel a short distance further to access a competitor ATM

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**Centroids, net of filtering based on rules**

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The Parties also suggested application of the following sensitivities:

- (a) removing all Social and Convenience centroid ATMs. The logic for this would be if that CMA establishes that landlords of such premises can and do specify the ATM provision in their premises and do so without reference to the competitive situation; eg, because they want customers to have access to free cash or alternatively that they want to provide an ATM to customers who are essentially captive (such that the ATM may be PTU);
- (b) removing centroids at the premises of all of the large landlords. The logic for this would be if the CMA establishes that large landlords generally dictate the nature of ATM provision in their premises; and

- (c) removing all centroids in urban areas. The logic for this would be if the CMA concludes that barriers to entry are low in urban areas. Alternatively the Parties proposed to consider a variant applicable to a subset of types of urban area.

The Parties further suggested to apply the following filtering rules, in order to filter out non-problematic areas:

- (a) removing centroids where competitor FTU ATM at (i) Branch, (ii) Supermarket, (iii) 'top 40' landlord that is 100% FTU, and (iv) 'non-top 40' landlord that is 100% FTU, is closer than other Party's ATM; and
- (b) removing centroids where competitor ATM at (i) Branch, (ii) Supermarket, (iii) 'top 40' landlord that is 100% FTU, and (iv) 'non-top 40' landlord that is 100% FTU, is within catchment.

## Annex 2

There are 848 local areas that do not pass the filters and therefore raise competition concerns. The table below lists the ATM centroids, relating to local areas which raise competition concerns.

[✂]