

Completed acquisition by PayPal Holdings, Inc. of iZettle AB

Decision on relevant merger situation and substantial lessening of competition

ME/6766/18

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 26 November 2018. Full text of the decision published on 7 January 2019.

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

SUMMARY

1. On 20 September 2018, PayPal Holdings, Inc. (**PayPal**) acquired iZettle AB (**iZettle**) (the **Merger**). PayPal and iZettle are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of PayPal and iZettle is an enterprise; that these enterprises have ceased to be distinct as a result of the Merger; 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 the supply of in-store/offline payment services through mobile point of sale (**mPOS**) devices in the UK. mPOS devices enable merchants to accept card payments using an app downloaded onto a smartphone or tablet, which is connected to a card reader.¹
4. The CMA considered whether it would be appropriate to broaden the product frame of reference beyond mPos devices to include offline payment services

¹ Alternative standalone devices which connect to the payment system via Wi-Fi or a wired or mobile connection devices are referred to as **non-mPOS devices** in this decision.

supplied via non-mPOS devices. In this respect, the CMA considered differences in the structure and costs of contracts between mPOS and non-mPOS devices. The CMA found that mPOS devices are generally supplied on more flexible terms than non-mPOS devices and that there are also significant differences in contract pricing. The CMA therefore considers that offline payment services supplied via mPOS devices tend to be both less expensive and less risky for smaller merchants, who may not take card payments on a regular basis or have low card payment volumes generally. The CMA also found that suppliers of offline payment services via non-mPOS devices face significant barriers when supplying the smaller merchants typically targeted by the Parties.

5. The CMA has therefore assessed the impact of the Merger in the supply of offline payment services via mPOS devices in the UK.
6. Within this frame of reference, the CMA has found that the Parties are by far the two largest UK suppliers, with the next largest competitor having an estimated share of supply below 10%. The CMA believes that the Parties are close competitors, with iZettle exercising a particularly strong constraint on PayPal.
7. While the Parties submitted that [redacted], the CMA found that [redacted]. The CMA also considered that, absent the Merger, there is a realistic prospect that PayPal, through significant investment into PayPal Here, would have developed PayPal Here in order to provide a more compelling mPOS product offering (which would likely have competed more effectively with iZettle than PayPal Here has in the recent past).
8. The CMA also considers that suppliers of offline payment services via non-mPOS devices constrain the Parties only to a limited extent, with the Parties' internal documents, as well as several third-party submissions, confirming this view.
9. The CMA therefore believes that the Merger gives rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in the supply of offline payment services via mPOS devices in the UK.
10. The CMA also assessed whether there may be a loss of actual potential competition for the supply of omni-channel payment services to small, micro and nano merchants. An omni-channel payment service, in its most basic form, refers to the provision of an integrated online and offline payments service, allowing merchants to take all payments through a single provider.

The supply of omni-channel payment services is a nascent market, which is expected to grow significantly in future.

11. PayPal is already present in this market as it supplies both online and offline payment services in the UK. iZettle provides offline payment products and services in the UK and recently started operating a limited e-commerce tool that enables merchants to set up an online store, including an option for end-consumers to pay by card via iZettle online.
12. Consistent with its established guidance,² the CMA assessed whether the Merger leads to horizontal unilateral effects from a loss of actual potential competition by reference to:
 - (a) Whether iZettle would be likely to enter and expand in the absence of the Merger; and
 - (b) Whether such entry and expansion would lead to greater competition.
13. With regard to iZettle's likelihood of entry and expansion, the CMA found that iZettle had already taken concrete steps towards entering this market (in particular by introducing an online e-commerce tool which it described as a form of 'omni-channel' tool) [REDACTED]. iZettle's internal documents show that [REDACTED]. The CMA found that iZettle, particularly through its market-leading position in the supply of offline payment services via mPOS devices in the UK, had a strong ability and incentive to expand its omni-channel capabilities. This view is consistent with evidence from PayPal's internal documents as well as several third-party submissions, which consider iZettle to be a strong potential competitor in the supply of omni-channel payment services to small, micro and nano merchants.
14. The CMA found that iZettle's entry and expansion would have led to greater competition in the market for omni-channel payment services to small, micro and nano merchants. The CMA believes that iZettle has a number of attributes (in particular its market-leading mPOS offering) which would have made it a significant competitive force within the supply of omni-channel payment services to small, micro and nano customers, and an important competitive constraint on PayPal absent the Merger. The CMA also found that the ability and incentive of other potential competitors to effectively constrain PayPal may be limited, in part because [REDACTED] the choice of offline payment services supplier is likely to drive the choice of omni-channel payment services provider.

² [Merger Assessment Guidelines](#), paragraph 5.4.15.

15. The CMA therefore considers that there is a realistic prospect that the Merger results in the elimination of iZettle as a potential significant competitive force for the supply of omni-channel payment services to small, micro and nano customers in the UK and that, in the round, the remaining competitors that appear likely to enter or expand within this segment would not be sufficient to constrain PayPal post-Merger.
16. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of omni-channel payment services to small, micro and nano customers.
17. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). PayPal has until **3 December 2018** 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

18. PayPal is a technology platform company headquartered in San Jose, California. Among other activities, PayPal provides online and offline payment services that allow merchants to accept online and offline card payments (eg Visa, Mastercard and American Express) from end-customers. In the UK, PayPal provides offline payment processing services to merchants through its PayPal Here reader. PayPal's turnover in 2017 was approximately £9.69 billion worldwide and approximately £[REDACTED] in the UK.
19. iZettle, headquartered in Sweden, is a financial technology company that provides payments services solutions with a particular focus on small businesses. iZettle mainly provides payment services that allow merchants to accept offline card payments from end-customers. In the UK, iZettle provides offline payment services to merchants through its iZettle reader. iZettle's turnover in 2017 was approximately £87 million worldwide and approximately £[REDACTED] in the UK.

Transaction

20. PayPal agreed to acquire iZettle for approximately \$2.2 billion under a share purchase agreement dated 17 May 2018. The Merger completed on 20 September 2018.

21. PayPal has submitted that the rationale for the Merger is to combine two complementary product offerings and geographies, in particular PayPal's online payment service solutions with iZettle's in-store, offline product offerings, so as to help build a proposition for merchants, particularly small businesses, to help them grow and manage their businesses with enhanced omni-channel payment solutions.
22. The Parties further submitted that omni-channel payments are becoming increasingly important to merchants and that, post-Merger, the merged entity will be able to offer merchants more enhanced omni-channel payments solutions than either Party would be able to offer on a standalone basis.

Procedure

23. The CMA's mergers intelligence function identified this transaction as warranting an investigation.³
24. The Merger was considered at a Case Review Meeting.⁴

Jurisdiction

25. Each of PayPal and iZettle is an enterprise. As a result of the Merger, these enterprises have ceased to be distinct.
26. The Parties overlap in the provision of offline payment services via mPOS devices. On the basis of total payments volume (**TPV**) data submitted by the Parties, as well as their UK competitors, the CMA estimates that the Parties' combined share of supply for offline payment services via mPOS devices in the UK is [80-90]% with an increment of [20-30]%. The CMA therefore believes that the share of supply test in section 23 of the Act is met.
27. The Merger completed on 20 September 2018 and was made public on the same date. The four-month deadline for a decision under section 24 of the Act is 20 January 2019.
28. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

³ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, paragraphs 6.9-6.19 and 6.59-60.

⁴ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, from paragraph 7.34.

29. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 2 October 2018 and the statutory 40 working day deadline for a decision is therefore 26 November 2018.

Background

Card payments

30. A card payment transaction usually begins with a cardholder using a card to purchase goods or services from a merchant, who in turn seeks the authorisation of the card issuer for the transaction via their 'acquiring bank'. The authorisation request is initiated from the merchant's card reader (a point of sale (**POS**) terminal) and is transmitted electronically to the acquiring bank via a payment service provider (eg PayPal or iZettle) and/or an acquiring processor (eg Worldpay, Global Payments or Barclaycard). In this context, one of the differences between payment service providers and acquiring processors is that the latter have direct contractual relationships with the card schemes (eg Visa and Mastercard) while payment service providers do not, instead transacting with acquiring processors when processing merchants' card payments.

mPOS payment solutions

31. Although credit cards have been in circulation since the 1960s, POS terminals that could read magnetic strips on credit cards were not introduced to the UK until the 1980s. Early POS terminals had to be installed at a customer's facility and connected to the network via a separate phone line. Innovation was limited to the introduction of debit cards in 1987 and incremental improvements in hardware throughout the 1980s and 1990s. At the turn of the century, chip and pin cards, embedded with a microchip on the face of the card and inserted instead of swiped in the payment terminal, started to replace magnetic strip cards in the UK.
32. A significant increase in the pace and degree of change occurred in the last decade with the introduction of new payment methods (eg contactless payments and mobile wallets), as well as the emergence of new payment services business models. One of these innovations has been the development of mPOS, a technology that enables small businesses to accept card payments in the face of declining cash payments.
33. To take card payments through an mPOS device, a merchant signs up to the service, downloads an app, and purchases an mPOS card reader which is connected to a smartphone or tablet. This contrasts to non-mPOS devices,

which are standalone devices that connect to the payment system via Wi-Fi or a wired or mobile connection.

34. The mPOS card reader is supplied for a fixed fee (usually £20-60), and transaction fees are charged for each payment taken. There are no monthly fees, and merchants do not need to open merchant bank accounts. Instead, merchants have to pay a transaction fee to the mPOS provider for each completed transaction.
35. iZettle was founded in 2010, launching its first card reader in the UK in 2012. Jacob de Geer, CEO and co-founder of iZettle, explained in the FT Start-Up Stories podcast of June 2018 that the reason for founding iZettle came from the realisation that: *'There is a massive segment, they are completely underserved from financial services; and payments is the core need of any new business that wants to start up shop because they need to take payments.'*
36. PayPal launched its mPOS product and service, PayPal Here, in the UK in 2013. Both companies have experienced significant growth since their launch, with iZettle becoming one of the fastest growing companies in Europe,⁵ and PayPal Here growing to around [X] active merchants in the UK in 2017. Between them, the Parties processed almost £[X] of card payments via mPOS devices in the UK in 2017. Both PayPal and iZettle have also developed (and continue to develop) a number of ancillary services as part of their mPOS offering, including e-invoicing, cash advances and, as described in further detail below, omni-channel payment services.

Omni-channel payment services

37. A further emerging trend in payment services is the supply of 'omni-channel payment services'. While the scope of the services offered under this banner may vary, the term in its most basic form refers to the provision of an integrated online and offline payments service, allowing merchants to take all payments through a single provider.
38. The Parties submitted that merchants' evolution towards multi-channel sales strategies is expected to increase demand for this kind of integrated service offering. Integrated payment services are also expected to generate material invoicing, inventory management and administration benefits to merchants.

⁵ <https://www.ft.com/content/90ea9b66-4d37-11e8-8a8e-22951a2d8493> (accessed on 26 November 2018).

Counterfactual

39. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual) and considers the effect of the merger compared with the most competitive counterfactual provided that it is realistic. 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.⁶
40. In the present case, the Parties submitted that the appropriate counterfactual should be the pre-Merger conditions. The Parties also submitted, as described in further detail below that [REDACTED].
41. As explained above, the payments services sector is evolving and therefore the CMA has sought to carefully consider how the nature of the competitive interaction between the Parties is likely to develop in future. To this end, the CMA has reviewed a large volume of internal documents relevant to PayPal's rationale for the Merger (including its valuation model for the acquisition and the cost and revenue synergies that it expects to realise), as well as the Parties' commercial strategy absent the Merger. The CMA has also considered evidence from a wide range of third parties, such as analysts that focus on the payment services sector and early-stage investors in the sector, in order to fully assess evolving industry trends and competitive dynamics.
42. The CMA has considered whether it should assess the competitive effects of the Merger against a counterfactual other than the current competitive conditions. For the purposes of a Phase 1 investigation, the CMA has therefore considered whether there is a realistic prospect of a counterfactual that is more competitive than the pre-merger conditions.
43. The CMA notes that the available evidence, [REDACTED], indicates that [REDACTED] having a strong presence within the UK offline payment services sector, through the supply of mPOS devices, as an important driver of customer demand for omni-channel payment services. PayPal's internal documents indicate that [REDACTED].⁷ In its submissions to the CMA, PayPal [REDACTED].

⁶ *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).

⁷ Annex 9.02 to the Merger Notice, Annex 9.05 to the Merger Notice.

44. PayPal's internal documents also show that PayPal believes that it had previously [REDACTED].⁸
45. The available evidence shows that PayPal was considering different options (which included the acquisition of iZettle) [REDACTED]. In particular, PayPal's internal documents show that it was considering (as possible alternatives to the potential acquisition of iZettle):⁹
- (a) Increasing investment into PayPal Here, [REDACTED];¹⁰
 - (b) The acquisition of another mPOS supplier active in the UK [REDACTED].¹¹
46. PayPal submitted that:
- (a) [REDACTED]
 - (b) [REDACTED].
47. The CMA notes, however, that the available evidence (including, in particular, PayPal's internal documents) does not support the position that these alternative courses of action had been dismissed prior to PayPal taking the decision to acquire iZettle. By contrast, the available evidence indicates that PayPal continued to consider these options as viable alternatives up until the agreement to enter into the Merger.
48. Accordingly, the CMA believes that there is a realistic prospect that, absent the Merger, PayPal would (in light of its stated commitment to maintaining a strong presence within this segment) have (i) significantly invested into PayPal Here, or (ii) acquired another mPOS offline payment services supplier in the UK. The CMA considers that both scenarios are more competitive than the pre-Merger conditions, with investment into PayPal Here being the most competitive counterfactual,¹² as this counterfactual would not involve the removal of one of a limited number of key competitors from the UK market.
49. Therefore, the CMA believes that the relevant counterfactual in this case is one in which PayPal, through significant investment into PayPal Here, would have developed PayPal Here in order to: (a) provide a more compelling

⁸ PayPal Response to Section 109 Notice, Annex S103.

⁹ PayPal's internal documents show that it also considered [REDACTED] in order to enter new geographic markets. The CMA notes that this alternative proposal is not relevant to the assessment of the UK markets and it is therefore not considered further in this decision.

¹⁰ PayPal Response to Section 109 Request, Annex S104, PayPal Response to Section 109 Request, Annex S103, Annex 10.05 to the Merger Notice.

¹¹ PayPal Response to Section 109 Request, Annex S103, Annex 9.04 to the Merger Notice, PayPal Response to Section 109 Request, Annex S96.

¹² [Merger Assessment Guidelines](#) (OFT1254/CC2), September 2010, paragraph 4.3.5.

mPOS product offering (which would likely have competed more effectively with iZettle than PayPal Here has in the recent past); and (b) support the continued development of a compelling omni-channel payment service offering to small, micro and nano customers in the UK.

50. With regard to iZettle, the Parties submitted that it was preparing to issue new shares worth around £170 million as part of an initial public offering (**IPO**) and that this planned IPO was abandoned in light of the Merger. iZettle's draft IPO prospectus sets out that, following its IPO, iZettle planned to follow a growth strategy based on [REDACTED]:

(a) [REDACTED];

(b) [REDACTED];

(c) [REDACTED]

(d) [REDACTED].¹³

51. The CMA therefore considers that iZettle's strategy absent the Merger would have involved it taking steps to consolidate and grow its competitive presence as a payment services provider, including by expanding its provision of omni-channel payment services to small, micro and nano customers (as described in more detail at paragraphs 142 to 153 below).

Frame of reference

52. 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 merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.¹⁴

Product scope

53. The CMA's approach to the frame of reference is typically to begin with the parties' overlapping products in the narrowest plausible candidate frame of reference and then to see if this should be widened. The CMA pays particular regard to demand-side factors (ie the behaviour of customers and its effects).

¹³ iZettle Response to Section 109 Request, Annex 13.

¹⁴ [Merger Assessment Guidelines](#), paragraph 5.2.2.

However, it may also consider supply-side factors (ie the capabilities and reactions of suppliers in the short-term) and other market characteristics.¹⁵

Offline payment services

54. The Parties overlap in the supply of offline payment services via mPOS devices in the UK. Both Parties also supply some complementary services for small businesses in the UK, namely e-invoicing and cash advances. However, as iZettle's revenues from these ancillary services are minimal, and the available evidence indicates that there are numerous credible alternative suppliers, the CMA did not identify any competition concerns in these ancillary frames of reference, and they are not considered further in this decision.
55. The Parties submitted that the product frame of reference should be (at least) the supply of offline payment services via POS terminals, ie including the supply of offline payment services via mPOS devices as well as via non-mPOS devices, without any segmentation by type of technology or customer size.

Segmentation between the supply of offline payment services via mPOS devices and non-mPOS devices

56. The CMA considered whether the frame of reference should be widened to include the supply of offline payment services via non-mPOS devices.
- *Demand-side characteristics*
57. The Parties submitted that a segmentation between the supply of offline payment services via mPOS devices and non-mPOS devices is inappropriate. This is because, from the merchant's perspective, mPOS is an iteration of POS, offering the same fundamental service and that furthermore, card terminals in general deliver similar functionality to each other. The Parties further submitted that costs and contract structures of offline payment services via mPOS and non-mPOS devices are highly similar and therefore comparable for customers.
58. The CMA's investigation found that there are broad differences in the structure of costs and contracts between the supply of offline payment services via mPOS devices and via non-mPOS devices. In particular:
- (a) mPOS card readers are typically sold at a low fixed cost, with no monthly costs and no long-term contracts. Fee structures are usually

¹⁵ [Merger Assessment Guidelines](#), section 5.2.17.

simple with a single fixed transaction fee for all card types (although PayPal's fee structure is slightly more complex), with transaction fees being relatively high.

- (b) This contrasts with the typical cost structure of a typical non-mPOS device, which involves purchasing or renting the card terminal, minimum monthly billings and contracts of at least twelve months, with significantly lower transaction fees than those charged for mPOS devices. Suppliers of offline payment services via non-mPOS devices also usually charge different transaction fees for different card types as well as a variety of other fees.
59. The Parties submitted that there is, notwithstanding these differences, no significant overall difference in monthly pricing between offline payment services supplied via mPOS devices and non-mPOS devices. The Parties pointed to evidence from a price comparison website for card machines, which showed that for a merchant with a £3,000 monthly TPV, iZettle would be similarly priced to a number of non-mPOS options. The CMA did not, however, place significant weight on this evidence in particular because:
- (a) Even where total monthly costs are similar, the commercial propositions for customers were significantly different. For example, a large number of the non-mPOS offers included minimum monthly costs, long-term contracts and/or cancellation fees, and therefore have materially different costs and benefits for customers; and
- (b) Costs are not comparable for smaller merchants (eg with a £1,000 monthly TPV), for which iZettle is almost twice as cheap as the cheapest non-mPOS offer.
60. The Parties further submitted that flexible non-mPOS contracts comparable in structure to the Parties' mPOS offering are available to customers, pointing to examples of a number of 'pay-as-you-go' and shorter-term contracts (between three and twelve months) from suppliers of offline payment services via non-mPOS devices. However, the CMA found that the Parties' examples were often more expensive than either of the Parties' offerings in terms of transaction rates and often had significant additional costs attached (eg high upfront fees, charges to make withdrawals to banks accounts). In addition, in some cases, these offers were not as flexible as claimed (eg charging monthly rental fees for the whole contract length, early cancellation fees).
61. The CMA considers that the contract and cost structure of mPOS devices typically makes them a more economical option than non-mPOS devices for many small merchants, such as those with low annual TPV or those with

seasonal businesses that do not need to accept card payments throughout the year. This is confirmed by a case study submitted by the Parties which shows that offline payment services supplied via mPOS devices [REDACTED].

62. The CMA also considers that mPOS devices also carry less commercial risk than non-mPOS devices (a factor that may be a particularly significant driver of commercial decision-making for smaller merchants). The CMA believes that many smaller merchants will not previously have accepted card payments and may therefore have a high level of uncertainty over how many of their customers will want to pay by card (or even how long their businesses might remain active). In these cases, an mPOS device, with minimal fixed costs and no long-term contract tie-in, carries significantly less risk than signing up to a long-term contract for a non-mPOS device.

63. A distinction between mPOS devices and non-mPOS devices is also consistent with the positioning set out in the Parties' business documents, which frequently distinguish between the two types of devices when discussing the competitive landscape [REDACTED].¹⁶

- *Supply-side characteristics*

64. The Parties submitted that offline payment services via mPOS devices and via non-mPOS devices are supply-side substitutes due to the fact that a number of major non-mPOS providers (ie 'traditional' acquirers such as Barclaycard, Global Payments and Worldpay) offer both non-mPOS and mPOS devices to customers and/or offer offline payment services via non-mPOS devices using contract structures that mirror those of mPOS suppliers (eg via 'pay-as-you-go' contracts).

65. Several third parties told the CMA, however, that the customer acquisition models for mPOS devices and non-mPOS devices are materially different. These third parties indicated that suppliers of offline payment services via non-mPOS devices (such as banks and other traditional acquirers) typically use a relatively costly acquisition model, based on telesales and/or referrals from banks or other partners. This contrasts with suppliers of offline payment services via mPOS devices such as the Parties, who primarily use online marketing, which is significantly cheaper.

66. Third parties also told the CMA that traditional acquirers tend to have a relatively cumbersome 'onboarding' process for new customers (eg to ensure

¹⁶ By way of example A PayPal presentation on pricing sets out that [REDACTED] (Annex 10.03 to the Merger Notice); a presentation prepared by financial advisers to PayPal in the context of the Merger refers to [REDACTED] (Annex 9.01 to the Merger Notice); another PayPal presentation on the iZettle acquisition refers to [REDACTED] (Annex 9.05 to the Merger Notice); an iZettle study commissioned ahead of its abandoned IPO discussed [REDACTED] (Annex 10.8 to the Merger Notice).

that all relevant regulatory requirements are complied with), often as a result of legacy systems which prevent them from automatically onboarding new customers, albeit that the CMA also received some evidence that onboarding times have reduced, at least to some extent, over the past few years. Suppliers of offline payment services via mPOS devices on the other hand, have automated the onboarding process, including complying with regulatory requirements, further reducing the effective cost of acquiring customers.

67. Some third parties told the CMA that these barriers mean that targeting smaller businesses can be unprofitable because expected revenues are likely to be low and therefore may not offset the initial acquisition and onboarding costs.
68. The position that 'traditional' acquirers face barriers in customer acquisition is consistent with evidence indicating that suppliers that have introduced mPOS devices, and/or offer non-mPOS devices on contracts mirroring the typical mPOS contract structure, have largely encountered limited success. For example:
 - (a) Worldpay's mPOS offering, which launched in 2014, has a share of supply of [0-5]% within the supply of offline payment services via mPOS devices in the UK. With regard to its 'pay-as-you-go' tariff, Worldpay told the CMA [REDACTED]; and
 - (b) Barclaycard's mPOS offering, Barclaycard Anywhere, which launched in 2014, has a share of supply of [0-5]% within the supply of offline payment services via mPOS devices in the UK. Barclaycard also told the CMA [REDACTED].
69. The evidence received from third parties is consistent with a market study commissioned by iZettle ahead of its planned IPO, which considers [REDACTED].
70. The existence of barriers to supply-side substitution is consistent with evidence showing material differences in competitive conditions between the supply of offline payment services via mPOS and non-mPOS devices. In particular, within the supply of offline payment services through non-mPOS devices, 'traditional' acquirers, such as Worldpay and Barclaycard, account for the vast majority of payment volumes. On the other hand, as set out in more detail in the competitive assessment below, in the mPOS segment, these suppliers have minimal volumes (if they are present at all). Instead, mPOS specialists such as the Parties are the key competitors.

- *Conclusion*

71. Based on the evidence above, the CMA considers that the supply of offline payment services via mPOS devices constitutes a separate frame of reference from the supply of offline payment services via non-mPOS devices. The CMA has, however, taken the constraint exercised by the supply of offline payment services via non-mPOS devices into account, to the extent relevant, within its competitive assessment.

Segmentation of the supply of offline payment services by customer size

72. The CMA considered whether to further segment the product frame of reference by customer size.
73. The Parties submitted that offline payment services are offered across a range of customer segments and that customers of all sizes seek the same types of payment services. The Parties submitted that segmentation of the product frame of reference by customer size would therefore not be appropriate.
74. The CMA found that while there is no industry standard definition for ‘small’, ‘micro’ and ‘nano’ merchants, both Parties use these terms to segment their customers in their internal documents. For example, iZettle segments its customers into [redacted] and defines them by reference to [redacted]. PayPal also segments customers by size, [redacted].
75. Using iZettle’s definitions, PayPal’s offline payment services customer base is comprised [redacted]. While [redacted] merchants also make up the majority of iZettle’s payment volumes, it has had more success in attracting [redacted] as well.
76. Third parties also told the CMA that the Parties have been very successful in targeting small, micro and nano merchants and identified various differences in the characteristics of large merchants and these small, micro and nano merchants.
77. The CMA therefore considers that there is significant evidence to support a segmentation of the supply of offline payment services by customer size.
78. However, as the competitive assessment for the supply of offline payment services via mPOS devices would not materially vary whether carried out on the basis of a single segment for all customers or of separate sub-segments for different customer sizes, the CMA has not had to conclude on the further segmentation of this product frame of reference.

Cash as a constraint

79. The Parties submitted that cash should be included within the relevant frame of reference (or at least within the CMA's competitive assessment), as card payments and cash are largely substitutable, particularly for smaller merchants.
80. The CMA does not believe, however, that it is plausible that large numbers of merchants would switch from mPOS devices to cash in response to a small price increase. In this context, the Parties' internal documents indicate that there are a number of trends which are driving small businesses to start accepting card payments. The CMA believes that these trends are unlikely to be reversed and therefore does not believe that it is plausible that the prospect of merchants switching back to only taking cash would be sufficient to constrain suppliers of offline payment services via mPOS devices from increasing prices. The CMA has therefore not included payment by cash within the relevant frame of reference or placed material weight on cash payment as an out-of-market competitive constraint.

Omni-channel payment services to small, micro and nano customers

81. As described above, a further emerging trend in payment services is the supply of 'omni-channel payment services', ie the provision of an integrated online and offline payment service, allowing merchants to take all payments through a single provider. As set out further in the competitive assessment below, the CMA considers that PayPal is already present within this frame of reference, with iZettle being a potential entrant.
82. In assessing whether a separate frame of reference exists for omni-channel payment services (and, as described further below, whether that frame of reference should be further segmented by customer size), the CMA has considered evidence from the Parties' internal documents, analyst reports and third-party views.
83. The Parties' internal documents indicate that there already is, or will be in the near future, significant customer demand for omni-channel payment services. In addition, the CMA notes that these documents (consistent with the position set out above in relation to the supply of mPOS devices) often focus on supply to smaller businesses rather than to all customer sizes. For example:

(a) [REDACTED];¹⁷

¹⁷ Annex 9.02 to the Merger Notice.

(b) [REDACTED];¹⁸ and

(c) [REDACTED].¹⁹

84. The emergence (and increasing commercial importance) of a separate category of omni-channel payment services is also recognised in analyst reports on PayPal and Square (both of which predominantly target small, micro and nano merchants with their payment services). For example:
- (a) A PiperJaffray report on the Merger states that the acquisition *'highlights the importance of marrying in-store + ecommerce payment solutions in an increasingly omni-channel world'*;²⁰ and
 - (b) A J.P. Morgan's report on Square's acquisition of online store provider Weebly states that the deal *'makes sense and is necessary, recognizing the line between online and offline commerce is starting to blur.'*²¹
85. The majority of the Parties' competitors also identified a separate strand of business for omni-channel payments. In this regard, several third parties told the CMA that such services were either already of significant commercial importance to small, micro and nano merchants or were likely to become so in the near future.
86. The CMA considered whether a frame of reference for omni-channel payment services should be further segmented by customer size (so that supply to small, micro and nano customers is considered separately to supply to larger customers). The Parties submitted that such a segmentation would be inappropriate, as the supply of omni-channel payment services requires the same expertise and ability regardless of customer size.
87. The CMA notes that the evidence considered in the context of offline payment services via mPOS devices indicates that smaller merchants have different demands and requirements than larger merchants for these services. As customers for omni-channel payment services will be a subset of customers for offline payment services, the same differences between merchant sizes are likely to be found in both markets.

¹⁸ PayPal response to Section 109 Request, Annex S034.

¹⁹ Annex 9.02 to the Merger Notice.

²⁰ Response to RFI 1, Annex 34.

²¹ Response to RFI 1, Annex 12.

Conclusion

88. The CMA has therefore assessed the impact of the Merger within a frame of reference for the supply of omni-channel payment services to small, micro and nano customers.

Conclusion on product scope

89. For the reasons set out above, the CMA has considered the impact of the Merger in the following product frames of reference:

- The supply of offline payment services via mPOS devices; and
- The supply of omni-channel payment services to small, micro and nano customers.

Geographic scope

90. The Parties submitted that in previous cases relating to offline payments and card processing, an EEA-wide market was considered, with market definition ultimately being left open.²² While providing submissions on the competitive dynamics at UK level, the Parties submitted that recent cross-border entry by international players (eg Square in 2017) points towards competition taking place on a broader (eg global) basis.

91. The CMA notes that:

- (a) There are no factors (such as local variations in pricing or other elements of the offering) that suggest that the frame of reference should be narrower in scope than UK-wide for either offline payment services via mPOS devices or omni-channel payment services; and
- (b) While suppliers of offline payment services via mPOS devices and/or omni-channel payment services are active in multiple countries, there are barriers to suppliers that wish to enter the UK market, such as the need for extensive industry and local regulatory knowledge, technology expertise, brand recognition and marketing capabilities.

92. For these reasons, the CMA has therefore considered the Merger within a UK-wide frame of reference.

²² EC decision M.7711: Advent international/ Bain Capital/ ICBPI (2015) and EC decision and M.4316: ATOS Origin / Banksys / BCC (2006).

Conclusion on frame of reference

93. For the reasons set out above, the CMA has considered the impact of the Merger in the following frames of reference:
- The supply of offline payment services via mPOS devices in the UK; and
 - The supply of omni-channel payment services to small, micro and nano customers in the UK.

Competitive assessment

Horizontal unilateral effects in the supply of offline payment services via mPOS devices in the UK

94. 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 to degrade quality on its own and without needing to coordinate with its rivals.²³ Horizontal unilateral effects are more likely when the merging 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 horizontal unilateral effects in the supply of offline payment services via mPOS devices in the UK.
95. In making this assessment, the CMA has considered:
- (a) Shares of supply;
 - (b) Evidence in relation to the closeness of competition between the Parties; and
 - (c) Evidence in relation to the competitive constraints provided by other suppliers of offline payment services.

Shares of supply

96. The Parties submitted estimated shares of supply which indicated that their combined share of supply is around [10-20]% (with an increment of [5-10]%).
97. The Parties' estimates were based on a total market size, taken from a third-party industry report (by Juniper Research), estimated on the basis of multiplying the number of mPOS devices shipped to the UK by estimates of the average TPV per mPOS device. This average TPV estimate is itself based

²³ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

on combining a number of other estimates from varied sources on the average usage of mPOS devices (ie number of transactions, average transaction values, etc).

98. The CMA notes that the relatively moderate position of the Parties (with a combined share of less than [10-20]%), when assessed on this basis, is wholly inconsistent with the vast majority of other evidence available to the CMA. This evidence also indicates that the methodology used by the Parties may not provide a reliable picture of competitive dynamics. For example:
- (a) The CMA found that the Parties' estimated shares of supply were not consistent with the views on the competitive landscape presented in the Parties' internal documents, as well as in other third-party reports, several of which refer to iZettle [redacted];²⁴
 - (b) The majority of payment services providers responding to the CMA's market investigation named iZettle as one of the top-two competitors for offline payment services to micro and nano businesses in the UK;
 - (c) The Parties' internal documents suggest that [redacted], meaning that data based on shipments is liable to be a particularly poor metric for reliably measuring suppliers' market positions;²⁵ and
 - (d) The CMA found no indication in the internal documents provided by the Parties that the market size estimates provided by Juniper are used to assess either Party's market position in the ordinary course of business.
99. The CMA instead used TPV data submitted by the Parties and by other suppliers of offline payment services via mPOS devices in the UK to estimate shares of supply from 2017, as set out in Table 1 below.

²⁴ Annex 9.5 to the Merger Notice, Response to RFI2, Annex 46, Annex 10.08 to the Merger Notice.

²⁵ Annex 10.2 to the Merger Notice, iZettle Response to Section 109 Request, Annex 82.

Table 1: Shares of supply for offline payments services via mPOS devices

Supplier	TPV	Share
PayPal	[X]	[20-30]%
iZettle	[X]	[50-60]%
Parties Combined	[X]	[80-90]%
SumUp	[X]	[5-10]%
Worldpay	[X]	[0-5]%
Barclaycard	[X]	[0-5]%
Square	[X]	[0-5]%
Elavon	[X]	[0-5]%
Total	[X]	100%

100. Table 1 shows that the Parties are currently the two largest competitors in the supply of offline payment services via mPOS devices in the UK. iZettle is the largest supplier in the market, with a share of supply of [50-60]%, with PayPal also holding a substantial share of supply ([20-30]%). The next largest competitor is considerably smaller than both Parties, holding a share of less than 10%.
101. The CMA notes that the data set out Table 1 is liable to overstate the Parties' shares of supply because the total market size does not include TPV data from all suppliers of offline payment services in the UK and because the TPV data of one supplier does not include payments processed via mPOS devices distributed by intermediaries. The CMA considers, however, the extent of any variance is likely to be limited. In particular, the CMA's share of supply estimates include TPV data from the major competitors identified by the Parties (and therefore the impact of any 'missing' competitors on the total market size is likely to be very limited). Moreover, volumes submitted through intermediaries would have to be much more substantial than that supplier's direct sales in order to significantly affect shares of supply. In this context, the CMA notes that the Parties were not able to support their share estimates by providing any evidence showing that intermediaries distribute mPOS devices on a significant scale.
102. The CMA therefore considers that the estimated shares of supply based on the TPV data of the suppliers in Table 1 are (unlike the shares of supply submitted by the Parties) likely to provide a robust and reliable indication of the significance of the Parties' activities for the purposes of its competitive assessment. The CMA has, in any case, considered the Parties' market shares in conjunction with a range of other evidence relevant to the assessment of competitive dynamics within this sector.

Closeness of competition

103. The CMA assessed the extent to which the Parties compete closely in the supply of offline payment services via mPOS devices in the UK in particular by evaluating:

- (a) The Parties' internal documents; and
- (b) The Parties' submissions (and accompanying evidence) in relation to [REDACTED].

Internal documents

104. The CMA found that the Parties' internal documents, while mixed in places, generally show a very significant degree of competitive interaction between the Parties. In particular:

- (a) PayPal's internal documents [REDACTED] suggest that it views iZettle as its closest competitor. The CMA found that internal documents [REDACTED] referred extensively to iZettle.²⁶ While PayPal's internal documents also frequently refer to [REDACTED] other suppliers of offline payment services via mPOS devices in the UK ([REDACTED]), [REDACTED] is generally discussed more frequently and in more depth.
- (b) iZettle's internal documents show that it does not monitor PayPal to the same extent, referring to another supplier of offline payment services via mPOS devices ([REDACTED]) more frequently and often in more depth. Nonetheless, iZettle's internal documents show that it views PayPal as one of a relatively limited number of credible competitors for offline payment services via mPOS devices [REDACTED].^{27,28}

[REDACTED]

105. [REDACTED]:

- (a) [REDACTED]
- (b) [REDACTED].

106. [REDACTED].

²⁶ Annex 10.3 to the Merger Notice, Annex 10.1 to the Merger Notice.

²⁷ iZettle Response to Section 109 Request, Annex 25.

²⁸ iZettle Response to Section 109 Request, Annex 13, iZettle Response to Section 109 Request, Annex 18.

107. The Parties further submitted [REDACTED]. The Parties told the CMA that PayPal Here is therefore a weak constraint on iZettle and that the Parties are not close competitors.
108. The CMA considers, however, that the available evidence does not support this position.
109. In particular, the CMA found that while PayPal Here's growth [REDACTED], its UK TPV has nevertheless grown every year since 2014.²⁹ PayPal's internal documents also [REDACTED].³⁰ The CMA also found that PayPal Here won a higher proportion of new customers (based on TPV volumes) than any supplier of offline payment services via mPOS other than iZettle, for the last full year for which data is available, and that the Parties would have a combined share of [80-90]% ([REDACTED]) based on the acquisition of new customers (as shown in Table 2 below).

Table 2: Estimated shares of supply in offline payment services via mPOS devices - new 2017 customers only³¹

Supplier	TPV	Share
PayPal	[REDACTED]	[20-30]%
iZettle	[REDACTED]	[50-60]%
Parties Combined	[REDACTED]	[80-90]%
SumUp	[REDACTED]	[10-20]%
Square	[REDACTED]	[5-10]%
Barclaycard	[REDACTED]	[0-5]%
Worldpay	[REDACTED]	[0-5]%
Elavon	[REDACTED]	[0-5]%
Total	[REDACTED]	100%

110. In addition, as described above in relation to the relevant counterfactual for the assessment of the Merger, the CMA believes that absent the Merger, PayPal would have increased its investment into PayPal Here in order to provide a more compelling mPOS product offering (which would likely have competed more effectively with iZettle than PayPal Here has in the recent past). The CMA has therefore placed limited weight on the Parties' submissions that the competitive constraint offered by PayPal Here is limited, [REDACTED], and considers that the available evidence does not support the position

²⁹ Annex 10.02 to the Merger Notice.

³⁰ PayPal response to Section 109 Request, Annex S050.

³¹ As explained at paragraphs 100 to 102 above, the CMA considers that its estimated shares of supply (based on annual total payments volumes from the major suppliers of offline payment services through mPOS devices in the UK), while imperfect, provide a sufficiently reliable measure of the size of the Parties' activities for the purposes of its assessment.

that PayPal would not have been an important constraint on iZettle absent the Merger.

Conclusion on closeness of competition

111. On the basis of this evidence, the CMA believes that PayPal and iZettle are close competitors for the supply of offline payment services via mPOS devices in the UK, with iZettle being a particularly strong constraint on PayPal, and PayPal being a credible competitor to iZettle.

Competitive constraints from other suppliers of offline payment services

112. Unilateral effects are more likely where customers have little choice of alternative suppliers.³² The CMA considered whether the Parties would be effectively constrained by other suppliers of mPOS offline payment services and/or by suppliers of non-mPOS offline payment services.
113. The Parties submitted that they compete with a large number of competitors, including both other suppliers of offline payment services via mPOS devices and suppliers of offline payment services via non-mPOS devices (including traditional acquirers such as Worldpay and Barclaycard, the two largest merchant acquirers and offline payment service providers in the UK).

Suppliers of offline payment services via mPOS devices

114. The Parties submitted that they compete with several other suppliers of offline payment services via mPOS devices. The Parties submitted that Square, a large mPOS supplier of offline payment services in the US, which started supplying offline payment services via mPOS devices in the UK in March 2017, exercised a particularly strong constraint on the Parties.
115. As part of its investigation, the CMA reviewed a large number of internal documents submitted by the Parties. From this review, the CMA identified certain internal documents that appear to be particularly relevant to the analysis of competitive dynamics in the UK, including:
- (a) Presentations on price setting for PayPal Here in the UK;
 - (b) iZettle's high-level strategy documents;
 - (c) Internal documents and broker reports prepared in preparation of iZettle's IPO; and

³² [Merger Assessment Guidelines](#), paragraph 5.4.12.

- (d) Presentations prepared for PayPal's senior management in contemplation of the Merger.
116. As noted at paragraph 98(a) above, several of these internal documents refer to iZettle [REDACTED], suggesting a weaker constraint from other suppliers of offline payment services via mPOS devices. For example:
- (a) [REDACTED];³³ and
 - (b) [REDACTED].³⁴
117. Nonetheless, the Parties' internal documents show that they monitor [REDACTED] in the UK. For example:
- (a) [REDACTED];³⁵
 - (b) [REDACTED].³⁶
118. However, consistent with its findings in paragraph 104(a) above, the CMA found that documents on PayPal Here's pricing strategy referred to [REDACTED] in less detail than iZettle. Consistent with this view, another PayPal presentation [REDACTED].³⁷
119. [REDACTED]. However, the CMA also found that [REDACTED] and analyst reports indicates that Square has encountered difficulties in establishing its presence in the UK since its launch and has underperformed against expectations in the UK so far. In particular:
- (a) A Morgan Stanley research report from August 2018 identified a need for Square to invest in its brand recognition in the UK, which was considered to be lacking as compared to its US presence;³⁸ and
 - (b) Another Morgan Stanley report from May 2018 (in the context of PayPal acquiring iZettle) states that it expected Square's growth and European expansion to be minimal for the foreseeable future, adding that the Merger would further slow this growth.³⁹
120. One UK supplier of offline payment services also told the CMA that Square had been relatively slow in its marketing strategy and push to acquire new

³³ Annex 10.08 to the Merger Notice.

³⁴ Annex 9.02 to the Merger Notice, page 11.

³⁵ Annex 10.3 to the Merger Notice, Annex 10.1 to the Merger Notice.

³⁶ iZettle Response to Section 109 Request, Annex 18.

³⁷ Annex 9.5 to the Merger Notice.

³⁸ RFI 1 Response, Annex 25.

³⁹ RFI1 Response, Annex 33.

customers since its launch, although that supplier expected Square to ‘*ramp up*’ in the future.

121. This is consistent with the relatively limited market position of Square in the share of supply estimates collated by the CMA. The CMA notes that, as set out in Table 1 above, the Parties are, by far, the two largest suppliers of offline payment services via mPOS devices in the UK with no other competitor having a share of supply higher than [0-10]%. While the data may understate the constraint imposed by Square (and other smaller competitors) to some extent, their market positions are unlikely to be materially larger (for the reasons explained above).
122. On the basis of the very low shares of supply of other suppliers of offline payment services via mPOS devices, the evidence from the Parties’ internal documents, and the mixed evidence regarding the strength of Square in the UK, the CMA considers that these suppliers do not exercise a strong competitive constraint on the Parties.

Suppliers of offline payment services via non-mPOS devices

123. The Parties submitted that in the past few years, traditional acquirers, such as Worldpay, Global Payments, Elavon and Barclaycard, have repositioned and enhanced their existing non-mPOS offering so as to appeal to the SMB customer segment, intensely competing with the Parties.
124. The CMA assessed the constraint from other suppliers of offline payment services via non-mPOS devices in the UK by taking into consideration the following evidence and data:
 - (a) Information on customer switching;
 - (b) The Parties’ internal documents; and
 - (c) Third Party views.
 - *Information on customer switching*
125. Both Parties have carried out a number of surveys of customers who have stopped using their mPOS devices, including questions on which alternative suppliers the users have switched to (if any). These surveys indicate that:
 - (a) iZettle is the most significant constraint on PayPal, accounting for [X] of switching users;

- (b) PayPal is a less significant constraint on iZettle, accounting for [X] of switching users;
 - (c) [X] is the most significant constraint on iZettle ([X] of switchers) and the second strongest constraint on PayPal ([X] of switchers);
 - (d) [X] is generally lagging behind [X] and iZettle ([X]); and
 - (e) Other suppliers, including a number of traditional acquirers, collectively account for a material proportion of total switching.
126. The Parties submitted that the results of these surveys illustrate that the Parties compete against a broad range of competitors, [X]. The Parties further submitted that the surveys provide evidence for PayPal Here's [X].
127. While these surveys clearly provide some insight into customer decision-making, the CMA considers that they provide only a partial view of competition between the Parties and rival suppliers. In particular:
- (a) As the supply of offline payment services via mPOS is a rapidly-growing market (as explained in detail above), competition is liable to be primarily focused on new customers rather than customers who switched after using PayPal or iZettle for some time. As highlighted in Table 2 above, the Parties have a particularly high combined share of supply of [80-90]% for new customers. The alternatives chosen by customers who switched after using PayPal or iZettle for some time therefore do not appear to be representative of the closest alternatives for new customers (who will often not have accepted card payments before);
 - (b) As described in the description of the relevant counterfactual for the assessment of the Merger set out above, the CMA considers that PayPal would have increased its investment into PayPal Here absent the Merger. Switching data based on PayPal Here's recent performance [X] may therefore understate the competitive constraint exercised by PayPal for the purpose of the analysis of the competitive effects of the Merger; and
 - (c) The switching data is unlikely to fully capture the market impact of Square, which only entered the UK in 2017 (although, as explained above, the available evidence in relation to the market performance of Square in the UK is mixed).
128. While the CMA has therefore placed only limited weight on the switching data, the CMA nevertheless notes that the data supports the position that iZettle is

the most significant constraint on PayPal. The CMA further believes that while the switching data provides evidence of traditional acquirers exerting some constraint on the Parties, it also shows, in the round, that this constraint is secondary to that exerted by other suppliers of offline payment services via mPOS devices.

- *Internal documents*

129. The Parties submitted that their internal documents consider competition from a large number of competitors including suppliers of offline payment services via non-mPOS devices.

130. The CMA considers, however, that the Parties' internal documents clearly and consistently indicate that suppliers of non-mPOS offline payment services provide only a limited constraint on suppliers of mPOS offline payment services such as PayPal and iZettle. In particular:

(a) As set out at paragraph 117 above, when discussing competitive conditions, strategy and/or price setting, several key documents exclusively refer to other suppliers of mPOS offline payment services [REDACTED];⁴⁰ and

(b) Where the Parties' key internal documents refer to traditional acquirers and/or suppliers of non-mPOS offline payment services, these references are often caveated. By way of example, [REDACTED].⁴¹

- *Third party views*

131. The CMA received mixed views from third parties regarding the ability of traditional acquirers to compete effectively with mPOS suppliers, with around half of respondents indicating that such suppliers can, in principle, compete effectively for micro and nano customers. In this respect, one third party who considered that traditional acquirers could compete effectively noted that once merchants have set up their payment processes, they require a large incentive to switch, even if an mPOS product has a cheaper lifetime cost.

132. However, several third parties also highlighted significant barriers faced by traditional acquirers that limit their ability to compete with suppliers of offline payment services via mPOS devices, including legacy technology, higher

⁴⁰ Annex 9.08 to the Merger Notice, iZettle Response to Section 109 Request, Annex 36, Annex 9.01 to the Merger Notice.

⁴¹ iZettle Response to Section 109 Request, Annex 25, Annex 9.05 to the Merger Notice.

degrees of regulation, high customer acquisition costs and lack of promotional capability and market exposure.

Conclusion on constraints from suppliers of offline payment services via non-mPOS devices

133. Based on the available evidence, in particular the Parties' internal documents and the barriers to entry identified by third parties (which are reflected in the very low shares of supply of traditional acquirers in offline payment services via mPOS devices), the CMA believes that suppliers of offline payment services via non-mPOS devices are a relatively weak constraint on the Parties.

Conclusion on horizontal unilateral effects

134. For the reasons set out above, the CMA believes that:
- (a) The Parties hold a very significant market position in the supply of offline payment services via mPOS devices in the UK (with a significant increment in share being brought about by the Merger);
 - (b) The Parties are close competitors, with iZettle being a particularly strong constraint on PayPal, and PayPal being a credible competitor to iZettle (with the constraint exercised by PayPal likely to have increased absent the Merger); and
 - (c) There will be insufficient competition from other suppliers of mPOS devices and/or from suppliers of non-mPOS devices post-Merger to constrain the merged entity.
135. Accordingly, the CMA found that the Merger raises significant competition concerns as a result of horizontal unilateral effects in relation to the supply of offline payment services via mPOS devices in the UK.

Horizontal unilateral effects in the supply of omni-channel payment services to small, micro and nano customers

136. Unilateral effects may also arise from the elimination of potential competition. One way in which this can occur is where the merger involves an incumbent supplier and a potential entrant that could have increased competition against the incumbent.⁴²

⁴² [Merger Assessment Guidelines](#), paragraph 5.4.13 – 5.4.15.

137. The supply of omni-channel payment services to small, micro and nano customers is a nascent market, which is expected to grow significantly in future. PayPal is already present in this market as it supplies both online and offline payment services in the UK. As described above in relation to the relevant counterfactual for the assessment of the Merger, expanding its omni-channel payments services capabilities to SMBs is a strategic priority for PayPal (and has been explicitly identified as part of the rationale for the Merger).
138. iZettle already supplies offline payment services and launched an e-commerce tool, which allows end-customers to pay by card via iZettle online in the UK in April 2018. iZettle describes this new service as [REDACTED].⁴³ However, the use of this tool remains extremely limited in the UK and only generated approximately £[REDACTED] in revenues between [REDACTED] and [REDACTED] 2018. The very limited nature of these revenues suggests that there is no meaningful actual competition between the Parties within the omni-channel segment at present. However, for the reasons explained below, the CMA considers that iZettle is a potential entrant into omni-channel payment services to small, micro and nano customers.

Framework

139. The CMA, consistent with its established guidance,⁴⁴ has assessed whether the Merger leads to horizontal unilateral effects from a loss of actual potential competition by reference to:
- (a) Whether iZettle would be likely to enter and expand in the absence of the Merger; and
 - (b) Whether such entry and expansion would lead to greater competition.
140. The CMA has assessed the likelihood of iZettle's entry and expansion into the market for omni-channel payment services to small, micro and nano customers absent the Merger by reference to evidence (in particular from internal documents and third parties) in relation to its ability (in particular by reference to its existing capabilities) and incentive to enter within this segment.
141. The CMA has also considered whether the entry and expansion by iZettle would lead to greater competition in the market for omni-channel payment services to small, micro and nano customers, in particular by reference to:

⁴³ iZettle Response to Section 109 Request, Annex 13.

⁴⁴ [Merger Assessment Guidelines](#), paragraph 5.4.15.

- (a) PayPal's existing presence in the market and its expansion plans;
- (b) The Parties' expected closeness of competition in omni-channel payment services to small, micro and nano customers; and
- (c) The likelihood and effect of entry and expansion by other potential entrants.

iZettle's likelihood of entry and expansion

142. In considering iZettle's likelihood of entry and expansion into omni-channel payment services to small, micro and nano customers in the UK, the CMA assessed evidence on iZettle's ability and incentive to enter and expand.
143. The Parties submitted that while iZettle is seeking to develop and grow its own e-commerce platform, its e-commerce offering is still extremely limited in the UK. The Parties also submitted that [REDACTED]. The Parties further submitted that while iZettle might have general ambitions to enter into omni-channel payment services, [REDACTED].⁴⁵
144. As set out above, iZettle has already taken concrete steps towards entering into the market for omni-channel payment services to small, micro and nano customers in the UK. In particular, as explained in paragraph 138 above, in April 2018 iZettle introduced an online e-commerce tool (which it described as a form of 'omni-channel' tool), which enables merchants to create a basic e-commerce website or make sales through an existing website.
145. The CMA found that iZettle's internal documents show that it has the intention to significantly expand its omni-channel payments offering to small, micro and nano customers and, therefore, to materially grow its presence within this market. In particular, iZettle's internal documents show [REDACTED].⁴⁶ iZettle's draft IPO prospectus also sets out [REDACTED].⁴⁷
146. The available evidence further indicates that, contrary to the Parties' submissions, iZettle would not need to create a full-scale anti-fraud platform in order to expand its omni-channel payment services offering. The CMA notes, in this regard, that iZettle is already offering online payments via its e-commerce platform [REDACTED].
147. iZettle also submitted evidence to the CMA which showed that it was continuing to develop its e-commerce product (which includes the ability to

⁴⁵ In this context, the CMA notes that the Parties indicate that [REDACTED].

⁴⁶ iZettle's Response to Section 109 Request, Annex 3, iZettle's Response to Section 109 Request, Annex 13, iZettle's Response to Section 109 Request, Annex 24.

⁴⁷ iZettle's Response to Section 109 Request, Annex 13.

take online payments), having budgeted around £[REDACTED] for this purpose over the next twelve months. Moreover, iZettle's internal documents show that [REDACTED]. In particular:

(a) [REDACTED];⁴⁸

(b) [REDACTED];⁴⁹ and

(c) [REDACTED].⁵⁰

148. iZettle's ability and incentive to enter into the omni-channel payment services market for small, micro and nano customers is also supported by the position provided by its existing mPOS offering. In particular, the evidence received by the CMA indicates that iZettle's mPOS offering has enabled it to develop a strong brand, a reputation for reliability, and a large customer base in the UK (as is reflected in iZettle's high shares of supply ([50-60]%) in the supply of offline payment services via mPOS devices). The available evidence indicates these factors are likely to be particularly important attributes for an effective competitor within the supply of omni-channel payment services.
149. Moreover, [REDACTED] highlight the importance of having a strong offline payment services offering in order to provide an attractive omni-channel payments solution to small, micro and nano customers. Indeed, PayPal submitted that the rationale for the Merger is to combine iZettle's offline offering with PayPal's online capabilities in order to provide merchants more enhanced omni-channel payments solutions than either Party would be able to offer on a standalone basis. [REDACTED] the choice of an offline payment services supplier is likely to be highly influential on the choice of an online payment services supplier, [REDACTED].⁵¹
150. Furthermore, several PayPal internal documents (including documents prepared in the context of the Merger and documents discussing the role of PayPal Here as part of PayPal's wider omni-channel strategy) identify iZettle as a serious competitor in omni-channel payment services.⁵²
151. Third parties also told the CMA that they consider that iZettle is likely to be a significant competitor in omni-channel payment services for small, micro and nano customers. When asked about which suppliers they viewed as currently

⁴⁸ iZettle Strategy 2018-2020, Annex 24.

⁴⁹ iZettle's Response to Section 109 Request, Annex 36.

⁵⁰ RFI 2 Response, Annex 47.

⁵¹ Annex 9.05 to the Merger Notice, Annex 9.02 to the Merger Notice, Annex 9.07 to the Merger Notice, PayPal Response to Section 109 Request, Annex S103.

⁵² Annex 9.05 to the Merger Notice, Annex 10.02 to the Merger Notice, PayPal Response to Section 109 Request, Annex S103.

being the strongest competitors in the provision of omni-channel payment services for these customers, half of the competitors who responded named iZettle in their response.

152. The CMA therefore considers that iZettle's position as market leader in the supply of offline payments via mPOS devices puts it in a strong position to enter (and significantly expand its offering within) the supply of omni-channel payment services offering to small, micro and nano customers.

Conclusion on iZettle's likelihood of entry and expansion

153. Accordingly, for the reasons set out above, the CMA considers that absent the Merger, there is a realistic prospect that iZettle would have entered and expanded its omni-channel payment services offering to small, micro and nano customers.

The impact of entry and expansion on competition

154. The CMA considered whether iZettle's entry and expansion would lead to greater competition in the supply of omni-channel payment services to small, micro and nano customers. The CMA assessed the effect of entry and expansion on competition in particular by reference to:

- (a) PayPal's existing presence in the market and its expansion plans;
- (b) The Parties' expected closeness of competition in omni-channel payment services to small, micro and nano customers; and
- (c) The likelihood and effect of entry and expansion by other potential entrants (or existing suppliers).

PayPal's existing presence

155. The Parties submitted that while PayPal is currently able to offer both online and offline payment services to small, micro and nano customers, and expanding its omni-channel capabilities is a strategic priority, [REDACTED].
156. The CMA considers, however, that the available evidence does not support the Parties' position.
157. PayPal's internal documents indicate that it already has a strong presence in online payments services for small, micro, nano businesses.⁵³ Furthermore,

⁵³ Annex 9.02 to the Merger Notice.

as described in more detail above, PayPal is the second largest supplier of offline payment services via mPOS devices in the UK.

158. The strong established position of PayPal is consistent with views submitted by third parties, which told the CMA that they consider PayPal to be a significant competitor in omni-channel payment services for small, micro and nano customers. For example, when asked about which suppliers they viewed as currently being the strongest competitors in the provision of integrated online and offline payment services for these customers, half of the competitors who responded named PayPal in their response.
159. The CMA therefore considers that by being established in both online and offline payment services, including having the necessary infrastructure and resources, PayPal is already capable of providing integrated online and offline payment services and to meet the expected demand for omni-channel payment services from small, micro and nano customers. Furthermore, as described above in relation to the relevant counterfactual for the assessment of the Merger, the CMA considers that PayPal would have increased its investment into PayPal Here absent the Merger, thereby further improving its capabilities within the supply of omni-channel payment services.

Closeness of competition

160. The Parties submitted that there is no realistic prospect that the Parties would have become close competitors in the supply of omni-channel payment services to small, micro and nano customers in the near future [redacted].
161. As set out above, the CMA found that PayPal has a strong position in online payment services with a strong brand, reputation and technical expertise, as well as an existing established mPOS solution in the UK (with a share of supply of [20-30]%), giving it a head-start in its attempts to meet the potential demand for omni-channel payment services.
162. The CMA also found that iZettle is market leader (with a share of supply of [50-60]%) in offline payment services via mPOS devices in the UK with a strong brand, reputation and technical expertise primarily targeted at small, micro and nano merchants. As described in more detail at paragraph 149 above, the available evidence indicates [redacted] that this may provide iZettle with a particular strategic advantage, as the choice of offline payment services provider is a driver for the choice of online payment services provider.
163. The CMA therefore considers that iZettle's entry would have increased competition in the supply of omni-channel payment services market to small, micro and nano customers. The CMA believes that iZettle has a number of

attributes (in particular a market-leading mPOS offering) that would have made it a significant competitive force within omni-channel payment services market for small, micro and nano customers, and an important competitive constraint on PayPal.

Other potential competitors

164. The CMA has considered whether entry and expansion by other potential competitors would be timely, likely and sufficient, taking into account the capabilities and incentives of these players, to prevent any realistic prospect of an SLC that would otherwise arise from the removal of iZettle as a potential competitor to PayPal.
165. The Parties submitted that a number of competitors are already active in the supply of omni-channel payment services (including to small, micro and nano customers), referring to traditional acquirers Worldpay, Barclaycard and Global Payments, e-commerce platforms such as Shopify, and mPOS suppliers such as Square and SumUp.
166. The Parties' internal documents discuss a number of players in this space, with [X] and [X] being mentioned frequently. Evidence from the Parties' internal documents and third parties indicates that these players have different strengths and capabilities in relation to the supply of omni-channel payment services to small, micro and nano customers. For example, the Parties' internal documents show that [X] has developed online payment capabilities but is still investing into its offline payment services offering. Therefore, the CMA considers that, similar to iZettle, these players do have the ability to enter and/or expand within the relevant frame of reference.
167. The CMA has assessed the capabilities and incentives of these players to enter and/or expand their activities within the supply of omni-channel payment services to small, micro and nano customers, and whether these players, in the round, would sufficiently constrain PayPal post-Merger.
 - *Traditional acquirers*
168. The Parties submitted that the websites of traditional acquirers indicate that they target their omni-channel payment services offerings at customers of all sizes, including small, micro and nano merchants. Two third parties also told the CMA that they plan on offering omni-channel payment services to small, micro and nano merchants within the next two years.
169. As described in further detail at paragraphs 123 to 133 above, the CMA considers that traditional acquirers have previously struggled to effectively

target the same merchants as the Parties with their mPOS offering, exercising only a limited constraint within this frame of reference. On this basis, the CMA considers that traditional acquirers are also likely to struggle to effectively target these same customers for the supply of omni-channel payment services.

170. The CMA therefore believes that these traditional acquirers are unlikely to be a significant competitive constraint on PayPal within the supply of omni-channel payment services to small, nano and micro customers in the UK. Consistent with this position, one traditional acquirer told the CMA that, while it has plans to start offering omni-channel payment services in the next two years, it would likely deliver these capabilities to larger corporate clients before offering them to small, micro and nano merchants. Another traditional acquirer told the CMA that its planned omni-channel payment services solution will not be targeted to nano customers.

- *Shopify*

171. Shopify is an e-commerce platform that enables merchants to set up a website and sell online, taking online payment through Shopify Payments. The CMA understands that Shopify's offering includes the supply of mPOS card readers to its customers in the UK. [REDACTED].⁵⁴

172. Shopify told the CMA that [REDACTED]. Shopify also told the CMA that [REDACTED].

173. In light of the importance for a strong offline payment services offering to develop an attractive omni-channel payments solution (described in further detail at paragraph 149 above), the CMA considers that the position of Shopify suggests that it is likely to be only a moderate competitive constraint on PayPal within the supply of omni-channel payment services to small, nano and micro merchants in the UK. Consistent with this position, no third party mentioned Shopify as a strong competitor in omni-channel payment services for small, micro and nano customers.

- *Stripe*

174. Stripe is another technology platform that allows merchants to take payments online. [REDACTED].⁵⁵ The CMA understands that Stripe's UK offline payment

⁵⁴ Annex 9.04 to the Merger Notice, Annex 9.07 to the Merger Notice, iZettle's Response to Section 109 Request, Annex 135, iZettle's Response to Section 109 Request, Annex 24.

⁵⁵ Annex 9.04 to the Merger Notice, Annex 9.07 to the Merger Notice.

processing capabilities are limited, with it trialling a mPOS card reader in the US only.⁵⁶

175. Third party views submitted to the CMA did not support the position that Stripe would be likely to compete strongly within this segment, with Stripe being named less often than either of the Parties when asked about which suppliers they viewed as currently being the strongest competitors in the provision of omni-channel payment services for small, micro and nano customers.

176. In light of the importance for a strong offline payment services offering to develop an attractive omni-channel payments solution (described in further detail at paragraph 149 above), the CMA considers that Stripe is likely to be only a moderate competitive constraint on PayPal within the supply of omni-channel payment services to small, nano and micro customers in the UK.

- *SumUp*

177. The Parties submitted that SumUp has made efforts to enter the omni-channel payments space in the UK, pointing to the 2017 announcement of the launch of SumUp's omni-channel suite.⁵⁷

178. However, as set out in further detail in the competitive assessment of the supply of offline payment services via mPOS devices, the CMA considers that SumUp is currently a weak competitor when compared to the Parties, having failed to gain significant share of supply in this frame of reference.

179. In this context, SumUp also told the CMA [redacted]. This is consistent with third party views submitted to the CMA, which named SumUp less frequently than either of the Parties when asked about which suppliers they viewed as currently being the strongest competitors in the provision of omni-channel payment services for small, micro and nano customers.

180. On the basis of the available evidence, the CMA believes that in order to be a credible competitor in omni-channel payment services, SumUp would have to significantly upscale both its offline and online offering in the UK and that it is therefore likely to be only a moderate competitive constraint on PayPal within the supply of omni-channel payment services to small, nano and micro customers in the UK.

⁵⁶ <https://stripe.com/terminal> (accessed on 26 November 2018).

⁵⁷ <https://sumup.com/press/sumup-launches-omnichannel-payment-suite/> (accessed on 26 November 2018).

- *Square*

181. The Parties submitted that Square already offers omni-channel payment services in the US and the UK and that it has made efforts to expand its offering, pointing to its recent purchase of Weebly, which will allow it to expand its omni-channel capabilities globally.⁵⁸
182. The CMA found that the evidence on whether competition from Square would be sufficient to prevent any SLC that would otherwise arise from the removal of iZettle as a potential competitor to PayPal was mixed. On the one hand:
- (a) [redacted];⁵⁹ and
 - (b) More than half of third parties responding to the CMA's market investigation named Square as a strong competitor for the supply of omni-channel payment services for small, micro and nano merchants.
183. However:
- (a) As set out in further detail in its competitive assessment of the supply of offline payment services via mPOS devices, the CMA considers that Square is currently a weak competitor when compared to the Parties, having failed to gain significant market share in this frame of reference; and
 - (b) As set out at paragraphs 119 and 120 above, the available evidence further indicates that Square has generally struggled to build up its UK presence since its launch in 2017.
184. On the basis of the available evidence, the CMA considers that Square may be able to compete effectively with PayPal for the supply of omni-channel payment services to small, micro and nano customers, although (in contrast to iZettle, which has already developed a strong position in offline payment services via mPOS devices) it would need to scale up both its UK online and offline offering significantly.

Conclusion on horizontal unilateral effects

185. On the basis of the evidence and for the reasons above, the CMA considers that:

⁵⁸ <https://squareup.com/us/en/press/square-to-acquire-weebly> (accessed on 26 November 2018).

⁵⁹ Annex 9.05 to the Merger Notice, Annex 9.14 to the Merger Notice, iZettle's Response to Section 109 Request, Annex 18, iZettle's Response to Section 109 Request, Annex 135.

- (a) PayPal is already a well-established supplier of omni-channel payment services to small, micro and nano customers and there is a realistic prospect that it would have sought to expand its capabilities absent the Merger;
 - (b) iZettle would have been likely to enter and expand into the market for omni-channel payment services to small, micro and nano customers absent the Merger, and would have been a significant competitive force within this segment and an important competitive constraint on PayPal;
 - (c) The ability and incentive of other actual or potential competitors to enter and expand in the market for omni-channel payment services to small, micro and nano customers, and to constrain PayPal effectively, appears to be limited. While Square may be able to compete effectively with PayPal within this segment (albeit that it would need to scale up both its UK online and offline offering significantly), the ability and incentive of other competitors means that they are liable only to provide a limited constraint (which is far less significant than the constraint that iZettle could have exercised absent the Merger).
186. The CMA therefore considers that there is a realistic prospect that the Merger results in the elimination of iZettle as a potential significant competitive force for the supply of omni-channel payment services to small, micro and nano customers in the UK. The CMA also believes that, in the round, the remaining competitors that appear likely to enter or expand within this segment would not be sufficient to constrain PayPal post-Merger. The CMA therefore considers that iZettle's entry and expansion would have led to greater competition.⁶⁰
187. Accordingly, the CMA found that the Merger raises significant competition concerns as a result of horizontal unilateral effects in the supply of omni-channel payment services to small, micro and nano customers in the UK.

Barriers to entry and expansion

188. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC. In assessing whether entry or expansion might prevent an SLC, the CMA considers whether such entry or expansion would be timely, likely and sufficient.⁶¹

⁶⁰ [Merger Assessment Guidelines](#), paragraph 5.4.15.

⁶¹ [Merger Assessment Guidelines](#), from paragraph 5.8.1.

189. The Parties have submitted that barriers to product and geographic entry and expansion are low and that there have been numerous new entrants in the past five years, including PayPal's own product, PayPal Here. The Parties also submitted that for established suppliers of offline payment services via non-mPOS devices, there are no significant barriers to expansion or repositioning into mPOS. In addition, the Parties have submitted that other mPOS suppliers active outside the UK could enter, as Square has done in 2017, posing a competitive threat to the Parties.
190. The CMA found that [X] barriers to entry in the supply of offline payment services via mPOS devices are high, as new entrants require extensive industry and regulatory knowledge, technology expertise, scale, brand recognition and marketing abilities, and access to adequate funding for successful entry.⁶²
191. With regard to the possibility of expansion and repositioning for suppliers of offline payment services via non-mPOS devices, as described in further detail within its competitive assessment, the CMA considers that these suppliers' attempts to date at repositioning have been met with very limited success, with no traditional acquirer gaining significant share of supply in this frame of reference.
192. The CMA recognises that Square entered the UK with a new mPOS offering in 2017. However, as shown in Table 1 above, Square has, to date, not been able to gain a significant share of supply in the UK.
193. The CMA also notes that many of the barriers to entry in the supply of offline payment services would also be barriers to entry in relation to the supply of omni-channel payment services to small, micro and nano customers. The available evidence indicates that there would also be additional barriers, such as technological challenges, risks and the financial resources associated with creating an integrated online and offline solution for customers, in the supply of omni-channel payment services.
194. On this basis, the CMA believes that, with the exception of suppliers described above (such as iZettle) that are well-placed to enter the evolving omni-channel segment as a result of their existing capabilities, suppliers generally face significant barriers to entry. The CMA therefore considers that it cannot rely on entry or expansion being sufficient, timely and likely to prevent a realistic prospect of an SLC as a result of the Merger in the supply of offline payment services via mPOS devices or in the supply of omni-channel payment services to small, micro and nano customers.

⁶² iZettle Response to Section 109 Request, Annex 13, Annex 10.08 to the Merger Notice.

Conclusion on substantial lessening of competition

195. 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 as a result of horizontal unilateral effects in relation to:

- (a) the supply of offline payment services via mPOS devices in the UK;
and
- (b) the supply of omni-channel payment services to small, micro and nano customers in the UK.

Exceptions to the duty to refer

196. Where the CMA's duty to refer is engaged, the CMA may, pursuant to section 22(2)(a) of the Act, decide not to refer the merger under investigation for a Phase 2 investigation on the basis that the market(s) concerned is/are not of sufficient importance to justify the making of a reference (the ***de minimis*** exception).

197. The Parties submitted that the CMA should apply the *de minimis* exception in the present case because the total market size for the supply of offline payment services via mPOS devices to new customers in 2017 and the total market size for the supply of offline payment services via mPOS devices to nano customers are each below £15 million.

198. The markets concerned in this case are (i) the market for the supply of offline payment services via mPOS devices in the UK, and (ii) the market for omni-channel payment services to small, micro and nano customers in the UK. The Parties' combined revenue from the supply of offline payment services via mPOS devices in the UK is approximately £[~~8~~], which on its own exceeds the £15 million threshold for total market size below which the CMA considers whether the merger impact would materially to outweigh the public costs of a reference. The market size is therefore outside the CMA's margin of discretion for applying the *de minimis* exception.

Decision

199. Consequently, the CMA believes that it is or may be the case that (i) a relevant merger situation has been created; and (iii) the creation of that situation has resulted, or may be expected to result, in an SLC within a market or markets in the United Kingdom.

200. 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 whilst the CMA is

considering whether to accept undertakings under section 73 of the Act instead of making such a reference.⁶³ PayPal has until 3 December 2018⁶⁴ to offer an undertaking to the CMA.⁶⁵ The CMA will refer the Merger for a phase 2 investigation⁶⁶ if PayPal does not offer an undertaking by this date; if PayPal indicates before this date that it does not wish to offer an undertaking; or if the CMA decides⁶⁷ by 10 December that there are no reasonable grounds for believing that it might accept the undertaking offered by PayPal, or a modified version of it.

201. 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 20 January 2019. For the avoidance of doubt, the CMA hereby gives PayPal 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 PayPal 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 PayPal stating that it does not intend to give the undertakings; or the cancellation by the CMA of the extension.

Andrea Gomes da Silva
Executive Director, Mergers and Markets
Competition and Markets Authority
26 November 2018

⁶³ Section 22(3)(b) of the Act.

⁶⁴ Section 73A(1) of the Act.

⁶⁵ Section 73(2) of the Act.

⁶⁶ Sections 22(1) and 34ZA(2) of the Act.

⁶⁷ Section 73A(2) of the Act.