

Anticipated acquisition by eBay Inc of Motors.co.uk Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6774/18

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 12 February 2019. Full text of the decision published on 8 March 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. eBay Inc (**eBay**) has agreed to acquire Motors.co.uk Limited (**Motors**) (the **Merger**). eBay and Motors 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 eBay and Motors is an enterprise; that these enterprises will cease to be distinct as a result of the Merger; and that the share of supply test is met. Accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the supply of online classified vehicle advertising services in the UK, with eBay currently active through two brands – **eBay Motors** and **Gumtree Motors**. The CMA has therefore assessed the impact of the Merger in the supply of online classified vehicle advertising services in the UK.
4. Although the CMA believes that the Parties have relatively similar offerings within online classified vehicle advertising, the available evidence shows that the Parties are not each other's closest competitors (with both being more acutely constrained by Autotrader) and that the increment in the Parties'

market position brought about by the Merger is limited. The Parties also face a strong constraint from CarGurus, a rapidly growing and aggressive rival.

5. Given this strong constraint from rivals and the limited increment arising as a result from the Merger, the CMA believes that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects.
6. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

7. eBay, a US-listed corporation, operates a number of online platforms that connect buyers and sellers of a large range of goods and services. These platforms include eBay Marketplace, StubHub, and eBay Classifieds, which includes a collection of brands, such as Gumtree in the UK. eBay operates in online classified vehicle advertising in the UK through two brands – eBay Motors and Gumtree Motors.
8. eBay generated worldwide turnover of £7.5 billion in 2017, with £1.1 billion of this generated in the UK. Of its 2017 UK turnover, eBay estimates that £[~~] relates to online classified vehicle advertising.~~
9. Motors, owned by Cox Enterprises Inc (**Cox**), is an online platform connecting buyers and sellers of vehicles. It also designs, builds and hosts websites for vehicle dealers.
10. Motors' turnover in 2017 was £13.7 million, all of which was generated in the UK.

Transaction

11. Under the terms of the SPA signed on 19 October 2018, eBay, through its UK subsidiary Gumtree.com Limited (**Gumtree**) will acquire 100% of the shares in Motors for a value of approximately \$[~~] million.~~
12. The Parties submitted that the Merger would enhance eBay's base of dealers and provide it with a dedicated vehicle classified site. eBay initially submitted that the Merger would accelerate its market presence [~~] as compared to~~

organic growth (but subsequently indicated that [X]).¹ This would put it in the position to challenge AutoTrader, the market leader.

Procedure

13. The Merger was considered at a Case Review Meeting.²

Jurisdiction

14. Each of eBay and Motors is an enterprise. As a result of the Merger, these enterprises will cease to be distinct.
15. The Parties overlap in the supply of online classified vehicle advertising services in the UK, with a combined share of supply (by volume) of unique visitors to online classified vehicle advertising sites of [40-50]% (with the Merger bringing about an increment of [5-10]%).³ The CMA therefore believes that the share of supply test in section 23 of the Act is met.
16. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
17. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 14 December 2018 and the statutory 40 working day deadline for a decision is therefore 12 February 2019.

Counterfactual

18. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers, the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.⁴

¹ [X]. The CMA examines the prospect of eBay organic growth in detail in the 'Counterfactual' section.

² See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, from paragraph 7.34.

³ See discussion of share of supply from paragraph 47.

⁴ [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).

19. The Parties submitted that the appropriate counterfactual should be the pre-Merger conditions.
20. During its investigation, the CMA saw some evidence to suggest the possibility of a more competitive counterfactual than the current competitive conditions. The CMA considered whether, absent the Merger, eBay would have increased investment in its online classified vehicle advertising services and therefore become a stronger competitor. However, based on all of the available evidence taken in the round, the CMA believes, for the reasons set out below, that the appropriate counterfactual should be the pre-Merger conditions.

eBay as a stronger competitor

21. The Parties submitted that growth via acquisition formed a key part of eBay's strategy. They submitted that the UK is a challenging market environment and, [REDACTED], investing in vehicle classifieds in the UK would not be an attractive proposition for the broader eBay group, relative to other opportunities. Because of these factors, any investment in online classified vehicle advertising in the UK would be incremental and only to maintain its current competitive position. These points are addressed below.

eBay strategy

22. Internal documents provided to the CMA showed eBay had a clear commitment to develop its online classified vehicle advertising services, [REDACTED].⁵ eBay had already successfully developed its online classified vehicle advertising services in a number of other countries including South Africa, Canada and Germany.⁶
23. A number of eBay's internal documents discuss how best to achieve its strategy of growth [in different countries]. Some of the documents discuss [REDACTED],⁷ and identify ways to improve its proposition for both dealers and consumers.⁸ However, other documents [REDACTED]⁹ suggest that growth via acquisition is the appropriate strategy for eBay in the UK, and focus on requesting funding for the acquisition of Motors, and on how the Merger could generate growth for eBay.

⁵ For example, [REDACTED]

⁶ [REDACTED]

⁷ [REDACTED]

⁸ [REDACTED]

⁹ For example, [REDACTED]

eBay investment

24. The CMA notes that the available evidence suggests that the UK online classified vehicle advertising sector is generally dynamic. All providers, including the Parties, attempt to innovate and develop their offerings regularly to attract dealers and consumers, with the market having seen some entry and rapid expansion, in particular through CarGurus (discussed further at paragraph 80), in the past two years.¹⁰
25. eBay had already taken steps to invest in its offering and grow organically. In 2016, eBay improved Gumtree Motors by introducing call-tracking, vehicle history check display and by providing opportunities for dealers to make their listings more eye-catching and to monitor the performance of their listings.¹¹ eBay continued to make a number of additional improvements in 2018, including to eBay Motors Dealer showrooms. These developments and improvements fit with the dynamic environment of online classified vehicle advertising described above. The CMA believes, however, that these changes are most accurately characterised as incremental improvements rather than as significant changes to eBay's offering (which had the potential to materially change the competitive significance of eBay). Moreover, [REDACTED]. Neither did the CMA find any evidence of [a plan to primarily focus on investing to grow organically].

eBay performance

26. The Parties submitted that the UK is a challenging market with strong competitors such as AutoTrader, and that [REDACTED].
27. This statement appears to be inconsistent with some of the evidence the CMA received. The Parties provided data on their revenues generated through listing vehicles online, which showed that [REDACTED].¹² This growth is supported by an external report and from third party responses, which observed Gumtree Motors being increasingly successful in online classified vehicle advertising. It is also supported by the Parties' internal documents. For example, one eBay document [REDACTED].¹³

¹⁰ All providers who responded to the CMA had plans over the next year to develop features or make changes to improve the attractiveness of their site.

¹¹ [REDACTED]

¹² [REDACTED]

¹³ [REDACTED]

CMA conclusion on counterfactual

28. The CMA believes, based on the evidence, that eBay had a clear strategy to invest in online classified vehicle advertising, including in the UK. However, this strategy did not include a commitment to, or investment in, organic growth over and above the level of investment needed to remain competitive in the UK market. The CMA therefore believes the prevailing conditions of competition to be the relevant counterfactual, notwithstanding the fact that eBay has made incremental improvements and has grown Gumtree Motors in the market in recent years. The CMA has considered the dynamics of online classified vehicle advertising services, including the incremental improvements and growth of the Parties and their rivals, within the competitive assessment.

Frame of reference

29. 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 within its competitive assessment.¹⁴
30. The Parties overlap in the supply of online classified vehicle advertising services to customers by Motors and eBay (through eBay Motors and Gumtree Motors).
31. The Parties also overlap in vehicle display advertising services. The Parties submitted that Motors generated limited revenues from this service in 2017 (approximately £[~~0~~]) and that it would have a share of supply in vehicle display advertising services of only [0-5]%. Given the limited extent of Motors' activities in display advertising, the CMA has not considered these services further in this decision, as no competition concerns arise on any plausible basis.¹⁵

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

¹⁵ Motors (but not eBay) provides website services to dealers. These services are not considered further given there is no overlap between the Parties, and in any event, the Parties estimate Motors' share of supply in website services to dealers to be only [0-5]%.

Product scope

32. The Parties submitted that the narrowest frame of reference should be the supply of online classified vehicle advertising.¹⁶
33. In *APW/ GMG/ EMAP*,¹⁷ the European Commission divided online advertising into search, non-search and classified. The European Commission considered, but did not define, a potential narrow market for online classified vehicle advertising.
34. As its starting point, the CMA has taken the supply of online classified vehicle advertising services and considered whether this frame of reference can be widened to include other forms of advertising and/or narrowed to particular customer segments.

Other forms of advertising

35. The Parties submitted that they face strong competition from display advertising, social media (in particular Facebook¹⁸ and YouTube) and Google paid search, and that these constitute very important competitive constraints on the Parties and other classifieds websites. The Parties provided third-party data on general digital advertising spending that showed that spending on other forms of advertising is expected to grow at a faster rate than spending on classifieds and that, within automotive digital advertising spend, search and display take a significant share of advertising spend.
36. The CMA did not receive sufficient evidence to suggest that widening the product scope to include other forms of advertising such as paid search or social media would be appropriate. In particular, the CMA did not find references to these other competitors ([X]) in the Parties' internal documents. In addition, evidence from dealers indicated that although a few may switch to using Facebook or Google in the event that one of the Parties' services became unavailable, they do not generally consider these other forms of advertising to be good alternatives to the Parties.

¹⁶ Classifieds are described by the European Commission in [Microsoft/ Yahoo! Search Business](#) as being ads grouped within specific web pages classifying the products or services being offered, with the main content of the page being the ads (unlike search and non-search ads).

¹⁷ COMP/M.5051 – APW/ GMG/ EMAP (2008) – paragraph 29

¹⁸ Facebook Marketplace is a general classified site operated by Facebook and is considered at paragraph 97. Facebook, in its general capacity as a social media site is considered in this section.

Customer segmentation

37. The CMA considered whether the product frame of reference should be segmented by customer requirements. The Parties operate in a two-sided market, offering their services to, and competing for, both buyers and sellers. Buyers and sellers consist of businesses, such as car dealers, and consumers.¹⁹ The market is characterised by network effects, whereby the attractiveness of the platform for one side of the market (ie sellers) is increased by sufficient presence of users (ie buyers) on the other side of the market (and vice versa).
38. In the present case, the CMA is not minded to consider separate frames of reference for different customer requirements, as competition on both sides of the platform seems to be broadly symmetrical, ie the Parties and their competitors face similar constraints for both buyers and sellers.

Conclusion on product scope

39. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of online classified vehicle advertising services.

Geographic scope

40. The Parties submitted that Motors is active in the UK, and that eBay is also active in the same geographic area.
41. In *APW/ GMG/ EMAP*,²⁰ the European Commission found that online advertising was national in scope. The CMA did not receive any evidence to suggest that the geographic frame of reference should be any narrower (or wider) than national.

Conclusion on frame of reference

42. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of online classified vehicle advertising services in the UK.

¹⁹ Both dealers and consumers are able to list to sell vehicles on the Parties' platforms although the CMA has focused on dealers as sellers and consumers as buyers, because only [0-5]% of Motors' listings are consumer-to-consumer (**C2C**) and therefore there is limited overlap in C2C listings.

²⁰ COMP/M.5051 – APW/ GMG/ EMAP (2008) – paragraph 29

Competitive assessment

Horizontal unilateral effects

43. 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.²¹ Horizontal unilateral effects are more likely when the merging parties are close competitors. The CMA assessed whether the Merger may be expected to result in an SLC in relation to horizontal unilateral effects in the supply of online classified vehicle advertising services.
44. As noted in paragraph 37, online classified vehicle advertising is a two-sided market, with vehicle dealers on one side and consumers on the other. The effectiveness of a site for dealers is driven by network effects, as dealers are looking to advertise to a large audience of consumers (with consumers attracted to sites that feature a large choice of vehicles from different dealers). In general, therefore, the larger the network an online classifieds vehicle listing site can offer, the more successful it will be. Dealers use multiple channels to advertise all or part of their vehicle stocks to consumers and tend to allocate their advertising spend across various sites.
45. Based on the data submitted by the Parties, eBay and Motors are, respectively, the second and third largest providers of online classified vehicle advertising services behind AutoTrader.²² The available evidence shows that the majority of spend by dealers on classified advertising is allocated to AutoTrader. The Parties compete with each other to gain a larger share of advertising spend by trying to persuade dealers to allocate more of their advertising spend away from AutoTrader and to that Party over the other (or other rivals). The importance of being the second largest provider is consistently considered within the Parties' internal documents (see paragraph 74).²³
46. In order to assess whether the Merger gives rise to competition concerns, the CMA first considers below the shares of supply in this market, before considering a range of additional evidence to assess the closeness of competition between the Parties. The CMA then examines the competitive

²¹ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

²² It was announced on 4 December 2018 that CarGurus had signed an agreement to acquire Pistonheads from Haymarket Media Group. This transaction completed on 8 January 2019. This acquisition may have resulted in CarGurus becoming a larger provider than Motors under some metrics.

²³ Being the second-largest supplier is more important in this market than others given network effects, meaning that an increase in scale is likely to increase the quality of the website, and so would further encourage dealers to allocate their advertising spend to that website as opposed to others.

constraint on the Parties from AutoTrader (which the Parties argue is the greatest constraint on each of them), CarGurus and other smaller market players.

Shares of supply

47. The Parties estimated their shares of supply in online classified vehicle advertising services using a number of different metrics. The CMA contacted third parties, and its estimates based on both the Parties' and third-party data are shown in Table 1 below. As noted below, there are some uncertainties with all of the share measures.

Table 1: Parties and rivals' estimated shares, 2018

Provider	Shares by listing revenue (%)	Shares by number of unique visitors (%)	Shares by number of dealers (%)
Gumtree Motors	[0-5]	[20-30]	[5-10]
eBay Motors	[10-20]	[10-20]	[10-20]
Motors	[0-5]	[5-10]	[10-20]
Combined	[20-30]	[40-50]	[30-40]
AutoTrader	[70-80]	[30-40]	[30-40]
CarGurus	[0-5]	[5-10]	[20-30] ⁱ
Pistonheads (now part of CarGurus)	[0-5]	[10-20]	[5-10]

Source: Parties' estimates and CMA estimates based on third-party data.

48. Table 1 above shows that the Parties' shares by listing revenue are moderate, particularly compared to AutoTrader's share, and the increment arising from the acquisition of Motors is limited. However, as AutoTrader is a significantly more expensive option for dealers than other providers, including the Parties (as explained in more detail in paragraph 76), the CMA considers that shares by revenue are likely to provide only limited insight into competitive conditions. Specifically, revenue-based shares may, within the context of the current case: (i) understate the competitive constraint that the Parties impose on one another pre-Merger; and (ii) overstate the competitive constraint that the Parties would face from AutoTrader post-Merger. Notwithstanding certain limitations of the volume-based shares set out in the table above,²⁴ the CMA

²⁴ Since dealers multi-home across sites, there is duplication in the data that is likely to affect the shares by number of dealers. Although there might be some duplication in the unique visitor data because consumers use multiple sites using different devices, this is likely to have an impact on the shares by number of unique visitors to a lesser extent. This is because each visitor to the site is counted only once, regardless how often each user visit the page.

considers that these shares show that the Parties will have a relatively high proportion of both unique visitors and number of dealers post-Merger.

49. The shares of supply provide a historical and static picture of competition in the market. As explained in the Counterfactual section above, the CMA observes various dynamic developments in the market and considers that while historical trends can provide some insight, relatively limited weight should be placed on static shares of supply. Given this, and the level of vertical differentiation²⁵ in the offerings of providers (as discussed further below), the CMA considered a range of other evidence to assess closeness of competition and the constraint imposed by the Parties' rivals.

Closeness of competition

50. The Parties submitted that they do not compete closely for the following reasons:
- (a) **Service proposition:** as eBay operates its online classified vehicle sites as part of its wider offering of non-vehicle-related goods or services, it offers less advanced functionality to dealers and consumers. As a vehicle-specific site, Motors has far more extensive dealer tools and enhanced features for consumers.
 - (b) **[Perception of lead quality]:** the lead quality generated by the Parties is perceived by dealers to be different, with Motors' leads being considered a higher quality than those generated by eBay Motors or Gumtree Motors. 'Quality' in this context indicates a site that provides dealers with enquiries from consumers who are then likely to follow through with the purchase of a vehicle, rather than views or enquiries from consumers who are less likely to buy a vehicle.
 - (c) **Customer overlap:** There is limited overlap between the dealers and customers on the Parties' sites, with less than [X] of dealers listing on one Party's site also listing on the other Party's site. Only around [X] of eBay Motors or Gumtree Motors consumers also visit Motors, and only [X] Motors' customers also visit Gumtree Motors (with [X] less visiting eBay Motors). This limited overlap on the Parties' sites on each side of the market indicates limited substitutability and limited closeness of competition.

²⁵ In economics, vertical differentiation indicates when products or services are of different qualities.

51. The CMA addresses these points in turn. As part of examining closeness of competition, the CMA also considered evidence from internal documents and third-party submissions.

Service proposition

52. The CMA observes some factors that differentiate the Parties' service proposition but concludes that, overall, the Parties offer a relatively similar service in the frame of reference.
53. The CMA notes that, in terms of the Parties' respective service offerings for dealers, Motors offers a more extensive range of tools than eBay Motors and Gumtree Motors. For example, Motors offers features such as free car valuation, which the latter two do not offer. Unlike eBay Motors and Gumtree Motors, Motors syndicates dealers' listings onto multiple partner sites (including Parkers, RAC Cars and Facebook Marketplace). Similarly, on the consumer side, Motors (in contrast to eBay Motors and Gumtree Motors) offers a broader range of tools to customers such as a car finance calculator, fuel calculator, and reviews of vehicles.
54. In addition, the CMA acknowledges that there are some differences in the Parties' pricing models. While both Parties operate a monthly subscription model of pricing, eBay's system is based on a fee per car listed, whereas Motors' is based on expected level of response/leads generated. The Parties also provided an overview of pricing which indicated that for the typical dealer a subscription with Motors would be [redacted] of the price of eBay Motors/Gumtree Motor's package.²⁶ In addition, this pricing overview showed that the Parties' respective pricing propositions are more similar to each other than to that of AutoTrader, which is far more expensive (as explained further in the analysis of AutoTrader set out from paragraph 69 onwards).
55. However, the CMA further notes that, broadly speaking, the basic functionality, usability and layout of the Parties' sites for both dealers and consumers are similar, given they both operate in online classified vehicle advertising, a relatively specific function. Indeed, one Motors document comments that [redacted].²⁷
56. The similarity of the Parties' services is recognised by the Parties' internal documents and third parties' views. For example:

²⁶ For a dealer listing 30 cars per month, the Parties estimate that a subscription to Motors would be [redacted], compared to £668 with eBay.

²⁷ [redacted]

- (a) Certain internal documents show that eBay considers the Parties to offer a relatively similar product, [REDACTED].²⁸
- (b) All competitors told the CMA that they consider both of the Parties to be main competitors to them, alongside a limited list of other rivals, with competitors listing only minor differences between the Parties;
- (c) Although dealers listed some differences between the Parties, this mainly related to perceived differences rather than significant differences *per se* (discussed in the next sub-section below). Approximately half of the dealers who responded to the CMA used both Parties' services and considered them to be good sources of exposure and enquiries.

57. In addition, given the continuous improvement in features and service proposition that both Parties, as well as their rivals, make to their offerings within this sector (as described above), the CMA considers that any static assessment of relatively limited differences in the precise features of each offering at a given moment in time provides only a very limited, if any, insight on the closeness of competition between the Parties as these differences could be removed quickly.

Lead quality and perception

58. The CMA notes that while data provided by the Parties show that eBay Motors and Gumtree Motors generate a higher level of consumer traffic for dealers than Motors does (as shown in the share of supply based on unique visitors), this does not provide any insight into the *quality* of the leads (ie, the likelihood of consumers enquiring and then following through on the purchase of a vehicle).
59. Insofar as lead quality is concerned, some dealers told the CMA that the quality of leads generated by eBay Motors and Gumtree Motors can be lower than that generated by Motors (eg because it includes consumers who may be browsing eBay or Gumtree for other (non-vehicle) products, or consumers who place speculative or unrealistic bids on vehicles). A number of dealers told the CMA that they do not use eBay Motors and/or Gumtree Motors either because it does not target their customer audience, does not fit with their brand, or it is too expensive for the leads it generates. However, other dealers told the CMA that eBay Motors and Gumtree Motors have high volumes of consumers on their websites and are well-known and established brands. Competitor responses broadly supported [a different in lead quality], with one

²⁸ [REDACTED]

commenting that eBay Motors/Gumtree Motors “*attract traffic but are not specialised in cars and struggle with legitimacy.*”

60. The CMA believes that whilst the evidence points to some differences between the Parties’ perceived lead-quality, this factor is unlikely to be decisive in determining a dealers’ choice of platform and should rather be considered in the round as one of numerous factors influencing dealers’ choice of platform. In the Parties’ case, the CMA considers that although some dealers may perceive the Parties as different in quality (particularly given Gumtree Motors’ relatively recent focus on B2C, as opposed to C2C, classified listings), this is likely to be only one of the factors influencing dealers’ choice of platform, and eBay’s offering has other strengths that may outweigh this limitation (such as it generating a higher level of traffic compared to Motors, or it reaching a different audience).

Customer overlap

61. The information provided to the CMA by the Parties is based on externally-produced figures and illustrates that there are differences in both the dealers and consumers that use their sites. The data also shows that there is a higher overlap of dealers and consumers between each Party and AutoTrader (than as between each other).²⁹
62. The CMA recognises that there is currently a limited customer overlap between the Parties but does not agree with the Parties’ submission that this necessarily indicates limited closeness of competition between them. The CMA considers that there could be limited overlap simply because customers are choosing which one of the Parties to use as a second site in addition to the other online classified vehicle advertising providers they use (namely AutoTrader). This would be consistent with the Parties being close competitors.
63. Additionally, because the Parties’ service propositions (including pricing) are closer to each other than to AutoTrader’s (discussed further at paragraph 70 onwards), customers may be more likely to switch to one Party if there were an increase in the other Party’s prices, than to AutoTrader. Because of the vertical differentiation between the Parties’ offerings on the one hand, and AutoTrader’s on the other, the CMA believes that the level of current customer overlaps between the Parties (and their rivals) may not be informative of the likelihood of each Party’s customers switching to the other Party (ie diversion ratios).

²⁹ AutoTrader is discussed in more detail from paragraph 69.

64. The CMA therefore considers that only limited weight can be given to the current degree of customer overlap in assessing closeness of competition between the Parties.

Internal documents

65. In general, internal documents provided by the Parties suggest that they view each other as competitors. For example, one eBay document [REDACTED].³⁰ Motors' internal documents [REDACTED].³¹

Third party views

66. Around half of the dealers who responded to the CMA's market testing use both Parties' services. The CMA received mixed evidence from Motors' dealers on whether they would consider eBay Motors and/or Gumtree Motors to be a good alternative in the event that Motors was unavailable.³² The CMA also received mixed evidence from consumers on whether they consider one Party to be a good alternative to the other. Some of this evidence was consistent in showing that the Parties are good alternatives to each other, but some suggested one Party may not be the best alternative for the other. The evidence also showed that there are only a few good alternative options available (namely, AutoTrader and CarGurus).

CMA conclusion on closeness of competition

67. The CMA believes that the Parties' offerings in online classified vehicle advertising services (as well as those of their competitors) are differentiated to some extent. The Parties' internal documents, [REDACTED], show that they do see each other as rivals. This is consistent with evidence which the CMA received from some dealers and consumers that they consider one Party to be a good alternative to the other. The CMA therefore believes that the Parties currently compete with each other, and has therefore gone on to consider the competitive constraints that will exist post-Merger.

Competitive constraints

68. The Parties submitted that both Motors and eBay consider AutoTrader to be their main competitor. In addition, they consider there to be a long tail of competitors in online classified vehicle advertising, with principal competitors

³⁰ [REDACTED]

³¹ [REDACTED]

³² The dealer responses to this question are hard to analyse given the significant levels of multi-homing. All the eBay Motors/ Gumtree Motors dealers who responded to the CMA were also customers of Motors.

including CarGurus, Carwow, Exchange & Mart, AA Cars, Parkers and RAC Cars. The Parties also note a number of recent successful entries including Facebook Marketplace and Shpock. The CMA has assessed the constraint from these alternative providers below.

AutoTrader

- *Parties' submission*

69. The Parties submitted that they both consider their main competitor to be AutoTrader, which describes itself as the UK's largest digital automotive marketplace. AutoTrader offers new and used car listings, and a range of features and tools for both dealers and consumers. The CMA estimates AutoTrader has a share of supply of [70-80]% by listing revenue, [30-40]% and [30-40]% by share of unique visitors and number of dealers respectively.
70. The Parties submitted that AutoTrader offers a stronger proposition than any other competitor, [redacted]. They provided an extensive list of innovations and improvements AutoTrader has made to its offering in the past two years, including integrating Trust Pilot reviews, a 360-degree image app, and the ability for consumers to search for vehicles by monthly price. The Parties also submitted that although a typical dealer would face a monthly cost with AutoTrader potentially [redacted] times more expensive than with Motors, and [redacted] times more expensive than eBay, AutoTrader's scale means it offers a better prospect to dealers to sell vehicles than other options.
71. The Parties submitted that dealers say they are over-reliant on AutoTrader, with no ability to resist price increases or undesirable product changes. Post-Merger, the Parties submitted that they will offer a better alternative to AutoTrader compared to now, and that the reaction of the market (a decrease in AutoTrader's share price) following the announcement of the Merger supports the view that competition would be increased post-Merger.
72. Lastly, the Parties submitted that, through the Merger, eBay will be better able to challenge AutoTrader as it will be a larger and therefore more credible alternative for dealers. The CMA considers that these arguments relate to efficiencies for which the Parties have not provided sufficient compelling

evidence to meet the necessary criteria for the CMA to form a view.³³ Therefore, the CMA does not consider this argument further.³⁴

- *Parties' internal documents*

73. Both of the Parties regularly refer to AutoTrader in their internal documents [REDACTED].³⁵ [REDACTED] documents provided by both Parties that mention competitors focus on AutoTrader. [REDACTED].³⁶ The Parties also provided external reports and articles that confirm AutoTrader's strength in online classified vehicle advertising.³⁷
74. Some of the Parties' internal documents refer to the importance of competing to be the second largest provider behind AutoTrader, with one eBay document stating [REDACTED],³⁸ and another that [REDACTED].³⁹ Given the high prevalence of multi-homing by both dealers and consumers, the Parties' documents note that "[REDACTED]".⁴⁰

- *Third party views*

75. All of the dealers and almost all of the consumers that responded to the CMA use AutoTrader to help buy or sell vehicles. Almost all of the Parties' consumer respondents said that they would switch to AutoTrader in the event that the Parties' websites were not available.
76. Dealers said that AutoTrader is their main source of consumer traffic and high-quality leads and, consequently, a large part of their advertising spend is allocated to AutoTrader. Some dealers commented that no other site compares to AutoTrader in terms of size of audience and quality of leads. Nonetheless, all dealers show their vehicles on multiple other sites, including those of the Parties. A number of dealers told the CMA that AutoTrader is expensive and they use other websites to reduce costs, with many only listing some of their stock on AutoTrader (given its per-vehicle listing pricing model) and the rest of their stock on other websites. As a result, the CMA does not believe that, for these dealers, switching to AutoTrader would be an alternative post-Merger. Notwithstanding, the CMA acknowledges that none of

³³ See [Merger Assessment Guidelines](#), from paragraph 5.7.1.

³⁴ The CMA notes the Parties submitted that in [Anticipated acquisition by Post Office Limited of Payzone Bill Payments Limited](#) (2018), para 111 the CMA did consider more effective post-merger competition from the parties. However, that consideration was in the round with other evidence and was case-specific. Evidence in that case included very limited competition between the parties, which had highly differentiated offerings.

³⁵ For example, [REDACTED]

³⁶ [REDACTED]

³⁷ [REDACTED]

³⁸ [REDACTED]

³⁹ [REDACTED]

⁴⁰ [REDACTED]

the dealers contacted by the CMA expressed concerns regarding their listing options post-Merger.

77. All competitors told the CMA that AutoTrader is the market leader and that dealers tend to use AutoTrader for the majority of their advertising spend. AutoTrader told the CMA that it considers its main competitors to be Gumtree Motors, Pistonheads, Motors and CarGurus. AutoTrader's internal documents show it monitors a wide range of current and future competitors, including the Parties.

- *CMA conclusion on constraint from AutoTrader*

78. The CMA believes that the Parties' internal documents support the position that both view AutoTrader as their main competitor. Third party views support the strength of AutoTrader as a competitor, although these views also emphasise the considerable distance between AutoTrader and the Parties. The available evidence supports the position that AutoTrader is more expensive but, in return, offers a higher quality product to dealers and generates more sales for dealers than other available sites. Moreover, it regularly innovates its offering, which the Parties and their rivals have to respond to (either by also improving their offering or by offering something differentiated). Therefore, for many dealers, AutoTrader is likely to be a good alternative to the Parties post-Merger.
79. That said, some dealers use rivals alongside AutoTrader to control their advertising spend (hence the importance of being the most popular second choice, as noted in paragraphs 45 and 74). Therefore, although the CMA believes AutoTrader will provide a strong constraint on the Parties post-Merger, the level of this constraint could vary for different customers, and is not therefore a sufficient constraint on the Parties by itself.

CarGurus

80. CarGurus is a US-headquartered online classified vehicle website, and is now the largest US vehicle classified website in the US in terms of visits.⁴¹ CarGurus entered the UK market in late 2015, using the same "freemium" business model as it does in the US.⁴² CarGurus has experienced strong growth, with revenue from online classified vehicle listings increasing by more

⁴¹ [REDACTED]

⁴² Dealers are able to list on a free basis but in return receive limited services (including only anonymised email leads), with the ability to move to an enhanced paid package that unlocks additional benefits, such as full customer contact information, dealer tools and additional branding

than £[REDACTED] million in the last three years, with the number of dealers increasing to around [REDACTED] with [REDACTED] that are paying customers. The CMA estimates that CarGurus has a share of supply of [0-5]% by listing revenue⁴³ and [5-10]% and [20-30]% by share of unique visitors and number of dealers respectively, although this does not include the shares of supply of Pistonheads (an online motoring website with car-related news, user forums and classifieds listings), which it acquired in January 2019.

- *Parties' submission*

81. The Parties submitted that eBay considers CarGurus to be the most successful challenger in online classifieds vehicle advertising, and that Motors considers it to be its closest competitor after AutoTrader, given its funding, high rate of growth and history in the US. The Parties also submitted that a typical dealer would pay between £[REDACTED] per month, making CarGurus [REDACTED] cheaper than AutoTrader and eBay. The Parties provided information showing that the majority of their large dealers also use CarGurus (although it is not clear how many of these dealers pay to use it).

- *Parties' internal documents*

82. The Parties' internal documents refer [REDACTED] to CarGurus, [REDACTED].⁴⁴ An earlier eBay document includes [REDACTED],⁴⁵ although later documents [REDACTED].⁴⁶ CarGurus is seen as a [REDACTED] in one of Motors' documents,⁴⁷ although it is seen [REDACTED] in another one.⁴⁸

- *Third party views*

83. CarGurus told the CMA that it plans to continue investing aggressively in the UK market, including the launch of TV advertising for its services. CarGurus also told the CMA that it plans to continue expanding and improving its dealer tools and other aspects of their offering [REDACTED]. Overall, CarGurus expects to continue to grow and scale its business in the UK over the next two years.

84. Almost all of the dealers who responded to the CMA currently use CarGurus in addition to the Parties and AutoTrader. The majority of these commented that it was new and growing, and that currently they only use the limited, free

⁴³ CarGuru's share of supply by revenue is also likely to understate its competitive importance given it operates a "freemium" model as described above.

⁴⁴ Given CarGurus' recent and rapid growth, documents produced more than one year are likely to understate the current and future constraint of CarGurus.

⁴⁵ [REDACTED]

⁴⁶ [REDACTED]

⁴⁷ [REDACTED]

⁴⁸ [REDACTED]

basis, or are in the process of trialling it for their business. Four out of 16 dealers rated it as a good alternative to Motors, with another one commenting that they would possibly explore the enhanced package with CarGurus if Motors was not available. One dealer commented that CarGurus “*compete hugely with Motors and [it is] expected to grow and become number 2.*”

85. All but one competitor who responded to the CMA listed CarGurus as a competitor to them as well as the Parties. One commented that it “*ha[s] been aggressive at growing market share*” and the CMA observed in AutoTrader’s internal documents that it considers CarGurus a key threat that it is focussed on taking action against. A couple of competitors questioned whether CarGurus would be able to build traffic successfully on the consumer side.
86. The majority of the consumers who responded to the CMA had not used CarGurus, although a few of these said that they would be likely to use it if the website of the Party they were currently using was not available.

- *CMA conclusion on constraint from CarGurus*

87. The evidence shows that CarGurus has expertise in online vehicle classified advertising and has grown successfully in the UK over the past three years. It is increasingly being seen by the Parties and their competitors as a threat, and its recognition with consumers is growing. Moreover, the addition of Pistonheads is likely to further strengthen CarGurus in the UK in the future as this acquisition provides additional content and traffic to its platform, which is likely to improve its ability to offer value to consumers and dealers.
88. The CMA believes that, while the constraint that CarGurus exercises on the Parties at present is moderate, given its continued investment and rapid growth, this constraint is likely to increase in the future and that CarGurus will compete strongly with the Parties.

Other suppliers

89. The Parties listed a long tail of other competitors including Carwow, Exchange & Mart, AA Cars, Parkers and RAC Cars, as well as new entry by Facebook Marketplace and Shpock. The CMA believes that either individually or in aggregate these alternatives offer only a limited constraint on the Parties for the reasons set out below.
- *Carwow*
90. Carwow is a recent entrant which predominantly offers new car listings and deals for consumers. It started offering used vehicle classifieds listings a year

ago but currently has a very limited number of listings. Carwow told the CMA that [REDACTED].

91. The CMA considers that the Parties' internal documents do not appear to consider Carwow as a close competitor, [REDACTED]. Similarly, Carwow was generally not mentioned by competitors as a rival, although the CMA observed it being included as one of three key threats in one of AutoTrader's internal documents. Carwow was mentioned by dealers but only in connection with selling new vehicles, as it was seen as too expensive to use to sell used vehicles.

92. On the basis of the available evidence, the CMA does not believe Carwow is currently a material constraint on the Parties. The CMA also considers that there is not sufficient evidence to support the position that the constraint exercised by Carwow is likely to materially increase in the near future. However, the CMA notes that Carwow is, in principle, well-positioned to be able to leverage its position in new vehicle listings and its relationships with dealers to successfully grow in used online classified vehicle listings.

- *Exchange & Mart*

93. Exchange & Mart is an online classified advertising website specialising in new and used motor vehicles including commercial vehicles. It has a limited historic share of supply under any metric and the CMA is not aware of any future expansion or development plans. The Parties' internal documents do not [REDACTED] consider it as a key competitor. Most of the dealers who responded to the CMA did not use it or only used it to a limited extent and said that it was too small and its quality had deteriorated in the last few years. Because of the importance of network effects, the CMA believes that Exchange & Mart offers only a very weak, if any, constraint on the Parties.

- *AA Cars*

94. AA Cars purchased VCars in March 2018 (branded AA Cars for the past five years), which is an established online classifieds vehicle website that also offers information for consumers on car valuations, finance deals, and motoring advice. Historically, it has accounted only for a very small share of supply. AA Cars told the CMA that [REDACTED]. AA Cars [REDACTED] does not appear to be considered as a main competitor by the Parties or rivals. Some of the dealers who responded to the CMA use AA Cars as it is a low-cost option, but some dealers commented that it is too small and does not tend to generate good quality leads for them.

95. The CMA considers that AA Cars imposes only a very weak constraint on the Parties, if any, with the level of this constraint unlikely to materially increase in the near future given it has been established in the market for a number of years and its competitive position has not changed in this time.

- *Parkers and RAC Cars*

96. Parkers is a motoring website that offers car reviews, guides, valuations and classifieds. RAC Cars is a classified listings site that also offers car valuation, car financing and links to other RAC products such as breakdown cover. Both websites are part of Motors' partnership network. The RAC Cars website is [REDACTED]. The CMA does not consider Parkers or RAC Cars to be competitors to the Parties given their reliance on Motors for listings and [REDACTED].

- *Facebook Marketplace*

97. The Parties submitted that Facebook entered online classified vehicle advertising in 2016 through Facebook Marketplace, which is a general classifieds site. The Parties submitted that, as at August 2018, Facebook Marketplace has approximately [REDACTED] dealers and [REDACTED] cars on sale, with the number of listings increasing to over [REDACTED] at October 2018. Facebook told the CMA that [REDACTED].

98. Motors currently partners with Facebook Marketplace, and it provides a [REDACTED] volume of the listings on Facebook Marketplace, [REDACTED] enabling Facebook Marketplace to currently compete in online classifieds vehicle listings. Motors' internal documents do not refer to Facebook Marketplace as a competitor. A few eBay documents do consider Facebook Marketplace [REDACTED], but [REDACTED]. A few dealers who responded to the CMA indicated that they used Facebook Marketplace, with dealers commenting that it provides good visibility.

99. The CMA therefore considers that Facebook Marketplace currently provides a weak constraint on the Parties given its minimal existing position in this space, and that this constraint is unlikely to materially change as Facebook Marketplace [REDACTED].

- *Shpock*

100. Shpock is a recent entrant and mobile marketplace that brings private buyers and sellers and local businesses together. It offers a range of products, including electronics, fashion, furniture and vehicles. A [REDACTED] number of eBay's internal documents refer to Shpock although [REDACTED]. None of the Motors documents refer to Shpock. No dealers, competitors or consumers who responded to the CMA mentioned Shpock as an alternative, and its current

share of supply is limited. The CMA does not believe Shpock offers a constraint on the Parties and has not seen evidence to suggest this will change in the future.

CMA conclusion on competitive constraints

101. The CMA believes that the Parties will face two main constraints post-Merger. AutoTrader is the market leader and is a close competitor to both Parties. It innovates regularly, improving its offering, which the Parties and their rivals have to compete with (either by also improving their offering or by offering something differentiated) and it offers a high-quality service that delivers sales for dealers. CarGurus is an aggressive and increasingly strong rival and is likely to pose a strong constraint on the Parties post-Merger, particularly for dealers which are looking for a low cost option to use instead of, or alongside, AutoTrader. Dealers will also still be able to use a range of other options, although given network effects, the constraint that can be placed on these either individually or in aggregate, is relatively low.

Conclusion on horizontal unilateral effects

102. For the reasons set out above, the CMA believes that the Parties have relatively similar offerings within online classified vehicle advertising, albeit with some differentiation, and currently compete with each other. The available evidence shows, however, that the Parties are not each other's closest competitors (with both being more acutely constrained by Autotrader) and that the increment in the Parties' market position brought about by the Merger is limited. The Parties will continue to competitive pressure from AutoTrader, the market leader, which is likely to be a strong constraint for some customers. The Parties also face a strong constraint from CarGurus, a rapidly growing and aggressive rival. Given this strong constraint from rivals and the limited increment arising as a result from the Merger, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to online classified vehicle advertising services in the UK.

Barriers to entry and expansion

103. 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.⁴⁹

104. The Parties listed a number of other competitors and new entrants, including MotoNovo and Cazana.
105. The CMA did not receive any evidence from the Parties or third parties that these new entrants would provide a constraint on the Parties post-Merger. Although the fact that dealers and, to some extent, consumers use multiple different sites reduce the importance of network effects, the CMA currently considers that it would still be hard for new entrants to gain scale and grow in the market. In particular, smaller players are unable to provide the consumer traffic required to generate the number of leads looked for by dealers. Consumer traffic can be hard to generate without significant investments such as expensive TV advertising and branding.⁵⁰
106. However, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

Decision

107. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the United Kingdom.
108. The Merger will therefore **not be referred** under section 33(1) of the Act.

Andrea Gomes da Silva
Executive Director
Competition and Markets Authority
12 February 2019

ⁱ The CMA notes that CarGurus does not consider that share of supply estimates by number of dealers is an appropriate metric, and that it may overstate its position in the UK market. This is because CarGurus' dealer customer base will include dealers subscribing to its free service, unlike its competitors whose customer bases will comprise paying dealers only.

⁴⁹ [Merger Assessment Guidelines](#), from paragraph 5.8.1.

⁵⁰ 