

Completed acquisition by PayPal Holdings, Inc. of iZettle AB

Provisional findings report

Notified: 30 April 2019

© Crown copyright 2019

You may reuse this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/ or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

The Competition and Markets Authority has excluded from this published version of the provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [X]. [Some numbers have been replaced by a range. These are shown in square brackets.] [Non-sensitive wording is also indicated in square brackets.]

Contents

	<i>Page</i>
Summary	2
The Merger	3
The counterfactual	4
PayPal and its mPOS product	4
iZettle and omni-channel	6
Competitive effects of the Merger	7
Offline payments for smaller merchants	7
Omni-channel	11
Provisional conclusions	12
Provisional findings	13
1. The reference	13
2. Industry background	13
3. The Parties	27
4. The Merger and relevant merger situation	33
5. Our approach for assessing the effects of the Merger	37
6. Market definition	40
7. Counterfactual	57
8. Competitive effects of the merger – offline payments	66
9. Assessment of the competitive effects of the Merger – omni-channel	109
10. Other considerations: entry and expansion	116
11. Provisional conclusion on the SLC test	121

Appendices

- A: The reference
- B: Conduct of inquiry
- C: Internal documents on PayPal Here counterfactual
- D: Internal documents on iZettle counterfactual
- E: Shares of supply
- F: Analysis of diversion
- G: Pricing structures
- H: Internal documents on the competitive landscape of the supply of offline payments
- I: Other considers: entry and expansion

Glossary

Summary

1. On 5 December 2018, the Competition and Markets Authority (CMA) referred the completed acquisition by PayPal Holdings, Inc. (PayPal) of iZettle AB (iZettle) (the Merger) for an in-depth (phase 2) merger inquiry. The CMA is required to address the following questions:
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition (SLC) within any market or markets in the United Kingdom (UK) for goods or services.
2. PayPal is a technology platform company headquartered in the United States. Among other activities, PayPal provides payment services that allow merchants to accept online and offline (ie in-store or where the customer is purchasing a product or service face-to-face with the merchant) card payments from end-customers.
3. iZettle, headquartered in Sweden, is a financial technology company that provides payment (and other) services with a focus on small businesses, which mainly allow merchants to accept offline card payments from end-customers.
4. PayPal and iZettle (the Parties) overlap in the UK in the supply of offline payments through mobile point of sale (mPOS) services. mPOS services consist of a card reader that is connected, physically or by Bluetooth, to an app downloaded onto a smartphone or tablet, which enables merchants to accept card payments. mPOS is a relatively new technology. It was introduced as an alternative to 'traditional' point of sale (POS) services which, in contrast to mPOS services, operate through standalone devices that connect to a payment system via Wi-Fi or a wired or mobile connection rather than working through a smartphone or tablet.
5. In the UK, PayPal and iZettle provide offline payment services to merchants through their PayPal Here and iZettle Reader mPOS services. The Parties are active in the provision of offline payment services in other countries but only overlap in the UK: PayPal offers PayPal Here in the USA and Australia; iZettle is present in nine other European countries,¹ Mexico and Brazil.
6. An emerging trend in payment services is the supply of 'omni-channel payment services'. In its most basic form this refers to the provision of an

¹ Denmark, France, Finland, Germany, Italy, Netherlands, Norway, Spain, Sweden.

integrated online and offline payment service, allowing merchants to take all payments through a single provider. Omni-channel services may also be considered to include additional components such as sales management, online-selling functionalities and other services to enable merchants to sell through multiple online and offline channels, although the scope of such services varies by provider.

7. PayPal offers both online and offline payment services. In addition to its offline offering, in April 2018, iZettle started offering a limited e-commerce service that enables merchants to set up an online store, including an option for end-consumers to pay by card via iZettle online.

The Merger

8. PayPal announced the acquisition of iZettle for \$2.2 billion on 17 May 2018.² Only nine days earlier, iZettle had announced its intention to list all of its shares on Nasdaq Stockholm, at a price that was expected to result in a value of at least \$1.1 billion for the entire company.³ The Merger completed on 20 September 2018.
9. PayPal submitted that the rationale for the Merger was 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. It announced⁴ the three main reasons for the acquisition were to provide:
 - (a) a best in class omni-channel offering: combining PayPal's scale, brand and mobile and online offer with iZettle's in-store expertise and scalable platform;
 - (b) for an expansion of its offline offer to 11 new markets, acceleration of omni-channel commerce solutions in Australia, UK and US, and expansion opportunities in other markets where PayPal operates; and,
 - (c) an integrated commerce platform for small and medium-sized businesses (SMBs).
10. Our evaluation of this Merger takes into account that the payment services industry is a fast-moving and dynamic market. Such markets are distinguished

² [PayPal, press release \(17 May 2018\): PayPal agrees to acquire iZettle.](#)

³ Finextra (8 May 2018), [iZettle to list on NASDAQ Stockholm.](#)

⁴ Presentation to PayPal investors (17 May 2018), [PayPal announces acquisition of iZettle](#), slide 4.

by rapid growth in a relatively short period of time and notable technological and commercial developments that often result in disruption to the current state of competition and how consumers interact in the marketplace. In this context, we do not consider it sufficient to assess the impact of the Merger with reference solely to the current state of competition; we instead need to consider the likely impact on competition as it is expected to develop in relation to the markets it will affect. For this reason, we have to take account of a range of forward-looking evidence and, in particular, evidence that allows us to form expectations about future competition, both with and without the effects of the Merger. This has required us to investigate thoroughly evidence available from internal documents, of the Parties and third parties, that are relevant to possible future developments.

11. We also considered whether the acquisition might have been motivated by an intention to prevent future competition from an emerging rival. We examined whether the consideration paid by PayPal for iZettle (which was much higher than the expected IPO valuation) suggested that it had taken account of a potential reduction in competition. However, after careful review we have provisionally found no evidence to suggest that this was the case. We also found that the consideration appeared justified by commercial valuation and calculations of synergies including increased sales volumes and cost savings.

The counterfactual

12. The counterfactual is the competitive situation we would expect to apply absent the Merger.⁵ It serves as a benchmark against which the expected effects of a merger can be assessed, and is determined as the most likely scenario that would apply.⁶ Against this framework, and in light of the Parties' submissions, we considered the likely future situation of each of PayPal and iZettle in the absence of the Merger.⁷

PayPal and its mPOS product

13. PayPal told us the Merger was about bringing together largely complementary businesses to create a stronger omni-channel offering to smaller merchants. It said consumers and merchants increasingly demanded the ability to buy and sell across channels, and that it found itself needing to catch up with providers already offering a seamless omni-channel service to merchants. But it said

⁵ [Merger Assessment Guidelines](#) (CC2 Revised), paragraph 4.3.1.

⁶ [CC2 Revised](#), paragraph 4.3.6.

⁷ [CC2 Revised](#), paragraph 4.3.6.

that it was far from being able to compete strongly with its omni-channel offering to smaller merchants due to [§<].

14. We reviewed an extensive selection of PayPal's internal documents, as submitted in response to our information requests and identified in a search and detailed review of the email records of relevant staff. We found these demonstrated a clear desire for PayPal to offer a strong offline payments service to complement its online payments product and to support its aspiration of developing a leading omni-channel service offering. We identified strong incentives to pursue this strategy in order to attract, retain and cross-sell to customers.
15. PayPal told us that the 'most likely' counterfactual was that PayPal Here would have continued as before and would not have significantly developed its offline offering. PayPal Here's share of mPOS supply has fallen recently, and we consider that this implies that PayPal Here's market share would have continued to decline. PayPal told us [§<].
16. Based on the evidence we found in PayPal's internal documents, it was clear to us that a variety of investment, acquisition and partnering options were considered by PayPal. PayPal's global strategic aims would likely have required different approaches and a combination of acquisitions and partnerships in different countries to facilitate both product enhancement and geographic expansion. Overall, we found that PayPal had a range of different acquisition and partnering options it could have pursued to improve or replace PayPal Here. PayPal had a very strong incentive to develop its offline payment service and enhance its omni-channel offer as well as [§<]. We have not sought to identify which specific option(s) it might have pursued but we are satisfied that it could and would have achieved this through one or more measures.
17. Our provisional view is that PayPal would have substantially improved or replaced PayPal Here. However, this would have taken time with the timing and impact of such an improvement in the UK dependent upon the means by which it was achieved, ie the profile of any acquisition or partnership targets. In the shorter term, we consider it likely that PayPal would have sought incremental improvements to its existing mPOS offering (for example through improvements to pricing, marketing, or product hardware). Therefore, under the counterfactual it is likely that PayPal would have been a stronger competitor than it currently is, stemming the decline in PayPal Here's competitive position. However, we recognise the limitations of what PayPal could achieve in the shorter term to enhance PayPal Here's competitive position (particularly [§<]).

iZettle and omni-channel

18. We considered whether, absent the Merger, iZettle would have been likely to expand further into the provision of online payment services, thereby enabling it to offer an enhanced omni-channel service.
19. The Parties told us that iZettle's focus was on business management capabilities rather than online payments, and absent the Merger would not have been in a position to expand rapidly in this segment. iZettle had been planning to raise around £[X] million as part of an initial public offering (IPO) in May 2018. We have no reason to believe that iZettle would not have proceeded with the IPO absent the Merger. iZettle's draft IPO prospectus set out its growth strategy. According to the prospectus, it planned to use the IPO proceeds to continue to [X] and seek to [X], fund [X], for general corporate purposes and to provide strategic flexibility for [X]. There were no statements indicating an intention to significantly expand its online payment services.
20. In addition to iZettle's submissions and IPO documentation, we examined internal papers and strategy documents and reviewed internal email communications for a period prior to the Merger. This was to assess iZettle's business strategy in relation to its online payments capability and a broader omni-channel functionality. The evidence was consistent with its stated intention to prioritise the development of its offline offering, with a focus on [X], and on increasing its reach to [X], as well as expanding the [X].
21. We found evidence indicating that, absent the Merger, iZettle would have been likely to have considered either [X]. But we found no reason to consider it likely that it would have entered into a transformative partnership or acquisition to advance its online offering in a significant way in the foreseeable future.
22. Based on the Parties' submissions and our review of the evidence, we are satisfied that iZettle's strategy absent the Merger was likely to have focused on developing its existing services. Therefore, we provisionally conclude that absent the Merger it is likely that iZettle's expansion into online payments offering would have remained relatively less developed and therefore that its omni-channel services would have proceeded and developed only at a slow rate.

Competitive effects of the Merger

Offline payments for smaller merchants

23. We considered the effects of the Merger on competition in the provision of offline payment services. As the Parties primarily serve smaller merchants, we looked at the potential impact of the Merger on these customers. We use the term 'smaller merchants' to mean those with a monthly transaction payment volume (TPV – the value of card payments made) below £15,000 (comprising nano customers with a monthly card TPV under £1,500, micro customers (£1,500-6,000) and small customers (£6,000-15,000)).
24. mPOS services are expanding in the UK, but traditional POS providers supply POS services to the great majority of smaller merchants. Based on all 2018 TPV for smaller merchants, traditional POS providers are far larger than the mPOS providers, accounting for some [90-100]% of overall offline payment processing. The two largest traditional POS providers are each ten times the size of the largest mPOS providers in serving smaller merchants. iZettle's share is just [0-5]% and PayPal's is [0-5]%. By number of such customers, their share is higher – iZettle [10-20]% and PayPal [5-10]%, reflecting that their customers tend to be smaller than those of traditional POS providers.
25. We conducted a survey of the Parties' customers,⁸ which allowed us to calculate diversion ratios of who their customers might switch to if there were a relative price increase for the Parties' mPOS services. These diversion ratios indicated over 30% of their customers would switch to a POS offering if PayPal or iZettle were to increase their prices (compared to 60% switching to alternative mPOS offerings). These diversions are consistent with evidence from the Parties' data on the churn of their own customers.
26. We provisionally conclude that the relevant market is the supply of offline card payment services to smaller merchants in the UK. However, there are a priori reasons to consider that there would be some segmentation of mPOS customers within a broader offline payments market. mPOS offerings differ from traditional POS offerings primarily in terms of their pricing structures rather than functionality (which is very similar). mPOS offerings typically do not require a contract or monthly rental agreement, and pricing structures are, in most cases, based on a flat transaction rate. In terms of overall cost, a comparison of total charges indicates that mPOS services are generally a cheaper option for very small (nano and some micro) merchants than typical traditional POS services. This makes mPOS services attractive to merchants

⁸ See the survey report on the PayPal/iZettle merger inquiry [webpage](#).

with low levels of customer card use, who are uncertain on what level of card use to expect, or whose usage is seasonal. Our survey of the Parties' customers asked what their main reasons were for choosing an mPOS offering. The main reasons provided were ease of use, flexibility (no long-term contracts), portability, speed of receiving funds, and lower overall and upfront costs.

27. However, POS solutions can offer comparable or better financial terms for many smaller merchants. Our analysis indicates that for larger micro and small merchants traditional POS offerings are better value than the Parties' mPOS offerings.
28. This indicates that there will, for many merchants, be financial attractions in moving from mPOS to POS services. In addition to price, users also take account of non-price aspects. We were told that POS readers tended to be more robust and reliable than mPOS readers and can have a longer battery life. Many have an inbuilt ability to print receipts, whereas mPOS readers require a separate mobile printer or can only offer emailed receipts. It also means the merchant does not also need to acquire and carry a mobile phone or tablet to use with the card reader.
29. The Parties put to us that the distinction between mPOS and POS services was diminishing as POS systems became available on simpler, pay as you go contracts, and so the overall pricing models were becoming more similar for smaller merchants. They also told us that the technologies were converging, for example mobile versions of POS systems were becoming close alternatives to mPOS systems, and that traditional providers were becoming more adept at digital onboarding. The Parties also pointed to the evolution of technology, including for example phone apps that do away with the need for a separate card reader. These may facilitate market change or the entry of new providers. We acknowledge that payment technologies can and do develop quickly, and technological or regulatory changes and developments in consumer habits can result in substantial market changes (for example how contactless card use suddenly became widespread in the UK). However, the likelihood and extent of any such impact from future technologies is unforeseeable.
30. Many of the traditional POS providers told us they did not actively target smaller customers, in part because of the costs of onboarding customers where many traditional providers had lengthy, complex, manual procedures for attracting and signing up customers and undertaking the required regulatory checks. However, two traditional POS providers, Worldpay and Barclaycard, said they serve customers of all sizes. These are the two largest providers of offline payment services to smaller merchants, accounting for

shares of [20-30]% (Worldpay) and [20-30]% (Barclaycard). In order to grow their business [X].

31. Worldpay and Barclaycard have very small shares of mPOS provision, just [0-5]% and [0-5]% shares respectively by TPV. In January 2019, Barclaycard cut the rates on its Anywhere mPOS to 1.6%, the lowest of all the mPOS providers. Worldpay has also relaunched its mPOS service. [X]. But Worldpay and Barclaycard's shares of the broader offline payment services market are very much higher, and customer diversion found in our survey is significant when combining the mPOS and traditional POS offerings of these providers: 10-20% for Worldpay and 10% for Barclaycard.
32. We considered competition between mPOS providers. We found that the mPOS providers tend to concentrate their competitive attention much more on each other rather than on the traditional POS providers. Nonetheless, the Parties' documents recognise competition from (and in some cases [X]) traditional POS providers whose constraints are stronger for [X] smaller merchants.
33. Pre-Merger, iZettle is by far the largest provider of mPOS services in the UK. By TPV, PayPal Here is number two, ahead of SumUp and Square, the other main mPOS providers. We heard that, nonetheless, PayPal had in recent years been perceived as a weak competitor. While most mPOS providers charge a fixed percentage transaction fee, PayPal Here retains a tiered-pricing structure, where the transaction rate varies depending on the payment volumes processed. This is more complex and results in the smallest customers paying higher charges. We note that in recent years PayPal Here's share of new mPOS customer acquisitions has been in decline. We also considered the diversion ratios based on our survey. iZettle customers indicated they were more likely to consider switching to SumUp or Square than to PayPal Here. [X], iZettle's documents indicate that it did not closely monitor or respond to [X]. Instead, it paid comparatively more attention to the competitive threat from [X] and [X].
34. However, as set out in paragraphs 13 to 17 our expectation is that absent the Merger, PayPal would have been a stronger competitor than it currently is, stemming the decline in PayPal Here's competitive position. This would have been achieved, in the shorter term, through possible incremental improvements to its existing mPOS offering (for example, it could have considered improvements to pricing, marketing, or product hardware), and in the longer term, through a substantial improvement or replacement of PayPal Here. Therefore, it would have been a closer competitor to iZettle absent the Merger. We have assessed evidence and considered the competitive effects of the Merger in light of this.

35. We considered the impact of the Merger on the very smallest nano customers, for whom the financial advantages of an mPOS system over a traditional contract are likely to be strongest. However, even for nano customers, the diversion ratios to POS offerings were still 31% from iZettle and 32% for PayPal, indicating a material level of constraint from POS offerings for these customers.
36. We also considered the strength of competition from SumUp and Square for the acquisition of very small customers. Both have grown significantly in recent years and provide mPOS offerings with a similar fee structure to iZettle.
37. SumUp has the lowest transaction fee of the four largest mPOS providers. Its share of mPOS by TPV has grown from [5-10]% in 2016 to [10-20]% in 2018, with a sharp increase in the most recent year. SumUp's service is relatively simple but it is currently recruiting more new customers than any other mPOS provider, particularly for very small customers.
38. Square has achieved an mPOS share of [5-10]% since its entry in 2017. We were told that Square's service comes with sophisticated software functionality. Square's entry into the UK induced significant reactions from some other mPOS suppliers, in reducing prices and simplifying pricing structures.
39. Even though these mPOS providers are smaller in the UK than the Parties (who have a share of mPOS by TPV in 2018 of [50-60]% for iZettle and [10-20]% for PayPal), competition from Square and SumUp appears to be a significant constraining factor,⁹ and can be expected to continue to be even in the case of a stronger PayPal Here in the counterfactual.
40. In addition to these key mPOS rivals, the evidence shows that traditional POS providers, particularly Worldpay and Barclaycard, also currently impose a material constraint on the Parties and are expected to do so in the future, even in the case of a stronger PayPal Here in the counterfactual.
41. Assessing all factors in the round, we have provisionally concluded that, notwithstanding a more strongly competing PayPal in the counterfactual, post-Merger, sufficient competitive constraints will remain on the Parties such that it is unlikely that the Merger will substantially lessen competition in the

⁹ Other mPOS providers such as Shopify, Worldpay, Barclaycard and Elavon each have under [0-5]% share for mPOS, even though their provision of POS is very much larger.

provision of offline payments services to smaller merchants in the UK. This is due to:

- (a) The material constraint that applies from the much larger provision by POS providers for both PayPal's existing customers and as regards competition to acquire new customers:
 - (i) Whilst the Parties compete more closely with other mPOS providers than with traditional POS providers, traditional POS providers also exercise a meaningful constraint on the Parties. A material proportion of the Parties' customers consider traditional POS providers to be credible alternatives, and traditional POS providers currently serve a considerable proportion of smaller merchants;
 - (ii) The Parties' documents recognise competition from (and in some cases [X]) traditional POS providers particularly at the [X] for smaller merchants. This is consistent with our analysis of price levels, which shows that traditional POS offerings are cheaper than mPOS for larger micro and small merchants;
 - (iii) Some leading traditional POS providers have adjusted their offerings to meet the demand by smaller merchants;
 - (iv) We also take account of the recent and prospective reduction in the distinction between POS and mPOS services, pricing and contracts; and
- (b) The significant competitive constraint from Square and SumUp, particularly in relation to nano merchants.

Omni-channel

- 42. We also considered the effects of the Merger on competition in the provision of omni-channel services to smaller merchants, ie whether iZettle would have developed an omni-channel offer that would have been in competition with PayPal's service, and if so, whether the loss of this competition would be expected to lead to an SLC, taking account of expected future competition in omni-channel services for smaller merchants.
- 43. We provisionally conclude that the relevant market is the supply of omni-channel services to smaller merchants in the UK.
- 44. In the context of this case, where we are considering a nascent market in which iZettle has only very recently commenced a limited e-commerce offering, we considered it appropriate to use the framework for the

assessment of potential competition.¹⁰ The framework requires us to consider two questions: would iZettle be likely to enter into omni-channel services in the absence of the Merger and, if so, would such entry lead to greater competition. As iZettle has, to a very limited degree, already entered the market, we considered whether it would have been likely to expand in omni-channel services absent the Merger. This was considered in our counterfactual assessment, see paragraphs 18 to 22. The projected revenue expectations for iZettle e-commerce [§<]. While it may have sought further opportunities [§<], to increase its e-commerce offer, we have found this was not expected to constitute a significant expansion within the foreseeable future. Instead, we consider it likely that iZettle's focus post-IPO would have been more on developing and growing its existing lines of business. Therefore, we provisionally conclude that, absent the Merger, it is likely that iZettle's expansion into online payments would have remained relatively less developed and its omni-channel services would have proceeded and developed only at a slow rate.

45. For the same reasons, we are provisionally satisfied that it is likely that the effect of the acquisition has not been to achieve a tactical elimination of a potentially significant, nascent competitor to PayPal in omni-channel services.
46. The second limb of the framework is whether iZettle's expansion would lead to greater competition.
47. We have identified several providers that have entered or acquired e-commerce capabilities and are developing their omni-channel propositions while others have indicated that they have plans to expand into the omni-channel market. Competition in omni-channel for smaller merchants is in its early phases, but given the existence of significant competitors and the likelihood of future entry, the small scale of intended expansion by iZettle absent the Merger does not lead us to provisionally conclude that iZettle's planned expansion in omni-channel would lead to greater competition.
48. For these reasons, we provisionally conclude that the Merger is unlikely to substantially lessen competition in the provision of omni-channel services to smaller merchants in the UK.

Provisional conclusions

49. We provisionally conclude that the Merger has not resulted, and is not expected to result, in a substantial lessening of competition in the UK.

¹⁰ [CC2 Revised](#), paragraphs 5.4.13-5.4.15.

Provisional findings

1. The reference

- 1.1 On 5 December 2018, the Competition and Markets Authority (CMA), in exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act), referred the completed acquisition by PayPal Holdings, Inc (PayPal) of iZettle AB (iZettle) (the Merger) for further investigation and report by a group of independent panel members (the Group).¹¹
- 1.2 The terms of reference are set out in Appendix A and the conduct of inquiry is set out in Appendix B.
- 1.3 Having decided to extend the statutory timetable by eight weeks, the Inquiry Group is required to publish its final report by 16 July 2019.¹²
- 1.4 In exercise of its duty under section 35(1) of the Act, the Group must decide:
 - (d) whether a relevant merger situation has been created; and
 - (e) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition (SLC) within any market or markets in the UK for goods or services.
- 1.5 This document, together with its appendices and glossary, constitutes our provisional findings. Further information, including a non-commercially sensitive version of the Parties' response to the phase 1 decision, can be found on our inquiry webpage.¹³
- 1.6 Throughout this document we refer to PayPal and iZettle collectively as 'the Parties'.

2. Industry background

Introduction

- 2.1 The Parties overlap in the UK in the supply of offline payment services. In this chapter, we first briefly describe the payments market in the UK before going on to illustrate how most card payments work (the so-called 'four party model'). We then describe the role of payment facilitators (such as iZettle) and

¹¹ The Act, [section 22\(1\)](#).

¹² [Notice of extension](#), 30 April 2019.

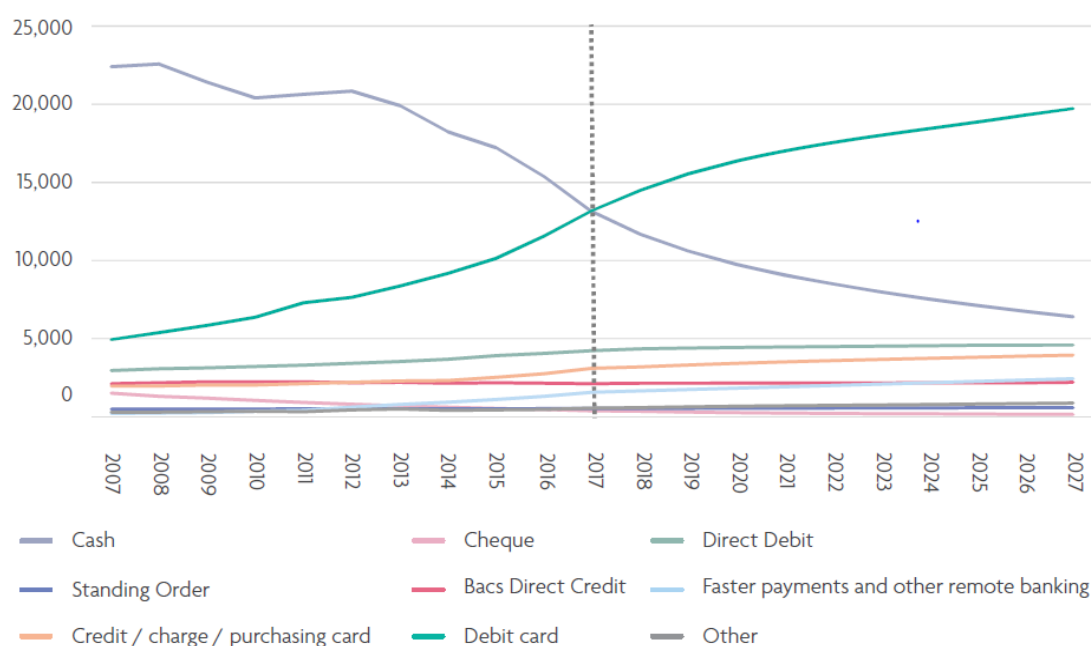
¹³ PayPal/iZettle merger inquiry [webpage](#).

independent sales organisations (ISOs). We end with a brief description of the distinction between POS and mPOS services, including a brief history of mPOS in the UK, and a brief description of omni-channel services.

UK payment markets background

- 2.2 First, we briefly describe the payments market in the UK, focusing in particular on card payments. Much of the data in this section is drawn from the UK Payment Markets Summary 2018 published by UK Finance.¹⁴
- 2.3 Historically, the UK's payment markets have tended to evolve slowly over time. However, changing consumer preferences, innovation in payment methods, technological developments and other drivers have seen considerable changes in the UK payment markets over the last decade. Figure 1 shows payment volumes (ie number of payments, not £ value) by different payment methods over the period 2007 to 2017 plus UK Finance's projections over the period to 2027. Most notable is the decline in the number of payments made by cash and the increase in number of payments made using debit cards.

Figure 1: Payment volumes (millions) 2007 to 2027

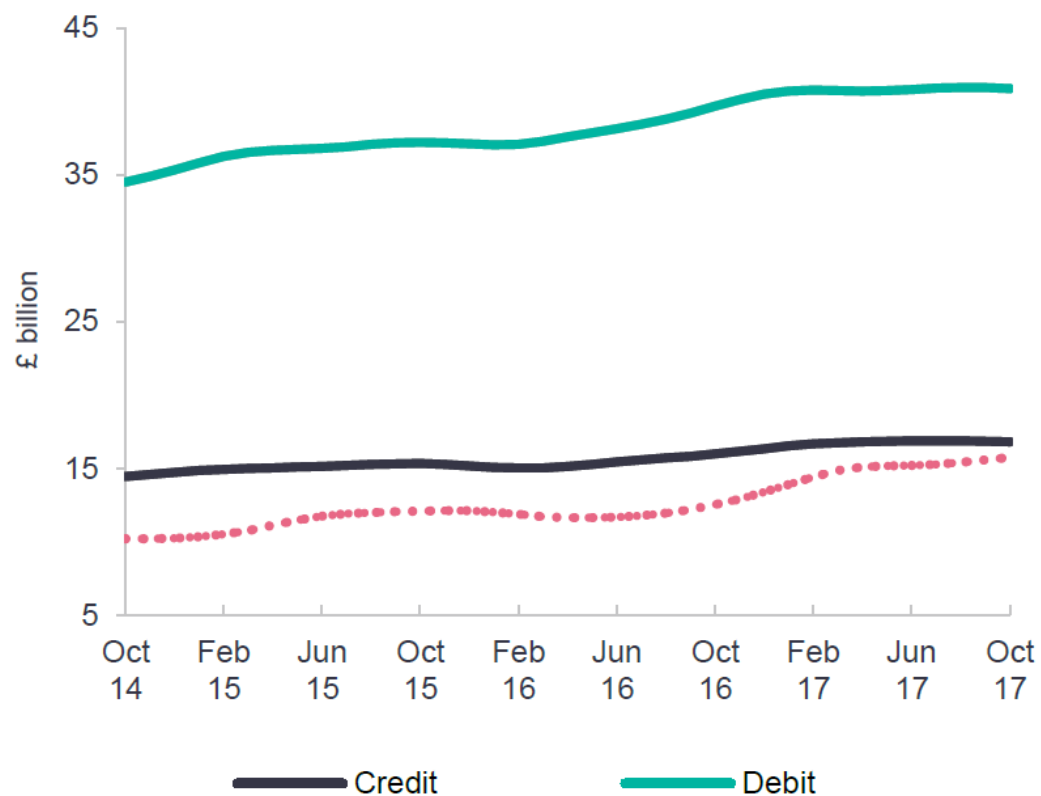


Source: UK Finance

¹⁴ [UK Payment Markets Summary 2018](#). UK Finance combines most of the activities of the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association.

- 2.4 In total, 38.8 billion payments were made in the UK in 2017. Nine out of ten payments were made by consumers (as opposed to businesses), of which some 15% of payments were for regular bills and commitments (eg standing orders and direct debits).
- 2.5 During the last quarter of 2017 debit cards overtook cash for the first time as the most frequently used payment method in the UK, helped by the growing popularity of contactless payments and the increased speed of migration of payments away from cash. 98% of the adult population now hold a debit card and most people use them to make day-to-day payments. Over the next decade, debit card payment volumes are forecast to grow by more than any other payment method (see Figure 1), driven by the continuing rise of contactless payments, the ongoing growth of online shopping and ever-increasing levels of card acceptance amongst businesses of all sizes, but particularly amongst smaller businesses.
- 2.6 In 2017 there were 3.1 billion payments made using credit cards, an increase of 13% over the previous year. 64% of adults in the UK have a credit card. UK Finance attributes increased spending on credit cards to a number of factors:
- (a) upturn in economic growth and consumer confidence;
 - (b) strong competition in the credit card market; and
 - (c) increased card acceptance by merchants.
- 2.7 The number of contactless payments made in the UK increased by 97% during 2017 to 5.6 billion payments. According to UK Finance, this was driven by:
- (f) the continued roll-out of contactless cards;
 - (g) the continued roll-out of card acceptance devices; and
 - (h) consumers becoming increasingly comfortable and familiar with making contactless payments.
- 2.8 By the end of 2017 there were nearly 119 million contactless cards in circulation with 78% of debit cards and 62% of credit cards in the UK having contactless functionality.
- 2.9 Figure 2 shows monthly card expenditure for both credit and debit cards over the three years to October 2017.

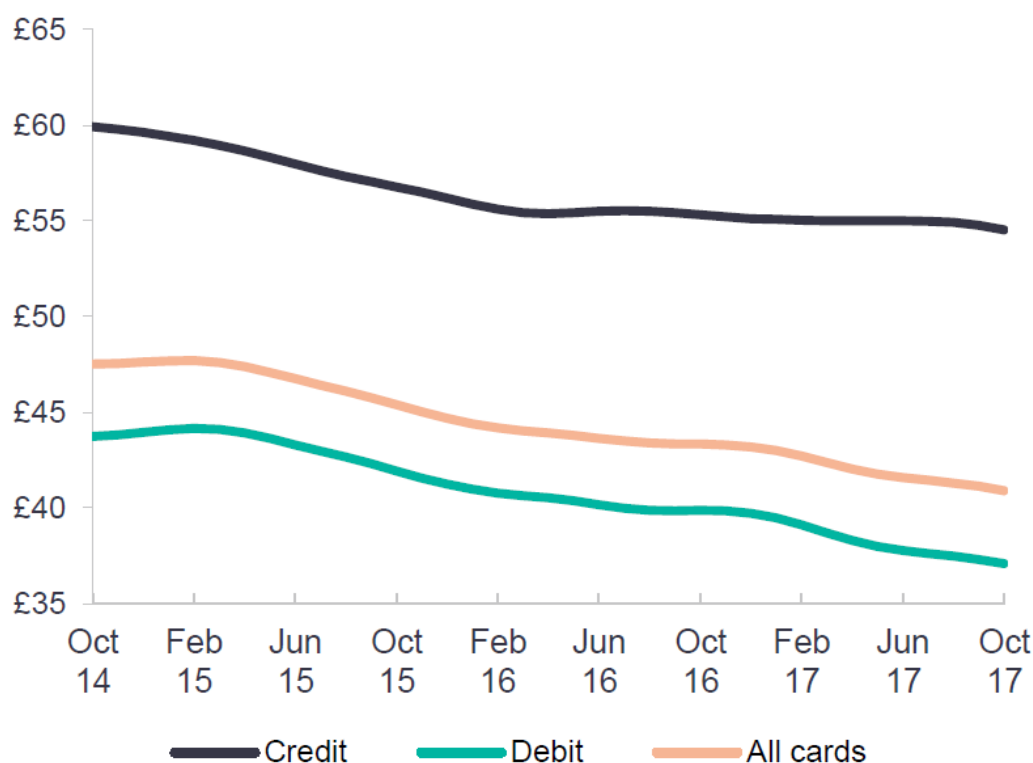
Figure 2: Monthly card expenditure



Source: UK Finance

- 2.10 Figure 3 shows average transaction values for both credit and debit cards over the same period. Average transaction values have trended down over a sustained period, to £40.90 for debit cards and £55.54 for credit cards in October 2017. (The online average transaction value fell to £83.43.)

Figure 3: Average transaction values



Source: UK Finance

- 2.11 There is the possibility that both Open Banking¹⁵ and the Payment Services Directive¹⁶ may lead to increased volumes of account-to-account payments (payments made via online banking or mobile banking apps) over the next few years. Open Banking raises the potential for services to be launched that would allow consumers to pay for online shopping using account-to-account payments at the online checkout, rather than paying using a card. It is possible that account-to-account payments could be used to pay for online shopping, with an associated reduction in online card payments although it is not clear at this stage how rapidly online payments might migrate to account-to-account payments. Consumers will also be able to pay for offline transactions with banking apps using card-on-file, potentially removing the need for a separate payments or hardware device on the merchant's side, or

¹⁵ In August 2016, the CMA issued a ruling that required the nine-biggest UK banks - HSBC, Barclays, RBS, Santander, Bank of Ireland, Allied Irish Bank, Danske Bank, Lloyds and Nationwide - to allow licensed start-ups direct access to their data down to the level of transaction-account transactions. Access to data can only be given with account holders' permission, but it opens the way to new products and services that could help customers and small to medium-sized businesses get a better deal.

¹⁶ In October 2015, the European Parliament adopted a second Payment Services Directive, known as [PSD2](#). The new rules included aims to promote the development and use of innovative online and mobile payments through open banking.

using eg Faster Payments to pay a merchant directly from their bank account.¹⁷

The four party model

- 2.12 In this section, we describe how an in-store card payment process (debit or credit card) works in most instances. This is often referred to as the 'four party model', although there are actually five parties.
- 2.13 The four parties are: cardholders, issuers, merchants and acquirers. Cardholders are issued cards by an issuer (eg HSBC, Nationwide, Santander). The cardholders use payment cards to buy from merchants, who pay to have their payments processed by acquirers (eg Worldpay, Barclaycard, First Data, Elavon).
- 2.14 In addition to the four parties, there are schemes that operate the four party model (eg Visa, Mastercard).¹⁸ Scheme members are acquirers and issuers. Schemes process and route transactions, and set (and receive) the scheme fees that both acquirers and issuers pay per transaction. The schemes also manage the rule book governing how card transactions are made.
- 2.15 In order to be able to accept card payments, a merchant must sign up with an acquirer (though see also paragraph 2.24). Generally, when a cardholder inserts his card into a card reader and enters his PIN (or attempts a contactless payment) a message is sent from the terminal, via the acquirer and the scheme, to the issuer to check the cardholder's account status and balance. A message is then sent back from the issuer, via the scheme and the acquirer, to the merchant's card reader, either authorising or declining the transaction. This message flow is illustrated in Figure 4:

¹⁷ The Faster Payments Service is a UK banking initiative to reduce payment times between different banks' customer accounts from the three working days that transfers take using the long-established bankers' automated clearance system (BACS), to typically a few seconds. It is now possible to send individual payments of up to £250,000 using the Faster Payments Service, but those organisations offering the service can set their own limits depending on how the payment is sent and the type of account their customer is sending from.

¹⁸ There are also three-party schemes, eg American Express, where the scheme performs the issuing and acquiring functions itself, but their volumes are much smaller in the UK than either Visa or Mastercard.

Figure 4: Authorisation messaging in a four party card scheme

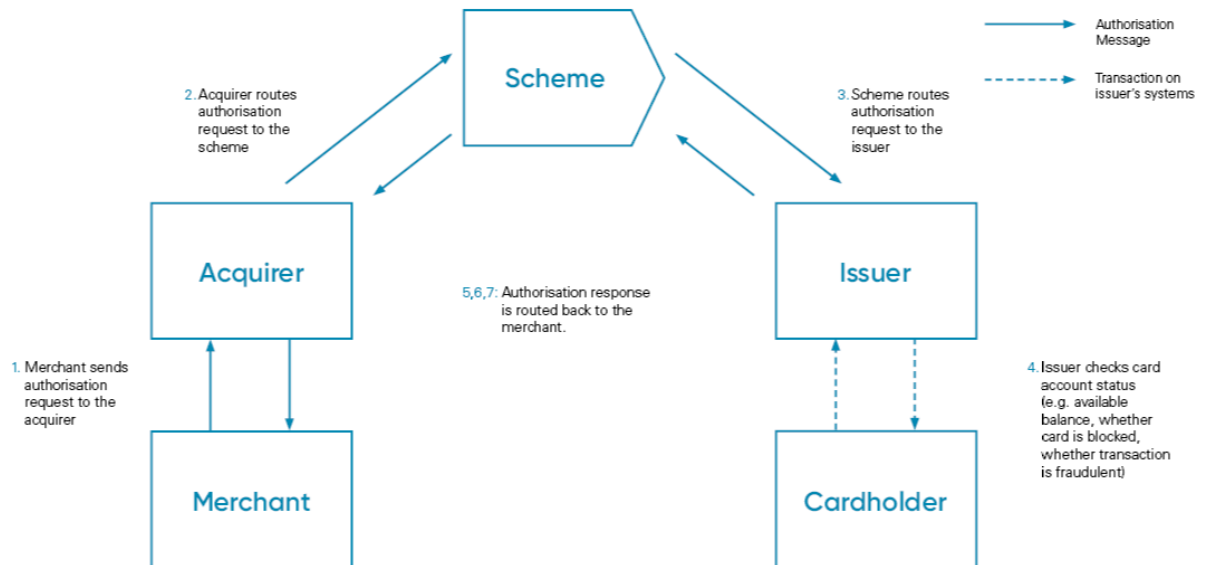


Diagram shows a simplified representation of authorisation messaging in a four party card scheme

Source: Payment Systems Regulator

- 2.16 Figure 5 shows the messaging and funds flow involved in the clearing and settlement of transactions at the end of each day:

Figure 5: Clearing and settlement in a four party scheme

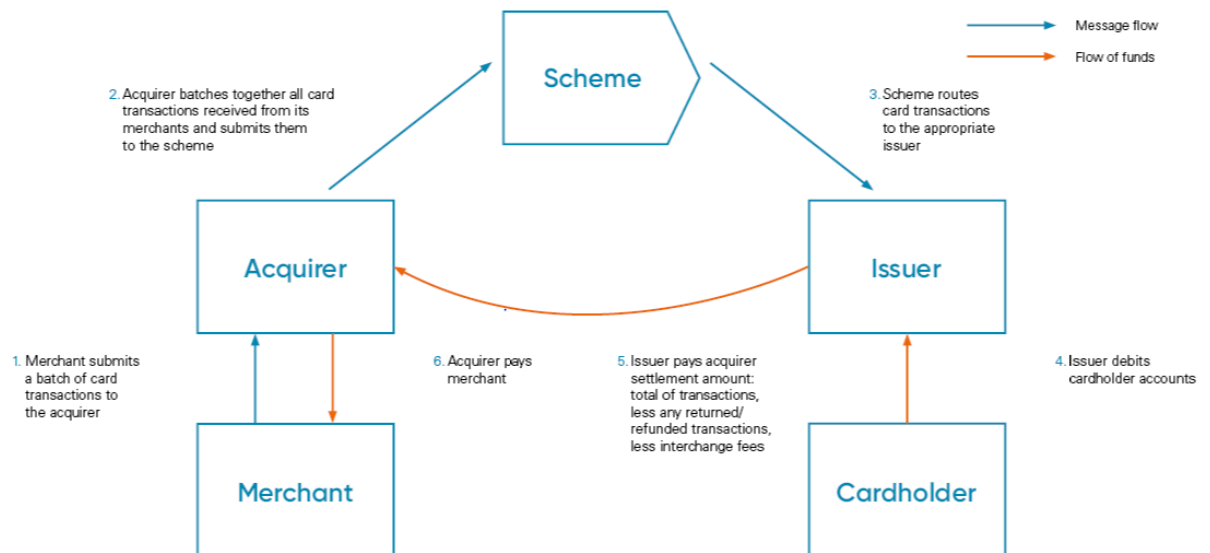


Diagram shows a simplified representation of clearing and settlement in a four party card scheme

Source: Payment Systems Regulator

- 2.17 Typically, the merchant will receive funds a day or two after the card transaction has taken place, though in some cases this can be longer and, for large creditworthy customers with high transaction volumes (eg large

supermarkets) it can be shorter: acquirers may pay such customers on the same day as the transaction in the expectation of receiving funds from the issuer the following day.

- 2.18 The message flow and clearing and settlement are similar in the case of card payments made online ('card not present'). The merchant will need to have an agreement with a payment gateway provider (or an acquirer that offers technology of a payment gateway nature); the payment gateway transfers information between a payment portal (such as the merchant's website) and the merchant's acquirer. The payment gateway therefore has a similar function to the card reader in a 'card present' or in-person transaction. There are many companies that provide payment gateway services, including acquirers themselves and companies such as Verifone and Ingenico.
- 2.19 For every card transaction, the merchant incurs a cost. He must pay the acquirer a merchant service charge, which in turn is used by the acquirer to pay the issuer (an 'interchange fee', capped in the EU at 0.2% of transaction value for consumer debit cards and 0.3% for most consumer credit cards) and the scheme (a 'scheme fee'), with the remainder being retained by the acquirer. Total fees per transaction will vary between merchants (depending mainly on the value of card transactions put through by the merchant each month) and between acquirers, but generally fall into the range 0.5% - 3.5% of transaction value. Historically, acquirers tended to levy a fixed monthly charge based on the expected transaction value each month plus a percentage levy on each transaction, which could vary depending on card type (eg some charge more for cards issued by overseas banks) and the value of transactions processed each month. While this charging structure is still common, more recently acquirers have started offering the alternative of a simple, flat rate charge per transaction irrespective of the value of transactions processed each month in order to compete with payment facilitators.
- 2.20 Typically, merchants will also be required by their acquirer to obtain a stand-by credit facility from their bank (known as a card acquiring facility) to cover the risk to the acquirer of chargeback. A chargeback occurs if, for example, the cardholder disputes a transaction, or goods that have been ordered are not delivered because, say, the merchant has gone out of business in the interim. Chargebacks can also arise in the case of fraudulent card transactions, both online and offline, although the merchant will usually not be liable for offline (card present) card transactions that turn out to be fraudulent if chip and PIN equipment was used to authorise the transaction. If the merchant is unable to refund the customer for a chargeback for which he is liable, the risk of refunding the customer falls on the acquirer who would then claim against the merchant's card acquiring facility. Smaller merchants may

not be required to obtain a card acquiring facility, the acquirer instead being compensated for the additional risk through the merchant service charge.

- 2.21 Historically, onboarding a new merchant could often be a lengthy process, taking many weeks. We understand that, in part, this was due to acquirers adopting a largely manual approach to assessing the potential risk posed to them by the prospective merchant (eg for chargebacks) and carrying out the required anti-money laundering (AML) and know your customer (KYC) checks. Essentially, banks were using the same onboarding process that they used to open bank accounts. More recently, payment facilitators (see paragraph 2.24) have largely automated this process for smaller merchants, who do not have multiple subsidiaries or operate in more than one country, by the introduction of appropriate algorithms and access to various databases to assist in carrying out AML and KYC checks, such that the whole onboarding process can now be completed in 15 minutes or less. Traditional acquirers have also developed their own digital onboarding and speeded up their onboarding process to compete with the service offered by payment facilitators.

Payment facilitators and independent sales organisations

- 2.22 While the acquiring banks were historically responsible for acquiring new merchants to accept cards, the last decade has seen a change in how they have approached this acquisition. ISOs are third-party businesses tasked with recruiting new merchants for their acquiring bank.
- 2.23 ISOs do not typically run any of their own payment processing technology and are focused solely on recruiting, onboarding and supporting new merchants. ISOs use their portfolio of many small to medium sized merchants to negotiate a very low rate from their acquirer partner(s), usually passing these savings on to their merchants. As ISOs do not own the processing technology, they are also able to resell multiple processing products and value-adds that the larger acquirers and processors are unable to do.
- 2.24 Payment facilitators (such as iZettle, SumUp and Square) are a relatively new innovation in how payment services are provided to smaller merchants. In contrast to a traditional merchant account, where every merchant has their own account with their acquirer and corresponding Merchant Identification Number (MID), payment facilitators will aggregate all of their merchants under one 'master MID'. Aggregating many smaller merchants under one account allows the payment facilitators significantly to streamline the underwriting and reduce compliance complexity for their customers.

2.25 Payment facilitators sit between the merchant and the acquirer, as shown in Figure 6:

Figure 6: Payment facilitators in a four party card scheme

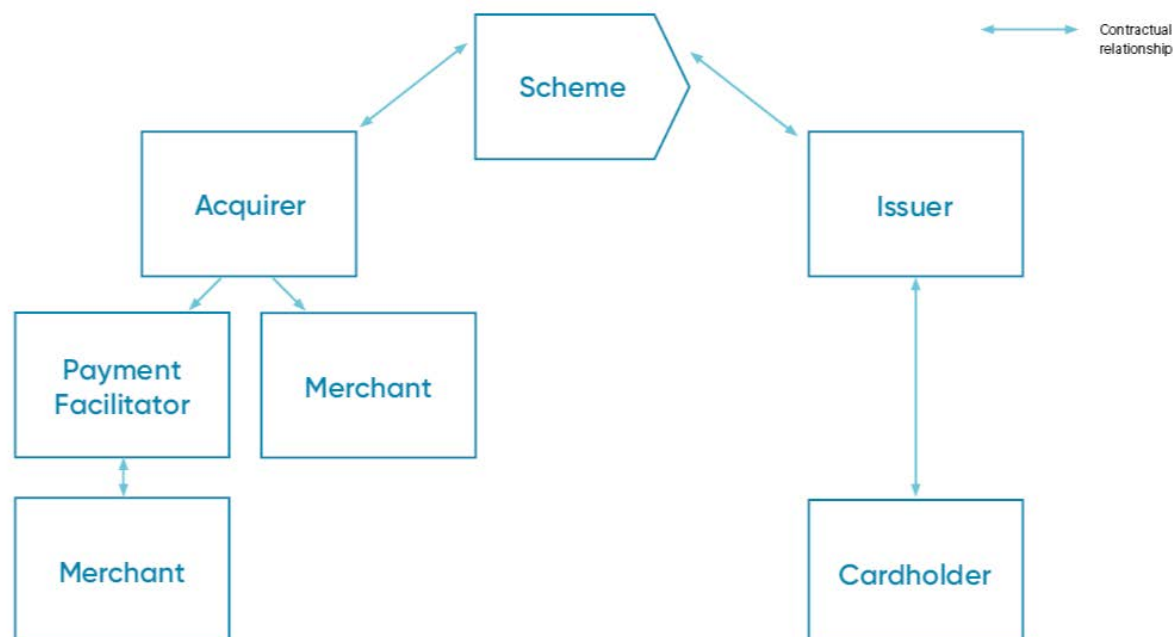


Diagram shows a simplified representation of contractual relationships in a four party card scheme

Source: Payment Systems Regulator

- 2.26 There are limits on the size of merchant that can sign up with a payment facilitator (unless, in specific cases, the payment facilitator's acquirer agrees a larger limit, or the acquirer becomes a party to a tri-party agreement with the merchant and the payment facilitator). The maximum TPV per year per sub-merchant is US\$1 million for both Visa and Mastercard.
- 2.27 In contrast to the traditional model, where the acquirer typically requires the merchant to put in place a card acquiring facility¹⁹ to cover it for the risk of chargebacks, merchants signing up to payment facilitators do not have to provide such stand-by facilities. Rather, the payment facilitator takes the risk on behalf of its pool of merchants and provides the corresponding comfort to the acquirer, who is still responsible for scheme compliance and risk.
- 2.28 Although payment facilitators are generally more expensive on a per transaction basis than the traditional POS pricing models, they can be attractive to merchants because:

¹⁹ A card acquiring facility is a standby credit facility, against which the acquirer can draw down under certain circumstances.

- (a) Their automated onboarding process is quick and simple.
- (b) Set-up is very simple, with an available mobile phone signal being the only requirement.
- (c) Most suppliers include the option of software packages likely to be of assistance to small merchants, eg basic inventory management.
- (d) Pricing, though generally more expensive, is simple. With traditional tiered POS pricing plus associated monthly fixed fees and agreed minimum monthly volumes, most small merchants are unclear as to what the cost of each card transaction would be to them, whereas with the payment facilitators the headline price, though generally higher, is clear. Also, for merchants with low volumes of card transactions, payment facilitators are often cheaper overall, despite the higher 'per transaction' cost.
- (e) There is no minimum term contract, so merchants are free to change provider (or stop taking card payments if they are, for example, seasonal merchants) at minimal expense.

2.29 More recently, however, some POS providers have been offering mPOS solutions on alternative pricing models to their traditional, tiered POS pricing structures. For example, Barclaycard now offers the option of buying its mPOS terminal for £29 and charging the merchant a flat 1.6% for each card transaction (Visa and Mastercard only) on a pay-as-you-go basis (plus 75p per refund).²⁰ Worldpay offers a similar pricing option at a flat 1.5% for each card transaction (also Visa and Mastercard only) on a pay-as-you-go basis.²¹ Some traditional providers have also started to streamline their onboarding processes, but none is yet as fully automated as those of mPOS providers such as iZettle.

mPOS and POS

2.30 POS and mPOS are both means of taking a payment in a card present (or offline) transaction. A traditional POS card reader, when a transaction is initiated, connects to the acquirer either by linking in to the merchant's fixed telephone line or broadband (either via fixed cable or WiFi), or by using an in-built SIM card and connecting via the mobile telephone network. A POS card reader that connects via WiFi or mobile telephone network can be mobile in that it can be carried around the premises by staff and does not have to be fixed to the sales desk and attached via a cable. An mPOS card reader

²⁰ [Barclaycard Anywhere](#).

²¹ [Worldpay Simplicity](#).

instead connects to the merchant's smartphone or tablet via Bluetooth, and an app on the phone or tablet then connects to the acquirer (or payment facilitator), either by WiFi or using the device's mobile phone signal. That aside, there is no other inherent technical difference between mPOS and POS, other than perhaps that traditional POS card readers generally incorporate a receipt printer and are more expensive, while mPOS devices are smaller, cheaper and do not include a printer. mPOS card readers can be used in conjunction with separate Bluetooth-connected receipt printers, which we understand cost from £200 upwards, or receipts can be emailed or texted to the customer. As mPOS card readers are generally smaller than POS card readers and therefore contain smaller batteries, their battery life may be more limited than that of POS card readers.

- 2.31 Users of mPOS typically pay a one-off fee to purchase a card reader before they can start accepting card payments. Thereafter, they pay a flat rate based on a percentage of the payment value for every transaction made (though, unlike other mPOS providers that charge a flat rate, PayPal Here adopts a tiered pricing structure). The main mPOS providers, including the Parties, have transparent pricing schedules published online. They do not charge monthly fees and do not require fixed-term contracts. mPOS products offered by traditional POS providers have similar pricing structures to those of mPOS providers, but with different degrees of contractual flexibility or simplicity (see paragraph 8.65).
- 2.32 Traditional POS providers typically have a more complex fee structure. Per-transaction costs are charged as a percentage of payment volume, but these vary depending on the card type, with transactions through credit cards, commercial cards or international cards attracting higher rates. These rates are usually not available publicly and are negotiated with merchants – larger merchants tend to get lower rates. There may also be flat per-transaction authorisation fees. Typically, POS terminals are rented and there is a monthly rental charge depending on the type of terminal. Minimum monthly service charges also typically apply in months where transaction fees are below the minimum level. Various other fees may apply, including for refunds and chargebacks.^{22 23}

The Parties' mPOS offering

- 2.33 PayPal's mPOS offering, PayPal Here, includes a standard card reader manufactured by a third party (Miura), for which it typically charges around

²² See Appendix G for more details.

²³ For details of the regulatory approvals required for the introduction of new technologies, eg Square's mPOS device (which does not have a keypad for entering a PIN), see Appendix I.

£45 (£54 inc VAT).²⁴ Unlike other mPOS providers that charge a flat rate, PayPal Here adopts a tiered pricing structure. The transaction rate varies from 1% to 2.75% with lower total payment volumes attracting a higher percentage. A merchant's online PayPal payments, if any, are included in the calculation of total payment volumes and hence in determining the transaction rate.

- 2.34 iZettle's basic mPOS offering, iZettle GO, includes a card reader manufactured by a third party but to iZettle's design, for which it typically charges £29.²⁵ For all card types (debit or credit) and card schemes (including Visa, Mastercard, American Express), iZettle charges a transaction rate of 1.75%. In addition to accepting card payments, iZettle GO comes with a point of sale app, which includes inventory management and sales analytics tools.
- 2.35 In addition to the basic product, iZettle offers other options to customers with additional requirements. 'iZettle PRO' provides customers with a 'higher level of service' and additional software capabilities,²⁶ and this solution is currently available to customers in the hospitality industry and [3<]. iZettle PRO has a £39 monthly fee and a 1.25% transaction rate. Bespoke rates are available to iZettle customers taking [3<] in card payments each month.²⁷

History of mPOS in the UK

- 2.36 For most of the twentieth century, retail payments were made by cash or cheque. In 1966, Barclaycard introduced its first credit card in the UK,²⁸ but it was not until the 1980s that Verifone introduced electronic point-of-sale terminals that could read magnetic strips on credit cards.²⁹ ³⁰ Innovation was limited to the introduction of debit cards in 1987 and incremental improvements in hardware throughout the 1980s and 1990s.
- 2.37 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. iZettle (founded in Sweden in 2010, at around the same time as Square, a leading US mPOS supplier,

²⁴ As at April 2019.

²⁵ As at April 2019, iZettle was offering a discounted card reader fee of £19.

²⁶ For example, table management, open tab and split bills, employee management, stock management and support multiple locations. See [iZettle, pricing](#).

²⁷ See iZettle, [pricing](#).

²⁸ [Barclaycard introduced first credit card in the UK in 1966](#).

²⁹ [Verifone introduced electronic point of sale terminals in the 1980s](#).

³⁰ Until then, credit cards were 'read' using manual zip-zap machines which made an impression of the raised numbers on the front of a credit card onto carbon-paper packet copies.

was founded in the US) introduced its offline payment services in the UK in 2012, with the launch of the iZettle Card Reader.

- 2.38 Over time, a number of mPOS products and services have been launched by several other competitors, including for example SumUp (launched in the UK in 2012, the same year as iZettle); PayPal Here (which launched in the UK in 2013); Square (which launched in the UK in 2017); and others. In addition, traditional merchant acquirers and payment service providers have expanded and repositioned their product offering, both by adapting their business model for the provision of payment services through the traditional POS terminals (that do not connect via mobile phones to the payments network) – for example, Worldpay having introduced a pay as you go POS product; and by expanding into the mPOS space themselves (for example, in the case of Worldpay, through Worldpay Zinc, an mPOS product launched in the UK in 2013;³¹ and in the case of Barclays, through Barclaycard Anywhere, launched in 2014).

Omni-channel

- 2.39 Omni-channel broadly refers to merchants selling and managing products and services to consumers across multiple online and offline sales channels. It entails bringing together all elements of their business onto one platform, merging online and offline systems.³² Merchants selling both online and offline typically require:
- (a) Payment functionality, including a POS (or mPOS) device for accepting in-store payment; and
 - (b) Online selling functionality, eg software to enable selling on digital channels such as those listed above.
- 2.40 In addition to the bare minimum of accepting online and offline payments, some merchants may also require various forms of business services software to assist them in managing their businesses, such as sales management (eg inventory management, customer data), analytics (eg sales reporting) and other value-added services (eg short-term credit, invoicing). The importance of business services software will vary between different types of merchant: a retailer or travel agent, for example, is likely to be more

³¹ Worldpay Zinc was withdrawn in 2017 and replaced in 2018 by Worldpay Reader.

³² Offline refers to selling from a physical location, eg a bricks-and-mortar store. Online refers to selling through various digital channels such as a merchant's website, a third-party web shop (eg Shopify), a marketplace (eg Amazon, eBay), social media (eg Facebook, Instagram) and mobile apps.

interested in this aspect of the offering than, say, a coffee shop or a sole trader plumber.

- 2.41 As omni-channel is a relatively new concept, there does not appear to be a general consensus on what is included within omni-channel. In our view, at its narrowest, omni-channel means the ability to accept online and offline payments through the same provider, but we accept that some view business services software as an integral part of omni-channel. In the view of the Parties, omni-channel goes beyond basic online and offline payments and includes omni-channel sales management capability.

The Parties' omni-channel offering

- 2.42 PayPal provides online and offline payment services for merchants. PayPal told us [X].³³ PayPal provides relatively little additional point-of-sale software or business management capability to merchants in-house, but it can integrate with third parties that offer business management tools. The acceptance of payments online is predicated on the merchant designing and operating its website through a third-party service provider (such as Shopify) as it does not offer in-house web-shop building capabilities. PayPal does not currently provide multi-channel selling capabilities.
- 2.43 In addition to its well-developed offline payment services (described briefly in paragraphs 2.34 and 2.35), iZettle has a limited online offering. Its online offering consists of iZettle's invoicing product,³⁴ a pay by link functionality and an e-commerce solution (available in the UK since April 2018), which allows users to design a web shop that includes integrated payment functionality powered by [X], Selz. iZettle does not offer merchants the ability to accept payments on websites which are not designed using iZettle's web design tool. Total payment volumes to date through iZettle's e-commerce offering in the UK have been very limited. Most iZettle customers that use its online service do so to create a website for marketing purposes and do not currently use it to take payments.

3. The Parties

PayPal

³³ Parties' response to the phase 1 decision.

³⁴ iZettle Invoice is a feature within the iZettle Go app that allows merchants to create and send online invoices. iZettle tracks unpaid invoices, sends reminders if necessary, and handles the payment, in exchange for a fee of 2.5% per invoice.

- 3.1 PayPal is a technology platform company headquartered in San Jose, California. The company is traded on the NASDAQ and has a market capitalisation of approximately £83 billion.³⁵ As of 31 December 2017, PayPal employed 18,700 employees³⁶ globally.³⁷
- 3.2 In July 2002, PayPal was acquired by eBay and remained a subsidiary until 2015 when the two companies split.³⁸

Activities

- 3.3 PayPal is primarily an online provider of merchant payment services and serves both individual consumer (Personal Account) and business customers (Business Account).
- 3.4 Its business includes the following three activities:
- (a) Merchant payments – payment services to merchants for the acceptance of payment cards, primarily online;
 - (b) Digital wallet – enables individuals and merchants to make payments online; and
 - (c) Other payment, financial and ancillary services – such as provision of credit to merchants, software to facilitate with the management of invoices and loss protection for merchants.
- 3.5 In 2012, the company started providing offline payment services through its PayPal Here product³⁹ as an additional service for Business Account users.

PayPal in the UK

- 3.6 As at January 2019, there are [X] consumers in the UK who have an active PayPal Personal account.⁴⁰ PayPal is used by UK individual consumers to pay for products and services from online merchants, send and receive money online, make or receive payments on various e-commerce platforms and obtain credit to fund purchases and other transactions.
- 3.7 PayPal currently has [X] active accounts classified as Business Accounts in the UK. PayPal's large enterprise customers typically [X]. Other large

³⁵ As at 21 January 2019.

³⁶ Of whom approximately 10,600 were located in the United States.

³⁷ [PayPal Annual Report 2017](#).

³⁸ [PayPal Annual Report 2015](#).

³⁹ PayPal Here was launched in USA and Australia in 2012 and in the UK in 2013

⁴⁰ Active accounts are those with at least 1 transaction per year.

enterprise customers use [X]⁴¹ [X]. For small and medium-sized business customers, PayPal is [X].

- 3.8 In the UK, PayPal Here had approximately [X] active merchants in 2018 with a total payment volume of approximately £[X].⁴² PayPal Here represents about [X]% of PayPal UK's total revenue in 2018 (around £[X]).

Financial Performance

- 3.9 PayPal's turnover in 2018 was \$15.451 billion worldwide and \$1.658 billion in the UK, as set out in its annual report.⁴³
- 3.10 Table 1 shows PayPal's revenues in the UK and worldwide for the last three financial years ended 31 December 2017. UK revenue represents roughly 10% of PayPal's worldwide revenue. In 2018, transaction revenues⁴⁴ accounted for 88.7% (87.08% in 2017) of total revenue.⁴⁵

Table 1: PayPal's revenues, UK and worldwide, three years ended 31 December 2018

Revenue \$ million

	2016	2017	2018
UK Revenue	1,257	1,402	1,658
Total Revenue	10,842	13,094	15,451
% UK Revenue	11.6%	10.7%	10.7%

Source: [PayPal Annual Report 2018](#)

- 3.11 Table 2 shows the financial performance (worldwide) for the three years ended 31 December 2018.

Table 2: PayPal's financial performance, worldwide, for the three years ended 31 December 2018

<i>\$ million</i>	2016	2017	2018
Revenue	10,842	13,094	15,451
CAGR %			19.4%
Operating Expenses	(9,256)	(10,967)	(13,257)
Operating Income	1,586	2,127	2,194
Operating Margin (%)	14.6%	16.2%	14.2%

Source: [PayPal Annual Report 2018](#)

⁴¹ [X].

⁴² 1 GBP = 1.3436 USD.

⁴³ [PayPal Annual Report 2018](#).

⁴⁴ Net transaction fees charged to consumers and merchants primarily based on the volume of activity processed through the Payments Platform.

⁴⁵ [PayPal Annual Report 2018](#).

- 3.12 Table 3 shows the financial performance of PayPal Here's UK business for the last three financial years ended 31 December 2018 and the budgeted performance for 2019.

Table 3: Financial performance for PayPal Here's UK business, 2016-2019

\$ million	2016	2017	2018	2019
	[3<]	[3<]	[3<]	[3<]
Revenue				
CAGR %				[3<]%

Source: PayPal

iZettle AB

- 3.13 iZettle is a financial technology company founded in Stockholm, Sweden in 2010. The company provides card payment services to small businesses, from self-employed sole traders to small businesses with up to 50 employees,⁴⁶ in 10 countries⁴⁷ in Europe as well as in Mexico and Brazil.

Activities

- 3.14 iZettle's business includes the following activities:
- (a) Merchant payments – offline payment services to merchants for acceptance of payment cards through its iZettle reader;
 - (b) E-commerce tool⁴⁸ – enables merchants to set up online store, sell from an existing website or through social media; and
 - (c) Other payment, financial and ancillary services – provision of short-term loans to merchants, software to manage invoices, merchant-to-merchant e-money services and point-of-sale hardware.
- 3.15 In September 2016, iZettle acquired Intelligent Point of Sale Limited,⁴⁹ a UK-based provider of cloud-based inventory, loyalty programmes and customer flow software, with the intention of enhancing its offering of advanced integrated payment and POS tools.
- 3.16 In April 2018, iZettle expanded the scope of its platform's capability with the launch of an omni-channel commerce tool that incorporates e-commerce payments and gives merchants tools to effectively conduct both offline and

⁴⁶ This is not a strict cap.

⁴⁷ Denmark, France, Finland, Germany, Italy, Netherlands, Norway, Spain, Sweden, UK

⁴⁸ [3<].

⁴⁹ IntelligentPOS.

online sales, while integrating with iZettle's POS software and payment infrastructure.

Financial Performance

3.17 iZettle's turnover in 2017 was approximately £85.8 million worldwide and approximately £[X] in the UK.

3.18 iZettle derives its revenue from three main streams:

- (a) transaction revenue – take rate of the client's card payment volumes;
- (b) hardware sales – mainly the payment terminal iZettle reader⁵⁰ but also some third-party hardware such as receipt printers and tablets; and
- (c) subscription and service revenue. iZettle also generates some revenue from its capital lending products, which is reported in this subscription and service revenue category.

3.19 Table 4 shows the revenue breakdown (worldwide) for the three years ended 31 December 2017.

Table 4: iZettle revenue breakdown (worldwide) for the three years ended 31 December 2017

	£ million*		
	2015	2016	2017
Transaction	[X]	[X]	[X]
Hardware	[X]	[X]	[X]
Subscription & Services	[X]	[X]	[X]
Total	[X]	[X]	[X]

Source: PayPal

*(HMRC) 2015: 1 GBP = 12.8835 SEK; 2016: 1 GBP = 11.6674 SEK; 2017: 1 GBP = 11.0126.

3.20 In 2017, [X]% of the total revenue was derived from transactions, about [X]% from hardware and approximately [X]% from subscription and services. While subscription and services account for a [X] of total revenue, it has [X] and [X] in transaction revenue and hardware revenue respectively.

3.21 Table 5 shows the financial performance (worldwide) for the four years ended 31 December 2018.

⁵⁰ Datecs is iZettle's current manufacturer; iZettle had previously used [X] as a supplier and some of these devices are still used by iZettle merchants.

Table 5: iZettle's financial performance (worldwide) for the four years ended 31 December 2018

	£ million*			
	2015	2016	2017	2018
Revenue	[X]	[X]	[X]	[X]
CAGR %				[X]
Operating Expenses	[X]	[X]	[X]	[X]
Operating Loss	[X]	[X]	[X]	[X]

Source: PayPal

*forecast based on Q1-Q3 2018 actuals and Q4 budget

** (HMRC) 2015: 1 GBP = 12.8835 SEK; 2016: 1 GBP = 11.6674 SEK; 2017: 1 GBP = 11.0126; 2018: 1 GBP = 1.3436 USD.

- 3.22 Table 6 shows the revenue breakdown (UK) for the three years ended 31 December 2017 and year-to-date October 2018. Similar to the global revenue breakdown, [X] of revenue was derived from transaction, [X]% from hardware and [X] from subscription and services.

Table 6: iZettle's revenue breakdown (UK) for the three years ended 31 December 2017 and year-to-date October 2018

	£ million			
	2015	2016	2017	YTD Oct 2018
Transaction	[X]	[X]	[X]	[X]
Hardware	[X]	[X]	[X]	[X]
Subscription & Services	[X]	[X]	[X]	[X]
Capital ⁵¹	[X]	[X]	[X]	[X]
Total	[X]	[X]	[X]	[X]

Source: iZettle Management Accounts

- 3.23 Table 7 shows the financial performance of iZettle's UK business for the three financial years ended 31 December 2017 and year-to-date October 2018.

Table 7: iZettle's financial performance (UK) for the three financial years ended 31 December 2017 and year-to-date October 2018

	£ million			
	2015	2016	2017	YTD Oct 2018
Total Revenue	[X]	[X]	[X]	[X]
Operating Expenses	[X]	[X]	[X]	[X]
Operating Loss	[X]	[X]	[X]	[X]

Source: iZettle Management Accounts

iZettle UK and its relationship with other group companies

- 3.24 iZettle AB UK Branch (iZettle UK) and Intelligent Point of Sale Ltd (plus its subsidiaries) are the UK establishments of iZettle. Parts of its UK sales and corporate development team is located in iZettle's office in London, while

⁵¹ Advance revenues booked against UK.

other sales and marketing support staff are based in Edinburgh; the majority of employees in Edinburgh are part of the global technology/product development departments. As of December 2017, iZettle had 99 employees in the UK. Otherwise, iZettle's activities are primarily carried out on a centralised basis from iZettle AB and iZettle Merchant Services AB (both Swedish entities), the former under a services passport (a type of EU regulatory permission).

- 3.25 iZettle AB carries out all payment services in all EU/EEA markets where iZettle is active, including the UK. It also provides funding of subsidiaries through intercompany loans, and purchases intra-group services including intermediation services from iZettle UK.
- 3.26 iZettle Merchant Services AB carries out hardware and ancillary services for the wider group, including the sale of card readers in all EU markets in which iZettle is active.
- 3.27 iZettle uses Bambora (based in Sweden) and Elavon (based in Ireland) as acquiring processors for the provisioning of its card payment services to merchants in the UK.

4. The Merger and relevant merger situation

The Merger

- 4.1 PayPal announced the acquisition of iZettle for \$2.2 billion on 17 May 2018.⁵² Only nine days earlier, iZettle had announced its intention to list all of its shares on Nasdaq Stockholm, at a price that was expected to result in a value of at least \$1.1 billion^{53 54} for the entire company.
- 4.2 The transaction was structured as an acquisition of all shares, warrants and options in iZettle by PayPal pursuant to a share purchase agreement dated 17 May 2018. This was the largest acquisition in PayPal's history.⁵⁵
- 4.3 The transaction was conditional on only one event: the approval of the Swedish Financial Supervisory Authority. This was issued on 7 September 2018, and the Merger completed on 20 September 2018.

⁵² PayPal, press release (17 May 2018): [PayPal agrees to acquire iZettle](#).

⁵³ Finextra (8 May 2018), [iZettle to list on NASDAQ Stockholm](#).

⁵⁴ We also looked at equity research covering the IPO and, using the ranges suggested by the analysts, calculated an average value for iZettle [3<].

⁵⁵ PayPal, press release (17 May 2018): [PayPal agrees to acquire iZettle](#).

The rationale for the Merger

PayPal

- 4.4 PayPal announced the acquisition of iZettle with the headline ‘PayPal significantly expands global omni-channel platform with acquisition of iZettle’.⁵⁶
- 4.5 In brief, PayPal told us that the acquisition allowed PayPal to combine two complementary product offerings and geographies. It said it would allow it to:
- (a) offer an improved offline card payment service in the larger number of jurisdictions in which iZettle is active, with the potential for further expansion through cross-selling iZettle services to PayPal customers; and
 - (b) build its omni-channel offering to merchants by combining online and offline payment processing capability, together with the value-added services offered by iZettle’s [X] platform (although it stated that this did not in itself equate to a full omni-channel service).
- 4.6 It announced⁵⁷ the three main reasons for the acquisition:
- (a) Best in class omni-channel offering: combines PayPal’s global scale, trusted brand and mobile and online leadership with iZettle’s in-store expertise and scalable platform;
 - (b) Global In-Store Expansion: 11 new in-store markets,⁵⁸ acceleration of omni-channel commerce solutions in Australia, UK and US, and near-term expansion opportunities in other PayPal markets; and
 - (c) Enhanced Value Proposition for SMBs: delivers powerful integrated commerce platform for SMBs to help them grow and manage their business; SMBs are now demanding integrated commerce solutions across all channels (ie in-store, online, mobile) and value-added services to grow (eg marketing services, business management tools and working capital solutions).

iZettle

- 4.7 iZettle stated that prior to its abandoned IPO, it had no plans to sell the company; and that the IPO was a means of capital raising and an opportunity

⁵⁶ PayPal, news release (17 May 2018), [PayPal significantly expands global omni-channel platform](#).

⁵⁷ Presentation to PayPal investors (17 May 2018), [PayPal announces acquisition of iZettle](#), slide 4

⁵⁸ As well as the UK (in which PayPal Here already operates), iZettle operates in 11 other markets: Brazil, Denmark, Finland, France, Germany, Italy, Mexico, Netherlands, Norway, Spain, and Sweden.

for existing shareholders to realise their investments as opposed to being a 'sale'.

- 4.8 In an open letter,⁵⁹ iZettle's CEO wrote: 'The two companies have complementary product offerings and geographies. PayPal views iZettle's capabilities and talent as best-in-class and we will work together to scale our reach and geographical footprint. iZettle will become a center of excellence for PayPal's in-store product and services offerings for small businesses going forward, which I'm really excited about.' He also wrote: 'The global scale and 19 million merchant relationships that PayPal has enables us to move faster and reach further than ever before. Combined with the iZettle brand, capabilities and talent this means we're ready to level the playing field for small businesses all around the world.'

Initial Public Offering

- 4.9 iZettle confirmed its plans to list on NASDAQ Stockholm publicly in early May 2018.⁶⁰
- 4.10 The background to the IPO was that iZettle's shareholders and directors believed that it was an appropriate time to broaden its shareholder base and apply for the listing of its shares on Nasdaq Stockholm. The company had been under private ownership since its inception, during which time its business model had been further developed, its operations had grown substantially, and its growth had been primarily financed by raising private capital.
- 4.11 The offering was expected to support iZettle's future growth and operational strategy and provide it with improved access to capital markets and a diversified base of new Swedish and international shareholders, as well as to increase the public profile of the company and business.

Valuation of iZettle

- 4.12 We considered whether the acquisition might have been motivated by an intention to prevent future competition from an emerging rival. We examined whether the consideration paid by PayPal for iZettle (which was much higher than the expected IPO valuation) suggested that it had taken account of a potential reduction in competition.

⁵⁹ iZettle (18 May 2018), [Open letter from Jacob de Geer: iZettle to join forces with PayPal](#).

⁶⁰ Finextra (8 May 2018), [iZettle to list on NASDAQ Stockholm](#).

- 4.13 We looked at PayPal's valuation and estimates of synergies, as set out in its internal documents and deal model, and broker comments at the time of the acquisition.
- 4.14 We found that the consideration appeared justified by commercial valuation and calculations of synergies including increased sales volumes and cost savings. We saw no evidence that PayPal intended to shut iZettle or increase prices post-Merger. [3<].

The relevant merger situation

- 4.15 Under section 35 of the Act and pursuant to our terms of reference, we are required to decide whether a relevant merger situation has been created.
- 4.16 Section 23 of the Act provides that a relevant merger situation has been created if
- (a) two or more enterprises have ceased to be distinct enterprises; and
 - (b) one (or both) of the following conditions is (or are) satisfied:
 - (i) the value of the turnover in the UK of the enterprise being taken over exceeds £70 million (the turnover test)
 - (ii) the result of those enterprises ceasing to be distinct creates or enhances a share of supply of 25 per cent or more in respect of goods or services of any description which are supplied in the UK, or a substantial part of the UK (the share of supply test).

Enterprises ceasing to be distinct

- 4.17 The Act defines an 'enterprise' as 'the activities or part of the activities of a business'. 'Business' is defined as 'including a professional practice and includes any other undertaking which is carried on for gain or reward or which is an undertaking in the course of which goods or services are supplied other than free of charge'.⁶¹
- 4.18 On the basis that both PayPal and iZettle are incorporated entities and active in the supply of in-store/offline payment services via mPOS devices in the UK, and therefore businesses for the purposes of the Act, we are satisfied that the activities carried on by PayPal and iZettle are 'enterprises' for the purposes of the Act.

⁶¹ Section 129(1) and (3) of the Act.

- 4.19 On the basis that the Merger concerns the acquisition by PayPal of the entire issued share capital of iZettle as explained in paragraph 4.2, we are also satisfied that PayPal and iZettle have 'ceased to be distinct' prior to the date on which the reference for a phase 2 investigation was made.

Turnover and share of supply tests

- 4.20 As noted in paragraph 4.16, the turnover test is satisfied where the value of the turnover in the UK of the enterprise acquired exceeds £70 million.
- 4.21 As the turnover for iZettle in the year ended 31 March 2017 was approximately £[<] the turnover test is not met and therefore we consider whether the share of supply test is met.
- 4.22 The description of goods or services identified for the purposes of the jurisdictional test does not have to correspond with the economic market definition adopted for the purposes of determining the SLC question. We will have regard to any reasonable description of a set of goods or services to determine whether the share of supply test is met. Importantly however, the parties must together supply or acquire the same category of goods or services.⁶²
- 4.23 We have gathered information on the Parties' combined share of supply of mPOS services on the basis of 2018 TPV data submitted by the Parties and other suppliers of offline payment services and found that the combined share of supply is [70-80]% with an increment of [10-20]% arising from the Merger.⁶³ We also calculated shares of supply of mPOS services based on number of customers and found that the combined share of supply is [60-70]% with an increment of [20-30]% arising from the Merger.⁶⁴ Therefore, we are satisfied that the share of supply test is met.
- 4.24 For these reasons, we provisionally find that the Merger has resulted in the creation of a relevant merger situation. The jurisdictional test of the Act is therefore met.

5. Our approach for assessing the effects of the Merger

- 5.1 The payment services industry is a fast-moving and dynamic market. Such markets are distinguished by rapid growth in a relatively short period of time and notable technological and commercial developments that often result in

⁶² [Mergers: Guidance on the CMA's jurisdiction and procedure](#), paragraph 4.56.

⁶³ See Appendix E, Table 3.

⁶⁴ See Appendix E, Table 4.

disruption to the current state of competition and how consumers interact in the marketplace.

- 5.2 The growth observed in the payment services industry over the past few years has been fuelled by the changes in payments technology (Chip and PIN and contactless payment cards), mobile communications (with ubiquity of smartphones and high-speed mobile connectivity) and operational processes (such as automated onboarding, KYC, AML and fraud and risk management). This has led to a rapidly growing market for card payments, and the ability of smaller merchants to offer offline card payment services regardless of their size of business. Consequently, it is not uncommon for seasonal and very small sized merchants, for example market traders and taxi drivers, to offer offline card payments services to their customers.
- 5.3 An emerging trend in the payments services industry is the supply of omni-channel payment services, which in its most basic form is an integrated online and offline payment service. This market is in an embryonic state, but the competitive landscape is changing, and it is expected to develop over time through a combination of organic growth and acquisitions/partnerships by current and potential providers. It is important that when assessing such transactions, there is a thorough investigation of the rationale, including the valuation of a target provider, to ensure that the transaction is not a veiled attempted to remove a potentially strong competitor from the market.
- 5.4 It is within this context that the CMA has investigated this Merger and considered the statutory questions posed. In its investigation, the CMA has, within the markets at issue, evaluated the current state of competition, how competition would have developed absent the Merger, and whether the Merger removes a significant competitive force. In markets characterised by rapid growth and a significant degree of product development and innovation (which can be either incremental and drastic), the CMA is aware that the competitive constraint posed by a firm may not be captured by a 'snapshot' of its market position at any one time. For that reason, a fuller assessment is liable to provide greater insight on how the market dynamics will continue to develop over time.
- 5.5 The CMA's Merger Assessment Guidelines (the Guidelines) ⁶⁵ provide a clear framework for the assessment of the unilateral effects arising from a loss of existing and actual potential competition as a result of the Merger. The Guidelines make clear that competition is viewed by the CMA as 'a process of rivalry between firms seeking to win customers' business over time by offering

⁶⁵ [CC2 revised](#).

them a better deal.’⁶⁶ The Guidelines note that the CMA will consider how rivalry might be affected by a merger, assessing the aspects of the merger firms’ competitive offering to customers over which they compete and whether that could worsen as a result of the Merger, whether in terms of price or non-price aspects. When assessing mergers in markets characterised by a significant degree of product development and innovation, the CMA has regard to any impact on these parameters of competition.⁶⁷

- 5.6 As noted at the outset of the Guidelines, the methodologies of merger analysis cannot be applied in a rigid and mechanistic manner and each case must be assessed on its own merits, having due regard to the circumstances of the case.⁶⁸ The CMA will apply the Guidelines flexibly but may depart from them when it is considered appropriate to do so.
- 5.7 Merger assessments are predictive by nature and involve the CMA assessing the likely development of markets several years into the future. Where relatively new and emerging markets are characterised by fast-moving technological and commercial developments, the historical evidence base may not be as developed as in more well-established markets. Our ability to foresee future developments is also potentially more challenging (given the scope for incremental and possibly significant market change).
- 5.8 As with all merger investigations, the CMA must take reasonable steps to acquaint itself with the relevant information to enable it to answer each of the statutory questions.⁶⁹ The CMA must be satisfied that it has a sufficient basis, in light of the totality of the evidence available to it, for making the assessments and reaching the decisions it does.⁷⁰ Mergers in dynamic markets (which might consider alternative counterfactuals and the loss of potential competition) can and do raise competition concerns. Whether a particular merger is likely to give rise to an SLC is fact specific.
- 5.9 The CMA is always assessing ways in which it can put itself in the position properly to analyse a merger and the best practices it can follow in doing so. In this case, where a forward-looking assessment of the markets at issue is particularly important, the CMA has sought to gather evidence providing insight into likely competitive conditions over several years. We note, in this regard, that the internal documents of the Parties and their competitors often set out their respective commercial strategies several years into the future. We considered the full spectrum of our information-gathering powers and

⁶⁶ [CC2 revised](#), paragraph 4.1.2.

⁶⁷ [CC2 revised](#), paragraph 4.2.3.

⁶⁸ [CC2 revised](#), paragraph 1.5.

⁶⁹ Competition Appeal Tribunal (CAT)), [BAA Limited vs Competition Commission](#) [2012] CAT 3, paragraph 20(3).

⁷⁰ *Ibid*, at paragraph 20(4).

requested internal emails from the Parties focusing on their business plans absent the Merger. The CMA also requested internal documents from relevant third parties to help it understand their commercial strategies and plans going forward. We found that the contemporaneous internal documents prepared by the Parties and third parties, of which we reviewed approximately 12,500 provided insight on how the markets, and those suppliers' offerings, are likely to develop in future, assisting our dynamic assessment of competition in the relevant markets. It was also helpful to question the Parties at the main party hearings to test our interpretation of the evidence we obtained from the documents reviewed

- 5.10 The CMA is familiar with the task of making difficult and complex evaluations of a wide range of factors and assessing the relative weight to attach to them. The courts have consistently upheld the CMA's wide margin of appreciation for economic judgement, particularly in merger cases and that '[w]hen looking to the future, any assessment is likely to be imprecise and unpredictable ...'.⁷¹ The Competition Appeal Tribunal has noted that the CMA is not under an obligation to make findings of fact in relation to each item of evidence within its overall assessment of the probability of an SLC.⁷² For example, in previous cases the CMA was not required to establish whether any particular potential investment was more likely than not to occur or whether any particular foreclosure mechanism is more likely than not to occur. In this case, the CMA is therefore not required to establish that any specific course of action would be followed by the Parties within the markets at issue.

6. Market definition

- 6.1 The purpose of market definition in a merger inquiry is to provide a framework for the analysis of the competitive effects of the merger.⁷³ Market definition is a useful analytical tool, but not an end in itself, and identifying the relevant market involves an element of judgement.
- 6.2 The relevant market contains the most significant competitive alternatives available to the customers of the merger firms and includes the sources of competition to the merger firms that are the immediate determinants of the effects of the merger.

⁷¹ *Intercontinental Exchange, Inc. v CMA and Nasdaq Stockholm AB* [2017] CAT 6, at paragraph 246. See also *Société Coopérative de Production SeaFrance SA (Respondent) v CMA* [24/07/2014] CAT, and another [2015] UKSC 75 at paragraph 44.

⁷² *BskyB v Competition Commission and others* [2008] CAT 25 at paragraph 80.

⁷³ *CC2 revised*, paragraph 5.2.1 to 5.2.5.

- 6.3 The boundaries of the market do not determine the outcome of the CMA's analysis of the competitive effects of the merger in a mechanistic way. In assessing whether a merger may give rise to an SLC the CMA may take into account constraints outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others.⁷⁴
- 6.4 The relevant product market is identified primarily by considering the response of customers to an increase in the price of one of the products of the merger firms (demand-side substitution). When suppliers can target higher prices at those customers willing to pay more than others (ie price discriminate), the market may be defined by customer group, with the customers in each market being offered different terms.
- 6.5 In practice, the analysis of market definition and competitive effects will overlap, with many of the factors affecting market definition being relevant to the assessment of competitive effects and vice versa. Therefore, market definition and the assessment of competitive effects should not be viewed as two distinct analyses.⁷⁵
- 6.6 In this section, we set out the relevant markets in which we have assessed the effects of the Merger in relation to the supply of:
- (a) offline payment services; and
 - (b) omni-channel services.

Offline payment services

- 6.7 As described in paragraphs 2.33 to 2.35, the Parties both provide offline card payment services to merchants. The Parties provide these services through mPOS devices, but other providers offer these services through traditional POS devices.
- 6.8 We consider the following questions regarding the product market:
- (a) whether the market should be defined by reference to customer size;
 - (b) whether the market should be defined by reference to type of device or provider (ie providers of mPOS and traditional POS devices); and

⁷⁴ CC2 revised, paragraph 5.2.2.

⁷⁵ CC2 revised, paragraph 5.1.1.

(c) whether non-card payment methods (including cash) should be included in the relevant market.

6.9 Although the Parties indicated that merchants' preferences and priorities with regard to their choice of payment service provider differ by sector, we have not considered in detail whether separate markets should be defined according to merchant sector. This is because the Parties and other providers serve merchants across a range of sectors with the same service offering.

6.10 We also examine the relevant geographic market definition.

Segmentation by customer size

6.11 In this section we consider:

- (a) whether the product market should be restricted to the 'smaller' merchants that mPOS offerings are primarily targeted towards; and
- (b) whether the product market should be further segmented into the 'nano', 'micro' and 'small' customer size segments.

6.12 We have defined these segments according to customers' annual TPV, as follows:

- (a) Nano: annual TPV below £21,000
- (b) Micro: annual TPV between £21,000 and £160,000
- (c) Small: annual TPV between £160,000 and £380,000.

Parties' views

6.13 The Parties submitted that, while distinguishing smaller merchants from larger merchants is understandable, further segmentation by size into 'nano', 'micro' and 'small' segments is inappropriate. They argued that:

- (a) this segmentation does not reflect the reality of PayPal's business, and iZettle [X];
- (b) these labels are not commonly recognised in the industry;
- (c) there are many factors other than TPV volume that determine which solution a merchant may choose; and

- (d) the merged entity would have neither the ability nor the incentive to tailor its pricing or product offer to target customers according to these size groups.

CMA Assessment

- 6.14 Based on evidence we have seen, it is common for providers of offline payment services to target specific customer sizes, or to segment their customers by size, based on their annual card payment volumes.
- 6.15 Both of the Parties target smaller merchants with their offline payment services:
- (a) iZettle's target customers are 'small businesses', which it [REDACTED].
- (b) [REDACTED].⁷⁶
- 6.16 Other mPOS providers also target smaller merchants, based on their card payment volumes:
- (a) SumUp told the CMA that its mPOS offering enables small and micro businesses to accept card payments.
- (b) [REDACTED].
- 6.17 Traditional POS providers tend to target large merchants rather than smaller merchants. Worldpay, however, currently targets customers of all sizes and it has recently reviewed its customers needs including 'Micro' and 'SMB'. Barclaycard also told us they serve customers of all sizes, and they have been developing propositions to address the needs of smaller merchants using a combination of POS and mPOS services.
- 6.18 In addition, the Parties and third parties perceive different providers to be most competitive across different customer segments:
- (a) A PayPal Here document identifies [REDACTED].⁷⁷
- (b) An iZettle document considers the 'small' and 'medium' customer segments to be a [REDACTED], and the 'micro' segment to be an [REDACTED].⁷⁸
- (c) Worldpay considered [REDACTED] to have the [REDACTED] under its 'micro' segment.

⁷⁶ See Appendix H.

⁷⁷ See Appendix H.

⁷⁸ See Appendix H.

- 6.19 Payment service providers can (and some do) tailor their pricing based on customers' transaction volumes. Price structures in offline payment services are discussed in detail in Appendix G:
- (a) PayPal Here has a tiered pricing structure according to customer size (based on payment volumes), and has made changes to prices at different tiers to respond to differing competition for different customer sizes. PayPal stated [§<].
 - (b) iZettle does not currently use a tiered pricing structure. However, iZettle offers bespoke rates to larger merchants. Moreover, iZettle Pro offers a lower per-transaction rate (1.25% compared to the standard rate of 1.75%) with a monthly subscription fee. Such a tariff structure is likely to appeal to merchants with a higher TPV as they would be more likely to find this option economical.
 - (c) A Square internal document indicates that custom pricing will be available for larger merchants.
 - (d) Traditional acquirers typically offer lower transaction rates to merchants with higher volumes. Examples of traditional acquirer price structures are given in Appendix G.
- 6.20 The evidence above on customer targets, pricing, and competitors monitored by the Parties suggests that the competitive conditions differ across customer sizes.
- 6.21 On this basis, we provisionally define a relevant product market by reference to customer size measured by payments volume. This product market includes 'smaller merchants', which covers nano, micro and small merchants using our definition in paragraph [6.12]. This definition is broadly in line with PayPal's definition of SMB.
- 6.22 This market excludes larger enterprises with annual TPV above the upper limit of the thresholds above, since the Parties do not generally target these customers, which are served primarily by traditional POS providers based on tailored pricing and payments solutions.
- 6.23 We do not define separate markets for nano, micro and small segments. However, as detailed in Appendix G, we consider that the prevailing price structures used by providers of offline payment services mean that:
- (a) For nano merchants, the range of competitive alternatives may be more limited as traditional POS pricing results in significantly higher costs for these customers compared to mPOS;

- (b) It is possible for mPOS providers to price discriminate between customers based on size, either directly (by basing transaction fees on payment volumes) or indirectly (by offering pricing plans that combine monthly charges with lower transaction fees to attract merchants above a certain size); and
- (c) While strong preferences by smaller merchants for simple pricing may restrict the incentive of the merged entity to price discriminate extensively, it would still have the ability to price discriminate at least between the nano and smaller micro merchants and the larger 'small' merchants, as evidenced by iZettle's price discrimination through the use of 'Pro' and bespoke pricing plans for larger customers.

6.24 In assessing the competitive effects of the Merger, we therefore consider differentiation within this market by nano, micro and small merchant segments where appropriate.

Segmentation by type of device or provider

- 6.25 Both PayPal and iZettle are providers of offline payment services through mPOS devices. Other providers offer offline payment services through mPOS devices, traditional POS devices, or both.
- 6.26 We consider the extent to which the Parties and other providers of offline payment services through mPOS devices are likely to be constrained by providers of offline payment services through traditional POS devices.

Parties' views

- 6.27 The Parties submitted that the relevant product market should include both mPOS devices and traditional POS devices, because:
- (a) mPOS and traditional POS solutions have converged, both in terms of design and in terms of commercial propositions;
 - (b) Traditional POS devices are a valid alternative for most if not all merchants that would consider mPOS, as demonstrated by the fact that even the smallest merchants use traditional POS in far greater volumes than mPOS; and
 - (c) There are no material barriers to traditional POS suppliers in choosing to supply mPOS devices.

CMA assessment

- 6.28 The price structures for mPOS devices continue to differ from those for POS devices in a number of ways, as detailed in Appendix G:
- (a) mPOS tariffs are simple (flat fee per transaction with a one-off reader fee), transparent (fees are published online rather than negotiated) and flexible (no minimum contract period or minimum monthly spend).
 - (b) By contrast, traditional POS providers tend to offer more complex (tiered by volume, and varying by card type) and opaque (individually quoted) fee structures, with minimum contract periods or minimum monthly spend.
 - (c) Recently Worldpay has launched ‘simplicity’ contracts and ‘pay-as-you-go’ options for customers of its traditional POS.⁷⁹ As Worldpay is one of the largest acquirers in the UK, this shift indicates some convergence between mPOS and POS pricing structures. However, these pricing options are still not as simple as those of most mPOS providers, and other traditional POS providers have not yet made similar moves to simplify pricing.
- 6.29 Although the basic functionality of card acceptance is the same for mPOS and traditional POS, there are some other differences in characteristics that may cause merchants to prefer one type of device over the other. mPOS devices are typically smaller and hence more portable than POS devices, however they require the merchant to carry two separate devices, are unable to print receipts without the addition of a separate printer, and may be viewed as less sturdy than POS devices. Evidence on customer preferences is discussed in Section 8.
- 6.30 Customer acquisition channels also differ between mPOS and traditional POS. Customers of mPOS devices primarily sign up using self-serve online channels, while customers for POS devices are typically signed up using channels such as telesales and referrals from banks. In addition, the onboarding processes used by mPOS providers to carry out checks on customers and activate customer accounts are automated, whereas for traditional POS providers these processes involve some manual steps.
- 6.31 However, evidence on diversion, as set out in Appendix F, indicates that there is a degree of competitive interaction between mPOS providers and traditional POS providers:

⁷⁹ It has also launched similar plans for customers of its mPOS.

- (a) Based on diversion analysis using the CMA survey results, around 30% of the Parties' customers said they would switch to traditional POS devices if their current provider were to raise prices by a small amount.
 - (b) The Parties' historical customer churn data shows that [X] proportion of customers were lost to traditional POS providers in the past ([X]% for PayPal Here; [X]% for iZettle).
- 6.32 The Parties' internal documents, as reviewed in Appendix H demonstrate a focus on each other and other mPOS providers ([X]) in terms of [X] and comparison of offers. However, the Parties also [X] from traditional POS providers, albeit less frequently and to a lesser degree. This competition also tends to be considered with respect to customers with higher transaction volumes.
- 6.33 One mPOS provider (SumUp) told the CMA that it [X]. Some traditional POS providers indicated that they saw themselves as competing only with similar POS providers. However, Barclaycard views certain mPOS providers as competitors, and Worldpay considers some mPOS providers, such as iZettle and PayPal, as part of a 'tech & new entrants' category of competitors alongside 'traditional' and 'ISO' categories.
- 6.34 In summary, the evidence above appears to indicate that:
 - (a) There is a degree of competitive interaction between mPOS and traditional POS providers, but there are some differences in their business models, pricing structures and product characteristics.
 - (b) mPOS providers typically monitor other mPOS providers more closely and POS providers to a less frequent and lesser degree.
 - (c) As we explain further in Section 8, there has been some convergence in the pricing structures and a few traditional POS providers have offered new propositions such as mPOS solutions and/or tariffs that are similar to those of mPOS providers.
- 6.35 On the basis of this evidence, we provisionally conclude that providers of mPOS and traditional POS compete in the same relevant product market. However, within this broadly defined market there are important differences between mPOS and traditional POS providers and a consideration of closeness of competition is critical.
- 6.36 Where appropriate, in the competitive assessment we take into account differentiations within the market by consideration of the mPOS segment, and differences in the competitive strengths of individual providers.

Alternative methods of payment

- 6.37 We consider the extent to which non-card payment methods, including a) cash and b) new payment technologies should be included in the relevant market.

Parties' views

- 6.38 The Parties submitted that cash should be included within the relevant market (or at least within the competitive assessment), as card payments and cash are largely substitutable, particularly for smaller merchants. The Parties argued that their offers need to be attractive relative to the option of continuing to take cash only in order to ensure continued acquisition of new merchants, and point to:

- (a) The CMA survey finding that large proportions of the Parties' customers only used cash before starting to use the Parties' mPOS solutions; and
- (b) An iZettle internal document that refers to an 'addressable market' that includes large numbers of small businesses who do not accept card payment.

- 6.39 The Parties also submitted that non-card payment methods based on new technologies are increasing in importance, and can be expected to offer additional constraints on the supply of offline payment services in the near future.

- 6.40 In particular, they referred to new payment methods based on direct bank-to-bank payments, enabled by the opening up of banking data resulting from the Second Payment Services Directive (PSD2), and cite the success of MobilePay in Denmark and Swish in Sweden as examples of how UK payment services may evolve in the near term. They also referred to payments made through quick response (QR) codes and in-app payments used by merchants using platforms such as Just Eat and Uber.

CMA Assessment

- 6.41 There is limited evidence that merchants would switch from card acceptance to cash in response to a small price increase:

- (a) Based on the CMA survey results, only a small minority of customers (less than 10%) said they would stop taking card payments in response to a price increase by the Parties.⁸⁰
 - (b) We are not aware of any of the Parties' internal documents that discussed a competitive threat from merchants accepting cash rather than accepting card payments (as opposed to documents that discuss cash-only merchants as possible customers for mPOS solutions).
- 6.42 We do not consider that evidence that those merchants who currently use mPOS would often have previously only accepted cash, implies that cash is a constraint on mPOS providers. There are a number of trends that are driving small businesses to start accepting cards, and significant benefits to merchants of card acceptance – as noted in the Parties' internal documents:
- (a) There is an ongoing decline in cash and increasing share of electronic payments and customers increasingly expect to be able to pay by card and by not carrying cash;
 - (b) High levels of card penetration drive migration by merchants from cash to card payments, and the UK has a particularly high level of card penetration with 2.7 payment cards per capita;
 - (c) An iZettle investor presentation notes that [redacted]; and
 - (d) [redacted].
- 6.43 Given these trends, migration from cash to card payments by merchants is to be expected, and it is unlikely that a small increase in the price of offline payment services would result in a significant reduction in new customer acquisition. We therefore provisionally conclude that cash payments should not be included in the relevant product market.
- 6.44 With regards to new payment methods, we have not seen evidence that non-card technologies (eg bank-to-bank transfer, QR codes and in-app payment) are currently being adopted at scale by consumers and by merchants as alternatives to card payments in the UK. Where some of these technologies are currently used, for example in-app payments used in platform apps such as Uber or Just Eat, it is not clear that this is in direct competition with offline payment services.
- 6.45 On this basis, we provisionally conclude that non-card payments should be excluded from the relevant product market. However, we consider the

⁸⁰ Full diversion analysis from CMA survey is set out in Appendix F.

potential constraints from these emerging technologies in paragraphs 10.14 to 10.25.

Geographic market definition

6.46 We provisionally conclude that the relevant geographic market should be the UK, for the following reasons:

- (a) Evidence from the Parties and third-party providers describe the competitive landscape and consumer demand from a UK perspective, even though many providers are active across multiple countries.
- (b) The Parties and third-party providers have national price schedules specific to UK merchants.
- (c) Offline payment transactions in the UK are predominately carried out in sterling.
- (d) There are barriers to suppliers that wish to enter the UK market, such as the need for industry and UK-specific regulatory knowledge, technology expertise, brand recognition and marketing capabilities.
- (e) There are no factors (such as local variations in pricing or other elements of the offering) that suggest that the geographic market should be narrower in scope than UK-wide.

Provisional conclusion on relevant market for offline payment services

6.47 Based on the evidence set out above, we provisionally conclude that the relevant market is the supply of offline card payment services to smaller merchants in the UK.

6.48 In the competitive assessment, we considered differentiations within this market by reference to:

- (a) customer size segmentation (ie nano, micro and small merchants); and
- (b) payment device and provider type segmentation (mPOS and traditional POS).

Omni-channel services

6.49 Omni-channel services (see paragraphs 2.39 to 2.41) are an emerging trend in payment services, whereby the same provider supplies merchants with

integrated offline and online payment services, possibly alongside other services such as sales management tools.

6.50 We consider in this section:

- (a) whether there is actual or potential demand for omni-channel services by smaller merchants;
- (b) the features of omni-channel services required by merchants; and
- (c) whether the requirements of smaller merchants differ from those of larger merchants.

6.51 We also consider the relevant geographic market definition.

6.52 As this is still a nascent market, the demands of merchants and the services offered by providers may develop rapidly. In defining the market, we have therefore considered the views of industry participants on how this market might develop in the near future, rather than focusing solely on existing requirements and solutions.

Parties' views

6.53 The Parties told us that although smaller merchants might require less sophisticated omni-channel services than larger merchants, they still demand products that consolidate store front, inventory, product, customer and payment information.

6.54 The Parties also told us that demand from smaller merchants for omni-channel service is likely to vary depending on industry:

- (a) for some industries, for example retail or travel, a smaller merchant's requirements are likely to be closer to those of larger merchants;
- (b) for other smaller merchants, there is likely to be little interest in omni-channel services (eg plumbers, window-cleaners, or coffee shops); and
- (c) for certain industries, smaller merchants are increasingly turning to marketplaces (Amazon) or more industry specific marketplaces such as AirBnB for travel, Deliveroo/Uber Eats for restaurants, and Uber and MyTaxi for taxis.

6.55 iZettle further told us that keeping track of stock, managing shipping of products, being seen in the right sales channels, keeping track of existing customers, and finding new customers are equally important for all businesses. Nano merchants typically have just commenced their activities

and may have a hard time scaling the business, and the complexity in managing these needs often increases as the business grows (especially as personnel are added).

6.56 The Parties also submitted an expert opinion report prepared by Consult Hyperion for this Merger investigation. The report states the following in relation to demand for omni-channel services by smaller businesses:

- (a) Smaller businesses require the ability to take card payments regardless of channel and have a single view of their card transactions.
- (b) They are unlikely to have the same needs of integration with their own system or procedures as larger businesses.
- (c) As the consumer demand to be able to use cards in preference to other payment methods has increased it has become important for payment service providers to fill this gap.
- (d) Smaller businesses look to their providers to offer products that consolidate store front, inventory, product, customer and payment information without the need for complex integrated back office systems.
- (e) Service providers will be required to offer omni-channel payment solutions through adding technical capability over time, or acquisition of companies providing complementary services.

6.57 The Parties submitted that in principle the demand for omni-channel services may differ between the largest merchants and medium/smaller merchants, as large merchants may demand a more complex and/or customised offering, but that no further segmentation by merchant size is appropriate.

CMA assessment

6.58 We have considered the following sources of evidence in considering the product market definition for omni-channel services:

- (a) the CMA survey;
- (b) research carried out by the Parties; and
- (c) views of competitors.

CMA survey

- 6.59 We have considered the extent to which the Parties' customers currently accept or plan to accept card payments online. The CMA survey results indicate that:
- (a) Currently 30% of iZettle micro and nano customers take card payments online. Some other customers (18% for nano, 23% for micro) plan to start taking card payments online within the next year or in the longer term.
 - (b) A higher proportion of PayPal Here customers currently take card payments online (58% for nano, and 56% for micro) compared to iZettle. Some further PayPal Here customers plan to start taking card payments online (10% for nano, 16% for micro).
- 6.60 This provides an indication of the scope for the Parties to sell online payment services to their existing offline customers, and the potential to do so in future. However, for there to be a relevant market for omni-channel services, customers must have demands for receiving both online payment services and offline payment services from the same supplier.
- 6.61 We have therefore also considered the extent to which customers consider it important to use the same provider for online and offline payments. The CMA survey results show that:
- (a) For iZettle customers, a minority of those who currently take online payments (21% for nano and 27% for micro) consider it 'very important' or 'fairly important' to use the same provider. However, substantially higher proportions of customers who plan to take online payments consider it 'very important' or 'fairly' important to use the same provider (63% for nano and 68% for micro).
 - (b) For PayPal Here customers, around a half of those who currently take online payments (49% for nano and 55% for micro) consider it 'very important' or 'fairly important' to use the same provider. Higher proportions of customers who plan to take online payments consider it 'very' or 'fairly' important (70% for nano and 62% for micro).
- 6.62 This suggests that there is greater demand for omni-channel services (which require integrated online and offline payments) for customers who are planning to sell than those who currently sell online, and greater demand by PayPal customers than by iZettle customers.

Parties' research

- 6.63 We have also examined the Parties' internal research on customer requirements in online payments and omni-channel.
- 6.64 iZettle carried out a user study in relation to demand for online payments in Q4 2017. The study was based on desktop research and user interviews and surveys in Sweden and the UK, and the purposes were to identify challenges faced by users in running a business both online and offline, to find out how users manage their business across platforms, and to understand how important iZettle is compared to other solutions. The study [REDACTED].
- 6.65 iZettle's research found that:
- (a) The volume of online payments by [REDACTED] customers is estimated to be €[REDACTED] billion in the UK;
 - (b) Online sales were a [REDACTED]; and
 - (c) [REDACTED].
- 6.66 Evercore, PayPal's financial adviser for the Merger, carried out a survey of 125 small and medium-size businesses across Europe (including 35 in the UK) in February 2018. It found that:
- (a) [REDACTED].
 - (b) [REDACTED].
 - (c) [REDACTED].
 - (d) [REDACTED].
- 6.67 This survey appears to confirm the relevance and importance of omni-channel to smaller merchants
- 6.68 The [REDACTED] prepared for the acquisition of iZettle, considered omni-channel in detail. Drawing on the Evercore survey as well as other PayPal research, it identified three 'core SMB needs' as follows:
- (a) [REDACTED].
 - (b) [REDACTED].
 - (c) [REDACTED].

- 6.69 We examine other PayPal documents that assess the relevance of omni-channel as a rationale of the Merger in Appendix H. [X].

Competitor views

- 6.70 The payments and e-commerce providers we have spoken to generally confirmed that the core element of omni-channel is an integrated online and offline payment services, and can include other sales management and online selling tools.
- 6.71 These suppliers told us that integration is key, ie omni-channel is important because of all transaction data are in the same place. Some suppliers emphasised more sophisticated integrations (eg buy online, return in store, buy online while in store, split bill etc.) predominantly used by larger merchants. The need for different levels of integration may depend on merchants' transaction volume, size and industry.
- 6.72 Currently smaller merchants' demand for omni-channel may be more limited or less complex (ie not much demand for advanced online/offline integration). However, most suppliers expect such demand to grow over the next few years.

Provisional conclusions on product market definition

- 6.73 The evidence set out above indicates that:
- (a) In omni-channel, merchants require a solution that integrates online and offline payments. In addition, some merchants typically require sales management, online selling tools and other value-added services.
 - (b) Demand for omni-channel services exists amongst both Parties' customers and smaller merchants generally. This is evidenced in the CMA survey, iZettle internal research, the Evercore survey and PayPal board documents that explain the rationale of the Merger.
 - (c) Both the Parties and many third parties expect demand by smaller merchants for omni-channel services to grow.
 - (d) Smaller merchants typically require off-the-shelf solutions whereas larger merchants tend to demand more complex, customised solutions. This is confirmed by third-party submissions and is consistent with the expert opinion report submitted by the Parties.
 - (e) To obtain omni-channel services, merchants can choose from providers that operate different approaches, such as:

- (i) a payment service provider that offers ecommerce functionalities; or
- (ii) an e-commerce platform that offers its own online/offline payment solution or which enables integration with a payment provider.

- 6.74 In light of the above, in assessing the competitive effects of this Merger, we provisionally conclude that the relevant product market is the supply of omni-channel solutions to smaller merchants. This includes the provision of integrated online and offline payment functionalities, and may include additional functionalities such as sales management, online selling tools, and other value-added services. Providers may use various approaches to offer omni-channel functionalities, eg using their in-house capabilities or through integration or partnership with third parties.
- 6.75 Where appropriate, we will consider any differentiation by provider or by customer type in the competitive assessment.

Geographic market definition

- 6.76 We provisionally conclude that the relevant geographic market should be the UK, for the following reasons:
- (a) Evidence from the Parties and third-party providers describe the competitive landscape and consumer demand from a UK perspective, even though many providers are active across multiple countries.
 - (b) The Parties and third party providers have national price schedules specific to UK merchants.
 - (c) As discussed above, there are barriers to suppliers that wish to enter the UK market for offline payment services, which is a prerequisite for supplying omni-channel services.
 - (d) There are no factors (such as local variations in pricing or other elements of the offering) that suggest that the geographic market should be narrower in scope than UK-wide.

Provisional conclusion on relevant market for omni-channel services

- 6.77 Based on the evidence set out above, we provisionally conclude that the relevant market is the supply of omni-channel services to smaller merchants in the UK.

7. Counterfactual

- 7.1 Before we turn to the effects of the Merger, we need to determine what we would expect the competitive situation to be absent the Merger. This is called the ‘counterfactual’.⁸¹ The counterfactual is a benchmark against which the expected effects of a merger can be assessed.
- 7.2 The choice of counterfactual requires a finding that, on the balance of probabilities,⁸² a given scenario would have developed in the market in the absence of a merger. As set out in our Guidelines,⁸³ the CMA may examine several possible scenarios, one of which may be the continuation of the pre-merger situation (the prevailing conditions of competition). The CMA will incorporate into the counterfactual only those aspects of scenarios that appear likely based on the facts available to it and the extent of its ability to foresee future developments, and will seek to avoid any spurious claims to accurate prediction or foresight. Given that the counterfactual incorporates only those elements of scenarios that are foreseeable, it will not in general be necessary for the CMA to make finely balanced judgements about what is and what is not the counterfactual. Where there is more than one possible alternative scenario, the situation most likely to have existed absent the merger will be selected.
- 7.3 Against this framework and in light of the Parties’ submissions, we considered the likely future situation of both PayPal and iZettle in the absence of the Merger.⁸⁴ Our focus of interest is on two issues: in the absence of the Merger how PayPal would have developed its offline payments services; and how iZettle would have developed its omni-channel offer absent the Merger.
- 7.4 As a preliminary point we note that the current merger situation arises as a result of PayPal entering into an agreement to acquire the entire issued share capital of iZettle on a global rather than a territory-by-territory basis. We did not find any evidence suggesting that a merger of the iZettle UK business alone was contemplated. We have therefore considered the most likely counterfactual in the UK in the absence of the global merger.

PayPal counterfactual

⁸¹ [CC2 revised](#), paragraph 4.3.1.

⁸² [Stagecoach Group Plc vs Competition Commission \(08/12/2009\) 1145/4/8/09 CAT](#), paragraph 20.

⁸³ [CC2 revised](#), paragraph 4.3.6.

⁸⁴ [CC2 revised](#), paragraph 4.3.6.

The Parties' submissions

- 7.5 The Parties' submissions on the counterfactual changed throughout the course of our investigation. In light of this, the CMA conducted further analysis of PayPal's internal documents and emails. We set out below a summary of the main submissions made throughout.
- 7.6 The Parties initially submitted that the prevailing conditions of competition would have continued absent the Merger, in particular that [REDACTED].⁸⁵
- 7.7 In particular, the Parties submitted that [REDACTED].⁸⁶ [REDACTED].⁸⁷ [REDACTED].
- 7.8 The Parties submitted that [REDACTED].
- 7.9 The Parties submitted that, in any event, [REDACTED].⁸⁸ [REDACTED].⁸⁹ [REDACTED].⁹⁰
- 7.10 Further, in their early written submissions, the Parties submitted that [REDACTED],⁹¹ [REDACTED].⁹² [REDACTED].
- 7.11 In the phase 1 decision, the CMA found that expanding its omni-channel payments services capabilities to SMBs is a strategic priority for PayPal (and had been explicitly identified as part of the rationale for the Merger).⁹³ At the main party hearing, PayPal submitted that ([REDACTED]), it had identified [REDACTED].
- 7.12 Following the main party hearing, and in its response to the counterfactual working paper, PayPal submitted that [REDACTED], PayPal also submitted that other than the pre-Merger conditions, ie [REDACTED], the 'only plausible alternative' to an acquisition of iZettle would have been an acquisition of [REDACTED].
- 7.13 With regard to the possibility of partnerships, the Parties' written submissions set out that these would also not allow PayPal to achieve a significant global change to its offline payments business due to the fact that:
- (a) [REDACTED];
- (b) [REDACTED];
- (c) [REDACTED];

⁸⁵ [The Parties' response to the Phase 1 decision](#), paragraphs 1.4(d) and 6.3.

⁸⁶ [The Parties' response to the Issues statement](#), paragraph 3.3.

⁸⁷ [The Parties' response to the Issues statement](#), paragraphs 3.4-3.5.

⁸⁸ [The Parties' response to the Issues statement](#), paragraph 1.4.

⁸⁹ [The Parties' response to the Issues statement](#), paragraph 3.2.

⁹⁰ [The Parties' response to the Issues statement](#), paragraph 3.6.

⁹¹ [The Parties' response to the Phase 1 decision](#), paragraph 1.4(d).

⁹² [The Parties' response to the Phase 1 decision](#), paragraph 6.4.

⁹³ PayPal Holdings, Inc./iZettle AB merger inquiry (2018), [Phase 1 decision document](#), paragraph 137.

(d) [REDACTED];⁹⁴

(e) [REDACTED]; and

(f) [REDACTED].

7.14 PayPal submitted that within PayPal, partnerships were generally considered a [REDACTED].

PayPal Here absent the Merger

7.15 To assess PayPal's most likely course of action absent the Merger, we reviewed an extensive selection of PayPal's internal documents (including emails of relevant staff) and considered:⁹⁵

(a) PayPal's incentives in relation to offline payment services;

(b) Its consideration of acquisition possibilities ([REDACTED]); and

(c) Its consideration of partnership options.

PayPal's incentives

7.16 There is evidence that PayPal faced strong incentives to improve its offline payment services capabilities. In particular:

(a) As set out at paragraph 7.11, PayPal told us that it had identified [REDACTED];

(b) This strategic aim [REDACTED]⁹⁶ [REDACTED] (see eg Appendix C Figure 83, Figure 97 and Figure 98);

(c) Evidence shows [REDACTED].⁹⁷ [REDACTED] (see eg Appendix C Figure 20, Figure 27, Figure 36, Figure 44, Figure 54, Figure 55);

(d) 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 was noted in the phase 1 decision.⁹⁸ [REDACTED] (see Appendix C paragraph 140);

(e) [REDACTED]⁹⁹ (see Appendix C Figure 53 and Figure 84); and,

⁹⁴ [The Parties' response to the Issues statement](#), paragraph 3.8.

⁹⁵ We also reviewed documents [REDACTED].

⁹⁶ Appendix C, Figure 12 and Figure 83.

⁹⁷ As described in Appendix C, paragraph 66 to 68 and Figure 3.

⁹⁸ PayPal Holdings, Inc./iZettle AB merger inquiry (2018), [Phase 1 decision document](#), paragraph 149.

⁹⁹ [REDACTED].

- (f) Through its acquisition of iZettle, PayPal is set to realise synergies in the order of [REDACTED] in large part by cross-selling iZettle services to online customers. We consider that this suggests that PayPal believes that significant additional revenues could be achieved with an enhanced offline payments product.

7.17 We provisionally consider that these dynamics both in isolation and collectively provided PayPal with strong incentives to enhance its offline payment services capabilities.

Consideration of acquisitions

- 7.18 We found that before the acquisition of iZettle, [REDACTED] (see Appendix C, paragraphs 17 to 19).¹⁰⁰
- 7.19 [REDACTED].¹⁰¹ There was also consideration of how these measures could be combined with further investment into the existing PayPal Here product (see Appendix C, paragraph 25 and paragraph 26).
- 7.20 [REDACTED] (see Appendix C, paragraph 13 and paragraph 14).
- 7.21 PayPal told us at the main party hearing that [REDACTED].
- 7.22 We found that PayPal's internal documents confirmed that [REDACTED].¹⁰² [REDACTED].¹⁰³

Consideration of partnerships

- 7.23 While PayPal submitted partnerships would only be considered by PayPal [REDACTED], we found that PayPal [REDACTED].¹⁰⁴ [REDACTED] (see Appendix C paragraph 19).
- 7.24 We also found that PayPal has entered into partnerships with third parties around the world.¹⁰⁵ There are also internal documents [REDACTED]. (see eg Appendix C Figure 2, Figure 4, Figure 8).
- 7.25 [REDACTED],¹⁰⁶ suggesting that partnerships including the PayPal Here product were considered feasible [REDACTED].

¹⁰⁰ See Appendix C, Figure 24, Figure 26, Figure 36 and Figure 86.

¹⁰¹ See Appendix C, paragraph 40, paragraph 66, paragraph 70 and paragraph 121.

¹⁰² See Appendix C, Figure 69.

¹⁰³ See Appendix C, Figure 57.

¹⁰⁴ See paragraphs 7.18 to 7.20.

¹⁰⁵ See eg the Paypers (28 September 2018), [PayPal's partnership with Shopify in India](#), and a list of partners including Shopify, Wix and WooCommerce on PayPal's [website](#). .

¹⁰⁶ Appendix C, Figure 96.

- 7.26 Overall, we found evidence that possible improvements to PayPal's offline payment services capabilities, including through partnerships, were considered and evaluated [REDACTED] (see Appendix C, paragraph 40, paragraph 66, paragraph 70 and paragraph 121).
- 7.27 As set out in paragraph 7.13(b), PayPal submitted that [REDACTED]. We found mixed evidence on this in internal papers (see Appendix C, paragraph 28). For example, [REDACTED]¹⁰⁷ [REDACTED].¹⁰⁸
- 7.28 As set out in paragraph 7.13(e), [REDACTED].¹⁰⁹
- 7.29 However, [REDACTED]).

Assessment

- 7.30 On the basis of the evidence set out above, we provisionally consider that the pre-Merger conditions are not the most likely counterfactual. We provisionally consider that absent the Merger, it is unlikely that PayPal [REDACTED]. This is because of PayPal's commitment to developing a strong omni-channel offering and the incentives applying with respect to its offline payment services capabilities (in particular the opportunities for cross-selling and enhancing its omni-channel offer. [REDACTED]).
- 7.31 Instead, we consider that the evidence shows that PayPal had a range of credible options available to improve its offline payment services capabilities and pursue its omni-channel strategy, including:
- (a) [REDACTED] partnership [REDACTED];
 - (b) Acquiring [REDACTED]; and/or
 - (c) Acquiring [REDACTED].
- 7.32 We also consider that PayPal would have had the resources to pursue these options. We found that that PayPal had [REDACTED].¹¹⁰ We also found that board documents prepared prior to the Merger, describe the merger with iZettle (which it acquired for \$2.2 billion) as a [REDACTED].¹¹¹
- 7.33 We did not consider it necessary to assess the likelihood of each alternative option occurring, and we have sought to avoid any spurious claims to

¹⁰⁷ See Appendix C, Figure 77.

¹⁰⁸ See Appendix C, Figures 47 and Figure 48.

¹⁰⁹ See Appendix C, Figure 23.

¹¹⁰ Appendix C, Figure 70.

¹¹¹ Appendix C, Figure 73.

accurate prediction or foresight on the exact path PayPal might have chosen and its impact. Rather, we consider that absent the Merger, PayPal would have sought to improve its offline payment service capabilities through one, or a mix of, these potential measures, within the UK and abroad.

7.34 [X].

7.35 While we agree that [X] were presented most consistently as potential acquisition targets in the documents prepared by the PayPal Here product team, the internal documents do not suggest that acquisition of other potential targets was not feasible or in line with PayPal's overall strategic aims. [X], the CMA's practice is not to consider possible counterfactual scenarios that are likely to result in a reference to a phase 2 investigation. [X].

7.36 We recognise that PayPal's global strategic aims would likely have required different approaches and a combination of acquisitions and partnerships in different countries to facilitate both product enhancement and geographic expansion. Because of the need to identify and action these approaches, a [X] would likely have taken some time to put in place in the UK.

7.37 We consider that [X]. In light of PayPal's incentives with regard to its omni-channel offering, [X], we consider it likely that PayPal would, to support its global, long-term strategy, also have taken short-term measures to improve PayPal Here in the UK, for example through incremental adjustments and improvements to its pricing, marketing, or product hardware.

7.38 We therefore provisionally conclude that PayPal would have substantially improved or replaced PayPal Here but that this would have taken time with the timing and impact of such an improvement in the UK dependent upon the means by which it was achieved, ie the profile of any acquisition or partnership target. In the shorter term, we consider that PayPal would have sought incremental improvements to its existing mPOS offering. Therefore, under the counterfactual it is likely that PayPal would have been a stronger competitor than it currently is, stemming the decline in PayPal Here's competitive position. However, we recognise the limitations of what PayPal could achieve in the shorter term to enhance PayPal Here's competitive position (particularly [X]).

iZettle counterfactual

7.39 We now consider the counterfactual for iZettle. In this section, we address, in particular, the likely course of action in relation to iZettle's e-commerce offering and the possible development of its omni-channel offer. As noted in

paragraph 2.42, iZettle has already entered the omni-channel market in a very limited way, providing e-commerce services to smaller customers in the UK.

7.40 This pre-Merger competitive position may not reflect the degree to which iZettle would have in future competed in this market absent the Merger. We need to consider whether expansion of its existing offering in the omni-channel market could have increased competition, ie whether the Merger gives rise to the loss of ‘actual potential competition’.¹¹²

7.41 Therefore, we now assess the counterfactual on whether iZettle would have expanded its omni-channel offering absent the Merger. We also consider its likely position in the provision of mPOS services absent the Merger.

Views of the Parties

7.42 The Parties submitted that iZettle’s online offering was very limited. It consisted of iZettle’s invoicing product,¹¹³ a pay-by-link functionality and an e-commerce solution which includes integrated payment functionality powered by [X], Selz ([X]). iZettle did not offer merchants the ability to accept payment on websites that were not designed using iZettle’s web design tool.

7.43 The Parties said that, without investing a significant amount of time and money (which iZettle would have found very difficult to raise), iZettle could not independently build a credible online payments offer which would be capable of challenging established online payments suppliers such as Stripe, Adyen or even PayPal. [X].

7.44 The Parties told us that iZettle’s online payments capability was [X]. They said that iZettle would need [X]online payments capability which was capable of effectively serving all of the international markets in which it was active, including the UK. Online payments functionality was not a UK-specific exercise.

CMA assessment

7.45 In this section, we consider whether, absent the Merger, iZettle would have continued with the IPO and, if so, whether it would have used the funds raised to develop its pre-Merger competitive offering, or have been likely to expand into the provision of online payment services, thereby enabling it to offer an

¹¹² [CC2 revised](#). The CMA’s framework for the assessment of actual potential competition is set out at paragraphs [9.6-9.9].

¹¹³ iZettle Invoice is a feature within the iZettle Go app which allows merchants to create and send online invoices. iZettle tracks unpaid invoices, sends reminders if necessary, and handles the payment, in exchange for a fee of 2.5% per invoice.

omni-channel service. In Appendix D, we review a variety of evidence from iZettle's internal documents, including materials prepared for the proposed IPO, and an internal document from PayPal, which provide evidence on iZettle's view of the demand for omni-channel services, and on its consideration of possible strategies, that are relevant to the assessment of the counterfactual.

- 7.46 iZettle told us that its existing (pre-Merger) omni-channel offering (taking omni-channel as jointly offering offline and online payments) was limited. Through its e-commerce offering, customers are able to create websites using one of a number of pre-designed templates and add pictures, text and drag and drop sections into the template. Sales effected through these websites can accept online payments, but currency conversion is not supported. Prices are displayed in the currency of the country of origin of the merchant, and goods must be paid for in that currency. iZettle's e-commerce offering, which was launched in April 2018, just before the Merger, [REDACTED].¹¹⁴ The bulk of these revenues were subscription revenues for the e-commerce services rather than online payment revenues. iZettle recognised the importance of omni-channel services but its pre-Merger focus in e-commerce was providing sales management tools for merchants, such as inventory management (allowing merchants to synchronise inventory between sales online and in-store) and sales data reporting (allowing merchants to view online and in-store sales in the same report).
- 7.47 If the Merger had not taken place, iZettle was planning to raise around £[REDACTED] as part of an IPO in May 2018. iZettle's draft IPO prospectus (the prospectus) sets out that, following its IPO, iZettle planned to follow a growth strategy based on four 'levers':
- (a) [REDACTED];
 - (b) [REDACTED];
 - (c) [REDACTED]; and
 - (d) [REDACTED].
- 7.48 According to the prospectus, [REDACTED].
- 7.49 We have no reason to believe that iZettle would not have proceeded with the IPO absent the Merger. All the documents for the IPO had been prepared, and the IPO was due to launch only days after PayPal submitted its takeover

¹¹⁴ [The Parties' response to the phase 1 decision](#), paragraph 10.3.

offer. Following an IPO, a company would typically not return to the equity markets for a follow-on offering for at least several months absent a material change in circumstances, as equity investors generally take a dim view of companies that return to the market too quickly, questioning why the need for further funds had not been signposted as part of the initial offering. We have seen no evidence that iZettle was signalling to the market that it was planning a swift return to the equity markets.¹¹⁵

- 7.50 We now look at the evidence to ascertain whether iZettle would have used the funds raised, had the IPO gone ahead absent the Merger, to (i) maintain its pre-Merger offering or (ii) expand its online offering thereby seeking to enter and expand in the provision of omni-channel services. We have examined documents prepared internally and externally for the IPO to understand iZettle's future plans absent the Merger.
- 7.51 iZettle told us: 'iZettle e-commerce is a first step in starting to address all the requirements above,¹¹⁶ with the least focus being on the ability to take online payments. iZettle wishes to achieve a smooth payments experience but its focus is on business management software. [X].'
- 7.52 iZettle told us [X]. It also said that the significant level of investment that would have been required to build independently an omni-channel payments capability would have needed to be referenced in the draft prospectus as it would have constituted a material investment; no such reference was made.
- 7.53 In terms of [X], the prospectus says: 'Our strategy is to provide a cohesive commerce platform for merchants, [X].¹¹⁷ [X],¹¹⁸ [X]. The launch [of the new e-commerce platform in April 2018] is part of iZettle's strategy to extend its commerce platform by offering a wider range of affordable tools to small businesses. e-commerce is becoming an increasingly important part of total retail sales in iZettle's key markets, where the UK dominates in Europe with total sales value through e-commerce estimated at €77 billion in 2017.'
- 7.54 We also examined a presentation entitled [X]¹¹⁹ [X].
- 7.55 In a document entitled iZettle business plan 2018-2025, [X].

¹¹⁵ For eg there was no such mention in the following documents: [X].

¹¹⁶ It said 'Key requirements to provide a convincing omni-channel offer include the ability [X].

¹¹⁷ iZettle Capital is a product under which iZettle makes short-term working capital advances to qualifying merchants in certain jurisdictions.

¹¹⁸ iZettle Invoice is a feature within the iZettle Go app which allows merchants to create and send online invoices. iZettle tracks unpaid invoices, sends reminders if necessary, and handles the payment, in exchange for a fee of 2.5% per invoice.

¹¹⁹ iPOS refers to the capability iZettle gained when it acquired IntelligentPOS to provide a point-of-sale app designed specifically for the needs of bars, cafes and restaurants, now marketed as iZettle Pro. [X].

- 7.56 iZettle's existing limited e-commerce offering is provided [X].
- 7.57 From our review of iZettle's internal documents and emails, it is clear that iZettle gave some consideration to [X] (for example in late 2017 and early 2018), including some [X]. The [X] was intended to enable iZettle to test the concept of e-commerce and ascertain the extent of any demand for its e-commerce services. We found evidence indicating that, absent the Merger, iZettle would have been likely to have considered either [X]. But we have found no evidence of any plans to [X] to advance its online offering in a significant way in the foreseeable future. Rather, iZettle's pre-merger strategy was to [X].

Provisional conclusion

- 7.58 We consider that the evidence shows that, absent the Merger, it was likely that iZettle would have continued with its IPO, as it was very close to launching its IPO when the Merger occurred. We consider that it was likely that iZettle would have continued to develop its offline offering, [X].
- 7.59 In terms of its online offering, it is likely that, absent the Merger, iZettle would have considered either [X]. But although there is some mention in internal documents of [X], the main emphasis of iZettle's near-term strategy (pre-Merger) appears to be [X]. However, there was no indication that this would provide a basis for a significant expansion in its online payments presence.
- 7.60 We consider that it likely that iZettle's focus would have been on leveraging [X] merchants and increase iZettle's overall subscription revenues.
- 7.61 Based on the Parties' submissions and our review of the evidence, we are satisfied that iZettle's strategy absent the Merger was likely to have focused on developing its existing services, and as noted in paragraph [7.47], iZettle's growth strategy absent the Merger included [X]. Therefore, we provisionally conclude that, absent the Merger, it is likely that iZettle's expansion into online payments would have remained relatively less developed and its omni-channel services would have proceeded and developed only at a slow rate.

8. Competitive effects of the merger – offline payments

- 8.1 In this Section, we assess the competitive effects of the Merger in the supply of offline card payment services to smaller merchants. It is structured as follows:
- (a) We first briefly describe the characteristics of the Parties' target customers to provide background to the assessment.

- (b) We then assess competition between mPOS providers, since the Parties compete closely with other mPOS providers.
 - (c) We next consider the competitive constraints exercised by traditional POS providers, who serve a large proportion of smaller merchants.
 - (d) Finally, against the evidence on the competitive constraints faced by the Parties from both mPOS and traditional POS providers, we consider whether the Merger has resulted, or may be expected to result, in an SLC due to the removal of PayPal Here as a competitor for smaller merchants. In doing so, we take into account PayPal's likely enhanced competitive position in the counterfactual.
- 8.2 As discussed in Section 6, the relevant market includes provision of offline payment services to smaller merchants through both mPOS devices and traditional POS devices. However, as the Parties are both mPOS providers, and there may be some differences in conditions of competition, we consider competition within the mPOS segment before considering constraints in the wider market.
- 8.3 Where appropriate, we also consider distinctions between nano merchants (with annual TPV below £21,000), micro merchants (annual TPV between £21,000 and £160,000) and small merchants (annual TPV between £160,000 and £380,000).

Customer behaviour

Customer characteristics

- 8.4 In this section, we outline some of the characteristics of the Parties' customers that are relevant to their choice of provider of offline payment services. We also consider the types of customer targeted by the Parties' competitors.
- 8.5 Both Parties primarily target smaller merchants with their offline payment services:
- (a) [REDACTED].
 - (b) iZettle's internal documents show that its business model has been designed to target smaller merchants. For instance, iZettle's 2018-2020 strategy document states that '[REDACTED]', referring to iZettle's focus on [REDACTED] small businesses.

- 8.6 Our analysis of the Parties' data shows that their customers are mainly smaller merchants, in particular micro and nano merchants. Around [X]% of the Parties' customers by payments volume and [X]% by number are nano and micro customers, based on our analysis of the Parties' customer datasets.
- 8.7 The majority of PayPal Here volumes are from businesses with less than £[X] monthly TPV. iZettle has generated higher volumes from consumers with [X] than PayPal Here.
- 8.8 We also considered the extent to which the Parties' customers are 'seasonal'. Seasonal merchants, ie businesses which are only active for part of the year, may exhibit particularly strong preferences for the flexible, 'pay as you go' style contracts which characterise mPOS offline payment services.
- 8.9 We found that around [X] of both Parties' customers by number are 'seasonal'.¹²⁰ They account for [X]% of payments volume for PayPal and [X]% of payments volume for iZettle. This indicates that, while a sizeable minority of the Parties' customers by number are seasonal, the vast majority of customers by payment volume are not.
- 8.10 In the CMA survey,¹²¹ we asked about whether customers had previously accepted face-to-face card payments before they started using PayPal or iZettle. Customers new to card payments may have a higher level of uncertainty about their potential card payment volumes, which could increase the importance of flexible contract terms and simple pricing structures – for example, a fixed length contract with minimum monthly charges may be particularly unattractive for such a merchant.
- 8.11 The results from the survey question were that:
- (a) 70-80% of the Parties' nano customers and 60-70% of their micro customers did not accept face-to-face card payments prior to using PayPal Here or iZettle;
 - (b) For nano customers, the majority of customers had only previously accepted cash for face-to-face payments; and

¹²⁰ We have identified seasonal customers in the Parties' datasets as customers who were inactive (took no payments) in at least one month of the year.

¹²¹ See the [survey report](#) on the CMA website.

(c) For micro customers, 35-40% of customers had only previously accepted cash, while 20-30% of customers had either not been actively trading or had only been trading online.¹²²

8.12 These results demonstrate that the majority of the Parties' customers are new to accepting card payments, and that previously cash-only businesses are a particularly significant segment of new customers for the Parties.

8.13 In addition, a PayPal Here internal document indicates that the primary source of new PayPal Here merchants is [~~8~~](%).¹²³

Customers targeted by competitors

8.14 Third-party providers generally told us that mPOS customers are typically smaller merchants, while traditional POS providers tend to target medium, larger and corporate customers, although they still serve large numbers of smaller merchants.

8.15 Competing mPOS providers told us that they target smaller merchants:

(a) Square submitted that a large part of its customer base are micro and nano merchants who are seeking a straightforward and simple solution to take payments.

(b) SumUp said that, generally, customer choice to have a traditional POS system depends on the business size.

8.16 Most traditional POS providers told us that they tend to target larger merchants, although Barclaycard and Worldpay said they target all categories of merchants.¹²⁴

Choice attributes

8.17 In this section we consider the factors that drive merchant choice of offline payment services provider.

The Parties' views

8.18 In response to our market questionnaire, the Parties submitted that a wide array of factors drive merchant choice, with their importance differing between

¹²² Responses to question 3 of the CMA Survey, 'Before you started using {PayPal Here}{iZettle}, which of the following best describes the approach your business took to taking face-to-face card payments?'. Base sizes: PayPal nano n = 648, iZettle nano n = 1870, PayPal micro n = 198, iZettle micro n = 504.

¹²³ Appendix H, paragraphs 3 to 7.

¹²⁴ See paragraph 8.191.

merchants. These included cost and contractual aspects,¹²⁵ ease of use and various other aspects of functionality,¹²⁶ reliability and various other aspects of quality,¹²⁷ time to deposit funds and other service aspects,¹²⁸ and brand.

8.19 The Parties also submitted that business model or industry, rather than size, mainly determined which factors were most important to a merchant.

8.20 iZettle submitted that:

- (a) For casual use cases or use as a backup, accessibility and low reader cost are prioritised over transaction fees.
- (b) For card transaction heavy business, prices and robustness are valued more highly – but higher prices can be accepted if combined with reasonably priced business management software.
- (c) There are industry-specific priorities eg tipping, till integration & transaction speeds for hospitality.

8.21 PayPal submitted that:

- (a) Coffee shops may value processing speed and till integration;
- (b) Taxi drivers may value mobility, receipt printing and out-of-office-hours customer service; and
- (c) Tradespeople may value sturdy hardware with ease of use and good battery life.

Customer research

8.22 In the CMA survey, we asked the Parties' customers what their main reasons were for choosing to use an mPOS card reader, and any other reasons that were important. We also asked customers about their reasons for choosing PayPal Here / iZettle specifically. The full results are included in the Survey Report.

8.23 Customer responses indicate that ease of use and flexibility (in terms of contracts) are the most common reasons for the Parties' customers to have chosen mPOS over traditional POS services, but that a number of other

¹²⁵ Cost of hardware, cost of transactions, contract length and the existence of fixed monthly fees.

¹²⁶ Acceptance of different types of card, mobility, ability to print receipts, value added services, and compatibility with business management solutions.

¹²⁷ Security, design, and speed of taking payments.

¹²⁸ Accessibility / ease of onboarding, customer service availability.

factors including upfront and overall costs, portability, and speed of receiving funds are also important for some customers.

- 8.24 For PayPal Here customers, already using other PayPal services was by far the most important reason for choosing PayPal Here, with around two thirds of nano merchants and half of micro merchants naming this as a reason. Brand reputation, ease of use, speed of receiving funds and (for nano merchants) the price of the card reader were all also mentioned by over 30% of respondents.
- 8.25 For iZettle customers, ease of use, price of the card reader and transaction rates charged were the three most common reasons for choosing iZettle for both nano and micro merchants. Word of mouth was a significantly more important factor for iZettle than for PayPal Here.
- 8.26 The Parties and some third-party providers have carried out research into smaller customers' preferences on pricing structures. This research is summarised in Appendix G. This research indicates that:
- (a) Customers have a preference for simple pricing – even when a more complex pricing structure might result in lower overall cost; and
 - (b) Many customers have a strong preference for short contract commitments.

Provisional views on mPOS customer behaviour

- 8.27 mPOS is targeted at smaller merchants, with nano and micro merchants in particular making up the vast majority of the Parties' customers. Most of these customers are new to card payments, and a substantial minority are seasonal businesses.
- 8.28 Price is an important driver of these customers' choice of offline payment service providers, but price levels are not the only consideration. Pricing structure and flexibility are also important – these merchants have a preference for simple pricing terms and many would prefer not to be tied in to long term contracts.
- 8.29 A number of other factors are also important for driving choice of offline payment service provider, including ease of use of the services, speed of receiving funds, and other services offered by the provider (which was a particularly significant reason for customers to choose PayPal Here).

Shares of supply

- 8.30 In this section we consider shares of supply in the offline card payment services market for smaller merchants. We also consider shares for a) mPOS providers only; and b) nano, micro and small customer segments.
- 8.31 Some of the Parties' internal documents contained estimates of shares of supply, but the Parties told us these were not based on reliable data or methodologies. We agree that the shares in the Parties' internal documents are unlikely to be reliable. We have therefore relied on our own estimates of shares of supply based on data collected from market participants.

Shares by transaction volume

- 8.32 We have calculated estimates of shares of supply by gathering data on TPV from the Parties and other suppliers of offline payment services. Full details of the methodology and all share estimates are included in Appendix E.
- 8.33 We first consider shares of supply for the market of offline card payment services supplied to smaller customers, which includes payments made via mPOS and traditional POS providers, based on TPV and covering the period 2016-2018. These are shown in Table 8.

Table 8: Shares of supply for offline card payments via mPOS and traditional POS providers - all smaller merchants

<i>Firm</i>	<i>TPV 2016 (£m)</i>	<i>Share</i>	<i>TPV 2017 (£m)</i>	<i>Share</i>	<i>TPV 2018 (£m)</i>	<i>Share</i>
iZettle	[<]	[0-5]%	[<]	[0-5]%	[<]	[0-5]%
PayPal	[<]	[0-5]%	[<]	[0-5]%	[<]	[0-5]%
<i>Parties Combined</i>	[<]	[0-5]%	[<]	[0-5]%	[<]	[0-5]%
Worldpay	[<]	[30-40]%	[<]	[20-30]%	[<]	[20-30]%
Barclaycard	[<]	[30-40]%	[<]	[30-40]%	[<]	[20-30]%
Global Payments	[<]	[10-20]%	[<]	[10-20]%	[<]	[5-10]%
Elavon	[<]	[10-20]%	[<]	[10-20]%	[<]	[10-20]%
First Data	[<]	[10-20]%	[<]	[10-20]%	[<]	[10-20]%
SumUp	[<]	[0-5]%	[<]	[0-5]%	[<]	[0-5]%
Square	[<]	[0-5]%	[<]	[0-5]%	[<]	[0-5]%
Shopify	[<]	[0-5]%	[<]	[0-5]%	[<]	[0-5]%
<i>Total</i>	[<]	100%	[<]	100%	[<]	100%

Source: CMA analysis of Parties' and third-parties' data.

- 8.34 These estimates indicate that:
- (a) The four largest mPOS providers¹²⁹ collectively account for a very small proportion of the overall market (less than [5-10]%);
 - (b) However, the transaction volume processed by mPOS providers is growing much more rapidly than the rest of the market in relative terms –

¹²⁹ iZettle, PayPal, Square, and SumUp.

the whole market grew by 14% between 2016 and 2018, while the volumes of mPOS suppliers grew by 193%;

- (c) The Parties have a low combined share in the overall market of [0-5]%;
- (d) Traditional POS providers are much more significant suppliers, in particular Barclaycard and Worldpay each have shares of around [20-30] %.

8.35 Shares for narrower customer segmentations (nano, micro and small customers) are included in Appendix E. When considering these shares:

- (a) mPOS providers are significantly more important for nano customers than for smaller merchants overall, accounting for [30-40]% of TPV for these customers in 2018, up from [10-20]% in 2016;
- (b) The Parties' combined share is [20-30]% for nano customers; and
- (c) For the micro and small segments, the Parties' combined share remains below [0-5]%.

8.36 We also consider shares of supply of mPOS providers only covering the same period, 2016-2018. These are shown in Table 9.

Table 9: Shares of supply for offline card payments via mPOS devices – all smaller merchants

<i>Firm</i>	<i>TPV 2016 (£m)</i>	<i>Share</i>	<i>TPV 2017 (£m)</i>	<i>Share</i>	<i>TPV 2018 (£m)</i>	<i>Share</i>
iZettle	[><]	[50-60]%	[><]	[50-60]%	[><]	[50-60]%
PayPal	[><]	[30-40]%	[><]	[20-30]%	[><]	[10-20]%
<i>Parties Combined</i>	[><]	[80-90]%	[><]	[80-90]%	[><]	[70-80]%
SumUp	[><]	[5-10]%	[><]	[10-20]%	[><]	[10-20]%
Square	[><]	[0-5]%	[><]	[0-5]%	[><]	[5-10]%
Shopify	[><]	[0-5]%	[><]	[0-5]%	[><]	[0-5]%
Worldpay	[><]	[0-5]%	[><]	[0-5]%	[><]	[0-5]%
Barclaycard	[><]	[0-5]%	[><]	[0-5]%	[><]	[0-5]%
Elavon	[><]	[0-5]%	[><]	[0-5]%	[><]	[0-5]%
<i>Total</i>	[><]	100%	[><]	100%	[><]	100%

Source: CMA analysis of Parties' and third-parties' data.

8.37 These estimates indicate that:

- (a) iZettle has consistently been the largest mPOS supplier by volume, with a share of [50-60]% in each year;
- (b) PayPal is a significant supplier with a share of [10-20]%, but its share has reduced from [30-40]% in 2016;
- (c) The Parties' combined share in 2018 was [70-80]%;

- (d) SumUp has grown significantly, increasing its share from [5-10]% to [10-20]% between 2016 and 2018;
- (e) Square has also grown rapidly since its entry in 2017, growing from a [0-5]% to a [5-10]% share, although it continues to have a lower share than either of the Parties or SumUp; and
- (f) No other suppliers have a significant share.

8.38 When looking at shares for specific customer size segments by mPOS providers (nano, micro and small):

- (a) The Parties' combined share is between [60-70]% and [80-90]% in any customer segment; and
- (b) In the nano segment, SumUp has a higher share of [20-30]%, [X] PayPal which has a share of [20-30]%.

The Parties' views

8.39 The Parties submitted that the only informative basis for relying on 'backward looking' shares of supply calculations is to use shares that combine POS and mPOS service provision (ie the shares in the broader offline payment services market). On this basis, the Parties' shares are very small and should not raise concerns.

8.40 The Parties further submitted that no weight should be placed on mPOS-only shares, as they are a backward-looking approach to a dynamic and fast-moving market in which barriers to expansion are minimal, customer churn is extremely significant and switching costs are negligible.

New customer acquisition

8.41 Because mPOS services are fairly new and growing rapidly, shares of supply based on historical user base or volumes may not be a reliable guide to the competitive constraints faced by the Parties currently or in the near future. We have therefore also considered the relative rates of new customer acquisition by different mPOS suppliers, which will reflect more closely their current competitive positions.

8.42 Figure 7 shows the number of new mPOS customers acquired by each mPOS supplier in each year 2016-2018.¹³⁰

¹³⁰ See Appendix E for more details.

Figure 7: new customer acquisition by mPOS providers between 2016 and 2018

[REDACTED]

Source: CMA analysis

8.43 This analysis indicates that:

- (a) Overall new customer acquisitions are growing rapidly;
- (b) PayPal Here [REDACTED], while its main competitors in the mPOS segment (iZettle, SumUp and Square) have been acquiring new customers [REDACTED];
- (c) [REDACTED];
- (d) In 2018, SumUp had a sharp increase in the number of customers acquired [REDACTED];
- (e) Worldpay has [REDACTED]; and
- (f) Barclaycard has very low levels of new customer acquisition in mPOS compared to the main mPOS providers.

8.44 The Parties also submitted an analysis based on data on app downloads for mPOS providers in the UK.

8.45 We consider that app downloads are an imperfect measure of new customer acquisition, as although customers must download an app to begin using an mPOS service, there may be distortions from, for example:

- (a) the same customer downloading the app multiple times (eg to use it on multiple devices); or
- (b) non-customers downloading the app – the Parties submitted that this is particularly likely for PayPal, as customers attempting to download other consumer-facing PayPal apps may mistakenly download the PayPal Here app. The Parties' analysis adjusts the PayPal data downwards to correct for this, but do not make any adjustments for other suppliers' downloads.¹³¹

8.46 However, trends in app downloads are likely to at least be indicative of trends in actual new customer acquisition. [REDACTED]. This analysis indicates that:

¹³¹ The analysis reduces PayPal's download levels using the ratio of iZettle's 'activations' per download to PayPal's activations per download.

- (a) iZettle has been acquiring more customers than other suppliers throughout the period (with the exception of a few months in early 2016), and its rate of growth has increased significantly;
- (b) PayPal has been acquiring customers at a declining rate – in 2016 its downloads were at a similar level to iZettle’s, but they have since reduced significantly;
- (c) SumUp’s growth has accelerated rapidly, drawing level with iZettle in app downloads by early 2019 from a negligible level in 2016;
- (d) Square’s growth has also accelerated, but less significantly, only drawing level with PayPal at the end of 2018; and
- (e) Worldpay and Barclaycard have negligible levels of downloads for their mPOS apps and this has not changed over the period (although they have much larger numbers of customers for their traditional POS offerings).

Provisional view on shares of supply

- 8.47 Shares of supply data indicates that traditional POS services are much more commonly used than mPOS services by smaller merchants across all segments, including the smallest, nano, merchants.
- 8.48 However, when looking at mPOS providers only, the Parties have the largest combined position, and all other suppliers of mPOS services have a significantly lower share than the merged entity.
- 8.49 The dynamic and fast-growing nature of mPOS services limits the weight we can place on static shares of supply. Between 2016 and 2018, PayPal’s share fell by almost half, while SumUp and to a lesser extent Square have grown rapidly. We also consider trends in new customer acquisition, which show that PayPal’s rate of growth has declined while those of SumUp and Square have accelerated.
- 8.50 These trends must be considered in the context of the counterfactual to the Merger, under which, as discussed in paragraphs 7.30 to 7.38, we provisionally conclude PayPal would have been a stronger competitor than it currently is, stemming the decline in PayPal Here’s competitive position.
- 8.51 In the following sections we consider in detail other evidence on i) competition between mPOS providers and ii) competition from traditional POS providers.

Competition between mPOS providers

- 8.52 In this section, we assess competition between the Parties and other mPOS providers in the supply of offline card payment services to smaller merchants.
- 8.53 We first assess competition between mPOS providers before we consider traditional POS providers,¹³² because the Parties compete most closely with other mPOS providers due to the similarities in their offering.
- 8.54 Other than the Parties, SumUp and Square are two other major mPOS providers in the UK. In addition, several traditional POS providers and online payment providers such as Worldpay, Barclaycard and Shopify offer solutions based on mPOS card readers to some customers.
- 8.55 In what follows, we first summarise the Parties' submissions in relation to competition between mPOS providers. We then consider the evidence on:
- (a) Closeness of competition between mPOS providers, including diversion analysis and internal documents.
 - (b) The competitive positions of the Parties.
 - (c) The competitive constraints exercised by other mPOS providers.

The Parties' submissions

- 8.56 The Parties submitted that they are not each other's closest competitors and there are many other significant competitors. They told us that:¹³³
- (a) The Parties 'do not play an important role in determining each other's pricing decisions; [redacted];¹³⁴ [redacted].
 - (b) The positions of the existing players are changing rapidly; SumUp has been rapidly catching up with iZettle following a price cut in September 2017; PayPal Here has been caught up by Square; [redacted].¹³⁵
 - (c) [redacted].
 - (d) The cost of switching between providers is low as evidenced by the Parties' churn rate and churn survey data.¹³⁶

¹³² Paragraphs 8.136 et seq.

¹³³ [The Parties' response to the phase 1 decision](#), Sections 1 and 5, and [the Parties' response to the Issues statement](#), Section 4.

¹³⁴ [The Parties' response to the Issues statement](#), paragraph 4.21-4.22.

¹³⁵ [The Parties' response to the Phase 1 decision](#), paragraph 3.17-3.18. [redacted]. We consider the entry and competitive position of Square in paragraphs 8.105.

¹³⁶ [The Parties' response to the Issues statement](#), paragraphs 4.18-4.20.

(e) Absent the Merger, 'iZettle would have continued to compete closely with SumUp, Square, and other POS device suppliers', and that 'PayPal Here would have continued its [§<].¹³⁷

8.57 The Parties said that there is 'no obvious route to customer detriment as a result of this Merger', because 'the merged entity will continue to be faced with significant competitors', where 'price discrimination is not an option' and 'demand is price elastic'.¹³⁸

8.58 We consider these submissions in our assessment of the evidence below.

Closeness of competition

8.59 In this section, we examine the evidence on closeness of competition between the Parties and other mPOS providers. We consider:

- (a) Pricing structures and price levels of mPOS offerings.
- (b) Documents produced or commissioned by the Parties.
- (c) Diversion analysis.

Comparison of pricing structures and price levels of mPOS providers

8.60 We compare the pricing structures of mPOS providers in the UK. Details of our analysis are described in Appendix G.

8.61 Users of mPOS services typically pay a one-off fee to purchase a card reader before they can start accepting card payments. Thereafter, they pay a flat rate based on a percentage of the payment value for every transaction. The main mPOS providers, including the Parties, have transparent pricing schedules published online. They do not charge monthly fees and do not require fixed-term contracts. This is important for some smaller merchants, as evidenced by the CMA survey in which the Parties' customers rank 'flexibility' as one of the most important choice attributes.¹³⁹

8.62 The basic pricing structures of iZettle, SumUp, Square are similar. For all card types and card schemes,¹⁴⁰ iZettle and Square charge a transaction rate of

¹³⁷ [The Parties' response to the phase 1 decision](#), paragraph 1.4(d).

¹³⁸ [The Parties' response to the phase 1 decision](#), paragraph 1.4(e) and [the Parties' response to the Issues statement](#), paragraphs 4.23 to 4.26.

¹³⁹ See paragraph 8.23.

¹⁴⁰ Card types include debit and credit cards; card schemes including Visa, Mastercard and American Express.

1.75%,^{141 142} while SumUp has a lower rate of 1.69%.¹⁴³ All of iZettle, SumUp and Square currently charge a standard card reader fee of £29 plus VAT.¹⁴⁴

- 8.63 In addition to the basic product, iZettle offers other options to customers with additional requirements: 'iZettle PRO' (which has a different transaction rate and an additional monthly fee) and 'iZettle Go Plus' (which has a different transaction rate for online payments).¹⁴⁵
- 8.64 Unlike other mPOS providers which charge a flat rate, PayPal Here adopts a tiered pricing structure. The transaction rate varies from 1% to 2.75% with lower total payment volumes attracting a higher percentage. The PayPal Here card reader fee is £45. However, given the counterfactual in both the shorter and longer term involves a stronger PayPal Here (which could include revisions to pricing), we have placed limited weight on the differentiation in pricing structures between the Parties.
- 8.65 Traditional POS providers offer mPOS products that have similar pricing structures as those of mPOS providers, but with different degrees of contractual flexibility or simplicity.
- (a) Barclaycard Anywhere has the same pricing structure and flexible contracts, and a lower rate (1.6%) than iZettle, SumUp and Square.¹⁴⁶
- (b) Worldpay Reader offers two tariff options: a pay-as-you-go (PAYG) option with a 2.5% rate and 4p per transaction fee, and a 'Simplicity' option with 1.5% per transaction with a £4.99 monthly fee and a minimum 18-month fixed term contract.¹⁴⁷
- 8.66 In summary, all major mPOS providers, as well as the mPOS offerings of traditional POS providers Barclaycard and Worldpay, offer transparent pricing and flexible contracts. Barclaycard Anywhere and SumUp are the cheapest, iZettle and Square are slightly more expensive, and PayPal Here currently uses a tiered pricing structure which is more complex than that of other major mPOS providers, and more expensive for customers with low levels of payment transactions, although this could be readily adjusted in the counterfactual in both the shorter and longer term. Worldpay's mPOS contract

¹⁴¹ For iZettle GO, iZettle markets its basic product under the brand 'iZettle GO' which allows merchants to accept in-store payments and use a point of sale app.

¹⁴² [Square reader pricing details](#).

¹⁴³ [SumUp reader pricing details](#).

¹⁴⁴ As at April 2019, iZettle and SumUp offered a discounted card reader fees of £19.

¹⁴⁵ See Section 2. [3<]. See [the Parties' response to the Phase 1 decision](#), footnote 72.

¹⁴⁶ [Barclaycard Anywhere](#). Barclaycard Anywhere has the same standard card reader fee (£29) as iZettle, SumUp and Square. However, Barclaycard Anywhere does not support American Express.

¹⁴⁷ See Appendix G for further detail.

is either more expensive (PAYG) or less flexible (Simplicity) than other mPOS providers.

- 8.67 We compare pricing structures between mPOS and traditional POS offerings when we assess the competitive constraints of traditional POS providers in paragraphs 8.136 to 8.195.

The Parties' internal documents

- 8.68 In this section, we consider how the Parties perceive and monitor competition with other mPOS providers in their internal documents. We have reviewed documents produced or commissioned by the Parties in their ordinary course of business, for PayPal's acquisition of iZettle and for iZettle's planned IPO, which was abandoned in May 2018. We describe the Parties' documents and their submissions in further detail in Appendix H.

- *PayPal documents*

- 8.69 Internal documents indicate that PayPal closely monitors competition with [REDACTED]. It also [REDACTED], see paragraph 8.142. We focus here on the internal documents that discuss competition from other mPOS providers. [REDACTED]. For example,

(a) [REDACTED].¹⁴⁸

(b) [REDACTED].¹⁴⁹

(c) [REDACTED].¹⁵⁰

- 8.70 [REDACTED],¹⁵¹ [REDACTED].

- 8.71 We have also reviewed monthly PayPal Here UK business updates.¹⁵² They show that:

(a) [REDACTED].

(b) [REDACTED].

- 8.72 In summary, PayPal [REDACTED] [REDACTED]. PayPal also considered competition from traditional POS providers, but to a lesser degree, [REDACTED].

¹⁴⁸ See Appendix H paragraphs 3 to 7.

¹⁴⁹ See Appendix H, paragraphs 14 to 18.

¹⁵⁰ See Appendix H, paragraphs 8 to 13.

¹⁵¹ Appendix H, paragraphs 19 to 23.

¹⁵² See Appendix H, paragraphs 46 to 50.

- *iZettle documents*

8.73 iZettle documents generally describe iZettle as [X] in Europe, and it considers competition mainly from [X]. It also considers competition from traditional POS providers but to a lesser extent. We focus here on the internal documents that refer to the constraint from mPOS providers. For example:¹⁵³

- (a) In the prospectus prepared for the IPO in May 2018, iZettle described itself as [X], with [X]. It identified [X] as other competitors in this category.
- (b) In a strategy workshop in April 2018, iZettle compared its product functionalities alongside [X]. The comparison appears to indicate that [X].
- (c) In its presentation for the PayPal due diligence team dated March 2018, iZettle characterised its [X].
- (d) A market study commissioned by iZettle for its IPO provided a competitive analysis. It described [X].

8.74 We examine other documents in relation to iZettle's response to the entry of Square in March 2017 in paragraphs 8.103 to 8.118.

Diversion analysis

8.75 Diversion ratios measures the propensity of customers to switch between different competitors and provides a useful indicator of closeness of competition. If the products of merging firms are close substitutes, unilateral effects are more likely because the merged firm will recapture a significant share of the sales lost in response to a price increase.¹⁵⁴ The diversion ratio to a competitor indicates the ability of that competitor to constrain the merged entity.

8.76 We note that the costs of switching from the Parties' mPOS offerings to other providers are low, given the lack of long-term contracts for mPOS. This is confirmed by the CMA survey, which found that around 60% of the Parties' customers thought that switching would be 'fairly easy' or 'very easy', and less than 20% of customers thought that switching would be 'fairly difficult' or 'very difficult'.

¹⁵³ See Appendix H, paragraphs 51 to 92.

¹⁵⁴ See [CC2 revised](#), paragraphs 5.2.15 and 5.4.9. A diversion ratio between Product A and Product B represents the proportion of sales that would divert to Product B (as opposed to Products C, D, E etc) as customers' second choice in the event of a price increase for Product A.

8.77 We summarise various estimates of diversion ratio based on:

- (a) The survey commissioned by the CMA ('CMA survey').
- (b) The customer churn surveys carried out by the Parties.
- (c) A 'matched email' analysis submitted by the Parties.

8.78 In what follows we consider diversion from each of the Parties to other mPOS providers. We consider diversion to traditional POS providers in paragraphs 8.145 and 8.146. We set out further detail of our diversion analysis in Appendix F.

CMA survey - Analysis of stated diversion

8.79 Using the results of the CMA survey, we calculate diversion ratios as the proportion of customers who would switch to a given alternative option, as a percentage of all customers who said they would switch. We do so using customer's stated survey responses, to a small hypothetical price increase by their current provider ('price diversion').¹⁵⁵ Because of the very limited number of responses from 'small' merchants, the results from the CMA survey are more relevant for the assessment of the nano and micro segments and less informative on the small merchant segment.¹⁵⁶

- *Diversion to each provider type*

8.80 We consider whether the Parties' customers would switch to another mPOS provider, traditional POS provider or choose other means of accepting card payments. We focus on customers who are price sensitive, ie those who said they would switch away from their current provider if prices were to increase by a small amount.¹⁵⁷

8.81 Of the price-sensitive iZettle customers, around 60% said they would switch to another mPOS offering, 30% said they would switch to a traditional POS offering, and around 5% said they would stop taking card payments. We

¹⁵⁵ As explained in Appendix F, using 'forced diversion' instead of price diversion leads to a similar ranking by competitor for both Parties' customers.

¹⁵⁶ To the extent small merchants are more inclined to use traditional POS providers, as the Parties' internal documents appear to suggest, the diversion based on micro and nano customers may understand the diversion to traditional POS across all smaller merchants.

¹⁵⁷ Based on responses from iZettle customers (407 nano and 118 micro) and PayPal customers (138 nano and 52 micro) who said they would switch to another provider if their current provider were to increase prices by a small amount (0.1 percentage point). See Appendix F paragraphs 7 to 10.

observe broadly similar levels of willingness to switch to mPOS and traditional POS offerings for PayPal Here customers.¹⁵⁸

- *Diversion to mPOS competitors*

- 8.82 We also consider to which competitors customers said they would switch. There are multiple mPOS providers which iZettle customers said they would consider in the event of a small price increase. The competitor capturing the highest level of diversion from iZettle customers is Square (24% by volume and 20% by number of customers). SumUp follows with diversion of 11% by volume and 20% by number of customers. Diversion to PayPal Here (9%) is lower than Square and SumUp.¹⁵⁹
- 8.83 Similarly, PayPal Here customers said that they would consider switching to a range of mPOS competitors. iZettle captures the highest level of diversion (28% by volume and 25% by number of customers), more than twice that of the diversion to Square the next closest mPOS competitor (capturing diversion of 11 to 13%). A smaller proportion of customers (2% by volume and 7% by number) said they would divert to SumUp.¹⁶⁰
- 8.84 The patterns of diversion for iZettle and PayPal customers are broadly similar when we consider each of the micro and nano merchant segments. However, a main difference is that a larger proportion of nano merchants would divert to SumUp than micro merchants.¹⁶¹
- *Analysis of past switching data from the CMA survey*
- 8.85 We examine past switching in our survey by asking the Parties' customers which provider they used previously.^{162, 163} We assess the proportion of customers that have been won from each rival.¹⁶⁴
- 8.86 Considering customers won by iZettle,¹⁶⁵ we find that the highest proportion (83%) have been won from Worldpay, a traditional POS provider.¹⁶⁶ PayPal

¹⁵⁸ See Appendix F, Tables 1 and 2 for iZettle and Table 3 and 4 for PayPal.

¹⁵⁹ See Appendix F, Table 5.

¹⁶⁰ See Appendix F, Table 8.

¹⁶¹ See Appendix F, paragraphs 11 to 23.

¹⁶² There are caveats to what this switching analysis tells us. Because a large proportion of the Parties' customers are new to card, past competitive interactions may not fully capture preferences of new customers. For example, the Parties may lose customers as a result of merchants' needs changing which means we observe migration to other solutions, not a competitive interaction.

¹⁶³ As explained in Appendix F (paragraphs 32 to 51), we have considered to which provider the Parties' inactive customers have switched away. However, there is a small number of inactive customers who have switched in the CMA survey, and we place limited weight on results with smaller sample sizes.

¹⁶⁴ This excludes customers who were new to card payments when joining iZettle.

¹⁶⁵ See Appendix F, Table 17.

¹⁶⁶ This figure includes customers who had been using Worldpay's mPOS and customers who had been using Worldpay's traditional POS, with the majority using Worldpay's traditional POS.

Here accounts for the second highest proportion ([X]%). By contrast, [X] had been won from Square; this is likely to reflect Square's recent entry. Most other customers have been won from traditional POS providers.¹⁶⁷

8.87 Similarly, for customers won by PayPal,¹⁶⁸ most customers have been won from Worldpay ([X]%) and Barclaycard ([X]%).¹⁶⁹ Of mPOS competitors, iZettle ([X]%) is the rival who most customers have switched from. SumUp ([X]%) and Square ([X]%) contribute a relatively small proportion of the customers PayPal Here has won.

8.88 We note that caution should be exercised when drawing inferences from the results of historical switching in the assessment of the likely Merger impact. This is because historical switching, which is a result of competition in the past, may not necessarily reflect the relative positions of competitors on a forward-looking basis, particularly given the counterfactual for this Merger.

The Parties' customer churn survey

8.89 Both Parties have carried out surveys of customers who have stopped using their services in their ordinary courses of business. These surveys asked customers whether they have switched to a competitor, and if so, to which competitor they have switched.¹⁷⁰

8.90 Our analysis of the Parties' churn survey data shows that:¹⁷¹

(a) PayPal Here has [X].¹⁷²

(b) iZettle has been losing a smaller and declining proportion of customers to PayPal Here, from [X]% in 2016 to [X]% in 2017.¹⁷³

(c) Both Parties have experienced a material level of customer switching to [X]. In 2018, [X]% of switching from PayPal Here went to [X] and [X]%

¹⁶⁷ Including Barclaycard ([X]%), Clover/First Data ([X]%), Global Payments ([X]%), Paymentsense ([X]%), Payzone ([X]%), and RMS ([X]%).

¹⁶⁸ See Appendix F, Table 18.

¹⁶⁹ These figures include customers who had been using Worldpay and Barclaycard's mPOS offerings and customers who had been using Worldpay and Barclaycard's traditional POS offerings, with the majority using traditional POS.

¹⁷⁰ For PayPal the data used were the surveys from Feb/July/Oct 2017 and April/July 2018. There are [X] responses in total, after excluding [X] responses where respondents refused to specify the competitor they had switched to. For iZettle, the data was collected between June 2016 and December 2017. There are 350 responses in total, after excluding 22 responses in which respondents refused to identify competitor they had switched to. See Appendix F, paragraphs 51 to 58.

¹⁷¹ [X] See Appendix F, paragraphs 59 to 62.

¹⁷² See Appendix F, Table 21.

¹⁷³ See Appendix F, Table 22.

went to [X]. For iZettle in 2017, [X]% of customers who switched away went to SumUp and [X]% went to Square.

- (d) Traditional POS providers also captured a material proportion of customers who have switched away from the Parties ([X]% for PayPal Here and [X]% for iZettle), as explained in paragraph 8.145(b).

- *Matched email analysis*

- 8.91 PayPal submitted further analysis estimating diversion by matching customer email addresses across the Parties' customer databases. The Parties calculated the level of switching from PayPal Here to iZettle to be [X]% by number of customers and [X]% by volume. Switching from iZettle to PayPal Here was estimated to be [X]% by number, [X]% by volume.
- 8.92 The matching customer databases produces switching rates between the Parties which are lower than those estimated by other sources of evidence. However, we consider that this analysis is unlikely to result in accurate estimates of switching between the Parties, for reasons explained in Appendix F. We therefore place limited weight on the matching analysis, and instead rely more on the other evidence discussed above to estimate diversion between the Parties.

Summary of diversion analysis

- 8.93 In summary, the diversion analyses using the CMA survey and the customer churn survey data above indicate that:
- (a) For both Parties' customers, mPOS offerings together capture around 50-60% diversion, and traditional POS offerings capture around 30% diversion.
 - (b) Diversion from PayPal Here to iZettle is high and substantially greater than to other mPOS providers. Diversion from iZettle to PayPal Here is modest and diversion to Square and SumUp is more substantial.
 - (c) The diversion patterns from the two sets of estimates above are broadly consistent with one another.
- 8.94 We consider diversion to traditional POS providers further in paragraphs 8.141 and 8.142.

The Parties' competitive positions relative to other mPOS providers

8.95 In this section we consider the competitive positions of the Parties relative to other mPOS providers by summarising the evidence on pre-Merger competition and their likely competitive strengths in the absence of the Merger.

iZettle

8.96 The evidence shows that iZettle has been the strongest mPOS competitor in the past few years.

(a) iZettle is by far the largest mPOS provider in the UK, measured by share of volume and installed customer base, as well as by volumes generated by new customers in recent years ([REDACTED]).¹⁷⁴ iZettle has maintained its leading position during at least the last three years.

(b) iZettle captures the highest proportion of diversion from PayPal Here customers based on estimates derived from the CMA survey (28%) ([REDACTED]) ([REDACTED]%).¹⁷⁵

(c) PayPal [REDACTED],¹⁷⁶ and both [REDACTED].

(d) Independent third-party product reviews confirm that iZettle offers a product that is easy to use and reliable. iZettle is typically rated above equivalent products of other mPOS competitors.¹⁷⁷

8.97 Looking ahead, iZettle documents indicate that its key strategies [REDACTED].

8.98 In summary, we note that iZettle is a clear leader in mPOS services, has a well-regarded product and is continuing to improve its offerings. Our provisional view therefore is that iZettle would be likely to continue its growth in line with the market in the absence of the Merger.

PayPal

8.99 PayPal submitted that PayPal Here was [REDACTED], is [REDACTED], and [REDACTED] absent the Merger.¹⁷⁸

¹⁷⁴ See paragraph 8.42 and Appendix E, Figure 4.

¹⁷⁵ See Appendix F, Tables 8 and 21.

¹⁷⁶ See paragraphs 8.68 et seq. and Appendix H.

¹⁷⁷ See, for example, *Mobile Transaction (2019)*, [iZettle review: simple, yet feature-rich, card payments for small businesses](#).

¹⁷⁸ [The Parties' response to Phase 1 decision](#), paragraph 1.4(d).

8.100 We find that based on pre-Merger competition, PayPal Here is the second largest mPOS provider in the UK measured by payment volumes of its installed customer base. PayPal Here has continued to acquire new customers in recent years (and remains ahead of Square in 2018 by number of new customers).¹⁷⁹ However, its share of supply relative to other mPOS providers has declined and we consider that its share of supply is likely to overstate its current competitiveness for several reasons:

- (a) The level of diversion captured by PayPal Here from iZettle customers is modest (9% based on CMA survey and [X]% based on iZettle customer churn survey), [X].¹⁸⁰
- (b) The primary source of new PayPal Here merchants is [X] ([X]%).¹⁸¹
- (c) [X].
- (d) SumUp considers iZettle and Square but not PayPal as close competitors; Square told us [X].

8.101 However, for reasons explained in Section 7, we provisionally find that PayPal has a strong incentive to develop an effective mPOS product to support its overarching global strategy of offering a leading omni-channel service, and had considered several mechanisms/options by which this may be achieved.

8.102 Our provisional view is that PayPal would have substantially improved or replaced PayPal Here. However, this would have taken time with the timing and impact of such an improvement in the UK dependent upon the means by which it was achieved, ie the profile of any acquisition or partnership target. In the shorter term, we consider it likely that PayPal would have sought incremental improvements to its existing mPOS offering (for example, possibly through improvements to pricing, marketing or product hardware). Therefore, under the counterfactual PayPal would have been a stronger competitor to iZettle than it currently is, stemming the decline in PayPal Here's competitive position. However, we recognise the limitations of what PayPal could achieve in the shorter term to enhance PayPal Here's competitive position (particularly as regards the [X]).¹⁸² Our assessment of the following evidence is undertaken in that light.

¹⁷⁹ See Table 8.

¹⁸⁰ See Appendix F, Tables 5 and 22.

¹⁸¹ Appendix H, paragraphs 3 to 7.

¹⁸² See Section 7 and Appendix C.

Competitive constraint by Square

8.103 To understand the competitive strength of Square, we consider its current product offerings, market position, the price constraint it has imposed on other providers since its entry, and its plans.

Current offerings of Square

8.104 Square is a US-based payment provider that targets small to medium sized businesses. It entered the UK market in March 2017. In addition to offline payments, Square offers other services such as business management and analytical software as well as digital receipts. Square has experience in providing this service internationally through its established position in the US.

8.105 Square provides offline card payment services in the UK through 'pin-on-glass' mPOS card readers. Pin-on-glass is a technology that is undergoing certification by the Payment Card Industry (PCI) Security Standards Council.¹⁸³ [X].

8.106 The Parties [X] in their internal documents. For example, a PayPal document reporting results from a merchant and consumer focus group [X].¹⁸⁴ An iZettle document considered [X].¹⁸⁵

Market position

8.107 Since its entry in 2017 in the UK, Square has grown materially. Its number of new customers in the UK has nearly doubled between 2017 and 2018, but it remains the smallest of the four major mPOS providers. In 2018, Square had a share of [5-10]% by mPOS volume, and less than [0-5]% considering mPOS and traditional POS providers together.¹⁸⁶

8.108 Despite its low share, Square captures the highest diversion from iZettle customers (24%), and the second highest from PayPal customers (13%) after iZettle, based on the CMA survey. Similarly, considering the Parties' churn survey, [X]% of iZettle's lost customers went to Square in 2017 and [X]% of PayPal's lost customers went to Square in 2018. Furthermore, Square has acquired a large number of new customers ([X]) generating substantial volume in 2018.¹⁸⁷

¹⁸³ PIN-on-glass readers enable merchant to accept contactless card payments under £30 without PIN, and for larger transactions, PIN can be entered on the merchants' smartphone or tablet.

¹⁸⁴ Appendix H, paragraph 32.

¹⁸⁵ Appendix H, paragraphs 75 to 77.

¹⁸⁶ See Table 8 and Table 9.

¹⁸⁷ See paragraph 8.42.

8.109 Both Parties [REDACTED] as explained in paragraph 8.69. Specifically, [REDACTED];¹⁸⁸ [REDACTED].¹⁸⁹
[REDACTED].¹⁹⁰

8.110 [REDACTED]. [REDACTED].

Price constraints imposed by Square's entry

8.111 We have considered the pricing strategies in the last three years for iZettle, PayPal Here, SumUp, Barclaycard and Worldpay, to understand how their pricing strategies have evolved since the entry of Square in March 2017.

8.112 Prior to the entry of Square, the Parties adopted a tiered fee structure (with the transaction rate between 1% and 2.75% for iZettle, and between 1.5% and 2.75% for PayPal Here). The rate decreased as a merchant's transaction volume increases. The mPOS offerings of SumUp, Barclaycard and Worldpay had a flat transaction rate of 1.95%, 2.6% and 2.75% respectively.

8.113 Square entered the UK market with a flat transaction rate of 1.75%. A Square document explained that the flat rate structure is 'simple, easy to understand and market'; and it was 'accessible, competitive relative to banks and newer mPOS players'. After Square's entry, several competitors responded:

(a) iZettle was the first mPOS provider to make changes. In September 2017, iZettle reduced and simplified its pricing by moving to a flat transaction rate of 1.75% [REDACTED].¹⁹¹

(b) In the same month, SumUp reduced its rate from 1.95% to 1.69%.¹⁹²

(c) PayPal Here restructured its prices in February 2018. It compared different options for pricing [REDACTED]. Ultimately, PayPal Here kept a tiered pricing structure, but it reduced the rates for merchant tiers above £1,500 monthly TPV.¹⁹³

(d) Worldpay launched its Simplicity tariff in early 2018 (which is available to both mPOS and traditional POS customers).

8.114 We note that Barclaycard Anywhere reduced its mPOS transaction rate to 1.6% much later (in January 2019).¹⁹⁴

¹⁸⁸ Appendix H, paragraph 91(c).

¹⁸⁹ Appendix H, Figure 14.

¹⁹⁰ Appendix H, paragraphs 72 to 74.

¹⁹¹ [REDACTED]

¹⁹² [REDACTED]

¹⁹³ [REDACTED], Appendix H, paragraphs 14 to 18.

¹⁹⁴ [REDACTED].

8.115 In summary, we consider that the entry of Square has led iZettle and SumUp to reduce their rates in response. Other providers (PayPal, Worldpay and Barclaycard) followed by offering new price structures and/or reducing prices.

Square's plans

8.116 Square told us that it is working through its plans for a product roadmap, which seeks to bring over the products it has in the US to UK customers. In support of this, Square's 2019 Annual Planning document stated that it plans to 'drive a step change in UK growth' [38].

8.117 Given that these plans are still at an early stage of development, we did not place any weight on them in considering the competitive constraint Square would pose on the Parties and other competitors

Provisional view on competitive constraint from Square

8.118 The evidence shows that Square's entry has led to changes in pricing by various competitors. Square captures a substantial degree of diversion and past switching from the Parties' customers, and competition from Square is [39]. Its product offering is also closest to iZettle. Therefore, despite its low current share, our provisional view is that Square has imposed a material degree of constraint on the Parties and other competitors and will continue to do so.

Competitive constraint by SumUp

8.119 In this section, we consider SumUp's current product offerings, market position, the constraint it has imposed on other providers since its entry, and its future plan.

Current offerings

8.120 SumUp is a UK-based company which supplies offline card payment services primarily through mPOS card readers.¹⁹⁵ Since its launch in 2012, SumUp has expanded into 31 countries in Europe, US and Latin America.¹⁹⁶

8.121 SumUp offers the lowest pricing (1.69% transaction rate) amongst all major mPOS providers. However, it appears to lack certain capabilities in software

¹⁹⁵ It has recently launched a 3G card reader, which has a built-in mobile connection which does not require connection with the merchants' smartphone or tablet.

¹⁹⁶ [Details about SumUp](#).

and other services in comparison to other mPOS providers, as evidenced in the following internal documents of the Parties [X]:

- (a) An iZettle document in 2018 considered [X] focus to be on payments functionalities, and [X] in respect of other point-of-sale functionalities and value-added services such as capital, inventory management and analytics (which are offered by iZettle, [X] and to some extent [X]).¹⁹⁷
- (b) [X].

Market position

8.122 SumUp targets smaller merchants. It has a referral agreement with FirstData, a traditional POS provider, whereby merchants generating less than £[X] ([X]) in annual card turnover are usually referred to SumUp. Alongside this, like the Parties, the majority (80%) of SumUp's customers were acquired through online marketing channels. In 2018, SumUp has increased its marketing budget in the UK substantially.¹⁹⁸

8.123 It is the third largest mPOS provider measured by 2018 total volumes to smaller merchants, behind iZettle and PayPal.

- (a) In 2018, it had a share of [10-20]% among mPOS providers and [0-5]% considering mPOS and traditional POS providers together. SumUp has a higher share in the nano segment ([20-30]%),¹⁹⁹ reflecting the company's focus on the smallest merchants.
- (b) SumUp has grown very rapidly, consistent with its significant increase in marketing investment. Its number of new customers acquired has increased from around [X] in 2017 to [X] in 2018 ([X]), with the volume associated with new customers [X] ([X]).²⁰⁰
- (c) SumUp captures a modest degree of diversion from iZettle customers (11%) but a very low level from PayPal customers (2%).²⁰¹ By contrast, the Parties' churn survey suggests that [X]% of iZettle's lost customers went to SumUp in 2017 and [X]% of PayPal's lost customers went to SumUp in 2018.

8.124 Both Parties [X] [X] as one of the four largest mPOS providers.

¹⁹⁷ Appendix H, paragraphs 75 to 77.

¹⁹⁸ From less than £[X] in 2017 to over £[X] in 2018.

¹⁹⁹ See Table 9 and Appendix E.

²⁰⁰ See Figure 7.

²⁰¹ Based on price diversion estimated using the CMA survey. See Appendix F.

SumUp's plans

8.125 SumUp told us that it continues to add more services to its offering. It refers to 'e-wallet' and 'pre-paid business card' as examples of recent new offerings, [REDACTED]. Moreover, SumUp has recently acquired Debitoor, a stand-alone business offering invoicing solutions, and Shoplo, an e-commerce platform.

8.126 Given that these plans are still at an early stage of development, we did not place any weight on them when considering the competitive constraint SumUp would pose on the Parties and other competitors

Provisional view on competitive constraint from SumUp

8.127 Considering the recent rapid growth of SumUp, the fact that both Parties [REDACTED] as one of the largest mPOS providers, and the evidence on diversion and customer churn that a substantial proportion of the Parties' customers consider SumUp as an alternative, our provisional view is that SumUp exercises an important constraint on the Parties and will continue to do so. This is particularly the case in the nano segment.

Competitive constraint from other mPOS providers

8.128 In this section, we consider mPOS services provided by other competitors. Two large traditional POS providers, Worldpay and Barclaycard, have supplied mPOS card readers since 2013/4. Their mPOS offerings have gained limited traction to date compared to those of other major mPOS providers or their own traditional POS offerings.²⁰² Worldpay launched a new mPOS product (Worldpay Reader) in May 2018 whilst Barclaycard has reduced its mPOS transaction rate in January 2019, [REDACTED].²⁰³ ²⁰⁴ We note that both Worldpay and Barclaycard are [REDACTED].²⁰⁵

8.129 The other mPOS providers each hold very small market shares: ²⁰⁶

- (a) Elavon is another traditional POS provider that offers an mPOS product, marketed under the brand 'MobileMerchant'.

²⁰² See Table 9 and paragraph 8.128.

²⁰³ Worldpay launched a new mPOS reader in May 2018. It has acquired on average [REDACTED] new customers per month since then.

²⁰⁴ In January 2019 Barclaycard reduced its mPOS transaction rate to 1.6%, which is lower than any that of all other mPOS providers. After this price reduction, Barclaycard has gained [REDACTED] new customers in January, [REDACTED] customers in February and [REDACTED] customers in March 2019.

²⁰⁵ In addition to Worldpay and Barclaycard, Elavon

²⁰⁶ See Table 9.

- (b) Shopify, an e-commerce platform, supplies an mPOS solution that is powered by Stripe. Shopify told us [REDACTED].
- (c) Finally, there are providers of white-label mPOS solutions to customers in specific sectors (eg taxis), but we have not seen evidence of these solutions being adopted at scale across sectors, or being considered in internal documents of the Parties and third-parties as competitive threats.

8.130 On this basis, our provisional view is that the competitive constraints exerted by the mPOS solutions of competitors other than Square and SumUp have been very limited, and are likely to remain limited post-Merger.

Provisional view on competition between mPOS providers

8.131 Based on the evidence examined on competition between mPOS providers, our provisional views are summarised below.

- (a) iZettle is by far the strongest mPOS provider in the UK.
- (b) PayPal's position has declined in recent years, but it has continued to acquire new customers and in the absence of the Merger was likely to have been a stronger competitor to iZettle than it currently is, stemming the decline in its competitive position.
- (c) The Parties compete closely with two other major mPOS providers, Square and SumUp, which together impose a significant constraint on the Parties:
 - (i) Despite Square's current low share, its entry has imposed a material degree of constraint on the Parties and other competitors, and is likely to continue to do so post-Merger.
 - (ii) SumUp has grown rapidly and it exercises and will continue to exercise an important constraint on the Parties, particularly in the nano segment, competing mainly on price.
- (d) The mPOS solutions offered by other providers such as Worldpay, Barclaycard and Shopify have to date imposed limited constraints on the Parties.

Competition with traditional POS providers

8.132 In this section, we examine the evidence on competition between the Parties and traditional POS providers.

8.133 Traditional POS providers refer to providers of offline card payment services through traditional POS devices. They include acquirers (the main ones being Worldpay, Barclaycard, First Data, Global Payments, Elavon) and independent sales organisations (ISOs) which market to customers on behalf of another acquirer (eg Paymentsense and Payzone).

8.134 We have considered the following evidence:

- (a) the Parties' submissions;
- (b) documents produced or commissioned by the parties;
- (c) diversion analysis;
- (d) differentiation between mPOS and traditional POS providers; and
- (e) competitive constraints from individual traditional POS providers.

The Parties' submissions

8.135 In relation to the competitive constraints exercised by traditional POS providers, the Parties told us that:

- (a) Merchants have a broad and increasing range of ways to accept card payments. Traditional POS devices are very similar to mPOS devices and both allow payment to be taken away from a fixed till.²⁰⁷
- (b) The strength of the constraint from POS is demonstrated by the fact that the majority of even the smallest merchants are served by traditional POS providers, which also capture a high degree of diversion and customer switching.
- (c) Merchant preference for mPOS solutions or traditional POS solutions reflect a whole host of characteristics, not just transaction volume and price.²⁰⁸
- (d) There is a convergence of competitive offering between mPOS and traditional POS, such as Worldpay's new 'Simplicity' pricing plan which mimics the mPOS approach,²⁰⁹ and the CMA should not overstate the extent of the difference between POS and mPOS pricing approaches.

²⁰⁷ [The Parties' response to the phase 1 decision](#), paragraph 1.4(a)

²⁰⁸ [The Parties' response to the phase 1 decision](#), paragraph 4.8

²⁰⁹ [The Parties' response to the phase 1 decision](#), paragraph 4.16.

- (e) For almost all merchants, the prices and contract terms for traditional POS are likely to be a 'serious alternative to mPOS', and even [REDACTED] merchants often make their choice based primarily on other factors.²¹⁰
- (f) The CMA understates the pace of change in the cost of customer acquisition and onboarding processes, driven by innovative mPOS providers and wider considerations such as opportunities from Open Banking.

8.136 We consider these submissions in our assessment of the evidence below.

The Parties' internal documents

8.137 In this section, we consider how the Parties perceive competition from traditional POS providers in their internal documents.

8.138 The Parties monitor [REDACTED]. But both Parties consider the traditional POS providers (mainly Worldpay and Barclaycard) under a wider set of competitors. For example,

- (a) [REDACTED].²¹¹
- (b) [REDACTED].²¹² Similarly, an iZettle strategy document for 2018-2020 describes 'any given bank' as 'industry incumbents'.²¹³

8.139 Both Parties particularly recognise traditional POS providers as competitors in respect of [REDACTED][REDACTED]. For example,

- (a) In January 2018, PayPal introduced a lower rate (1%) for merchants in the largest band by transaction volume. It noted [REDACTED].²¹⁴
- (b) [REDACTED],²¹⁵ [REDACTED].²¹⁶ [REDACTED].²¹⁷
- (c) In a presentation to the PayPal due diligence team dated March 2018, iZettle described 'small' and 'medium' customer segments as '[REDACTED]', suggesting iZettle [REDACTED] for customers within or larger than the 'small' segment.²¹⁸

²¹⁰ [The Parties' response to the phase 1 decision](#), paragraph 4.18.

²¹¹ Appendix H, paragraphs 14 to 18.

²¹² Appendix H, paragraphs 24 to 25.

²¹³ Appendix H, paragraphs 72 to 74.

²¹⁴ Appendix H, paragraphs 14 to 18.

²¹⁵ [REDACTED].

²¹⁶ Appendix H, Figure 1.

²¹⁷ Appendix H, paragraph 40.

²¹⁸ Appendix H, Figure 20.

8.140 In summary, the Parties' internal documents indicate that they perceive traditional POS providers as competitors [X].

Diversion analysis

8.141 We have considered the extent to which the Parties' customers would be willing to switch to traditional POS providers, or have done so in the past. The methodology and analysis of diversion are discussed in detail in Appendix F.

(a) From the CMA survey, we estimate that a material proportion of the Parties' customers said they would switch to traditional POS if the Parties' prices were to increase. Around 30% of iZettle's nano customers who are price sensitive said that they would switch to a traditional POS provider, as did around 35% of iZettle's micro customers. A broadly similar pattern is observed for PayPal Here's customers.²¹⁹

(b) The CMA survey results are broadly consistent with the analysis of the Parties' customer churn survey. In the most recent year for which data is available, [X]% of iZettle customers (in 2017) and [X]% of PayPal Here customers (in 2018) who have left these providers have switched to a traditional POS provider.²²⁰

8.142 These levels of diversion indicate that traditional POS providers, on aggregate, are a significant constraint on the Parties. In particular, this level of diversion is substantially greater than that from iZettle to PayPal Here.

Differences and similarities between mPOS and traditional POS providers

8.143 It is important to note at the outset that the basic functionality of mPOS and traditional POS offerings are similar in that they enable merchants to accept card payments and that traditional POS providers currently serve a very large proportion of smaller merchants, as demonstrated by their shares of supply discussed at paragraph 8.34.

8.144 The Parties submitted that traditional POS offerings can be more attractive for smaller customers who value attributes of quality such as reliability, robustness, ability to print receipts or support services.

8.145 Evidence from the Parties' internal documents and third-party submissions generally identified three areas of differentiations between mPOS and

²¹⁹ Diversion measured by volume. See Appendix F, paragraphs 14 and 20 (Table 5 and Table 8).

²²⁰ However, it is unclear the extent to which customers have switched to the mPOS or traditional POS offerings of these providers.

traditional POS offerings: pricing structure, onboarding process and customer acquisition channels.

- 8.146 Our analysis of the price levels indicates that traditional POS providers are better value for larger micro and small customers.

Pricing structure

- 8.147 We consider the differences in pricing structures between mPOS and traditional POS providers.
- 8.148 In contrast to mPOS providers, which offer simple, transparent and flexible pricing contracts, a typical traditional POS offering entails the purchasing or renting of the card terminal; minimum monthly billing; minimum contract length; and various types of transaction fees. Moreover, the contracts and rates are typically negotiated rather than published online.²²¹
- 8.149 The importance of simple and flexible pricing structure to smaller merchants was confirmed to us by other mPOS suppliers,²²² and also by the CMA survey in which existing PayPal and iZettle customers rank ‘flexibility’ as one of the most important choice attributes (alongside ‘ease of use’).
- 8.150 The differing strengths of mPOS and traditional POS providers are discussed in a Worldpay document in August 2018.²²³ This document divides competitors in the ‘micro’²²⁴ segment into three categories: traditional, ISOs and ‘Tech & new entrants’. It considers [redacted] to have ‘top propositions’ for this segment, citing [redacted] as their strengths; by contrast it identifies [redacted] as general weaknesses for many traditional acquirers and ISOs.
- 8.151 Recognising the importance of simple and flexible pricing structures, Worldpay has launched simplified (‘Simplicity’) and flexible (‘PAYG’, pay-as-you-go) contracts available to customers of traditional POS offerings. Barclaycard [redacted] its pay-as-you-go transaction rate tariff is currently only available to its mPOS customers.

Overall costs

- 8.152 We have analysed the overall costs for customers of different sizes to accept payments, by comparing the Parties’ mPOS offerings with a typical traditional

²²¹ Further details of typical traditional POS contracts are explained in detail in Appendix G.

²²² In addition, a Worldpay document in August 2018 [redacted].

²²³ [redacted].

²²⁴ Defined by Worldpay as merchants with annual turnover less than £[redacted].

POS offering.²²⁵ Our analysis indicates that, in general, for larger micro and small merchants traditional POS offerings are better value than the Parties' mPOS offerings but for nano merchants, generally traditional POS is substantially more expensive than both Parties' offerings.

8.153 In line with our finding, the CMA survey results show that 'lower cost overall' is one of the reasons for customers to choose mPOS services, but it is not among the most important reasons (ranked sixth by order of importance).

Onboarding process

8.154 Onboarding refers to the process customers go through when they sign up for a service. All payment providers are required to perform regulatory and risk control processes including KYC (ie verifying customer identities) and AML checks when they onboard customers.

8.155 iZettle and third parties told us that onboarding process for new customers was, at least historically, a barrier for traditional POS providers to serve the smallest businesses, but one which iZettle and other mPOS providers have automated. A document produced by [§<].²²⁶

8.156 The Parties submitted that automated digital onboarding is now standard, and can be outsourced to third-parties, driven by innovative mPOS providers and wider opportunities from Open Banking.²²⁷ Some third parties also told us most traditional POS providers have not implemented digital onboarding.

(a) Instead traditional POS providers typically use a manual process or one that requires paper-based signatures.

(b) While third-party providers can be used for parts of the onboarding process, integration with the provider's systems still requires resources

(c) Legacy systems in place at established acquirers make digital onboarding more difficult to implement relative to starting from scratch.

8.157 We consider that fast, automated onboarding is increasingly important to compete at scale for the smallest merchants, as it is necessary to keep customer acquisition costs down given low payment volumes from these customers.

²²⁵ See Appendix G.

²²⁶ Appendix H, para 36

²²⁷ [The Parties' response to the Phase 1 decision](#), paragraph 5.34;

8.158 Some traditional POS providers told us that they have made or are considering investments to improve automation in onboarding.

Customer acquisition channels

8.159 There are differences in customer acquisition channels between mPOS and traditional POS providers, and the costs associated. Traditional POS providers typically use telesales, field sales or referrals from banks to acquire new customers. This contrasts with mPOS providers, including the Parties, which primarily use online marketing channels (such as search optimisation, digital advertising and social media) to reach customers,²²⁸ although SumUp also acquires customers through its referral agreements with First Data (a traditional POS provider). Online marketing channels are substantially less costly than manual sales channels.²²⁹

Provisional views on differences between mPOS and traditional POS providers

8.160 Our provisional view is that traditional POS providers offer services with largely equivalent payment functionality to those offered by mPOS providers, and are competitive on price and quality for many smaller merchants. As a result, a material proportion of the Parties' customers would divert to these providers if the Parties were to increase prices.

8.161 However, traditional POS providers are likely to be more distant competitors with the Parties, compared to mPOS providers, due to differences in pricing structure, onboarding and customer acquisitions explained above. The degree of differentiation explains why mPOS providers capture substantially greater diversion from the Parties than traditional POS providers do. It is also consistent with the fact that both Parties [REDACTED].

Competitive constraint from Worldpay

8.162 Worldpay is a global payment service provider and one of the largest payment providers in the UK. In March 2019, Worldpay announced a proposed merger with FIS, a global financial services technology company.²³⁰

8.163 Worldpay told us that it competes across all merchant sizes. It said it currently competes for smaller merchants mainly with its traditional POS offering, but to

²²⁸ Over [REDACTED]% of the Parties' customers activated in 2017 have been acquired through online channels. [REDACTED].

²²⁹ For example, Worldpay told us its average acquisition of SMB customers is [REDACTED] lower if sold purely online. [REDACTED]. iZettle's average customer acquisition cost is £[REDACTED]. PayPal's average customer acquisition cost is £[REDACTED].

²³⁰ [Worldpay press release: Worldpay announces merger with FIS](#).

meet different merchant needs it has recently launched a new mPOS proposition (Worldpay Reader).

8.164 We consider Worldpay's current competitive position and its future strategy with smaller merchants below.

Current competitive position

8.165 The evidence suggests that Worldpay exerts a meaningful constraint on the Parties when supplying to smaller merchants primarily through its traditional POS offerings.

- (a) Worldpay accounts [X] [20-30]% of all card payment volumes made by smaller merchants in the UK.²³¹ While there are likely to be differences between customers who use Worldpay's traditional POS and customers who use an mPOS solution, we consider that Worldpay's high share of supply indicates that it is capable of serving, and it does serve, smaller merchants.
- (b) Our diversion analysis indicates that a moderate proportion of the Parties' customers consider Worldpay to be a credible alternative. We found that 13% of iZettle's customers said they would divert to Worldpay (8% to its traditional POS and 5% to mPOS);²³² for PayPal Here diversion to Worldpay is estimated to be 20% (16% to traditional POS and 4% to mPOS).²³³
- (c) However, based on the Parties' churn survey data, a [X] has been lost to Worldpay, [X] for PayPal Here customers, and [X] for iZettle customers.
- (d) iZettle [X] bid on keywords relating to [X] (together with [X]) to boost their visibility in online search advertising. This suggests that iZettle [X], ie customers who may consider Worldpay as an alternative.

8.166 We note that Worldpay has recognised there is demand for simple pricing and flexible contracts by smaller merchants. It has introduced simplified or flexible pricing contracts for traditional POS services. It offers two pricing options for smaller merchants, in addition to its standard pricing: Simplicity (launched early 2018)²³⁴ and PAYG (pay-as-you-go, launched in 2016).²³⁵

²³¹ See Table 9.

²³² Price diversion measured by volume. See Appendix F, paragraph 14 (Table 5).

²³³ Price diversion measured by volume. See Appendix F, paragraph 20 (Table 8).

²³⁴ 1.5% transaction rate for all Visa/Mastercard transactions, £22.50 monthly terminal rental.

²³⁵ 2.5% transaction rate + 4.5p authorisation fee, upfront terminal fee of £235, no monthly rental fee.

8.167 We consider that there are differences in these simplified or flexible offerings compared to those offered by mPOS providers. For example, the Simplicity plan requires fixed (18-month) terms, additional fees and/or with limits on usage or card types,²³⁶ while the PAYG option, with a 2.5% transaction rate, is more expensive per transaction than those of the major mPOS providers.²³⁷ However, both options have [REDACTED].²³⁸

8.168 In contrast to Worldpay's large scale in traditional POS, we consider that the constraint exercised by Worldpay through its mPOS offering (Worldpay Reader, and its previous offering Worldpay Zinc) has been limited, as explained in paragraph [8.128]. [REDACTED].

Future strategy for smaller merchants

8.169 We consider the extent to which the competitiveness of Worldpay in respect of smaller merchants may evolve in future.

8.170 [REDACTED],²³⁹ [REDACTED]:

(a) [REDACTED].

(b) [REDACTED].

(c) [REDACTED].

(d) [REDACTED].

8.171 Worldpay told us that it is currently assessing the proposals [REDACTED].

8.172 We also note that Worldpay is currently carrying out trials of a 'tap on mobile' product, which enables merchants to accept payments through their mobile phones, thus eliminating the need for merchants to use a card reader. [REDACTED].

8.173 Therefore, we consider that at this stage it cannot be certain whether or not these [REDACTED] will materially strengthen Worldpay's position when it competes with the Parties for smaller merchants.

²³⁶ [REDACTED].

²³⁷ See Appendix G.

²³⁸ In 2018, there were over [REDACTED] users of pay-as-you-go tariff and [REDACTED] users of simplicity tariff for Worldpay's traditional POS products (excluding mPOS products).

²³⁹ See [REDACTED].

Provisional view on competitive constraints by Worldpay

8.174 Our provisional view is that Worldpay currently exercises a meaningful constraint on the Parties, mainly through its traditional POS offerings. We note that Worldpay has taken steps to increase its attractiveness to smaller merchants by offering simplified pricing and flexible contracts. In relation to its mPOS offering, however, its future plans are not sufficiently advanced for us to conclude that its mPOS offering alone would provide a sufficient constraint on the merged entity.

Competitive constraint from Barclaycard

8.175 Barclaycard is a large traditional POS provider offering payment services to smaller merchants. Barclaycard is owned by an acquiring bank (Barclays).

8.176 Barclaycard offers both traditional POS and mPOS solutions to its customers. The large majority of transactions are made through its traditional POS products.

8.177 Barclaycard told us that it serves all merchants from nano to large merchants. It acquires customers mainly [§<].

8.178 We consider the evidence on Barclaycard's competitive position below.

(a) Barclaycard accounts for around [30-40]% of card payment volumes processed in the UK for smaller merchants in 2018.²⁴⁰ We consider that Barclaycard's high share of supply indicates that it is capable of serving, and it does serve, smaller merchants.

(b) Our diversion analysis indicates that a modest proportion of the Parties' customers consider Barclaycard to be a credible alternative. We found that 10% of both iZettle and PayPal customers said they would consider Barclaycard (all to its traditional POS for iZettle customers; 6% to mPOS and 4% to traditional POS for PayPal customers).²⁴¹

(c) Based on the Parties' churn survey data, a small proportion of customers was lost to Barclaycard, [§<]% in 2018 for PayPal customers, and [§<] in 2017 for iZettle customers.²⁴²

²⁴⁰ See Table 8.

²⁴¹ Price diversion measured by volume. See Appendix F, paragraphs 14 and 20 (Tables 5 and 8).

²⁴² See Appendix F, paragraphs 56-57 (Tables 21 and 22).

(d) iZettle [X] bid on keywords relating to [X] to boost their visibility in online search advertising. This suggests that iZettle [X], ie customers who may consider [X] as an alternative, [X].

8.179 As explained in paragraph [8.128] above, we consider that the constraint exercised by Barclaycard through its mPOS offering has been limited. We note that in January 2019 Barclaycard Anywhere reduced its price to 1.6% (and is thus cheaper than other major mPOS providers), but [X].²⁴³ SumUp told us that it did not consider or respond to this price reduction. [X].

8.180 We also consider Barclaycard's future plan in serving smaller merchants. We note in its recent UK strategy document that:²⁴⁴

(a) [X].

(b) [X].

(c) [X].

(d) [X].

8.181 Barclaycard told us that it is making improvements to its offering, by investing [X]. [X].

8.182 We note that Barclaycard has recognised the need to improve its presence in the smaller merchant segment in order to maintain its overall position and it has an incentive to do so. However, we consider that it is unclear whether or not Barclaycard will be successful in fulfilling its vision in a timely way, [X]. We also consider that Barclaycard's mPOS future plans are not sufficiently advanced for us to conclude that its mPOS offering alone is likely to provide a sufficient competitive constraint on the merged entity.

8.183 Taking the evidence of its existing competitive position together with its future plans and incentive, our provisional view is that Barclaycard exerts a meaningful constraint on the Parties primarily through its traditional POS offering and to a lesser extent through its mPOS offering.

Competitive constraint from other traditional POS providers

8.184 Global Payments, Elavon and First Data are three other large traditional POS providers. Each of these providers accounts for around [5-20]% of the card payment volumes processed in the UK for smaller merchants. In addition to

²⁴³ See paragraph 8.155.

²⁴⁴ [X].

selling to merchants directly, these traditional POS providers (and Worldpay and Barclaycard) market through intermediary ISOs. Major ISOs include Paymentsense and Payzone.

8.185 Our analysis of the CMA survey shows that traditional POS providers (other than Worldpay and Barclaycard) collectively account for 22% of diversion from iZettle²⁴⁵ and 12% from PayPal.²⁴⁶ Consistent with this, the Parties' customer churn survey indicates that [X]% of iZettle customers (in 2017) and [X]% of PayPal's customer (in 2018) have switched to a traditional POS provider other than Worldpay and Barclaycard.²⁴⁷ These results suggest that the Parties' customers consider a number of traditional POS providers as credible alternatives in addition to Worldpay and Barclaycard.

8.186 However, the Parties' internal documents only [X] other than [X].

(a) [X],²⁴⁸ [X];²⁴⁹

(b) The EDC market study, commissioned by iZettle for its IPO, identified [X] as a competitor that is similar to [X] in having [X].²⁵⁰

8.187 Several traditional POS providers told us that they do not actively target smaller customers and tend not to actively compete with mPOS providers:

(a) [X] said mPOS is not particularly profitable; and while it has considered offering flexible contracts it prefers maintaining a monthly fee to attract payers with larger volumes.

(b) [X] said its approach is more of a technical solution aimed at more medium to larger customers.

(c) [X] said it mainly targets larger, small and micro customers, and nano customers contribute to less than 2% of turnover.

8.188 On the other hand, [X] said recruiting small customers was worthwhile because as a customer grows it would progress to traditional POS contracts. Square said in addition to mPOS competitors it competes with First Data's Clover, Worldpay and Cardnet (a joint venture between Lloyds and First Data). First Data told us that it has a telesales team to target sectors within SMEs but it prefers to target merchants that generate over £[X] in card

²⁴⁵ Appendix F, Table 5.

²⁴⁶ Appendix F, Table 8.

²⁴⁷ Appendix F, Tables 21 and 22.

²⁴⁸ Appendix H, Figure 11. [X].

²⁴⁹ Appendix H, Figure 6.

²⁵⁰ Appendix H, Figure 14.

turnover per month. Several traditional POS providers said the distinction between mPOS and traditional POS may diminish in the future due to technological improvements.²⁵¹

8.189 Some traditional POS providers further explained that main barrier for them in serving smaller merchants is that it was uneconomic, due to high cost of acquisition and onboarding relative to the revenues that could be achieved.

(a) First Data told us that it had sold mobile solutions in the past [REDACTED], and instead now operates a referral agreement with SumUp for customers with an annual turnover less than £[REDACTED]. It told us that it offers 'Clover Flex' mobile payment device, which is a cloud-based solution that offers value-added services in addition to accepting payments. It said Clover offers considerably greater functionality than an mPOS reader and is intended for more sophisticated merchants with higher volumes of card traffic.²⁵²

(b) [REDACTED].

(c) [REDACTED] has decided not to target nano customers for commercial reasons as they generate very few transactions.

8.190 In summary, the evidence above indicates that a number of traditional POS providers are alternatives considered by smaller merchants but they have not actively competed in this market. Given the limited competitive interactions and the fact that the Parties rarely [REDACTED], our provisional view is that other traditional POS providers exercise a weaker constraint on the Parties compared to the constraints exerted by other mPOS providers, Worldpay and Barclaycard. Whilst the differences between traditional POS and mPOS providers appear to be narrowing, we have not seen specific plans or strategies from other traditional POS providers which would suggest that their competitive positions would change materially in the near future.

Provisional view on competition with traditional POS providers

8.191 Taking together the evidence from the Parties' internal documents, the current share of supply of mPOS and traditional POS providers, pricing structures, diversion analyses, submissions by traditional POS providers and their recent change in strategic focus regarding smaller merchants, our provisional views

²⁵¹ [REDACTED].

²⁵² We note that Clover offers contracts with pricing structure (eg with tiered rate and monthly fees) similar to those of a typical traditional POS provider.

regarding the competitive constraints of traditional POS providers are summarised as follows.

- (a) Whilst there are differences between mPOS and traditional POS providers, which mean the Parties compete more closely with other mPOS providers than with traditional POS providers, traditional POS providers also exercise a meaningful constraint on the Parties. A material proportion of the Parties' customers consider traditional POS providers to be credible alternatives, and traditional POS providers currently serve a considerable proportion of smaller merchants.
- (b) The Parties' documents recognise competition from (and in some cases [§<]) traditional POS providers particularly at the [§<] for smaller merchants. This is consistent with our analysis of price levels, which shows that traditional POS offerings are cheaper than mPOS for larger micro and small merchants.
- (c) The leading traditional POS providers have recognised the need to [§<] meet the demand by smaller merchants. Worldpay has launched simplified contracts for its traditional POS product and Barclaycard reduced its flat rate for its mPOS customers to be the lowest of the mPOS providers, although we note that the competitive constraints exerted by their mPOS offerings have been limited to date.
- (d) The constraints exercised by other traditional POS providers individually appear to be weaker.

Alternative payment technologies

The Parties' submissions

8.192 PayPal submitted that evolving card payment technology will increase competition and innovation in offline payment services. PayPal referred to two developments in particular:

- (a) PIN on mobile, which allows for mPOS devices to not include a PIN pad, with customers instead entering their PIN on the merchant's mobile phone for non-contactless transactions; and
- (b) Tap on glass, which allows merchants to take payments without any card payment device, through the consumer tapping their contactless card on the merchant's mobile phone.

8.193 PayPal said that these technologies will allow smaller merchants to be served at lower cost, since PIN on mobile mPOS devices will be cheaper to produce

and tap on glass does not require any hardware, and so suppliers who currently consider this segment to be ‘unattractive’ may reconsider.

8.194 [X]. The Parties told us that it is ‘widely expected’ that [X].

8.195 The Parties told us that Worldpay is currently piloting tap on glass in the UK[X]. They also told us that the PCI Security Standards Council anticipates publishing standards for contactless payments on a merchant’s mobile phone or tablet before the end of 2019.

New card readers

8.196 We do not consider that PIN on mobile technology will in itself result in a significant increase in the competition faced by the Parties in the near future. This technology is already used by Square, which as discussed above already constrains the Parties. [X].

8.197 Regarding tap on mobile, we consider that the impact of Worldpay’s product using this technology is highly uncertain. Worldpay told us that, while a pilot for a tap on mobile product was ongoing, [X]. Moreover, it is not yet clear what the pricing model would be for a payment service with tap on mobile, nor how close an alternative to the Parties’ offering customers will perceive it to be.

8.198 The impact of these technologies on the ease with which suppliers could enter the market for the smaller merchant’s segment, which they currently find unattractive, is considered in paragraph 10.22.

Assessment of impact of the Merger

8.199 We assessed the competitive effects of the Merger on the provision of offline card payment services to smaller merchants. To do this we considered a wide range of evidence on the strength of the constraints the Parties impose on each other and the constraint imposed on them by other providers. In light of the dynamic nature of this market, we went beyond a straightforward static assessment and also considered in detail how the strength of these constraints would likely evolve over time.

8.200 Considering first the Parties, the evidence shows that iZettle has persistently been the leading mPOS provider and is likely to remain so in the foreseeable future. It has a well-regarded product, is continuing to gain a large share of new customers and is investing to improve its services.

8.201 In contrast we found that while PayPal has a substantial share of mPOS customers, this is likely to overstate its current competitiveness. PayPal has in

recent years been perceived as a weak competitor, has a complex tiered pricing structure, with [X]. Moreover, the primary source of new customers for PayPal Here has been [X] and PayPal Here has a shrinking share of new customers, which is where competition is focussed in this growing market segment. iZettle's documents indicate that it did not closely monitor or respond to [X] in the same way as it paid attention to the competitive threats from [X].

- 8.202 However, as set out in Section 7, our view is that absent the Merger, PayPal would have been a stronger competitor than it currently is, stemming the decline in PayPal Here's competitive position, but recognising the limitations of what could be achieved in the shorter term to enhance PayPal Here's competitive position (particularly as regards [X]). It is against this stronger PayPal Here that we have considered the competitive effects of the Merger.
- 8.203 Turning to the Parties' competitors, the merged firm would continue to face competition from two key mPOS rivals, Square and SumUp, as well as at least two large traditional POS competitors, Worldpay and Barclaycard.
- 8.204 Square is a recent entrant to the UK market with significant relevant experience in providing this service internationally through its established position in the US. It has expanded rapidly, is expected to continue to grow in future and its entry resulted in other mPOS providers cutting their prices. SumUp is the cheapest mPOS provider, has also been growing quickly, and recruiting more new customers than any other mPOS provider, and has a particularly large share of nano customers.
- 8.205 There is consistent evidence from the Parties' internal documents, third parties, our customer survey and our analysis of customer churn data that SumUp and Square impose a significant competitive constraint on the Parties and will continue to do so in future even in the case of a stronger PayPal Here in the counterfactual.
- 8.206 In addition to these key mPOS rivals, the evidence shows that traditional POS providers, particularly Worldpay and Barclaycard which directly target smaller merchants, also currently impose a material constraint on the Parties and are expected to do so in the future even in the case of a stronger PayPal Here in the counterfactual (in the shorter or longer term). Specifically:
- (a) These suppliers currently serve a considerable proportion of smaller merchants, including nano customers.
 - (b) Traditional POS solutions offer comparable or better financial terms and attractive quality attributes for many smaller merchants.

(c) Analysis of both our customer survey and customer churn data found significant diversion from the parties to traditional POS suppliers.

8.207 We also considered how two of the leading POS providers, Worldpay and Barclaycard, have recently made improvements to their mPOS and POS offerings focusing on smaller merchants including nano customers by launching a new mPOS reader, simplifying their pricing plans and/or lowering prices. We noted the evidence also suggests these firms have [X]. Such developments, such as improving their ability to digitally acquire and onboard customers, are likely to make them closer competitors to the Parties and further blur the boundaries between traditional POS and mPOS. However, their plans are not sufficiently advanced for us to conclude that their mPOS offering alone would provide a sufficient constraint.

8.208 On balance, our view is that the Merged Firm will face a substantial constraint from the remaining mPOS providers, Square and SumUp and a material constraint from traditional POS providers, in particular the two largest, Worldpay and Barclaycard, which is likely to be sufficient to offset any loss of rivalry from an independent PayPal, and thereby maintain effective competition. This finding holds true for customers of all sizes.

(a) For relatively larger customers (within the smaller merchant segment), traditional POS is a particularly effective constraint, with evidence indicating this is actively constraining the Parties. We also note that the two largest traditional POS providers have made enhancements to their offers targeted at smaller merchants.

(b) For the smallest nano customers, the evidence shows that traditional POS is still a material constraint and that SumUp and Square are particularly strong.

8.209 We have therefore provisionally concluded that the Merger has not resulted in, and may not be expected to result in, an SLC in offline card payment services to smaller merchants.

9. Assessment of the competitive effects of the Merger – omni-channel

9.1 The Parties said that merchants increasingly demand commerce solutions which allow them to sell their products across channels, and that they see growing demand from small merchants for a 'one stop shop' as small businesses seek increasingly streamlined, simplified, and holistic solutions, unifying as many of their omni-channel commerce needs as possible through a single provider.

- 9.2 In this section we consider the effects of the Merger on competition in the provision of omni-channel services to smaller merchants, ie the possible loss of competition between PayPal and iZettle that would have applied without the Merger.
- 9.3 As noted in paragraphs 4.6 and 4.7, PayPal told us that the rationale for the merger included developing its omni-channel offering to merchants by combining online and offline payment processing capability. It said that 'A complete omni-channel service would combine the online and offline elements of payment services and sales management solutions ... Neither PayPal nor iZettle provide a complete omni-channel service and, importantly what omni-channel means to PayPal (combining online and offline payments) is very different from what omni-channel means to iZettle (combining, for example, online and offline stock and account management services).'
- 9.4 Given the nascent nature of iZettle's omni-channel offering (see paragraph 2.42), its pre-Merger competitive position may not reflect the degree to which iZettle would have competed in this market absent the Merger. Therefore, we have considered whether iZettle would have developed its omni-channel offer such that it would have been in competition with PayPal's offering absent the Merger, and if so, whether this expansion could have increased competition. That is, whether the Merger would have lessened competition by weakening the competitive constraint on an incumbent supplier through 'actual potential competition' (ie competition arising as a result of iZettle's presence rather than a perceived threat of its future presence).²⁵³
- 9.5 We begin by outlining the analytical framework that we will use to assess a loss of actual potential competition. We then consider evidence, including evidence from the Parties and from third parties, on current and anticipated competition in omni-channel services for smaller merchants. We then evaluate whether or not a SLC can be expected.

The analytical framework

- 9.6 The Guidelines outlines two questions or limbs to be addressed when considering actual potential competition:²⁵⁴
- (a) Would the potential entrant be likely to enter in the absence of the Merger? ('the First Limb').

²⁵³ CC2 revised, paragraph 5.4.14.

²⁵⁴ CC2 revised, paragraphs 5.4.13 to 5.4.15.

(b) Would such entry lead to greater competition? ('the Second Limb').

- 9.7 The Guidelines also state that the CMA will also consider whether there are other potential entrants before reaching a conclusion on the SLC test.²⁵⁵
- 9.8 In the context of this case, where we are considering a nascent market in which iZettle has only very recently commenced a limited e-commerce offering, we considered it appropriate to use the framework for the assessment of potential competition, as set out above. On the first limb, as iZettle has, to a very limited degree, already entered the market, we will consider whether it would have been likely to significantly expand its competitive presence by enhancing its online offer and providing a fully enhanced omni-channel service. This refers particularly to the development of online payment functionality where its current ability is very limited.
- 9.9 On the second limb, we will consider the impact of iZettle's expansion in its online offering in the context of current and expected future competition in omni-channel services to smaller merchants. Therefore, we will consider whether there are other existing providers and potential entrants to the provision of these services, and the nature of the competitive constraint they may be expected to provide.

The first limb – likelihood of entry by iZettle

- 9.10 In paragraphs 7.39 to 7.61, we evaluated iZettle's possible courses of action absent the Merger in regard to the development of its omni-channel offering.
- 9.11 Absent the Merger, as set out at paragraphs 7.58-7.61, we consider that it was likely that iZettle would have continued with its IPO, and to develop its offline offering, [§<]. The main emphasis of iZettle's near-term strategy (pre-merger) appears to be [§<]. However, there was no indication that this would provide a basis for a significant expansion in its online payments presence.
- 9.12 It is likely that, absent the Merger, iZettle would have considered building on its existing e-commerce presence through either [§<] or [§<]. But We have found no evidence of any plans to [§<] to advance its online offering in a significant way in the foreseeable future. Rather, iZettle's pre-merger strategy was to [§<].
- 9.13 Therefore, we provisionally conclude that absent the Merger, it is likely that iZettle's expansion into online payments would have remained relatively less

²⁵⁵ CC2 revised, paragraphs 5.4.15.

developed and its omni-channel services would have proceeded and developed only at a slow rate.

- 9.14 We are provisionally satisfied that the effect of the acquisition has not been to achieve a tactical elimination of a potentially significant, nascent competitor to PayPal. After careful review we found no evidence to suggest that the acquisition price paid by PayPal for iZettle suggested that it had taken account of a potential reduction in competition, and the price appeared consistent with a normal commercial rationalisation.
- 9.15 Nonetheless, as iZettle would be expected to expand in the provision of omni-channel services to smaller merchants to some extent, we went on to consider the second limb, whether such entry and expansion would be expected to lead to greater competition that would be lost as a result of the Merger.

The second limb – whether entry by iZettle would lead to greater competition

- 9.16 To assess the second limb, we assess the impact of iZettle's expansion in omni-channel relative to the degree of current and potential competition from providers other than iZettle.

The Parties' submissions

- 9.17 The Parties submitted that the Merger does not raise any concerns about nascent competition in omni-channel services. They said that the competitive landscape was evolving, and they identified a wide range of existing and potential competitors. They stated that the Merger is about bringing together largely complementary businesses to create a stronger omni-channel offering to smaller merchants to try to keep up with the many existing offerings from established players like Barclaycard, Worldpay, First Data (Clover), and Paymentsense, as well as from emerging players like Square, Shopify and Stripe. They claimed that neither party would have been able to produce this offering alone in any reasonable timescale.
- 9.18 The Parties identified existing and emerging competitors providing omni-channel solutions, coming from a variety of different backgrounds (eg acquirers, POS vendors, ISOs, payment service providers, commerce platforms and business management companies).²⁵⁶ They added that the

²⁵⁶ The Parties said that service providers have adapted to deliver omni-channel solutions, allowing merchants to sell their products across multiple channels, while centrally managing inventory, sales, and customer data. They said two major areas of omni-channel offerings have formed: omni-channel sales management and omni-channel payments. However, while some solution providers specialise in specific aspects, they said commonly there is a natural convergence and cross-over in omni-channel services, especially for serving smaller businesses, and this

demand from smaller merchants for particular types of omni-channel service is likely to vary considerably depending on in which industry they operate, and for certain industries, smaller merchants may turn to marketplaces such as Amazon marketplace (with Amazon payments) or more industry specific marketplaces.²⁵⁷

- 9.19 The Parties submitted an expert opinion report prepared by Consult Hyperion which summarised competitor activity in omni-channel for small merchants based on public information sources. It identified the major acquirers, Square, Shopify, First Data, and Worldpay as having omni-channel offerings for smaller merchants. The Parties also said that commerce platforms, such as Shopify (which has launched Shopify Payments) are seeking to move into the provision of payment services.
- 9.20 The Parties added that if iZettle were viewed as having incentives and capability to provide omni-channel services absent the Merger, then SumUp must be considered as being in the same position, given its strong and rapidly growing position in 2018.
- 9.21 They also said that the provision of omni-channel service offerings is an emerging marketplace and the shape of the competitive landscape is likely to evolve significantly over the coming years. In particular, the Parties anticipated that global, non-payments players such as Amazon, Apple, Google, and Facebook to become highly relevant. They said that all four were already investing in commerce and payment capabilities that cross channels.
- 9.22 We examined a variety of recent internal documents from the Parties which discuss perceived actual and prospective competition for omni-channel. PayPal's internal documents indicate that its rationale for the Merger is in part a response to perceived competition in omni-channel. Its papers identify several omni-channel competitors, including [X]. iZettle's internal papers indicate [X].

The current omni-channel offering and approaches by main competitors

- 9.23 We now describe some of the major competitors in the provision of omni-channel services, who may be expected to serve smaller businesses. It is not straightforward to present a meaningful comparison of the size of different omni-channel providers catering for smaller merchants, because different providers adopt different approaches and partnerships to offer the service,

is enabled through organic product development, partnerships, acquisitions, or combinations of the three. The Parties claimed that therefore, competition involves a far broader range of suppliers than pure omni-channel payments players

²⁵⁷ Such as AirBnB for travel, Deliveroo/Uber Eats for restaurants, and Uber and MyTaxi for taxis.

and they may include different components in their offerings. We are therefore unable to present meaningful market share figures. However, based on transaction payment volumes (TPV) in 2018 iZettle is very much smaller than any of the other substantive omni-channel providers.

- 9.24 Shopify is a technology company featuring an e-commerce platform. It told us that the platform is designed, among other things, to be a one-stop shop for merchants to set up stores and enables them to sell products through multiple channels (eg social media). The Shopify platform enables merchants the ability to accept payments both online and offline and gives merchants the option to accept a variety of payment methods using various payment gateways.
- 9.25 Square is a mPOS provider that operates also in omni-channel by offering products and features that enable sellers to accept payments in-person, over-the-phone, and online. These include a Dashboard which aggregates transactions across payment channels in real-time and gives sellers access to analytics, reporting, inventory, customer feedback, and employee reporting. In 2018 Square acquired Weebly which enables merchants to build online stores, allowing it to launch the Square Online Store in the UK in April 2019, which it said provides SMEs with one cohesive solution for their omni-channel business.²⁵⁸ Square allows merchants to integrate online payment functions to third-party e-commerce services in various ways (with website building partners, open source partners and through transactions APIs), and it allows a variety of forms of online payments.
- 9.26 Stripe's infrastructure includes a fully integrated, global platform to support online via a comprehensive suite of products. Stripe also offers a beta in-person payments solution in the US offering users a fully integrated platform. In the UK, Stripe offers online payment processing by providing an API that allows the merchant to integrate payment into their website and process card payments and some alternative payment options. Stripe does not generally offer an offline payment processing product in the UK, [X].
- 9.27 Several other traditional acquirers said that they offer omni-channel solutions targeted to large and corporate companies (including Barclaycard, Global Payments, and Payzone).
- 9.28 We also asked suppliers of payment services who they perceived as significant competitors in omni-channel. As well as the competitors identified above, a variety of other providers were named. However, some of those do

²⁵⁸ See [Square press release: Square launches on-line store to boost UK SMEs](#).

not appear to have an existing full omni-channel offer, and the nature and functionality of the offerings of the competitors above can vary significantly. This may in part be explained by different perceptions of the breadth of services required to constitute a full omni-channel offering and whether partial offerings provided a competitive constraint.

9.29 We asked competitors whether they were intending to enter or develop an omni-channel offer for smaller merchants. Several indicated that they were considering this or had entry plans.

(i) [REDACTED].

(j) SumUp said [REDACTED]. In February 2019 it announced that it had acquired Shoplo, a multichannel ecommerce platform. In its press release it said this was part of its 'expansion drive to create a one-stop shop for merchants of all sizes'. In particular, the acquisition will enable SumUp to offer a 'scalable solution that will allow merchants to easily create their own online stores and sell on numerous eCommerce platforms'.²⁵⁹

(k) [REDACTED].

(l) [REDACTED].

(m) [REDACTED].

(n) [REDACTED].

(o) [REDACTED].

9.30 This indicates that several providers are seen as actual or emerging competitors in omni-channel, and there is considerable interest in plans to offer omni-channel services. However, not all indicated that they intend to target smaller merchants.

Consequences of iZettle's expansion

9.31 We now draw together our provisional view on what would have been the consequences of iZettle's expansion into omni-channel.

9.32 First, we have found that iZettle was not expected to expand significantly in omni-channel within its current planning horizon. No reason has been proposed to us or identified to suggest that iZettle's prospective omni-channel

²⁵⁹ See [SumUp press release: SumUp expands its product suite with acquisition of eCommerce company Shoplo](#).

offering under the counterfactual would have been a particularly strong competitive constraint or would have significantly disrupted the market.

- 9.33 Second, we considered the likely competition between iZettle and PayPal. PayPal told us [§<] our counterfactual expectation (see paragraphs 7.30 to 7.38) that PayPal would have sought to enhance its offline product so as to establish a credible omni-channel offer. As such, PayPal would be expected to be a significant competitor within omni-channel for smaller merchants. However, we have not identified reasons to believe iZettle would have been a particularly strong constraint on PayPal given the limited scale of its likely expansion, even allowing for the overlap in the offline payments (mPOS) part of each of their offers.
- 9.34 We then considered the prospective impact of iZettle's expansion on competition in omni-channel services for smaller merchants. As noted in paragraphs [9.23 to 9.30], several providers are already established in offering omni-channel services, and several other third parties have indicated that they have plans to expand into the omni-channel segment. Again, we have not identified any reason to believe that the expansion of iZettle into omni-channel, given its likely very limited scale, would have led to greater competition in omni-channel in these circumstances.

Provisional conclusion on an SLC in the provision of omni-channel services to smaller merchants

- 9.35 Given the existence of significant competitors and the likelihood of future entry, the small scale of intended expansion by iZettle under the counterfactual situation appears unlikely to constitute a substantial impact on future competition.
- 9.36 For these reasons, we provisionally conclude that the Merger has not resulted, and may not be expected to result in an SLC in respect of the provision of omni-channel services to smaller merchants.

10. Other considerations: entry and expansion

Introduction

- 10.1 Our Guidelines²⁶⁰ explain that as part of our assessment of the effect of a merger on competition, we look at whether entry by new firms or expansion by existing firms may mitigate or prevent an SLC. In order to do so, entry or

²⁶⁰ CC2 revised.

expansion should be timely, likely and sufficient to constrain the merged firm in the event of an SLC.

- 10.2 As we have not found a provisional SLC, it is not necessary for us to conclude on these matters, but in this section we briefly address barriers to entry or expansion in the provision of offline card payment services and in omni-channel services. As noted in paragraph 8.200 we also consider the impact of evolving card payment technology on the ability of providers to commence serving the smaller merchant segment, which they may find unattractive currently. Appendix I contains further detail on the evidence we considered, and a summary of the regulatory background and requirements for payment service providers in the UK.

Barriers to entry or expansion

- 10.3 PayPal told us that industry knowledge, technology expertise and acquiring scale, brand recognition and access to funding were relevant considerations, but did not believe that they amounted to barriers to entry that were particularly high; iZettle itself, for example, entered the market without scale or brand recognition. However, PayPal told us²⁶¹ that it that it would take [X].
- 10.4 iZettle told us that the recent emergence of suppliers which have entered into the market in the last 7 years, and the impact of the PSD2,²⁶² demonstrates a decline in the barriers to entry created by the incumbents. iZettle also told us that challenger banks were also seeking to enter the payments space. It said that this was indicative of the constantly evolving and dynamic competitive picture.
- 10.5 The Parties acknowledged²⁶³ that there were barriers to completely new entry in offline payments in terms of software and hardware development and the associated costs, but said that these could be addressed through partnering with a white-label provider, and in any case these barriers had already been overcome by a number of new entrants. They also said existing acquirers could readily diversify into mPOS given their existing platform, brand, and customer base.
- 10.6 We agree that white label partnering and diversification from other payments systems are means of more easily entering mPOS. This may also yield economies of size and scope. Where providers are already authorised by the

²⁶¹ [Parties' response to the Issues statement](#), paragraph 3.2.

²⁶² See paragraph 2.11 and Appendix I for detail on the PSD2.

²⁶³ [Parties' response to the Issues statement](#), paragraph 4.17.

FCA or can passport their authorisation in from another EEA country, then regulatory barriers are not high.

- 10.7 A major barrier is the requirement to attract a customer base in the first place. This can be particularly difficult where suppliers have high costs in marketing and onboarding customers, as can apply to some suppliers (eg banks) with procedures not geared to automated onboarding. However, we have seen examples of some traditional POS suppliers investing in and developing more streamlined and automated onboarding.
- 10.8 An entrant could develop its offline payments facilities in-house, with a white label (partner), or through acquisition. Acquisition may not create a new competitive constraint, but may be a means of expanding a supplier's offer to be more effective (eg through creating a viable omni-channel service). Partnering or acquisition is likely to be more timely as opposed to building in-house. In particular, greenfield entry, rather than from an adjacent provider (for example, an online payments provider moving into offline payments, or an mPOS provider currently operating in another country) is likely to be substantially more difficult and take longer.
- 10.9 We have seen examples of POS and mPOS providers, already established in other countries, entering the UK successfully. Further future entry is possible. [§<]. However, the question is then whether this would be on a sufficient scale to constrain the Parties.
- 10.10 We consider that SumUp and Square have already achieved a significant scale in mPOS in a relatively short period of time, and note that Square's market share is already [5-10]%, having grown rapidly since launch in 2017. However, with the exception of [§<], we did not identify any other likely entrants into mPOS who are established abroad.
- 10.11 An alternative put to us was that an entrant could utilise new technologies (such as tap on glass, an app on a phone taking contactless payments without the need for a reader). Square entered the UK market with a 'PIN on mobile solution [§<]. We acknowledge that technologies change, but merchant and consumer acceptance of these, as well as gaining regulatory authorisation, can take considerable time. We noted that WorldPay is currently carrying trials of a 'tap on mobile' product, [§<]. We did not think it likely that a new provider could enter the market with sufficient scale in these circumstances to form an immediate constraint, although there have been examples of such entrants subsequently growing rapidly over time to a point where they become significant competitors.

- 10.12 We consider that it is more difficult to enter the market for the provision of omni-channel services where the provider is new to both offline and online payment services. We consider that it is easier to enter omni-channel if a provider already offers one of the services, but that new entry into online payment services raises different challenges (for example an increased risk of fraud). As discussed in paragraphs 9.23 to 9.29, we have seen that there are several providers who have recently become active or are planning to enter the market for the provision of omni-channel services to smaller merchants.
- 10.13 Overall, we consider that there are barriers to entry into the provision of POS and mPOS services. There is a range of large scale POS providers already established but a more limited choice of significant mPOS providers. There has been successful entry into mPOS in the last few years, which reflects that this is a relatively new technology. These entrants are established international providers, and we have identified only very limited intentions for further entry. In omni-channel, there is more evidence of likely entry coming from a variety of providers with different backgrounds.

New technologies and alternatives to card payments

- 10.14 The Parties submitted that payments technology is evolving rapidly, with new methods of accepting face-to-face payments, and alternatives to taking face-to-face payments, becoming available.
- 10.15 PayPal told us that technology could facilitate entry or expansion by reducing costs to serve customers, with innovations such as Tap on Glass and PIN on Mobile, or shifts towards pay by app or person-to-person payments; these developments could reduce the upfront cost of serving new merchants (in some cases, there will be no device at all) and will encourage providers to serve smaller merchants to the extent that they consider it 'uneconomic' to do so currently.
- 10.16 We looked at new technologies, details of which are set out from paragraph 8.193 to 8.199 and alternatives to card payments. We considered whether these could provide a constraint on the merged parties as a means of entry and/or expansion.

Alternatives to card payments

- 10.17 There are currently three broad alternatives to card payments.

Bank to bank payment

10.18 Apps/services can use the faster payments network to make payments directly from one bank to another. These are currently used primarily for consumer to consumer payments, but some offers for consumer to merchant payment, for example, Barclays Pingit can be used to send invoices to customers which are then paid bank-to-bank. In April 2018, Square launched its Cash App product in the UK, which is a person-to-person payments transmission app. WorldPay told us it shortly intends to start offering a 'Pay by Bank' app to merchants.²⁶⁴ We note that open Banking will open up bank data to third parties, which could potentially enable creation of new customer to merchant payment solutions using the Faster Payments Service. In Nordic countries, similar services are more widely used and have started to be used for consumer to merchant payments.

QR codes

10.19 QR codes are systems which allow payment through either merchants displaying QR codes which are scanned by the consumer to pay, or consumers generating QR codes on their phones which are scanned by the merchant to take payment.

10.20 In China, AliPay and WeChat Pay are widely used QR code payment apps, although there is currently very limited usage in the UK.

Marketplace apps

10.21 There are apps such as Deliveroo, Uber etc which merchants use as a platform to sell to consumers, where payments are taken through the app. These are already widely used by merchants in specific sectors (eg food delivery and taxis).

CMA assessment

New technologies

10.22 New technologies may lower the cost to the merchant because the need for hardware is either eliminated or reduced (PIN on mobile does not require a PIN pad or display and tap on glass eliminates the need for a reader altogether). We consider that these technologies are likely to be adopted quickly by mPOS providers once the PCI-DSS has granted widespread

²⁶⁴ Worldpay's [website](#).

approval, because of the reduction in cost. However, we consider that these new technologies are simply variations on using a merchant's smartphone or tablet to take payments and will not have a material effect on entry into mPOS provision.

Alternatives to card payments

- 10.23 We have seen limited evidence that any of the alternatives to card payments will have a material effect on entry into mPOS provision. We consider that merchants will still have to accept card payments alongside alternative methods for the foreseeable future. This is because it is not generally possible for a merchant to control which payment method a consumer uses, and a merchant would not be able to reduce usage of mPOS in favour of alternative payments.
- 10.24 Bank to bank payments may be suitable for taking payments in certain sectors (eg services) but are less suitable for retail and hospitality merchants. The apps currently available for consumer to merchant payments have limited functionality: for example, the 'Pay by bank' app is currently only connected to Pingit, and only four retailers are currently listed as accepting payment via the app.²⁶⁵
- 10.25 We have not seen any evidence that QR codes will be available to merchants in the near future. Marketplace apps are only appropriate for some types of merchant, and the decision to use a marketplace is broader than just the choice of payment system.

Conclusion

- 10.26 While it is possible that these alternatives could become established in the future, we do not consider that any such effect would be sufficiently timely and effective to constitute a significant constraint.

11. Provisional conclusion on the SLC test

- 11.1 We provisionally conclude that the Merger has not resulted, and is not expected to result, in a substantial lessening of competition in the UK.

²⁶⁵ Mastercard, [Pay by Bank app](#).