

Individual A response to the CMA's Issues Statement

Dear Sirs

I hope this email submission finds you well. Many thanks for publishing a very clear Issues Statement.

First of all, I would like to introduce myself. My name [X] a private user of the Avast free product on multiple home devices. [X].

For disclosure of conflict of interests, I state that:

- [X]
- [X]

For the avoidance of doubt, all the views expressed in this email are mine, and are the result of my own research. I have not discussed any of this material with the Parties or other market participants.

The reason for this submission is that I would like to respectfully suggest that the analysis laid out in the Issues Statement, in my opinion, needs to consider the following points, which I believe are very relevant and might have been overlooked:

1. The relative size between the free and the paid CCS market should put the majority of the focus on the free market and the market share by volume
 - Based on publicly available data, it appears that free products outnumber paid subscriptions by a factor of approximately 20:1. For instance, ~96% of Avast's 430m users on a global basis are free. For Avira, ~1.5m worldwide paying users on a base of ~30m represent a 95% free ratio. Therefore, it appears that the market is overwhelmingly more "free" than "paid". I accept that the 20:1 is a global ratio including emerging markets, and it is likely lower in the UK, but I would imagine the "free" part is still a multiple of the size of the "paid", and this is more so after one includes the OS built-in free products
 - The implications of this observation, in my opinion, are that i) the market share by volume appears to be more determinative of market position than market share by revenue, and ii) consumers have the ability and the preference to pick free products – in other words, the wide availability of a range of free CCS products by different providers is the main competitive constraint in this market, and it applies equally for all industry participants. I enclose an article from Which whose title is rather apt: "You (probably) don't need to pay for antivirus software"
2. The number of customers that do not take up or decline to renew paid subscriptions and consciously decide to fall back on the OS built-in CCS needs to be considered seriously as a major force/trend in the market
 - I believe the CMA's analysis in phase I did not try to quantify the number of consumers that consciously decide to just rely on the OS after having done research online. Please see the enclosed article from

Which as just one example of the tenor of the literature freely available online. The ph1 decision seems to take the view that this is “hard to measure”, but I note that Germany’s Federal Cartel Office was able to get a sense of the magnitude by looking at share of installation data for new Windows releases over time, which, according to the FCO, show rising numbers of consumers relying exclusively on the OS built-in CCS

- MS Defender, rather than being a “baseline”, achieves excellent ratings from independent testers – please refer to the assessments by AV-test and AV-comparative available online (<https://www.av-test.org/en/antivirus/home-windows/manufacturer/microsoft/> with a number of “top product” ratings; <https://www.av-comparatives.org/tests/malware-protection-test-march-2022/>). The association with the Microsoft brand requires no additional advertising spend for this product. In addition, Microsoft continues to fill out its portfolio of free consumer CCS features, having recently introduced a free VPN in its browser Edge

3. The severity of marketing spend as a barrier to entry needs to be tested carefully, as it might not be as high as assumed
 - The data from the last annual reports of NLOK and AVST show that Sales & Marketing accounted for ~21% and 17.5% of revenue, respectively. This hardly seems like a prohibitive amount or high barrier to entry in an industry such as software, where profitability margins after marketing spend are high, often in the 50% EBITDA margin range. There are high levels of private capital that is looking for profitable deployment
 - In addition, the CMA phase I decision states, correctly in my view, that consumers can and do research online before making CCS procurement decisions. Therefore, the influence of independent websites such as Which, AV-test, AV-comparative, etc needs to be taken into account as a “free substitute” to marketing spend
4. The brand strength of NLOK and AVST relative to other providers needs to be reassessed, as it might not be as strong as assumed
 - A lot of emphasis has been put on marketing and branding in the competitive analysis, both in relation to current market positions, closeness of competition, and prospective market entry
 - There are several recent surveys available online that suggest other competitors that were not considered sufficiently important in the ph 1 analysis have quite strong market and brand positions, for example: <https://www.av-comparatives.org/surveys/it-security-survey-2022/#question8>
5. More thought needs to be put on the fact that product commoditisation appears rampant in the CCS market, with several competitors replicating some or all the others’ features in a relatively short time frame
 - Much to the chagrin of the Parties, who see themselves as providing “differentiated” products that customers should be willing to pay for, reality is much more prosaic: the “differentiation” of their products is questionable, and the large majority of the customers by volume opt for

free products. The offering of CCS products is extremely broad and, from the point of view of a consumer, it is difficult to find areas of material differentiation, other than marketing-driven brand/reputation. I refer to websites such as Which, AV-test, AV-comparative, etc that show that performance is about the same for most antivirus and ancillary products. In addition, see enclosed "Best Virus Protection" article that offers a comparative across CCS bundle features, albeit on a reduced number of providers (incidentally, not including Avast, which might not be as prominent as one thinks). The point is that a majority of providers offer very similar/largely overlapping functionalities in their bundles, as can be seen in the table with ticks and crosses

- The implication is that there are several market participants that are close competitors/substitutes to one another, and it does not seem that NLOK and AVST are closer to each other than to anyone else. It is a fact that they are relatively large competitors in terms of market share of revenue and, in the case of AVST, of volume. However, it does not follow that they are each other's closest substitute by functionality or attractiveness to consumers

Finally, I would like to make a comment on the Closeness of Competition analysis, para 81-118 of the ph 1 decision. Perhaps I am reading it wrong, but it seems to me that the Compass Lexecon and Avast One surveys are based on actual switching data, whereas the heavily redacted survey in para 96-98 and competitors' responses seem to be based on opinion/hypothetical ("potential switching"). There are many fine points made in the section, and most likely I do not appreciate the full depth of the arguments. However, it does not seem defensible to me that the conclusion in paragraph 118 on the closeness of competition appears to be more aligned with the hypothetical than the actual data. The logical conclusion of some of the points I stated above is that NLOK and AVST are two out of many close competitors, in a market that is large and characterised by very strong competition from free products, and they are not each other's closest competitor or substitute. If I understand the heavily redacted text of the ph 1 decision, the evidence is that, in fact, the diversion or switching of customers between NLOK and AVST is low, which seems consistent with the characterisation I made above.

Thank you for taking my submission into consideration. I am contactable as per the details below.

Best regards

Individual A