

## NORTONLIFELOCK INC. / AVAST PLC MERGER INQUIRY

### *Consumer switching survey*

#### 1. INTRODUCTION

- 1.1 This note has been prepared by [confidential], with the aim of assisting the Competition and Markets Authority in the UK (the “CMA”) in its on-going merger inquiry into the anticipated acquisition by NortonLifeLock Inc. of Avast plc (the “Investigation”). [confidential] has commissioned [confidential] to conduct a survey of current users of consumer cyber safety solutions in the UK to help [confidential] better understand the sector and its competitive dynamics.
- 1.2 [confidential] and, before doing so, formed its own view of the consumer cyber security safety solutions sector worldwide, including in the UK. Consistent with the views, as [confidential] understands it, of the US Department of Justice, Germany Federal Cartel Office and Spanish National Markets and Competition Commission, [confidential] has always been of the view that Microsoft Defender in particular, but also Kaspersky and other similar providers, are credible competitors to Avast. That understanding does not seem to match the findings of the CMA during the Investigation, as described in the CMA’s Phase 1 referral decision. To help further its own understanding of the sector, [confidential] commissioned [confidential] to undertake a survey of users of these solutions in the UK and would like to make the results available to the CMA. The survey provides additional datapoints for the CMA regarding the UK consumer cyber safety solutions sector and provides information on switching patterns and the competitive dynamics in that sector.
- 1.3 In particular, [confidential] notes the CMA’s comments in its Phase 1 decision in the Investigation that “*Microsoft Defender is a built-in solution on Windows OS*” and that therefore “*consumers using Microsoft Defender may not be actively choosing to use Microsoft Defender as a CCS solution*” which, in turn, means that the observable growth in Microsoft Defender’s volume share is “*not directly relevant in itself to assess the extent to which the Parties’ customers would switch to Microsoft in the event of any price increase or quality degradation of the Parties’ offering post-Merger and, therefore, the extent to which Microsoft would be a constraint post-Merger*”.<sup>1</sup>
- 1.4 The enclosed survey provides evidence to support that Microsoft Defender, together with Kaspersky and other providers, are strong competitors and credible alternatives to NortonLifeLock Inc. and Avast plc, including when users are actively switching away from an incumbent provider.

<sup>1</sup> ME/6968/21 – Anticipated acquisition by NortonLifeLock Inc. of Avast plc dated 16 March 2022, paragraph 80.

## **2. OVERVIEW OF [confidential]**

2.1 **[Confidential]** is an investment advisor based in [Confidential].

2.2 While **[confidential]** is invested in Avast plc our research drives our position. We consider ourselves neutral and our research objective. [Confidential] “

## **3. SURVEY METHODOLOGY**

3.1 Having reviewed the CMA’s guidance on surveys,<sup>2</sup> **[confidential]** commissioned **[confidential]** to carry out a survey among users of consumer cyber safety solutions in the UK. The aim of the survey was to enable a better understanding of the drivers for consumers when selecting a particular CCS solution, any discernible switching patterns and the comparative competitive constraint exercised by different providers of such solutions. **[confidential]** encloses the survey results for the CMA to aid its Investigation.

3.2 In order to prepare surveys, **[confidential]** partners with a third-party consumer survey panel aggregator that manages a marketplace made up of hundreds of suppliers with varying sourcing methodologies which ensures a diversity in sample sources and respondent profiles. Examples of the methods used include double opt-in panels, publishing networks, online communities, affiliate marketing, social media and even offline recruitment through mail campaigns. Suppliers are also continually evaluated through **[confidential]** partners’ supplier quality program where they measure the quality of panellists / respondents against a set of key metrics over time.

3.3 Respondents are sourced from a variety of different types of panels, which have control over incentivising their respondents in whatever way best fits their business model. Each respondent agrees to their panel's specific incentivisation method when they join. Each incentive program is unique, and methods to determine proper incentivisation vary from panel to panel. Some examples of respondent incentives include loyalty reward points, cash, or gift cards.

3.4 For this particular survey, **[confidential]** engaged **[confidential]** as its consumer panel aggregator. **[confidential]**.

3.5 The survey is based on the responses from 1072 individuals and summary results of the survey are enclosed as an annex to this note.

## **4. PRELIMINARY CONCLUSIONS FROM SURVEY**

4.1 **[confidential]** appreciates that the CMA may wish to review the survey results and draw its own conclusions from them. However, some observable trends / findings from the survey, which **[confidential]** considers important to highlight, include:

4.1.1 When asking respondents why they switched away from their previous supplier, price is mentioned as a significant factor in almost all cases. The fact that price is a significant factor for consumers when selecting their consumer cyber safety solution, or when switching to a new provider of such solutions, suggests that providers of free and “freemium” solutions should not be discounted as potentially legitimate

<sup>2</sup> CMA78 - *Good practice in the design and presentation of customer survey evidence in merger cases* (May 2018).

alternatives to paid-for solutions (all else being equal in terms of quality, service levels etc.).

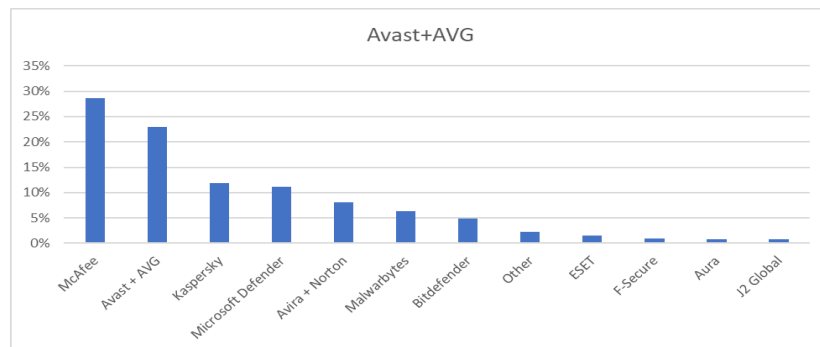
4.1.2 The survey results are difficult to reconcile with any finding that NortonLifeLock/Avira and Avast/AVG are each other's closest competitors, and, in any event, consumers have access to several credible alternatives:

4.1.2.1 Out of the respondents that switched away from Avast (including AVG), only **8%** did so to either NortonLifeLock or Avira (which are under common ownership), which is lower (and in the case of McAfee, significantly lower) than the:

- (a) **29%** that left for **McAfee**
- (b) **12%** that left for **Kaspersky**
- (c) **11%** that left for **Microsoft Defender**

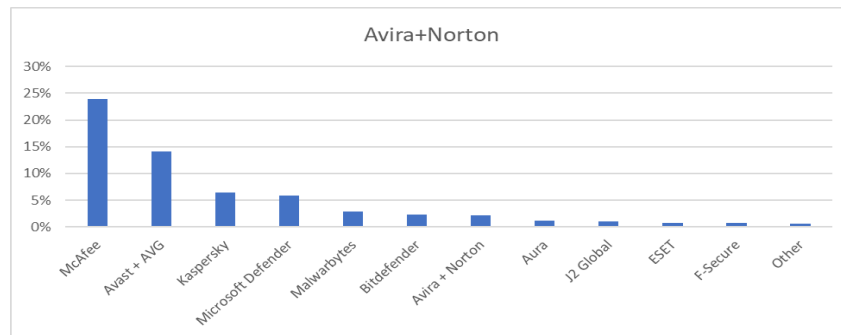
[confidential] cannot reconcile this finding with any argument that NortonLifeLock/Avira exercises a material competitive constraint on Avast/AVG in the UK.

*Providers capturing switches from Avast and AVG<sup>3</sup>*



4.1.2.2 While the number of respondents which switched from NortonLifeLock and Avira to either Avast or AVG was higher at 14%, **McAfee accounts for significantly more switches at 24%**. Further, two alternative providers each accounted for material switching percentages **Kaspersky at 6% and Defender at 6%**.

*Providers capturing switches from NortonLifeLock and Avira<sup>4</sup>*



4.1.3 Microsoft Defender is consistently listed as a common alternative provider that respondents have switched to. Even in the case of switches from Avira, where Microsoft Defender is slightly less popular compared to switches from other providers, Microsoft Defender remains the fifth (fourth if Avast and AVG are treated as one) most common alternative and correspond to 7% of the switches. The fact that a significant percentage of consumers actively switch to Microsoft Defender when leaving their current provider helps address the CMA’s concerns in its Phase 1 decision that the observable growth in Microsoft Defender is “*not directly relevant in itself to assess the extent to which the Parties’ customers would switch to Microsoft in the event of any price increase or quality degradation*”.<sup>5</sup>

4.1.4 Given that the survey covers switchers from the past two years and during that period, Microsoft has rolled out new, even better Defender products, it is possible that the proportion of switches to Microsoft Defender identified by the survey underplays the level of switching to Microsoft Defender as of today. In that regard, we would note that since conducting our survey of UK consumer preferences regarding CCS provider choices, Microsoft has announced the launch of a significant new Defender product, available to all consumers with a Microsoft 365 subscription, which we would expect to exert an even greater constraint on the merging parties:

4.1.5

4.1.6 <https://www.microsoft.com/security/blog/2022/06/16/making-the-world-a-safer-place-with-microsoft-defender-for-individuals/>

4.1.7 In addition to Microsoft Defender and irrespective of which incumbent software provider is considered, Kaspersky accounts for a significant number of the switches and appears to exercise a similar competitive constraint on remaining providers as NortonLifeLock and Avast / AVG.

4.1.8 Similarly, the switching to Malwarebytes is not insignificant (particularly for previous users of Avast) and it should not be disregarded from the list of credible competitors.

<sup>4</sup> **NB** the bar titled “Avira + Norton” represents switches from NortonLifeLock to Avira and from Avira to NortonLifeLock.

<sup>5</sup> ME/6968/21, *ibid*.

- 4.2 If helpful to the CMA, **[confidential]** would be happy to answer any questions regarding the survey, the methodology used and potential conclusions to be drawn from the results.

**[ ] June 2022**