



News Release

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CC PUBLISHES FINAL REPORT ON CLASSIFIED DIRECTORIES

The Competition Commission (CC) has today published its final report into the printed classified directories market. Yell, the publisher of *Yellow Pages*, will be required to comply with a number of restrictions, including a price control of RPI-6 per cent until March 2008 and RPI from that date onwards.

Chairman of the Inquiry Group, Diana Guy, said:

Whilst Yell still holds a powerful position in this market, our measures focus on the future and take into account the expected emergence of greater competition and the extent to which prices have reduced as a result of the existing price cap.

Yell's prices will be reduced until March 2008 following which any rises will be capped at RPI. We expect growing competition will increasingly constrain Yell's prices and that Yell will feel more pressure due to the Internet. In the meantime the price control will prevent Yell from exploiting its market power.

The other measures are designed to preserve developing competition from actions that could be targeted at competitors. This is a changing market and so we have recommended that the Office of Fair Trading review these remedies after three years.

The final report, which is published at www.competition-commission.org.uk, concludes that Yell has market power as a result of its strong brand and network effects. Prices have been largely constrained by the existing price cap rather than competition. Were it not for the price cap, customers of Yell would be paying more for advertisements in *Yellow Pages* than they would if the market was functioning well.

Whilst BT's entry into the market offers the prospect of stronger competition to Yell, the pace of its future growth is unclear and the extent to which its presence will translate into a significant constraint on Yell's prices remains uncertain. The CC expects that advertising on the Internet will increase in the future and that printed directory advertising may decrease. At present, however, limited numbers of customers are switching their spend from printed directories to the Internet and classified directories' revenues have continued to increase over the last five years.

The main remedies are as follows:

Price Control

- Yell's *Yellow Pages* advertisements will be subject to a price control of RPI–6 per cent until 31 March 2008 and thereafter RPI.
- This price control will apply to each type of advertisement.
- Volume discounts will be permitted provided they are published and available to all advertisers.

Local ('second-tier') directories

- Yell is no longer to be prevented from publishing second-tier directories, but will be subject to certain restrictions, namely circulation of each such directory will be capped at 25,000 and its distribution area must account for no more than 15 per cent of the area of the corresponding *Yellow Pages* directory.

Themed guides

- Yell may publish themed guides (ie guides on particular topics) provided these contain only a limited number of classifications.

Duration

- The CC recommends that these remedies are reviewed by the Office of Fair Trading (OFT) after three years.

Other matters

- Yell must publish a comprehensive rate card.
- Yell must prepare accounts for the OFT of its UK printed regulated directory business.
- Yell must comply with a good faith provision to ensure that the objectives of the remedies package are not circumvented.

Notes for editors

1. The classified directories market was first investigated by the Monopolies and Mergers Commission (MMC), which reported in 1996. The MMC found that a monopoly situation existed in favour of BT, which then published *Yellow Pages*. As a result, BT gave undertakings, including an undertaking not to raise the price of its advertisements by more than the increase in the RPI –2 per cent. A review of the undertakings by the OFT was announced in 2000 and it published its report in 2001. As a result of the OFT review the price control was strengthened, to RPI –6 per cent.
2. This was a market investigation reference under the Enterprise Act 2002. Under the Act, the OFT can refer a market to the CC if it has reasonable grounds for suspecting that competition is not working effectively in that market. The present reference was made by the OFT on 5 April 2005.
3. The members of the Inquiry Group are: Diana Guy (Inquiry Group Chairman), Roger Davis, Graham Hadley, Christopher Smallwood and Professor Catherine Waddams.
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