

**COMPLETED ACQUISITION BY GAME GROUP PLC
OF GAMES STATION LIMITED**

Statement of issues

Background to the reference

1. The inquiry group (the Group) is considering the acquisition of Games Station Limited (Gamestation) by Game Group PLC (Game). The Group is required to determine:
 - whether a relevant merger situation has been created; and
 - 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.
2. Game and Gamestation are both retailers of video gaming software (for consoles and PCs), video gaming hardware such as consoles and peripherals, and related products. Both also sell pre-owned software and hardware and will purchase traded-in used software and hardware from customers either for cash payment or for credit against other purchases.
3. Game has some 800 stores, concessions and franchises in nine countries; 395 of these stores are in the UK. It also operates two Internet sales sites.
4. Game purchased 217 of Gamestation's stores on 2 May 2007; all these stores are located in the UK. 35 stores which were concessions inside Blockbuster stores were not part of the transaction. Gamestation also operates an Internet sales site.

Market definition

5. The Group will explore the appropriate definition of the economic market or markets affected by the merger (the relevant market(s)). In particular, whether:
 - (a) the relevant geographic market(s) is/are local, regional, national or international, and if the relevant geographic markets are local, the extent of these markets;
 - (b) there are separate relevant markets for gaming software, consoles, and peripherals;
 - (c) there are separate relevant markets for new (mint) and pre-owned software, and mint and pre-owned hardware;
 - (d) there is a separate relevant market for the trade-in of software and hardware;
 - (e) there is a separate market for online gaming;
 - (f) markets should be defined according to:
 - (i) different platforms such as PCs, and different types of console; and
 - (ii) different types of customers, such as core gamers, casual gamers and gift purchasers.

Theories of harm

6. The Group has provisionally identified four hypothetical and provisional theories of harm which may be related to the effects of the merger ((a) to (d) below). These do not preclude an SLC being identified on another basis. The theories advanced consider whether or not the merger has resulted, or may be expected to result in:
 - (a) an increase in the market power of the merged entity in the supply of pre-owned gaming software and hardware;
 - (b) an increase in the market power of the merged entity for the trade-in of gaming software and hardware;
 - (c) an increase in the market power of the merged entity in the purchase of gaming software and hardware such as to harm suppliers and their incentives to innovate, and/or to induce suppliers to discriminate unfairly in the allocation of products to the merged entity; and
 - (d) an increase in the market power of the merged entity in the supply of mint gaming software and hardware.

7. The Group has also provisionally identified six ways in which the merger might generate an SLC, which might face some customers with:
 - (a) an increase in the price of gaming software and hardware; and/or
 - (b) a reduction in promotions for gaming software and hardware; and/or
 - (c) a reduction in the range of gaming software and hardware offered; and/or
 - (d) a reduction in the quality of service offered by these retailers to customers; and/or
 - (e) a reduction in the trade-in values offered for gaming software and hardware; and/or
 - (f) a reduction in innovation by these retailers and suppliers.

Related competitive issues

8. The Group intends to consider a number of issues, identified below, when determining whether the merger may be expected to lead to an SLC on the basis of any of the above, or any other, theories:
 - (a) the degree to which (if at all) Game and Gamestation have competed with each other historically, currently compete, or are likely to compete in the future;
 - (b) the degree to which (if at all) Game and Gamestation serve different customer groups and the extent to which these groups view Game and Gamestation as potential substitute suppliers;
 - (c) whether, and if so to what extent, Game and Gamestation have historically faced, currently face or are likely to face actual and/or potential competition from other specialist video game retailers;

- (d) whether Game and Gamestation have historically faced, currently face or are likely to face actual and/or potential competition from other sources, such as general retailers, supermarkets and internet suppliers;
- (e) whether competition between video game retailers is national or differs throughout the UK on a local basis, and if so, what differences occur;
- (f) how competition is manifested, for example in prices, promotions, range of games sold, advice and customer service, innovation, etc;
- (g) whether customers are willing to substitute between new and pre-owned purchases;
- (h) whether there are any significant actual or perceived barriers restricting the ability of customers to switch between different types of retailers (for example because of a perception that non-specialist retailers cannot give advice, because other retailers are perceived to have inferior ranges, or because gamers may in some cases require the games immediately and are not willing to wait for delivery from remote suppliers);
- (i) whether, for pre-owned products, there are particular barriers to switching to other retailers, especially Internet-based retailers or auction websites because customers perceive a higher risk of products being damaged or faulty, incompatible, or pirated, and/or returning such products would be more difficult in the case of a remote supplier;
- (j) whether consumers perceive there are greater risks or lower returns in selling pre-owned goods on the Internet rather than trading-in, and/or whether consumers believe Internet selling is too difficult;
- (k) whether informal sales routes such as swapping games or car boot sales are a constraint on retailers in the market for pre-owned product or for trade-ins;
- (l) whether any gains to the merged company in purchasing power would increase its ability to negotiate exclusive distribution deals (on a temporary or permanent basis), or exclusive special editions from suppliers;
- (m) whether any gains in purchasing power to the merged company would increase its ability to demand a disproportionate share of supplies of consoles or other products when these are in short supply, or otherwise discriminate unfairly in the terms of supply in favour of the merged entity, and whether this would also enhance the merged company's ability to realize further sales because of customers developing a loyalty to the store where they purchased consoles or related products;
- (n) whether these gains to the merged company in purchasing power would impact on competition in the market through damaging competitors' ability to compete;
- (o) whether there is sufficient competitive pressure in the market to ensure that the benefits of any better terms obtained from suppliers by the merged company are passed on to customers;
- (p) whether any gains to the merged company in purchasing power would result in suppliers trying to recover margins by worsening terms to any other retailers;

- (q) whether any gains in purchasing power would adversely impact on suppliers and damage competition in the supply of gaming products or harm incentives to innovate in the UK; and
- (r) whether any barriers to entry or expansion in any relevant market are likely to change as a result of the merger.

Offsetting factors

- 9. The Group will explore whether any factors might offset any of the consequences of the merger, in particular:
 - (a) whether and if so to what extent any potential lessening of competition might be offset by sustainable entry or expansion into retailing of video gaming products;
 - (b) whether any identifiable trends in any relevant market have had, or may be expected to have a significant effect on competition in any relevant market in the short to medium term which may offset any effects of the merger (or alternatively reinforce those effects); and
 - (c) whether technological trends might significantly affect competition in any relevant market in the short to medium term which may offset any effects of the merger (or alternatively reinforce those effects).

Substantial lessening of competition

- 10. The Group will consider whether, taking account of all the above, the merger has resulted, or may be expected to result in an SLC in any relevant market.

The counterfactual

- 11. The Group will compare the expected effects of the merger against the situation which is most likely to have occurred had the merger not taken place (the counterfactual). In particular, whether in the absence of this merger:
 - (a) Gamestation would have been likely to have been acquired by an alternative purchaser, and if so what strategy such a purchaser would have followed; or
 - (b) Gamestation would have been likely to have remained as an independent competitor in the short to medium term, and if so what strategy it would have been likely to follow.

Relevant customer benefits

- 12. The Group will explore whether any relevant customer benefits may be expected to arise as a result of the merger, the nature of any such benefits, and those customers most likely to receive those benefits.

Possible remedies

- 13. Should the Group conclude that the merger has resulted, or may be expected to result in an SLC, it will consider whether remedies are appropriate and what remedies would effectively address the SLC. If so, the Group will issue a further statement at the appropriate stage.

Comments

14. Anyone wishing to comment on any of the issues raised is requested to do so by 28 September 2007 by email to game.gamestation@cc.gsi.gov.uk or in writing to:

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