



# News Release

32/06

13 June 2006

## **CC PUBLISHES PROVISIONAL FINDINGS ON CLASSIFIED DIRECTORIES**

The Competition Commission (CC) has today published provisional findings in its market investigation into classified directory advertising services.

The CC has provisionally found that Yell can set prices to advertisers above competitive levels, with a market share of around 75%, five times that of its nearest competitor. *Yellow Pages* is a very strong brand and Yell, as the market leader, has high customer usage, which reinforces its leading position. There is little, if any, price competition and were it not for the current price control Yell would be able to use its position to set prices that would be higher than in a well-functioning market.

The majority of Yell's prices have exactly matched the maximum permitted by the price control and do not appear to be constrained by competitors. Discounts are offered to some new advertisers and to encourage increased expenditure, but the CC has found little evidence that these discounts are given in response to competition, whether from other directory providers or from the Internet.

The inquiry group chairman Diana Guy said :

“Yell continues to hold a powerful position in this market and we have found that competition is not working effectively. Prices are capped at the moment and we think that, without this price cap, advertisers would pay more than in a well functioning market.

“We accept that BT's re-entry into this market in the last few years is, potentially, a very significant development, and BT has been growing rapidly. However, its market presence is still small compared to Yell's, and Yell has continued to grow its revenues.

“We have given a lot of thought to the impact of the Internet. Clearly, use of the Internet for finding business contact details has grown significantly in the last few years. Despite this development, we have found that many people continue to use printed directories, so that businesses are continuing to advertise in them, and, in fact, the revenues of all the major directory providers have continued to grow. The position seems to be that the Internet, with its powerful search facilities and the ability to buy online, offers a new, and different, product for advertisers. Over time, it may well be that more and more advertisers will switch to the Internet, but we feel there is little that

the directory providers can do, in terms of lowering their prices, to prevent this happening.

“We are now consulting on remedies, and we expect discussions to focus on the level and scope of possible price controls. In deciding how long any price control might be needed, we will take account of the changing nature of this market.”

A summary of the provisional findings report is published today at [www.competition-commission.org.uk/inquiries/ref2005/classdirec/index.htm](http://www.competition-commission.org.uk/inquiries/ref2005/classdirec/index.htm). The full report will be published shortly. The CC has been asked to investigate whether any features of the supply of classified directory advertising services prevent, restrict or distort competition and, if so, what action might be taken to remedy this. The summary points out that:

- Despite the re-entry of BT, Yell remains by far the largest provider in a highly concentrated market, benefiting from a very strong brand and network effects which arise when increasing numbers of advertisements in a directory attract an increasing number of users which in turn attracts more advertisers.
- The network effect strengthens the position of the existing providers and operates as a barrier to entry. Although BT re-entered the market in 2003, it appears to hold particular advantages (existing phone books and a strong, relevant brand) compared to other potential entrants. Another entrant, Trinity Mirror, has launched a number of directories in Scotland, where it has local strengths as owner of the *Scottish Daily Record*, but it seems unlikely that it will expand elsewhere in the UK.
- Yell's rate card prices have generally been set at the levels allowed by the current price control and other providers set their prices in relation to Yell. Yell offers discounts to some new advertisers and to encourage increased expenditure by existing advertisers, actions which could also be consistent with those of a firm with market power.
- Revenues for CDAS providers have continued to rise. Large numbers of advertisers have not withdrawn or reduced their spending in printed directories as a result of the availability of advertising on the Internet. Advertisers appear to view the Internet as a complement to existing CDAS expenditure.
- Classified advertising in local newspapers is significantly different from that in directories, particularly in terms of its temporary nature, and is not viewed by most advertisers as a substitute. Smaller local classified directories are also not viewed by many advertisers as a real alternative.

The CC has also today published a notice of remedies and seek views on these and the provisional findings report itself by 14 July 2006. To submit evidence, please write to:

Inquiry Secretary (Classified Directories Market inquiry)  
Competition Commission  
Victoria House  
Southampton Row  
LONDON  
WC1B 4AD

Or email: [classified.directories@cc.gsi.gov.uk](mailto:classified.directories@cc.gsi.gov.uk)

## Notes for editors

1. Under the Enterprise Act 2002 the OFT can make a market investigation reference to the CC if it has reasonable grounds for suspecting that competition is not working effectively in that market.
2. The market for classified directory advertising services was referred to the CC by the OFT on 5 April 2005. It follows a Monopolies and Mergers Commission (MMC) investigation ten years ago which found that a monopoly situation existed in favour of BT, the then owner of the *Yellow Pages* business. As a result of the MMC's investigation, undertakings were given by BT. These included a price cap of RPI – 2 per cent on advertising rates, a requirement to provide a price list to anyone requesting it and a restriction preventing (with certain exceptions) the distribution areas of its directories from overlapping. The undertakings were reviewed by the OFT in 2001 and the price cap was strengthened to RPI – 6 per cent. In June 2001, BT sold the *Yellow Pages* business to a consortium of investment funds which agreed to comply with the undertakings that BT had given to the Secretary of State for Trade and Industry in 2001.
3. The members of the Inquiry Group are: Diana Guy (Group Chairman), Graham Hadley, Christopher Smallwood, Professor Catherine Waddams and Roger Davis.
4. A revised administrative timetable has now been published on the CC web site, indicating an intention to publish the final report in November 2006. The CC is required to publish its final report no later than 4 April 2007.
5. Further information on the CC and its procedures, including its policy on the provision of information and the disclosure of evidence, can be obtained from its web site at: [www.competition-commission.org.uk](http://www.competition-commission.org.uk).
6. Enquiries to Rory Taylor on 020 7271 0242 or [rory.taylor@cc.gsi.gov.uk](mailto:rory.taylor@cc.gsi.gov.uk).