

**VNU Entertainment Media UK Limited  
and  
Book Data Limited**

A report on the acquisition by VNU Entertainment  
Media UK Limited of Book Data Limited



COMPETITION COMMISSION

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A report on the acquisition by VNU  
Entertainment Media UK Limited of  
Book Data Limited

**Presented to Parliament by the Secretary of State for  
Trade and Industry by Command of Her Majesty  
March 2003**



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<sup>1</sup>These members formed the Group which was responsible for this report under the Chairmanship of Professor D Parker.

## **Note by the Department of Trade and Industry**

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which she considers would not be in the public interest to disclose and which, in her opinion, would seriously and prejudicially affect certain interests.

**The omissions are indicated by a note in the text or, where space does not permit, by the symbol ✂.**

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Part I

# **Summary and Conclusions**

# 1 Summary

1.1. We were asked to report on the acquisition by VNU Entertainment Media UK Limited (VNU) of Book Data Limited (Book Data): see Appendix 1.1 for our terms of reference. VNU and Book Data both supply databases of UK-published books and certain other services for the book industry.

1.2. The ultimate holding company of VNU is VNU nv, a Dutch company which is active worldwide in markets for consumer and professional information. In 2001 the group had revenues of £2.6 billion and operating income of £450 million. VNU itself was formerly called J Whitaker & Sons Limited, a business with its origins in the UK book industry in the 1850s. VNU nv acquired the company in 1999. VNU reported an operating profit in 2001 of £2.1 million on sales of £12.5 million.

1.3. Book Data was incorporated in 1986 with backing from financial institutions. Immediately before the merger, 55.6 per cent of its shares were held by Baker & Taylor Inc, a US book wholesaler, 42.6 per cent by financial institutions and 1.8 per cent by the company's senior managers. In the year to 31 March 2002, Book Data reported an operating profit of £120,000 on sales of £4.9 million.

1.4. There were two previous attempts, one in 1997/98 and one in 1999/2000, to merge VNU's bibliographic business with Book Data. Then in 2001 Book Data's shareholders decided to seek a buyer for the company. Three bids were received, of which VNU's was [X] the highest.

1.5. The operations of VNU and Book Data overlap in two broad areas of activity: the supply of commercial bibliographic data services, and the supply of electronic transaction services to the book industry.

1.6. Commercial bibliographic data is information that is used to identify, locate and order books, to assist with purchasing and to manage stock. The information is supplied by publishers to VNU and Book Data for editing and collation, in standardized form, in their respective databases. Commercial bibliographic data is distinguished from catalogue-quality data, which is used by libraries for cataloguing and managing their collections and for informing readers about the content of books. We defined the relevant market as the supply in the UK of commercial bibliographic data services of the kind provided by VNU and Book Data. We found that the merged parties were the only two suppliers to this market.

1.7. As regards transaction services, we decided that the electronic order-routing service provided by VNU's TeleOrdering operation was in a separate market from other transaction services, including the electronic data interchange services provided by Book Data's subsidiary, First Edition EDI Services Limited (First Edition).

1.8. There was evidence that VNU and Book Data were in strong and direct competition with each other in the commercial bibliographic data market before the merger.

1.9. VNU submitted that, if it had not acquired Book Data, it was virtually certain that the US bibliographic agency, R R Bowker llc (Bowker), the underbidder in the auction for Book Data, would have done so instead. VNU would then have left the UK commercial bibliographic data market because it would have had no prospect of trading profitably.

1.10. In considering this argument, we noted the following:

- (a) The financial performance of VNU's bibliographic business has been declining for several years, principally because of falling sales caused by competition from Book Data.
- (b) In the absence of the merger, VNU would have saved some £[X] had its bibliographic business not operated in 2002. This amount is high in relation to its sales of around £[X] million. On present indications its loss on the same basis could be expected to have risen to around £[X] million in 2003.
- (c) There is no indication that a significant recovery in financial performance could have been expected in the foreseeable future.
- (d) Book Data's own lack of financial success, despite rising sales, does not suggest that the market would support two profitable operations.
- (e) Although VNU would have incurred substantial closure costs had it left the bibliographic market, it would clearly have benefited it to incur those costs rather than keep the business operating. There is no reason to think that a third party would have been interested in buying VNU's bibliographic business in order to compete with Book Data.
- (f) The substantial cost savings available from the merger, as a result of the elimination of duplicated costs, help to explain why two competing suppliers would have difficulty in earning an adequate return in this market.

1.11. We believe it is likely that, in the absence of the merger, Book Data would have been acquired by Bowker and would have become the only supplier of commercial bibliographic data in the UK, following VNU's exit. This outcome would have been similar to the post-merger situation, with a single supplier of commercial bibliographic data facing no direct competition. There would, however, have been some lessening of potential competition because Bowker would then have been the only commercial bibliographic agency worldwide for English-language books, whereas following the merger there are two—VNU and Bowker—and Bowker remains as a potential entrant to the UK market for the future.

1.12. In relation to electronic transaction services, it follows from our market definition that the merger has not significantly reduced actual competition between TeleOrdering and First Edition. There remains the issue of whether potential competition was lost, because we consider that the two services, [ X ], could have continued in separate ownership and might have developed as competitors. However, the evidence is too weak for us to conclude that there has been a significant loss of potential competition.

1.13. In 2002 VNU was the principal competitor to Bibliographic Data Services Limited (BDS), which is 40 per cent owned by Book Data, for a three-year contract to supply the British Library with cataloguing-in-publication data, a form of catalogue-quality data. Given that the contract will not come up for tender again until 2005, we consider there is not a sufficient basis for believing that the merger has significantly reduced future competition for this contract. Further, we do not accept the proposition put to us by one party that VNU was a potential competitor to BDS in the supply of other catalogue-quality data.

1.14. We conclude that the merger does not operate, and may not be expected to operate, against the public interest.

1.15. It is understandable that some customers and some suppliers of data, which have benefited from the competition that existed between VNU and Book Data in the commercial bibliographic data market, should have concerns about the disappearance of that competition. We would draw their attention to the following considerations:

- (a) The merger offers the prospect of some benefits, particularly from the expectation that the merged entity will be better able to fund investment in improving and developing its products.
- (b) VNU gave us assurances about its intended future conduct, which are recorded in our report.
- (c) VNU will be in a dominant position in the commercial bibliographic data market. As such it will be subject to the provisions of the Competition Act 1998 which prohibit the abuse of a dominant position.
- (d) If VNU were to cause discontent among customers, some (particularly smaller) customers might satisfy their requirements for bibliographic data in different ways, while larger customers might seek to encourage an entrant. While the market would not be attractive to an entrant at present, Bowker would be well placed to enter if the market evolved in such a way as to create an opportunity for a second, financially viable, provider.