Evidence on switching and substitutability of CDAS products

1. The extent to which advertisers switch between CDAS providers is one indicator of the strength of competition in the market. Advertiser switching in response to changes in the price or attractiveness of rival CDAS products would provide evidence both of the substitutability of CDAS products and of advertisers' responsiveness to price (or attractiveness) differentials. Though evidence of switching would suggest a competitive market, an absence of switching would not necessarily imply a lack of competition in the market: for example, if price cuts are made and matched by different providers little switching would be likely to occur, even though price competition would be strong. Switching behaviour is also a source of evidence on the impact of BT's entry to the market. Evidence on switching comes from aggregate level data; from the BMRB survey carried out for this investigation and published on our website; and from Yell market research, databases, and surveys.

2. The CC's price indices for Thomson and Yell show Thomson's prices fell, on average, at a faster rate than Yell's during the period of analysis; this implies a reduction in the relative prices of Thomson's advertisements (and hence an increase in the relative price of Yell advertisements). Given these relative price changes, shifts in expenditure away from Yell and towards Thomson might be expected. However, the stability in Thomson and Yell's market shares over time (until BT's entry) suggests that advertisers have not been switching between Yell and Thomson at an aggregate level. Some possible and mutually compatible explanations for this lack of switching are that the increases in Yell's relative prices (decreases in Thomson's relative prices) have been offset by corresponding improvements in Yell's relative quality so that there has been little change in the relative net value[1] of advertisements in the two books, that Yell and Thomson's products are not seen as close substitutes by some advertisers, that advertisers do not respond quickly to price changes and that Thomson has had to cut prices in response to Yell's re-scoping activity.[2]

3. We analysed changes in Yell, Thomson and BT's advertiser bases over time. Table 1 shows the numbers of new and retained advertisers and retention rates for the major directories.

[1]We would expect advertisers to make their expenditure decision between Yell and Thomson based on the price and quality (in terms of some measure of expected leads per advertisement) of these directory providers' products. The net value of an advertisement will increase with quality and decrease with price. This raises the possibility that if a directory provider's relative prices rise, but this price rise is accompanied by a relative quality increase, the relative net value of its service to advertisers may be unaffected.
[2]The Yell price index does not reflect price changes due to re-scoping. Thomson's price index (since there have been no substantive re-scopes) analyses all price changes and so will reflect any changes due to Thomson's reaction to re-scoping.

TABLE 1 **New advertisers, retained advertisers and retention rates**

	1999	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
Number of new advertisers per year							
Yell	N/A*	N/A	N/A				
Thomson		[✄]			[✄]		
BT							
Number of retained advertisers per year							
Yell†	N/A	N/A	N/A				
Thomson		[✄]			[✄]		
BT							
Retention rates‡ (%)							
Yell			N/A	80	79	75	75
Thomson				[✄]		[✄]	
BT							

Source: BT, Thomson, and Yell.

*Figures are not available prior to 2002/03 due to change in Yell's IT systems.
†Yell figures include *Business Pages* as well as *Yellow Pages*.
‡(Number of existing advertisers in year 1)/Total number of advertisers in year 0) x 100.

4. It appears that Yell's introduction of new advertiser discounts in 2000 may have temporarily affected Thomson's ability to attract new advertisers, although Thomson's new advertiser numbers have increased again in 2002 to 2004. Yell attracted increasing numbers of new advertisers in 2002 and 2003. In 2004, there was a [✄] per cent drop in the number of new advertisers attracted by Yell, which suggests that BT's entry may have had an impact on Yell's ability to attract new advertisers.

5. The number of advertisers retained by Yell and Thomson have increased between 2002 and 2005; this is set out in Table 1. If advertisers switch all their expenditure regularly then they will not become 'existing' from the point of view of a particular directory provider. This means that even if a growing number of advertisers are using CDAS, total switching will prevent the 'existing' advertiser base from increasing. The increase in Yell and Thomson's 'existing' advertiser base suggests a low degree of total switching between directory providers; it seems that switching, when it occurs, is likely to be partial rather than total.

6. The number of 'existing' advertisers present in Yell's and Thomson's directories does not appear to have been affected significantly by BT's entry. BT entered with low relative prices; we might expect some switching to BT in this case if BT was seen as a substitute to Yell and Thomson. The absence of an effect on Yell and Thomson's existing customer numbers suggests that BT was not seen as a strong enough substitute for advertisers to stop advertising in Yell and Thomson by these advertisers at the time. This does not preclude the possibility that there was partial switching or rebalancing of expenditure by advertisers since this would not affect the number of existing advertisers. Partial switching is discussed further below.

7. Yell told us that the pattern of existing customer switching had changed recently, however. Yell provided the CC with data showing that the percentage of new advertisers retained at the third renewal had fallen from [✄] per cent for those advertisers who were new to Yell in the year ended 31 March 1997, to [✄] per cent for those advertisers who were new to Yell in the year ended 31 March 2001.

8. The main directory providers use advertiser retention rates—the percentage of advertisers who retain a presence in a directory after advertising in it in a previous year—as a key performance indicator. Changes in retention rates could indicate

changes in the degree of competition in the market; in a highly competitive market exhibiting a high degree of complete advertiser switching, retention rates would tend to be low. A drop in retention rates does not necessarily imply an increase in competition, however—new advertisers tend to have lower retention rates and so if a business becomes more successful in attracting a large number of new advertisers it is likely to see its retention rates fall.

9. BT told us that its success was demonstrated by the fact that Yell's retention rates had fallen during the period when BT was entering; Table 1 shows that Yell retention rates fell from 78 to 75 per cent between 2003 and 2005. During this period, Yell also increased the number of new advertisers in its directories; this may have contributed to the decline in retention rates for the reason noted above.

10. Yell also provided data showing that retention rates for 'third year and over' advertisers over three years were [✂]. Figure 1 shows that Yell's retention rates have been in decline [✂], but that the decline has been [✂] ([✂] per cent) in Yell's [✂], although not in [✂].

FIGURE 1

Yell's retention rates—third year and over customer retention rates by *Yellow Pages* classification tier

[✂]

Source: Yell.

11. Our analysis of the data provided by Thomson shows that it has managed to increase its retention rates over the period: Thomson's retention rates increased from [✂] per cent in 2000 to [✂] per cent in 2002; they remained stable between 2002 and 2004 at [✂] per cent; and declined slightly in 2005 to [✂] per cent. This recent decrease in retention may be due to increased competitive pressure from BT.

12. Switching may occur without giving rise to reductions in advertiser numbers if advertisers reduce expenditure in a directory in order to increase expenditure in another, rather than moving all expenditure to an alternative directory. Thus the absence of large shifts in advertiser numbers does not necessarily imply an absence of switching. The classified directory market is characterized by 'multi-sourcing'—many advertisers purchase advertising from several different CDAS providers. Our BMRB survey showed that about half (46 per cent) of current CDAS advertisers only use one directory supplier, and the other half use two suppliers or more (35 per cent use two and 17 per cent use three suppliers). In particular, very few advertisers do not advertise in Yell: our survey suggests that 92 per cent of all current CDAS advertisers with the three main directories advertise in Yell, and therefore it is more likely that these would only switch part of their expenditure in response to BT's entry or other competition, rather than completely switch away from Yell.

13. Multi-sourcing[3] means that partial switching may not be reflected in retention rates or in advertiser base changes, but in a fall in advertiser spending. Table 2 shows changes in expenditure per advertiser, depending on the status of the advertiser. Average expenditure per Yell advertiser has remained broadly stable over time; there was a slight fall in 2003 (by [✂] per cent) but expenditure increased in 2004. Thomson's expenditure per advertiser has also remained broadly stable. If we only

[3]Discussed above. 46 per cent of advertisers in the BMRB survey used only one directory provider, others used two or more.

look at expenditure per 'retained' advertiser, the pattern of overall stability of average expenditure is also present; this does not suggest that advertisers have been shifting expenditure away from Yell and Thomson and into BT. Our AIA study, carried out for this investigation and published on the CC website, suggested that, currently, advertisers have been trying out or testing BT rather than switching to BT; the data on expenditure per advertiser confirms this.

TABLE 2 **Average expenditure per advertiser**

	1999	*2000*	*2001*	*2002*	*2003*	*2004*
Average expenditure per advertiser (£)						
Yell						
Thomson			✂			
BT						
Average expenditure per retained advertiser						
Yell						
Thomson (includes first year renewing advertisers)			✂			
BT						

Source: BT, Thomson and Yell.

14. The BMRB survey asked respondents whether they had decreased expenditure in the past three years, and, if so, whether they had switched that expenditure to another CDAS provider.[4] By focusing on decreases in expenditure, the BMRB survey covered both total switching and partial switching. In general, this showed that 17 per cent of all current CDAS advertisers who had reduced expenditure with one directory had switched that expenditure to another directory in the past three years, representing 7 per cent of all current CDAS advertisers. Table 3 shows that the 17 per cent of *Yellow Pages* advertisers who decreased expenditure with *Yellow Pages* were more likely to have switched to BT (12 per cent) than to Thomson (4 per cent). The 21 per cent of Thomson advertisers that had decreased expenditure with Thomson were more likely to have switched to Yell (12 per cent) than to BT (9 per cent).[5] In both cases, switching to BT was higher than would be suggested by market shares.

[4]Or to other media—the data on switching to other media was analysed in the CC's market definition working paper.
[5]The sample sizes of those advertisers reducing expenditure and switching to other CDAS are small.

TABLE 3 **Switching (total and partial) within CDAS in past three years**

per cent

	Directories in which spending was reduced in last three years					
Directory switched to	*Yellow Pages*	*Business Pages*	*Thomson Local*	*BT Phone Book*	*Others*	*Total*
Yellow Pages	1*	11	12	10	15	5
Thomson Local	4	0	0	0	0	3
BT *Phone Book*	12	6	9	5†	3	10
Base	459	18	155	77	40	596

Source: BMRB, CC calculations.

*This figure is reported from the BMRB survey; this advertiser may have switched expenditure between Yell classifications or from Yell's *Business Pages* to *Yellow Pages*.
†This figure is reported from the BMRB survey; these advertisers may have switched expenditure between BT classifications or from the A–Z sections to the classified sections of *The Phone Book.*

15. Large advertisers were more likely than smaller advertisers to have reduced expenditure with a directory in the past three years (47 per cent of national advertisers against 35 per cent of local advertisers). Larger advertisers were also more likely to have switched their expenditure to another directory (20 per cent of national advertisers decreasing expenditure, against 15 per cent of local advertisers), and in particular to BT (12 per cent of national advertisers against 7 per cent of local advertisers).

16. The BMRB survey suggests that BT is taking a slightly higher proportion of advertisers from Thomson than it is from Yell, compared with those directory providers' market shares. According to the survey, out of a total of 60 advertisers who increased expenditure with BT by switching from other directory providers, 55 (80 per cent) advertisers decreased their expenditure with Yell and 14 (20 per cent) decreased their expenditure with Thomson. If BT attracted expenditure from advertisers using its rival national directories in proportion to market shares, this would imply BT taking about 15 per cent from Thomson and 85 per cent from Yell.

17. The relatively small sample of advertisers who had switched between directories were asked the reasons for switching; responses are presented in Table 12. As might be expected, the main reasons mentioned related to the net value of advertising in terms of price or response to advertising. A lower price was more important for advertisers who switched to BT (41 per cent) and to Thomson (33 per cent) than for advertisers who switched to Yell (14 per cent), whereas a higher response to advertising was the most important reason for advertisers switching to *Yellow Pages* (62 per cent).

TABLE 4 **Reasons for switching advertising between classified directories (total and partial switching)**

per cent

	Switched to Yellow Pages (29)	*Switched to Thomson Local (18)*	*Switched to BT (58)*
Alternative directory provider offered lower price	14	33	41
Alternative directory provider offered colour or higher quality reproduction	7	17	10
Alternative directory provider offered higher quality of response to advertising	62	28	19
Alternative directory provider offered advertising on the Internet	14	6	7
Alternative directory provider covered larger geographical areas	21	6	21
Alternative directory provider covered smaller geographical areas	3	33	9
None of these reasons	3	11	5
Other answers	28	33	36

Source: BMRB.

Notes:
1. Base: All national/regional/local classified directory advertisers who switched advertising expenditure to another directory (99).
2. Multiple response: percentages for all responses sum to more than 100 per cent.

18. The BMRB survey also asked advertisers whether they had increased expenditure with a directory over the past three years. From the responses to these questions, it is possible to calculate how each directory provider obtained increases in expenditure; this is shown in Table 5. Only a small proportion of advertisers who increased expenditure with Yell (either existing advertisers spending more or new advertisers) did so by switching expenditure from another directory (7 per cent).

19. The fact that in our sample only a small proportion of advertisers had increased expenditure with Yell by switching spend from other CDAS providers could be seen as an indication that Yell's discount schemes have had more impact on attracting advertisers new to classified directories than they have had on switching. Using discounts to attract advertisers new to classified advertising may be evidence of competition since the advertisers new to CDAS that Yell has been able to attract using discounts might otherwise have used another provider.

20. The proportion of advertisers who switched expenditure from other CDAS providers in order to increase expenditure with BT was higher (33 per cent). These cases indicate that BT's entry has had an impact on competition in the market since advertisers have switched expenditure to the (lower priced) new BT directory. The remaining 67 per cent of advertisers had started using BT by increasing overall classified directory expenditure, suggesting that for some advertisers, BT is currently a complementary product or a product being trialled.

TABLE 5 **Increased directory expenditure**

	*By switching expenditure from another directory** %	*By increasing CDAS expenditure†* %	*Total number of customers*
Yellow Pages	7	93	421
BT	33	67	180
Thomson Local	14	86	133

Source:

*From answers to the questions: Did you decrease your expenditure on a directory and where did you switch the expenditure to?
†From the answers to the question: Did you increase your expenditure on a directory and did you switch the expenditure from another directory?

21. In addition to the CC's BMRB survey, the CC has been supplied with evidence from a survey carried out by FDS on behalf of Yell.[6] The FDS survey, commissioned in late 2005, analysed the advertising media used by advertisers who were lapsed (had stopped using Yellow Pages), had reduced expenditure with Yell, and those advertisers regarded as 'prospect' advertisers.

22. Nationally, [✂] per cent of Yell customers that bought advertising in a Yell directory in the year ended March 2005 did not do so in the year ended March 2006; these advertisers are defined by FDS as 'lapsed'. FDS surveyed [✂] lapsed advertisers and split these into groups based on their location and the tier (Gold, Silver or Bronze) that their classification was assigned to. Weighting for the sampling of various groups the FDS survey suggests that of lapsed advertisers, [✂] per cent were still using advertisements in BT's directories, [✂] per cent were still using advertisements in Thomson's directories and [✂] per cent were still using other local directories. This would suggest that of all Yell's advertisers in the year ended March 2005, [✂] per cent stopped using Yell and continued to use BT, [✂] per cent stopped using Yell and continued to use Thomson, and [✂] per cent lapsed and continued to use other local directories.

23. Of those advertisers who had purchased advertisements in the year ending March 2005, [✂] per cent had decreased their expenditure in the year ending March 2006. FDS surveyed [✂] of these advertisers. [✂] per cent were also using advertisements in BT's directories, [✂] per cent were also using advertisements in Thomson's directories and [✂] per cent were also using other local directories. This would suggest that of all Yell's advertisers in the year ended March 2005, [✂] per cent reduced expenditure with Yell while continuing to advertise with BT, [✂] per cent reduced expenditure with Yell while continuing to advertise with Thomson, and [✂] per cent reduced expenditure with Yell while continuing to advertise in local directories.

24. Yell also supplied us with a study of advertisers in [✂] that was designed to analyse the effects of the entry of BT. The study compared the presence of individual advertisers in the Yell 2004/05 and 2005/06 directories[7] and the BT 2005/06 directory.[8] Of the new[9] advertisers present in 2005/06, [✂] per cent were only in BT, [✂] per cent were only in Yell and [✂] per cent were in both BT and Yell. If this study

[6]The FDS survey was supplied by Yell during the investigation.
[7][✂]
[8][✂]
[9][✂] advertisers that had not been present in the Yell 2004/05 directory. Of these, [✂] in BT only, [✂] in Yell only, [✂] in both BT and Yell.

was representative of other directory areas, it would suggest that BT is relatively successful at attracting new advertisers.

25. Yell's [✂] study also showed that of BT's advertisers [✂] per cent were new[10] advertisers in BT only, [✂] per cent were in both BT and Yell, and [✂] per cent had switched (total switching) to BT from Yell. The [✂] advertisers (representing [✂] per cent of BT's total advertisers) who had switched from Yell represented [✂] per cent of Yell's advertisers.[11]

26. Yell provided us with information from a database that captures information on the advertising media used by its current, prospective and lapsed advertisers. Yell has only recently started to construct this database but was able to provide us with data on 13 BT directories. This information, which is similar to the [✂] study, is presented in Tables 6 and 7.

TABLE 6 **Usage of BT directories by lapsed Yell advertisers**

BT Phone Book	*No of Yellow Pages advertisers year 1*	*No of lapsed Yellow Pages advertisers*	*Lapsed Yellow Pages advertisers also in BT*	*Lapsed as a % of total*	*% of lapsed in BT*	*% of Year 1 advertisers lapsed and using BT*	*Ave loss lapsed in BT £*	*Ave loss, lapsed not in BT £*

✂

Source: Yell.

[10]Not in Yell's 2004/05 directory.
[11]Yell had [✂] of advertisers in 2004/05. Of these, [✂] were not present in 2005/06 but were present in BT in 2005/06.

TABLE 7 **Usage of BT directories by Yell advertisers reducing expenditure**

BT Phone Book	*No of Yellow Pages advertisers year 1*	*Number of 'reducing' advertisers in BT*	*Percentage of year 1 advertisers reducing Yellow Pages expenditure and using BT*	*Number of 'reducing advertisers not in BT*	*Percentage of year 1 advertisers reducing Yellow Pages expenditure and not using BT*	*Average value of reducing advertiser if in BT*	*Average value of decreasing advertiser if not in BT*
✂							

Source:

27. The data presented above provide more evidence on switching. Though there is some variation between directories, the aggregate picture shows well what the position is for individual directories. [✂] per cent of Year 1 customers were lapsed—of these lapsed customers [✂] per cent were using BT; [✂] per cent of Yell's Year 1 customers were both lapsed and using BT, according to this database. The database also contains evidence that can provide insight into the level of partial switching: the percentage of advertisers who had decreased expenditure with Yell and were present in BT's directory was [✂] per cent.

28. Though the database suggests that the number of advertisers totally or partially switching to BT is low, it also contains evidence that suggests that the level of revenue switching (both partial and total) is greater than the level of total advertiser switching. Yell show that the average prior expenditure of those advertisers who lapse and continue to advertise with BT, is higher than the average expenditure of those who lapse; Table 15 further shows that the average reduction of *Yellow Pages* expenditure by advertisers reducing and using BT is higher than the average reduction of *Yellow Pages* expenditure by those advertisers not using BT.

29. Yell also provided us with research into its lapsed advertisers [✂], a [✂]. The study focused on the 2005/06 advertising expenditure of advertisers that had been in the 2004/05 directory, but not in the 2005/06 directory. Of these lapsed advertisers, [✂] per cent had classified advertisements with Thomson and [✂] per cent had classified advertisements with BT. In total, [✂] per cent of lapsed advertisers were using some form of print advertising, including newspapers and local directories. This study suggests that Yell may be losing some advertisers to BT and Thomson; however the [✂] lapsed advertisers represent [✂] per cent of Yell's total advertisers.[12] So the percentage of total advertisers that were lapsed Yell advertisers and now advertising with BT and Thomson was [✂] per cent.[13]

[12]Yell had [✂] advertisers in [✂] in 2004/05.
[13]Using the [✂] per cent estimate for the number of lapsed as a percentage of the total.

30. Yell provided us with a number of other studies of lapsed advertisers showing switching patterns between *Yellow Pages* and other printed CDAS and classified media. Two of these studies distinguish between advertisers switching to BT and advertisers switching to Thomson. Research among advertisers who had stopped advertising in the [✂] *Yellow Pages* area showed that [✂] per cent of lapsed advertisers used their budget to advertise elsewhere, mainly the local press ([✂] per cent), websites ([✂] per cent), and other printed directories ([✂] per cent). The proportion switching to Thomson was slightly higher ([✂] per cent) than the proportion switching to the BT *Phone Book* ([✂] per cent); however, the survey was undertaken in August 2004 and therefore in the early stages of BT's entry. This study suggests that Yell may be losing some advertisers to BT and Thomson. [✂] per cent of Yell's advertisers [✂] lapsed.[14] Using the survey results above, this would imply that the total proportion of advertisers [✂] having completely switched to Thomson or BT in 2004 was around [✂] per cent.[15] As discussed above, this research only looks at lapsed advertisers while most switching between Yell and other directories is likely to be by rebalancing overall CDAS expenditure between providers, rather than ceasing to advertise with Yell completely. Moreover, Yell told us that this type of study will underestimate switching because of the length of the publishing cycle meaning that an advertiser ceasing to advertise with Yell will not necessarily be able to switch immediately to another directory.[16]

31. Research commissioned by Yell relating to the advertisers who had decreased or stopped advertising in the [✂] area *Yellow Pages* following the re-scope showed that, at the time of the survey (September 2004), [✂] per cent switched this expenditure elsewhere, mainly to local papers ([✂] per cent of those who decreased and [✂] per cent of those who stopped advertising), other directories ([✂] per cent of those who decreased and [✂] per cent of those who stopped advertising) and the Internet, including Yell.com ([✂] per cent of those who decreased and [✂] per cent of those who stopped advertising). The proportions switching to BT's classified directory were higher than the proportions switching to Thomson: [✂] per cent of those decreasing advertising switched to BT and [✂] per cent to Thomson; [✂] per cent of those stopping advertising switched to BT and [✂] per cent to Thomson.

32. Kingston told us that, since the entry of Yell,[17] [✂] of its national advertisers had moved all or part of their spending to Yell. Kingston considered that for these advertisers, an important characteristic of classified directories was the ability to provide national coverage.

33. Kingston also told us that there were some national advertisers who would always advertise in all the available classified directories. This suggests that for some CDAS advertisers the different directories represent complementary products rather than substitutes.

34. Trinity Mirror told us that, while it had not collected data on this, it was not aware of its advertisers having switched expenditure from other classified directories. Rather, advertising in Trinity Mirror's directories was more likely to be used in addition to advertisements in other classified directories or coming from entirely new advertisers than by advertisers having switched expenditure from other classified directories. The fact that some advertisers may be using Trinity Mirror's directories in addition to other directories may suggest that Trinity Mirror's directories are currently seen as a

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[14]Total advertisers = [✂]; lapsed advertisers = [✂].
[15]From the survey, [✂] per cent were using Thomson or BT (Thomson [✂] per cent, BT [✂] per cent). [✂] per cent of the [✂] per cent that lapsed = [✂] per cent.
[16]The directory publishing cycle is one year long; cycles vary by directory and are not aligned across providers.
[17]Yell entered via a rescoping of the Hull and East Riding *Yellow Pages.*

complementary product or are products being trialled by these advertisers. While Trinity Mirror's possible success with advertisers new to classified advertising would not be evidence of switching, it might represent a change in the behaviour that would have occurred had Trinity Mirror not entered, since Trinity Mirror's new advertisers might otherwise have gone to another directory provider.