

Anticipated acquisition by Amazon.com, Inc of iRobot Corporation

SUMMARY

Overview of the decision

1. Amazon.com, Inc (**Amazon**) agreed to acquire iRobot Corporation (**iRobot**) for \$1.7 billion on 4 August 2022 (**the Merger**). Amazon and iRobot are together referred to as the **Parties** and for statements referring to the future, as the **Merged Entity**.
2. Following a phase 1 investigation, the Competition and Markets Authority (**CMA**) does not believe, for the reasons summarised below, that it is or may be the case that the Merger may be expected to result in a substantial lessening of competition within a market or markets in the UK. On this basis, the Merger will therefore **not** be referred for an in-depth phase 2 investigation.
3. The CMA's investigation focuses on the impact of the Merger in the UK. The Merger is also being reviewed in a number of other jurisdictions.

About the businesses

4. Founded in 1994 by Jeff Bezos, Amazon has grown rapidly to become one of the world's largest companies, with a market capitalisation of \$1.27 trillion. Amazon has a range of activities in the UK, which is one of the company's largest markets. In online retailing (through Amazon.co.uk), Amazon offers products sold by Amazon as well as products sold by third-party sellers on Amazon.co.uk. Amazon also offers services to sellers such as delivery, logistics and warehousing. Amazon earns revenue through its own sales, sales commission on third-party product sales, and advertising. Amazon manufactures and sells certain electronic devices, including devices for use in the home, designed to interoperate with a smartphone, smart speaker or virtual assistant (**smart home devices**). Amazon also operates a virtual assistant, called Alexa; virtual assistants are often used as the hub to control and interoperate with smart home devices. Virtual assistants can be the "hub" for broader **smart home platforms**, which are groups of connected smart home devices.

5. iRobot is a technology company, founded in 1990, that designs and builds consumer robots, including floor care products. The vast majority of iRobot's revenues in the UK come from the sale of its robot vacuum cleaners (**RVCs**), including the well-known 'Roomba' brand, which vacuum and/or mop floors without human intervention. These RVCs are sold on Amazon's online store in the UK (Amazon.co.uk) and can be operated using Amazon's virtual assistant, Alexa.
6. While RVCs have been available to buy in the UK for around 20 years, the UK market for these products remains small (and significantly smaller than in a number of other European countries and the US).

The CMA's assessment

Why did the CMA look at this merger?

7. The CMA's primary duty is to seek to promote competition for the benefit of consumers. It has a duty to investigate mergers that could raise competition concerns in the UK, provided it has jurisdiction to do so, which it does in this case.

How did the CMA investigate the Merger?

8. At phase 1, the CMA needs to establish whether there is a realistic prospect of a substantial lessening of competition (**SLC**) which merits a reference to an in-depth phase 2 investigation. To understand the implications of the Merger on competition, the CMA gathered information from a wide variety of sources, including by using the CMA's statutory information-gathering powers, to ensure that the CMA had as complete a picture as possible within the constraints of the statutory timetable.
9. The CMA gathered data and internal documents from the Parties, to understand their businesses, competitors and plans for the future. The CMA also gathered evidence from other market participants, such as suppliers of RVCs, UK retailers, and smart home platforms.
10. The CMA used this evidence to assess whether the Merger could impact competition in the following ways (referred to as 'theories of harm'):
 - (a) Through a loss of future competition in the supply of RVCs in the UK if Amazon would have entered the supply of RVCs and competed against iRobot absent the Merger);

- (b) By limiting the ability of Amazon's rivals to compete in the supply of smart home platforms (on the basis of evidence that RVCs could be an important input for the supply of a broader smart home platform); and
- (c) By limiting the ability of iRobot's rivals to compete in the supply of RVCs (on the basis of evidence that Amazon.co.uk is an important route to market in the UK for suppliers of RVCs).

Could there be a loss of future competition in relation to RVCs in the UK?

11. The CMA has considered whether, if the Merger had not gone ahead, Amazon could have entered the RVC market with its own product, which could have competed against iRobot, and whether, if so, any competition lost between iRobot and Amazon as a result of the Merger could have been substantial.
12. The CMA has found, in light of Amazon's broader business strategy and ongoing product development activities, that there was a realistic prospect that Amazon would have started to supply its own RVC product absent the Merger. The CMA also found, however, that iRobot's market position in the UK is modest and that it already faces several significant competitors (including Ecovacs and Eufy, both of which have a higher market share than iRobot, as well as Roborock, Samsung and Dyson).
13. On this basis, the CMA has found that, even if Amazon would have entered the UK RVC market absent the Merger, there would in any event be sufficient remaining constraints to ensure that the Merger does not give rise to competition concerns in relation to loss of future competition in RVCs in the UK.

Could the Merged Entity foreclose rival smart home platforms?

14. The CMA considered whether, following the Merger, the Merged Entity would be able to disadvantage, or foreclose, rival smart home platforms, by limiting their access to iRobot. In particular, the CMA considered whether there was anything important about iRobot that could impact the ability of rival smart home platforms to compete with the Merged Entity in future.
15. The CMA reviewed the Parties' internal documents and gathered evidence from rival smart home platforms. This evidence did not indicate that RVCs (including the data that RVCs are likely to be able to gather) are generally an important input in the supply of smart home platforms, particularly in the UK. The CMA also notes that

there are, in any case, several alternative RVC providers active in the UK, many of which have similar capabilities as iRobot.

16. On this basis, the CMA found that the Merged Entity would not have the ability to disadvantage rival smart home platforms by limiting their access to iRobot, such that the Merger would not give rise to competition concerns as a result of vertical effects in relation to the supply of smart home platforms.

Could the Merged Entity foreclose RVC competitors?

17. Finally, the CMA considered whether, following the Merger, the Merged Entity would be able to disadvantage, or foreclose, other providers of RVCs in the UK, for which Amazon's online store could be an important route to sell their products.
18. To assess this, the CMA first considered Amazon's **ability** to disadvantage RVC competitors, by analysing the importance of Amazon as a retail channel for suppliers of RVCs in the UK. Overall, a high proportion of RVC sales in the UK are made through Amazon's online store, and iRobot's rivals in the supply of RVCs told the CMA that Amazon is a very important route to market in the UK, with a number of them also conducting a large proportion of their advertising through Amazon's online store. The available evidence indicates that Amazon could be able to harm the competitiveness of rivals in a number of ways, such as by completely removing competing RVCs from Amazon's online store, manipulating their position in search rankings, or generally worsening terms for RVC competitors (eg by increasing commission rates). Based on this evidence, the CMA believes that the Merged Entity would have the ability to harm its' rivals selling RVCs on Amazon's online store.
19. The CMA also considered whether Amazon would have the **incentive** to disadvantage those RVC competitors. This analysis took into account both direct costs and benefits of pursuing a strategy to disadvantage RVC competitors, as well Amazon's broader long-term strategic objectives:
 - (a) To assess the short-term, direct costs and benefits to Amazon of foreclosing RVC competitors the CMA gathered data on the profit margins that Amazon makes from sales of RVCs on Amazon.co.uk and the margins it would be likely to make as the owner of iRobot. On the one hand, Amazon would be able to make higher margins on sales of (Amazon-owned) iRobot products than on sales of third-party RVCs, suggesting that the gain in downstream sales of iRobot RVCs from such a strategy would outweigh the loss of upstream revenues from selling third-party products. On the other hand, such a strategy

would also bring costs from the loss of other revenues, such as advertising revenues, that Amazon makes from sellers of third-party RVCs. In addition, some customers may choose to purchase RVCs elsewhere rather than purchasing an iRobot RVC following an attempt to disadvantage RVC competitors, particularly given iRobot's relatively weak competitive position in the UK. The CMA also noted that the small size of the UK market meant that any incentive driven by short-term considerations was likely to be small overall.

- (b) To assess the strategic longer-term costs and benefits to Amazon of foreclosing RVC competitors, the CMA considered evidence relating to Amazon's broader business model and strategy, including its ambitions in relation to the smart home. In particular, the CMA considered whether the acquisition of iRobot could provide Amazon with any strategically significant assets (such as personal data) that would provide an incentive for Amazon (beyond narrower financial benefits) to seek to increase iRobot's sales at the expense of rival RVCs. The CMA found that the longer-term strategic benefits of disadvantaging RVC competitors in the UK are limited, primarily due to the small number of UK RVC owners (with the RVC market not expected to grow significantly in future). The CMA also found that such a strategy also raised longer-term costs; for example, if customers were to choose an alternative retail channel to purchase their RVC as a result of this strategy, this could have a knock-on impact on other products sold through Amazon.
- (c) Overall, while the trade-off in the costs and benefits of disadvantaging RVC competitors would vary, depending on the particular mechanism (or mechanisms) used to pursue this objective, the CMA found there was no clear incentive to pursue such a strategy on any plausible basis. This is primarily because of the limited financial and strategic benefits of disadvantaging RVC competitors in a market that is small in size (and not expected to grow significantly in the future) and not strategically significant.

20. On this basis, the CMA found that Amazon's strong position in online retail in the UK means that it would have the ability to disadvantage RVC competitors following the Merger, but that the size of the market in the UK, and the limited strategic benefit to be gained means that it would not have the incentive to do so. The CMA therefore considers that the Merger would not give rise to competition concerns as a result of vertical effects in relation to the supply of RVCs, through the foreclosure of RVC competitors in the UK.

Conclusion

21. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002.