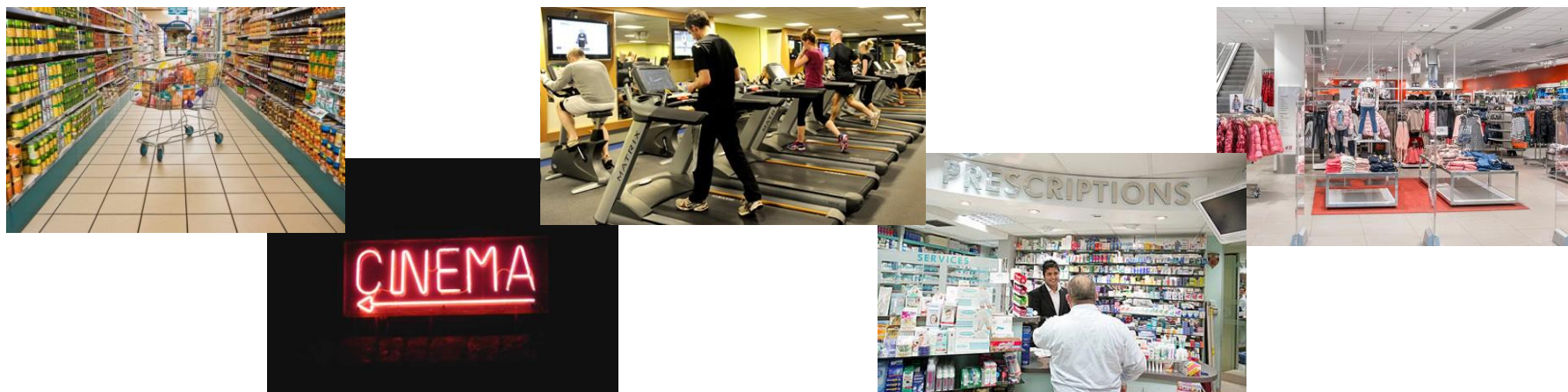


National versus local markets in mergers

BECCLE, Oslo

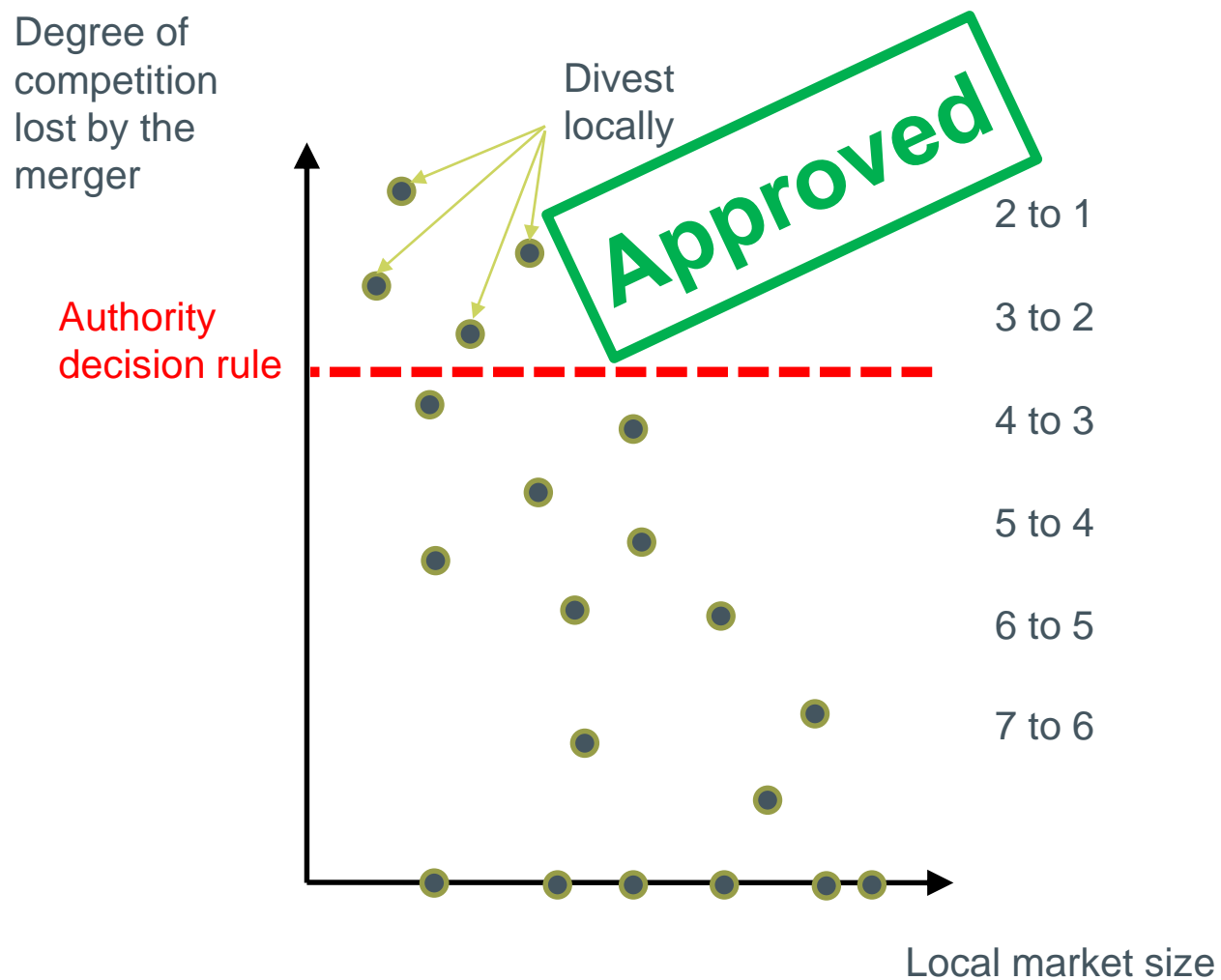
-
- **National restriction on the local choice of competition parameters change competition locally premerger. The "worst" markets will be better!**
 - **If all parameters are decided nationally, the loss will be the average for all local markets.**
 - **Local variation in competition parameters may have many other explanations than competitive pressure – can we check those?**



- **Demand is driven by local considerations**
 - Consumers use gyms/purchase groceries where they live/work
- **Retailers may operate regional or national chains**
 - Prices/ pricing structures set nationally (though sometimes with local “flexing”)
 - Marketing conducted largely on a national basis
 - Quality, range and service may vary locally (opening hours, store cleanliness, staff friendliness)

Competition affects many parameters

- Price
- Quality
- Range
- Service
- Marketing
- Location
- Brand concept



Degree of competition lost by the merger

Authority decision rule

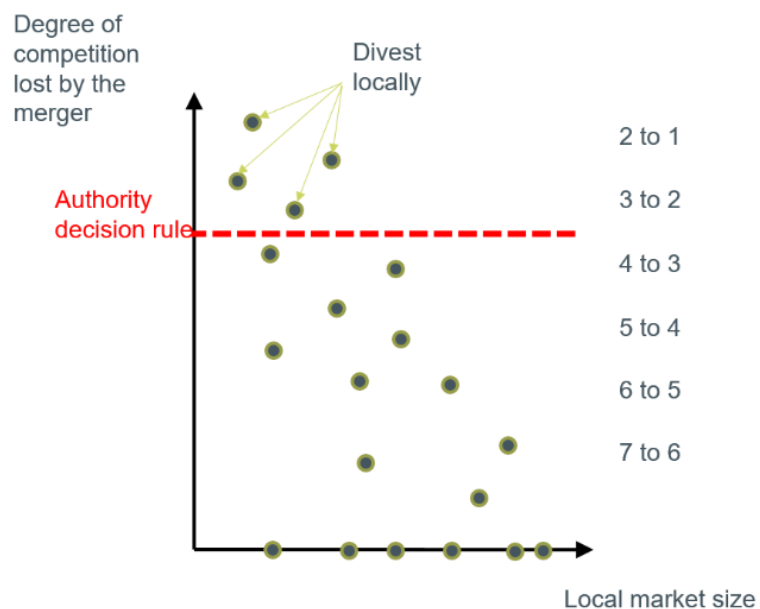
National (average)

Approved

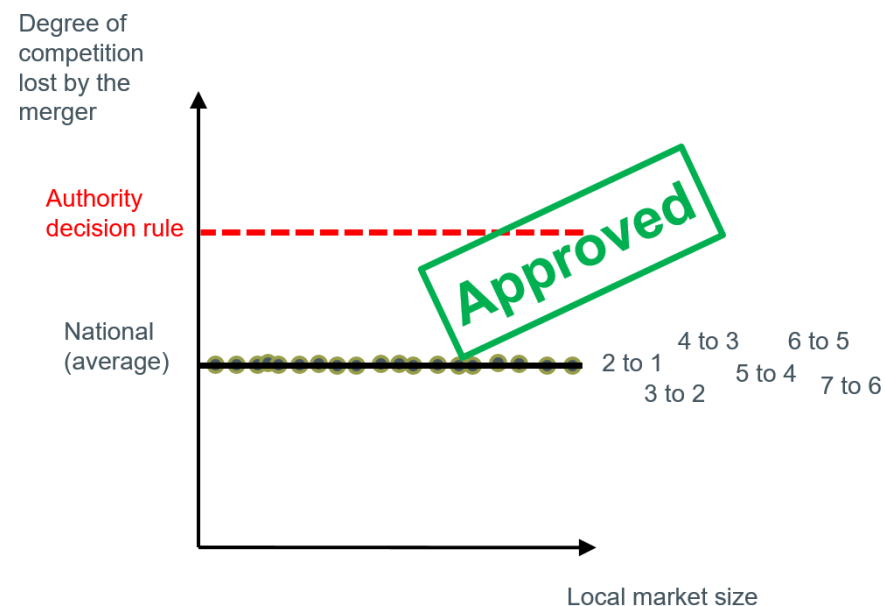
2 to 1 3 to 2 4 to 3 5 to 4 6 to 5 7 to 6

Local market size

A local market approach may lead to divestitures that a national approach may not require for clearance.

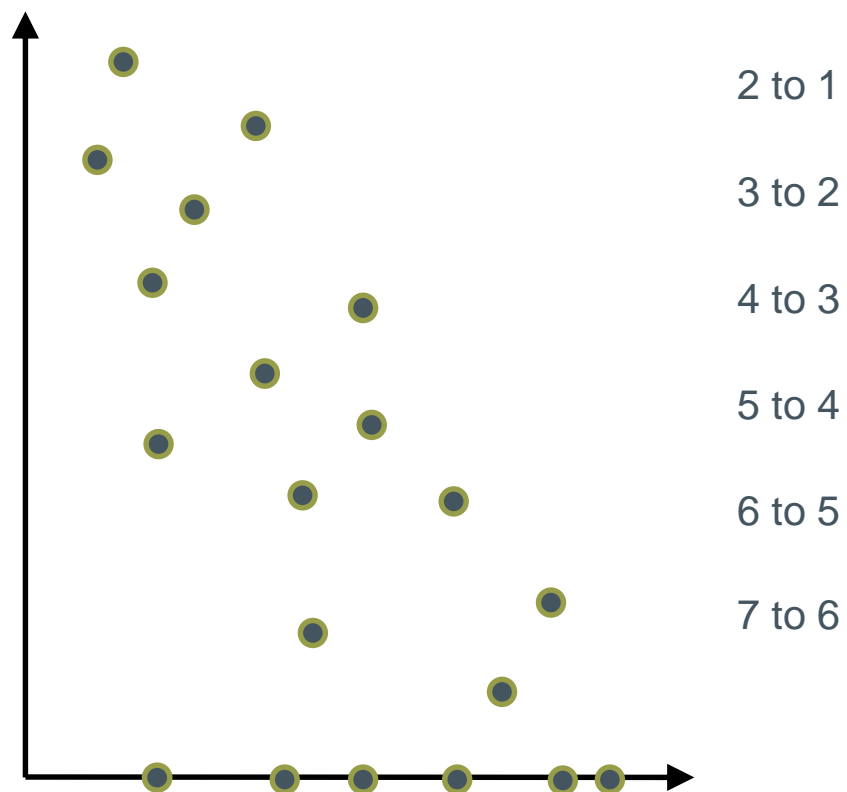


VS.

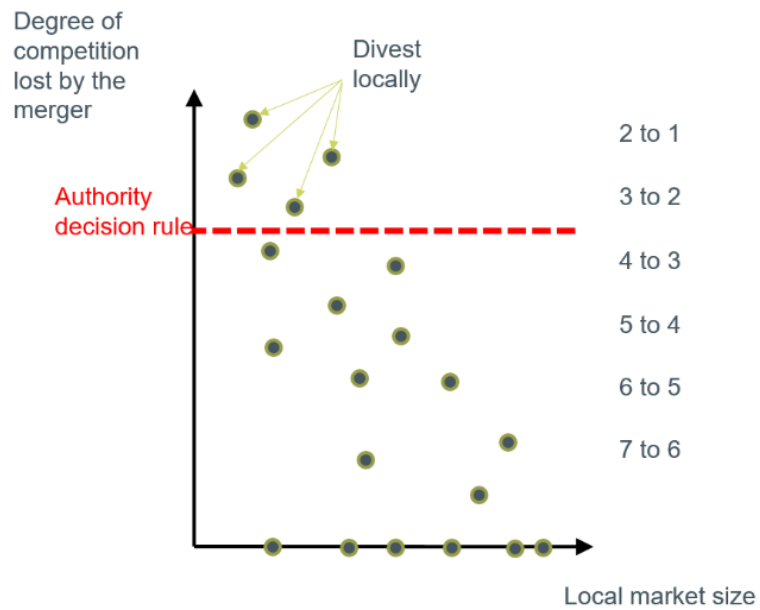


- **Locally adapted competition will only be complete if ALL of the above parameters are determined locally. Less competitive markets will exhibit higher prices, worse service etc, 2 to 1 will be worse than 6 to 5.**
- **Restricting any parameter will change local competition, making the loss of competition smaller locally in the worst locations.**
- **Deciding ALL parameters nationally will align all local markets**

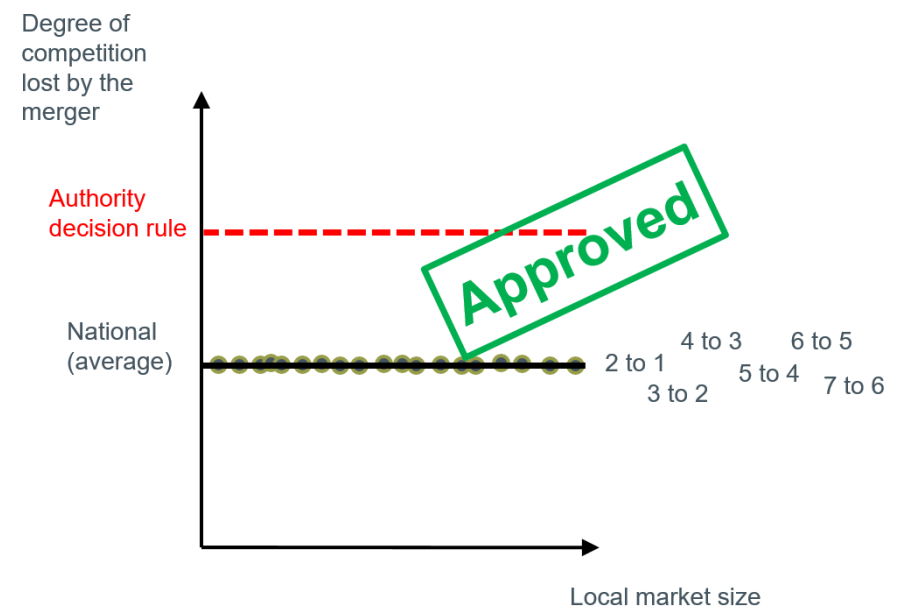
Degree of competition lost by the merger



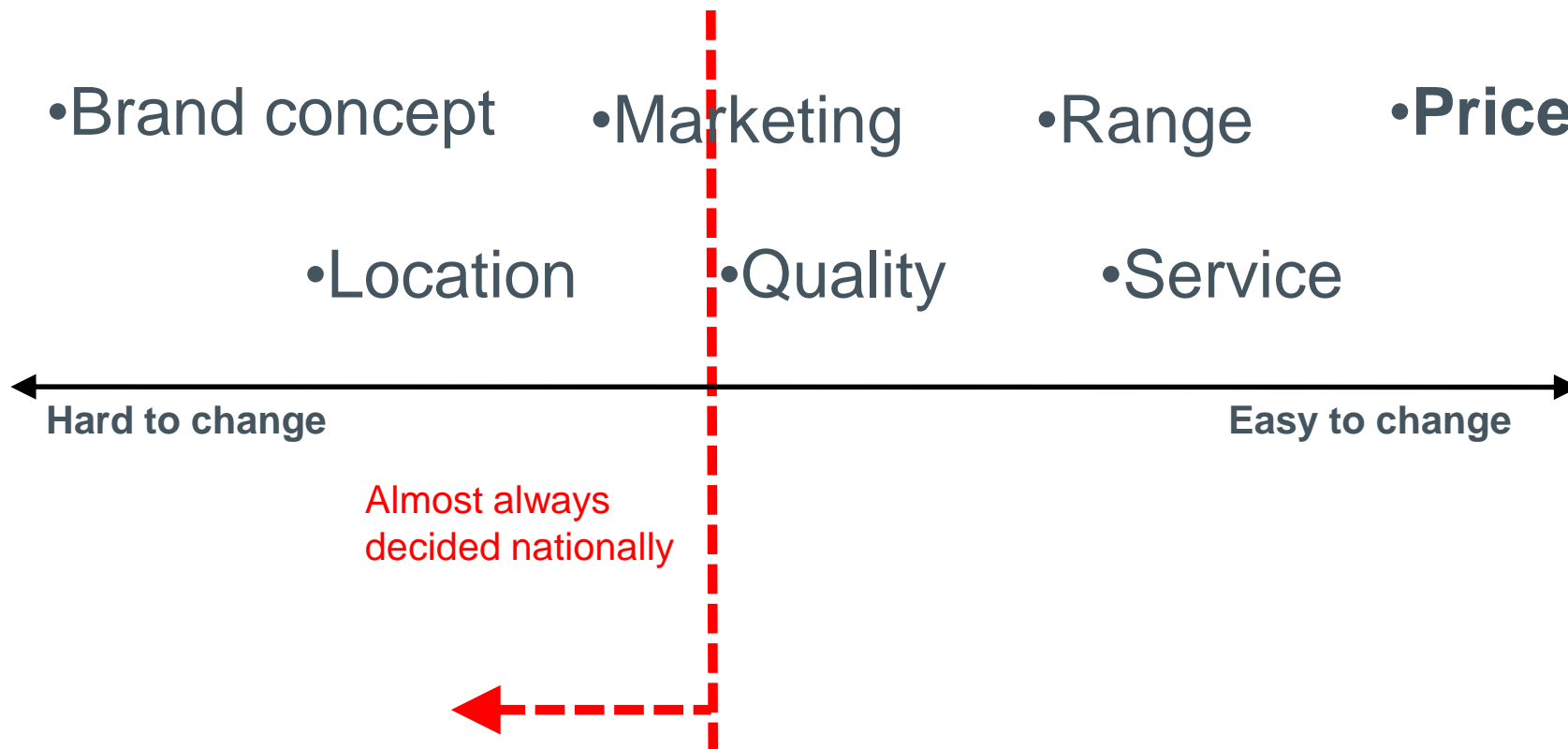
Local market size



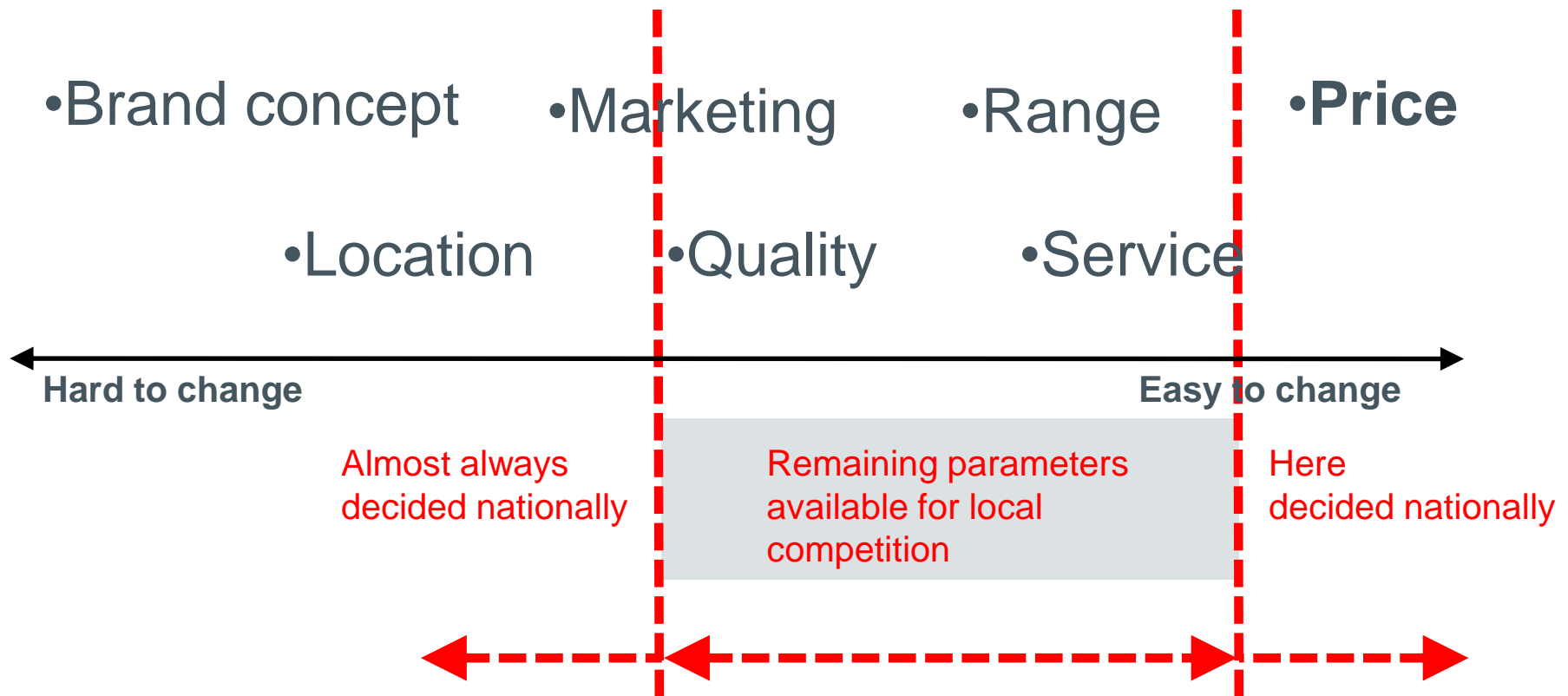
VS.



Why are Economists so obsessed with Price?



"We have a national pricing strategy"



If price is set regardless of local competitive condition, the local store will have to use other parameters to accommodate.

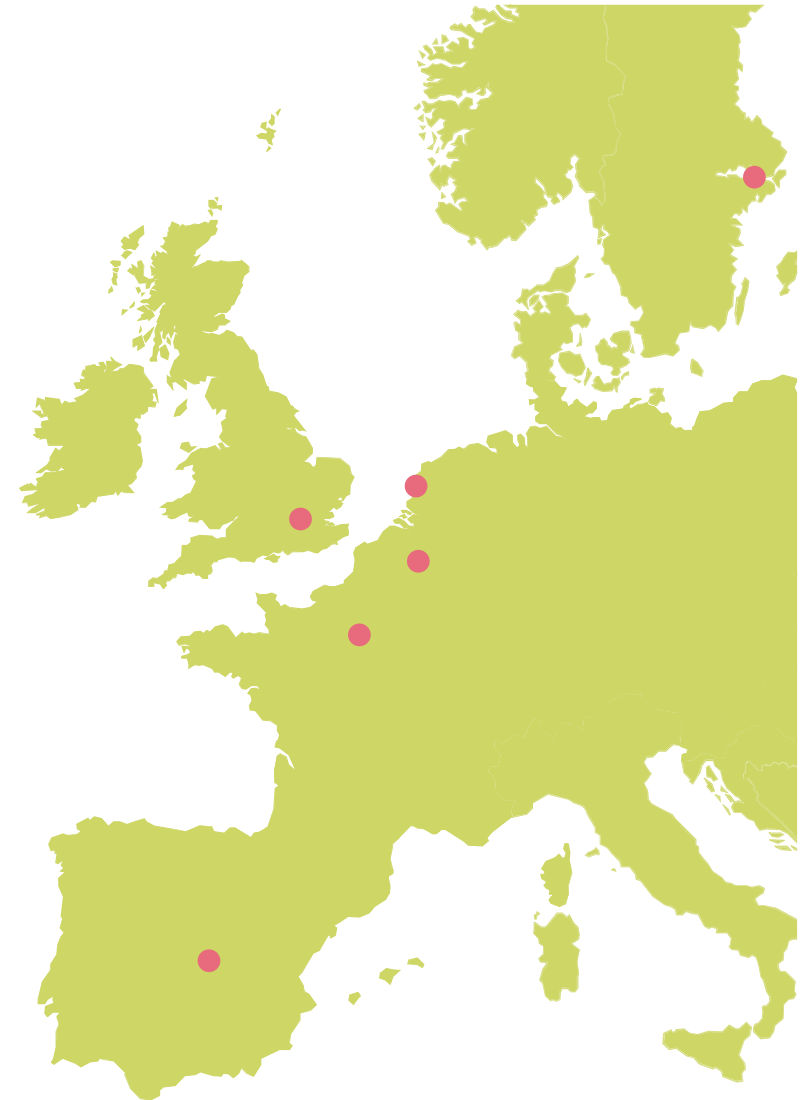
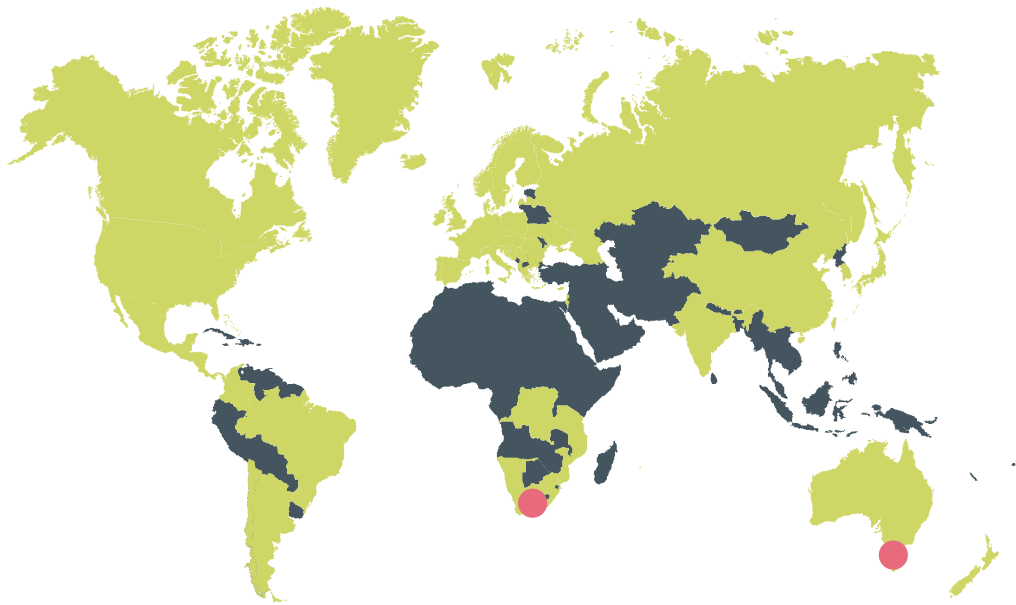
- **Reduction in service.** Retailers in areas where competition is more limited can reduce service quality, for example by choosing shorter opening hours or hiring fewer staff (leading to longer checkout queues etc.)
- **Implicit local price increases through range choice.** Retailers in local areas where competition is limited could “increase the prices” in their stores by choosing to stock only the higher-priced (or higher-margin) brands.

- **One chain uses national prices which are exogenous to the local store.** Price is not used as a competitive parameter by the local store.
- **Are other competitive parameters, Quality, Range, Service, of that store enough to restore the competitive pressure in the local market?**
- **If other parameters can easily replace price competition, why are we so worried about price agreements?**

If we do observe local variation in Price, Quality, Range, Service, how do we know it is driven by difference in competitive pressure and not by other demand or cost differences?

- Local population income
- Local population preferences
- Local transport costs
- Local property cost
- Local wage cost
- Scale and scope economies of local store

- **Internet sales gives nationally uniform pricing to some extent?**
- **Home delivery affects size of catchment area?**
- **Sequential decisions on competition parameters, first brand concept nationally, then price locally?**
- **Will the merger change the mode of competition?**
- **Price – concentration studies are a mess...?**



Our office locations

- London
 - Brussels
 - The Hague
 - Johannesburg
 - Melbourne
 - Madrid
 - Stockholm
 - Paris
- Countries in which RBB has undertaken cases