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Market concentration of retailers and suppliers and the assessment of market power

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Agenda

- **Market concentration and market power**
- **DG Comp's study:**
  - **Market concentration**
  - **Market power: choice and innovation**
- **A critique of the study**

Market concentration

- What is market concentration?

- How can it be measured?
  - Market definition
  - Market shares
  - HHIs
  - Concentration ratios

- Why do we measure concentration?

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Market power

"Competition law is concerned, above all, with the problems that occur where one or more firms possess, or will possess after a merger, market power. Market power presents undertakings with the possibility of profitably raising prices over a period of time; the expression 'raising price' here includes, and is shorthand for, other ways in which competition can be restricted, for example, by limiting output, suppressing innovation, reducing the variety or quality of goods or services or by depriving consumers of wealth, all of which are clearly inimical to consumer welfare."

Whish & Bailey
Competition Law, 7th Edition

Market power (2)

Three issues relevant to an assessment of market power:

- Constraints imposed by actual competitors
- Constraints imposed by the possibility of expansion or new entry
- Constraints imposed by countervailing buyer power

(European Commission's Guidance on Article 102 Enforcement Priorities)

DG Comp’s study and market concentration

- Retailer concentration
  - Focus on “modern retail”
  - Assessed concentration on pan-European, national and local level
  - Analysis varied between EU Member States

- Supplier concentration
  - Analysed primarily at national level – showed a general trend of increased concentration across most Member States and product categories between 2004 and 2012
  - Some assessment at local level using “assortment share”

DG Comp's study and market power: choice and innovation

- Study implies that market concentration is a proxy for market power.
- Looks at the imbalance between retailers and suppliers (based on ratio of retailer to supplier concentration)
- As regards choice:
  - No evidence that retailer concentration impacts on choice
  - Impact of supplier concentration was negligible
- As regards innovation:
  - Supplier concentration reduces innovation
  - Retailer concentration increases innovation

A critique of the study

- Market concentration does not equal market power
- Private label excluded
- Retailer concentration did not include buying groups
- Retailers' role as gatekeeper not considered
- No consideration of impact of concentration on price

Most important question: do the findings reflect reality?

Any questions?

Thank you for your attention

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