Costless (or Near Costless) Predation through Predatory Bundling, Loyalty Rebates, and Price Squeeze

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Aim

- Clarify issues
- Assess antitrust approach
What is predatory bundling?

Monopolist subject to competition:
- Other products
- Contestable quantities

- Raises price of monopoly product
- Price < MC for additional product
Example 1: tying 2 products

- Product M monopoly
- Product A in competition
- MC = c

“Ordinary” pricing: Pm, c
  → Bundle price = Pm + c
  → Marginal price = c

Predatory bundling:
  - Pm + b, c, rebate of b
    → Bundle price = Pm + c
    → Marginal price = - b
Example 2: target discounts

- Firms A and B
- Buyers must buy 5 units from firm A
- Can buy additional 5 units from A or B

“Ordinary” pricing:
- 5 units at $2, 5 units at $1
- Total price = 15
- Marginal price = 1
Example 2: target discounts

Predatory bundling:
- 5 units at $3, 5 units at $1
- 25% discount if buys for 20

→ Total price = 15
→ Marginal price = -4

→ Marginal price of 5 units = 0
→ Rival with above 0 MC not able to sell
Example 3: conglomerate selling a bundle

- Buyer requires 100 products
- Supplier A supplies all 100
- Other suppliers supply part of the products

- "Ordinary" pricing: Price = 1
  - Total price = 100, Marginal price = 1

- Predatory bundling:
  - Price = 1.20, $20 discount if buys for 120
  - Total price = 100
  - Marginal price = -18.80
  - Rival with MC=0: needs to offer 17 products
Example 3: conglomerate selling a bundle

Supplier's market power:
- Efficiency of buying large portion
- Competing suppliers offer countervailing discount
Example 4: Price squeeze

- Infrastructure monopoly
- Must sell access to rival for P
- Downstream service competition

- Monopoly sells service for less than P
  → Marginal price of service is “negative”

- Resembles predatory bundling:
  - Buys from rival:
    - Indirectly “buys” access for P
  - Buys access + service from monopoly:
    - Pays less than P
Characteristics

- Marginal price < 0
- Can sell bundle for same price w/o predatory bundling
- No benefit to consumers in the short run
  - Unlike predatory pricing
- Could be costless for the monopoly
  - Stand alone "tying" product > Pm
  - Possible loss when rival’s product superior
    - But similar loss when separate
    - Differentiation also cuts the other way
  - Some loss when some consumers need only M
    - But not when able to discriminate
      - When targets tailored-usually able
Efficiencies

Tying efficiencies:
- Cost savings in distribution
- Metering
- (But: safety, quality assurance, etc.)

Predatory pricing “efficiencies”:
- Product promotion
- learning by doing
- network externalities

Exclusive dealing efficiencies:
- Possible
- But unlike exclusivity for discount on all units
Presumption of harm

- Monopoly/substantial market power

- Marginal price < marginal costs

- Forecloses a sufficient portion

→ No burden to show substantial harm to consumers/that rivals lose competitive viability
Monopoly

- Single supplier

- Non-contestable quantity (brand loyalty, capacity constraints)
  - “must have” more important than size
    - “must have” + b + (c − b)
  - “must have” may be more likely when small:
    - E.g., computer retailer “must have” Macintosh

- Essential facility
Power in selling a bundle

- The only one with whole range

- Or, buyers could divide purchases
  - Substitute, but inferior
  - substantial market power
  - Often impossible to measure market share
  - Note that also restraint of trade
Marginal price $<\text{MC}$

- Allows mere “price tying”
  - Allows exploiting efficiencies

- More simple than “contestable share” $<\text{MC}$
  - Difficult to assess contestable share
  - Costless
  - No efficiencies

Consistent with “downstream competition” scenario:
  - Bulk payment for exclusivity
  - $\Rightarrow$ marginal price $<\text{MC}$
Foreclose sufficient portion

- Large enough portion of buyers affected
  - Tailor individual targets?

- Quantity discounts?
  - May affect a sufficient portion
    - When discounts are retroactive

- Should this be an element?
  - Analyze as predatory pricing
    - Costless
    - No short term benefit
    - Less efficiencies
Inference of rivals losing viability

Presumption that rival not able to compete:

- Loses viability over time:
  - Economies of scale
  - Incentives to invest
  - Learning curve
  - Reputation