What’s new?

- **Old school**
  - Fascia count “4-to-3 or worse bad, 5-to-4 or better good”
  - “Drill down” – examine maps

- **New developments**
  - Distance weighted share of stores
  - Competitor weighting
  - Calculation of diversion ratios
  - vGUPPI
  - NB: main relevance for large-scale overlaps and Phase II
Example of distance weighting

Example (linear weights)

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Centre store weight</td>
<td>= 1.0</td>
</tr>
<tr>
<td>Red rival weight</td>
<td>= 0.8</td>
</tr>
<tr>
<td>Orange rival weight</td>
<td>= 0.2</td>
</tr>
<tr>
<td>Sum of weights</td>
<td>= 2.0</td>
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</tbody>
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Centre store share = 50%
Red rival share = 40%
Orange rival share = 10%

First used in Sainsbury’s pharmacies / Celesio

Intuition: linear weight is “how far ‘in’ to the radial you are relative to the edge” so “at the centre” is “all the way in” (weight = 1), and 200m from the centre is 80% of the way in (weight = 0.8)
Competitor and distance weighting

Tesco / Booker

- Tesco operates supermarkets and convenience stores. Booker owns (a few) convenience stores, owns some symbol groups, and offers delivered wholesaler services to many convenience stores.

- Convenience stores compete within 1 mile radial.

- Example: Tesco Express (centre store) competes with:
  - Sainsbury’s store (competitor weight = 1) located 0.8 miles away from Tesco Express
  - Symbol store (competitor weight = 0.8) located 0.2 miles away from Tesco Express

- Each linear distance weight is scaled by the competitor weight. These weights are (in part) determined by the econometric study of entry events (see later).

- Total market “size” = 1 (Tesco) + 0.2 (Sainsbury’s) + 0.64 (Symbol) = 1.84
Calculating a diversion ratio

Tesco / Booker…

- Diversion from Tesco to the symbol store estimated as follows.

- For every 100 customers that leave Tesco:
  - 10 will go “out of market” (e.g. travel beyond 1 mile purchase)
  - 90 will go to Tesco’s rivals within the radial in proportion to their weighted share
  - So 69 of the 90 divert to Symbol and 21 to Sainsbury’s (ratio of weighted shares is 3.2 to 1).
  - Assumed diversion ratio to Symbol is 69 out of 100, i.e. 69%.

Footnote: See also discussion of when to include diversion to stores in the same group as part of the denominator.
Tesco Booker: horizontal overlap (standard approach)

- Booker owned independent
- Tesco Store

Increase in retail price.

Final consumers

Recaptured sales
What is the margin earned at Tesco stores (in absolute terms)

What is the diversion from Booker owned store to Tesco store?
Example of wholesale to retail theory of harm

Tesco Booker: diagonal overlap

Other wholesalers

Booker wholesale (BW)

Increase in wholesale price.

Booker supplied independent

Tesco Store

Recaptured sales

What is the margin earned at Tesco stores (in absolute terms)

Final consumers

What probability of independent switching to different wholesaler?

What % of input spend does independent place with BW?

How much of the wholesale price increase is passed on as a higher retail price?

vGUPPI is the standard GUPPI scaled down to account for the various “leakages” shown in red
Some remarks

- How easy is local flexing in practice? Especially if there are only a few areas that fail the vGUPPI (see Coop/NISA)?

- As a commercial matter, why would Tesco divert sales to an independent retailer that might switch to a different wholesaler?

- Analogous issue may apply for FMCG mergers. If owner of Brand A acquires a licence to distribute Brand B, would it divert sales from A to B if the licence could at some stage be revoked or switched?