What’s new?

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- **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)

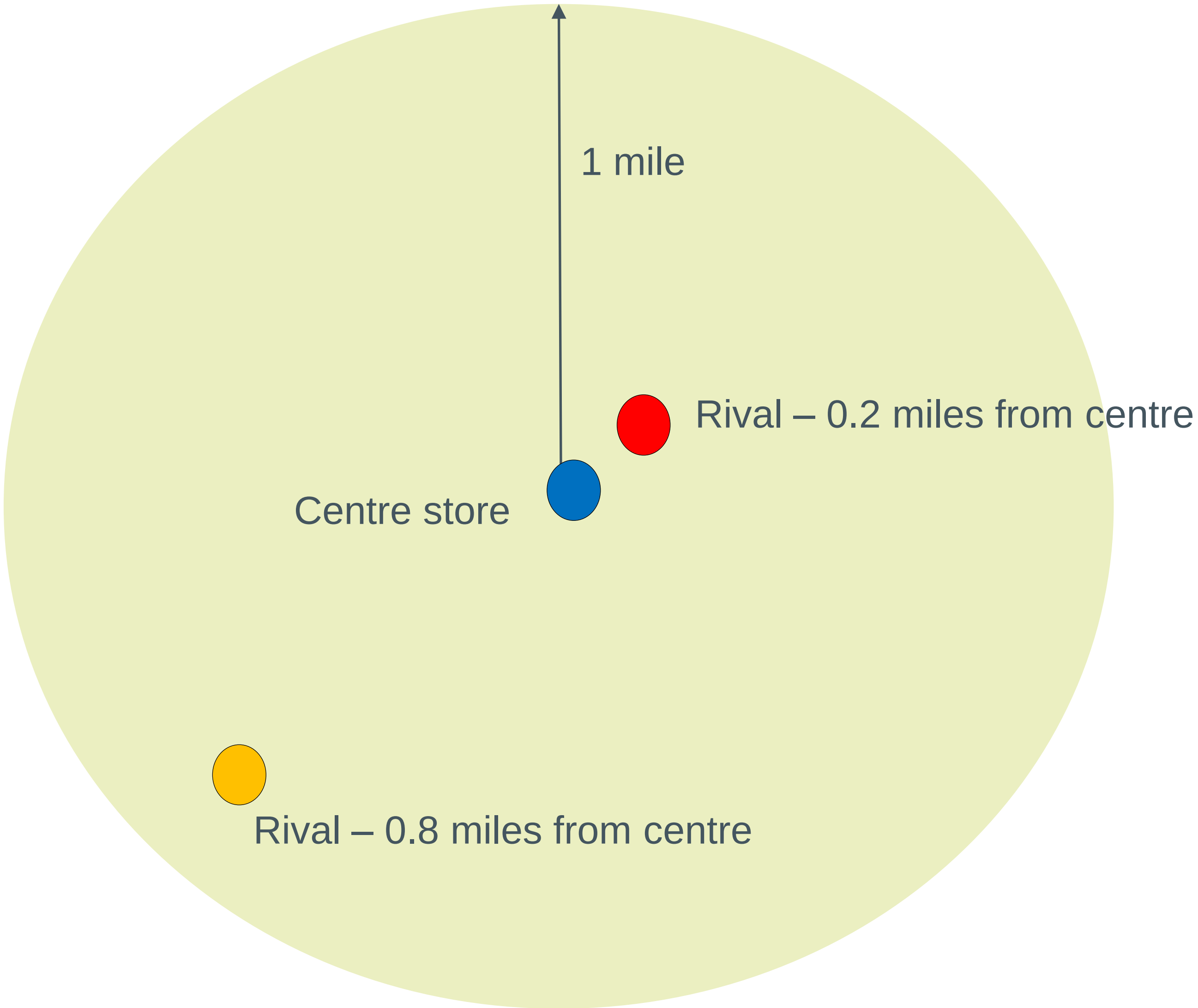
Centre store weight = 1.0
Red rival weight = 0.8
Orange rival weight = 0.2

Sum of weights = 2.0

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

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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

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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.

Standard GUPPI approach

Tesco Booker: horizontal overlap (standard approach)

Booker **owned**
independent

Increase in retail price.

Final consumers

*What is the **diversion** from Booker owned store to Tesco store?*

Tesco Store

Recaptured sales

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

Example of wholesale to retail theory of harm

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Tesco Booker: diagonal overlap

Other wholesalers

Booker wholesale (BW)

Increase in wholesale price.

What probability of independent switching to different wholesaler?

What % of input spend does independent place with BW?

Booker **supplied** independent

Tesco Store

Recaptured sales

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

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

*What is the **diversion** from Booker supplied store to Tesco store?*

Final consumers

vGUPPI is the standard GUPPI scaled down to account for the various "leakages" shown in red

Some remarks

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- 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?