Location, location, location: key issues in local markets analysis

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Caveat: Views expressed are my own and not the OFT’s

Local markets analysis: an introduction

Four main analytical steps

- Geographic market definition
  - Is there a local aspect to competition?
  - What is the relevant catchment?
- Determining the effective competitor set
- Choosing a concentration measure
- Evaluating the prospect of SLC

Geographic catchment: an example
Effective competitor set

- just like product market definition

Some useful evidence

- Detailed competitor analysis
  - E.g. Gala County Bingos OFT (2006)
- Competitor opening impact analysis
- Competitor: revenue cross-section analysis
- Third party responses
- Business documents

Concentration measures (I)

- No one right answer
- Fascia versus share of supply
  - some rules
  - and in other cases?
- Choice depends on data available!

Concentration measures (II)

FASCIA UNDER-REPORTING

- Merging parties, 40% share of stores each
- Competitors, 10% share of stores each

SHARE OF STORES UNDER-REPORTING

- Merging parties, 10% share of stores each
- Competitor 80% share of stores
Is an SLC likely?

- First best: diversion ratios
  - Solving the data problem?

- Alternative approaches
  - Taking explicit account of geographic location
  - Closest competitor test
  - Structural factors to predict diversion ratios

- Question of appropriate ‘cut-off’ remains

Conclusion

- All cases are different
- OFT thinking evolves over time
- Evidence is key!