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matters

Retailer Mergers

Substantial local complexity? The CMA’s revised retail mergers commentary and its application to JD Sports / Go Outdoors

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Contents

Pop Quiz! What % of mergers referred to Phase 2 or UILs involved retailers / wholesalers / service providers?

1. 10-20%
2. 20-30%
3. 30-40%
4. 40-50%

How many local competitors are enough?

1. 3 or more
2. 4 or more
3. 5 or more
4. None of the above

How often at Phase 1 has the CMA consider that internet retailers constrain local retail outlets?

1. 0
2. 1-2
3. 3-5
4. 5+

2017 commentary – what's changed?

Local catchment areas and filtering

- Many overlaps = many SLCs
- Competition depend on catchment area and competitors included (and weight attached)
- More cautious (Groceries 4->3, otherwise 5->4?)

Local and national retail competition

- Local issues = CMA's 'strong starting assumption' at Phase 1 is PQRS can be flexed locally. (Phase 2 different)
- National issues: loss of uniform national competition plus the loss of dynamic competition (e.g. entry/expansion). (Also watch for national/regional customers)

Online and bricks-and-mortar competition

- 'Retail markets are continually evolving and we note that online retailing is increasingly important'
- But real scepticism

Diversion ratios and survey evidence

- New section on quantitative techniques
- Merger incentives: value of business diverting between parties' outlets (diversion ratio x gross margin)

Local catchment areas and filtering

Filtering 101 – JD / Go Outdoors

Step 1: Define the catchment area	**Step 2:** Identify the effective competitor set	**Step 3:** Define the measure of concentration

- Automate or else
- We suggested store level 80% revenue weighted approach (conservative)
- CMA: Mix of internal documents and sensitivity analysis
- Conclusion: **30-minute drive time** (based on UK average)

- Parties: outdoor specialists (including Sports Direct)
- CMA relied primarily on internal documents but also third parties and 'desk research'
- Conclusion: Only **outdoor specialist local retailers** (and independents on case-by-case)

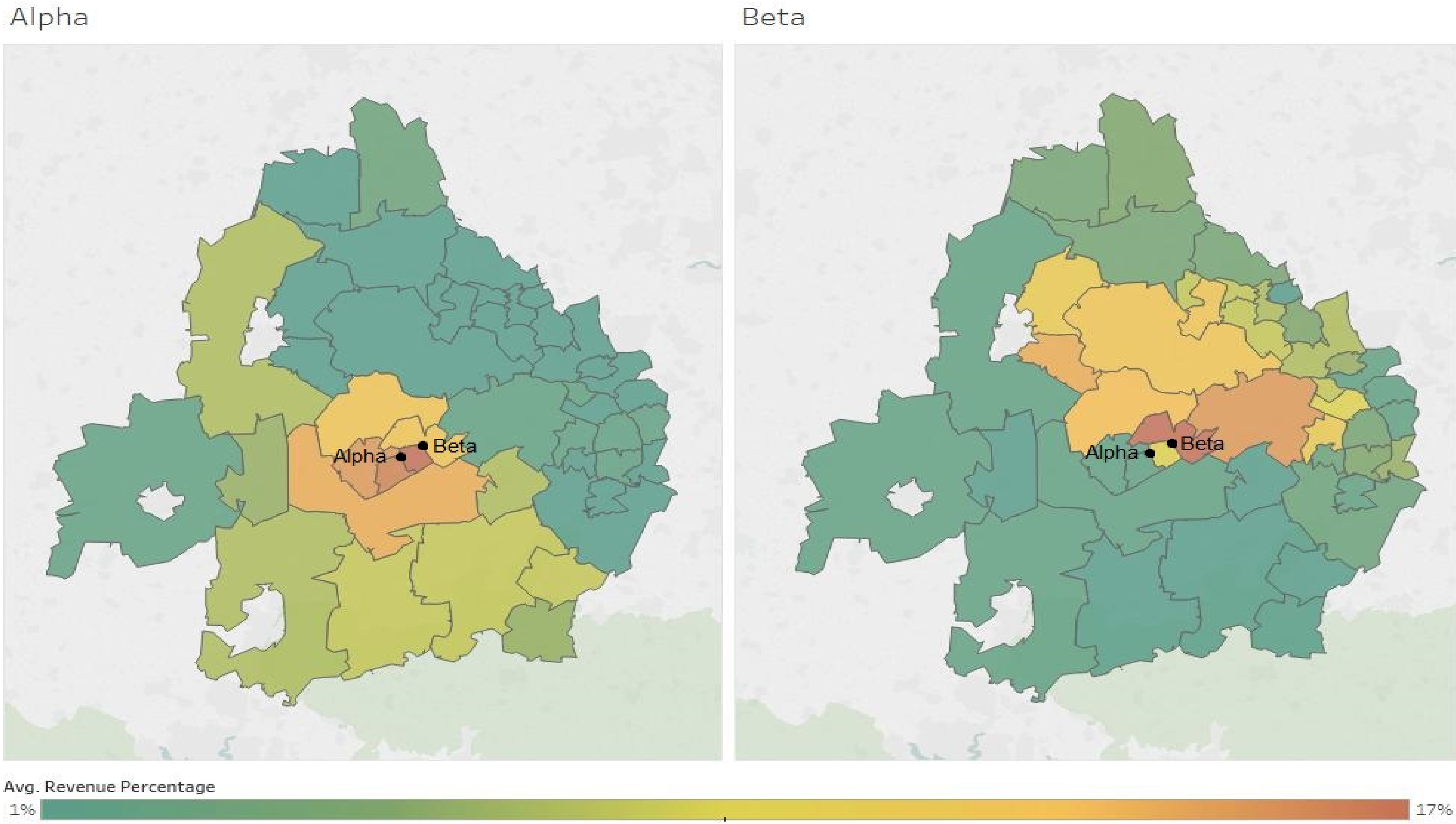
Choices:

- Count stores or fascia
- Calculating revenue-based shares (above 40%?)
- Weight specific retailers

What are you trying to measure?

- Best practice – use measure that best captures relative diversion between outlets
- CMA: straightforward **fascia count** (but grouped brand fascia under common ownership)

Step 4a: Counting fascias not good enough – customer heat maps



NB: Not actual merger data – for illustrative purposes only

Detailed review of 7 local areas

4a. Parties not each others closest competitors

- Heat maps, detailed location maps showing rivals (including independents)

4b Evidence of online retailers as a local competitive constraint

- ***Internal documents***
- ***Price matching and monitoring***
  - Go Outdoors was price matching against JD, but also online retailers
  - Parties monitored prices of online retailers
- ***Customer survey***
  - Showed significant proportion of customers were willing use online retailers as a substitute for bricks-and-mortar

4c. Limited flexing of PQRS in response to local competition

Three key takeaways

CMA placing increasing weight on internal documents

- *JD / Go Outdoors* – used to define catchment areas and show online retailers as local competitive constraint
- *Euro / Andrew Page* – used to define set of effective competitors (121/3,800)

CMA willing to consider online retailers at local level

- Although backed by persuasive evidence:
  - Price matching and monitoring online prices
  - Survey showing significant diversion to online

Phase 1 clearances with significant overlaps remain challenging

- *Euro Car Parts / Andrew Page*, the CMA found 90 problematic local overlaps – led to SLC at Phase 1. Combination of failing firm and more local rivalry led to just 9 divestments at phase 2.
- However, *JD / Go Outdoors* – 93 potential overlaps down to 7 areas for in-depth investigation. Case cleared unconditionally at phase 1.