Tesco/Booker - vGUPPI analysis
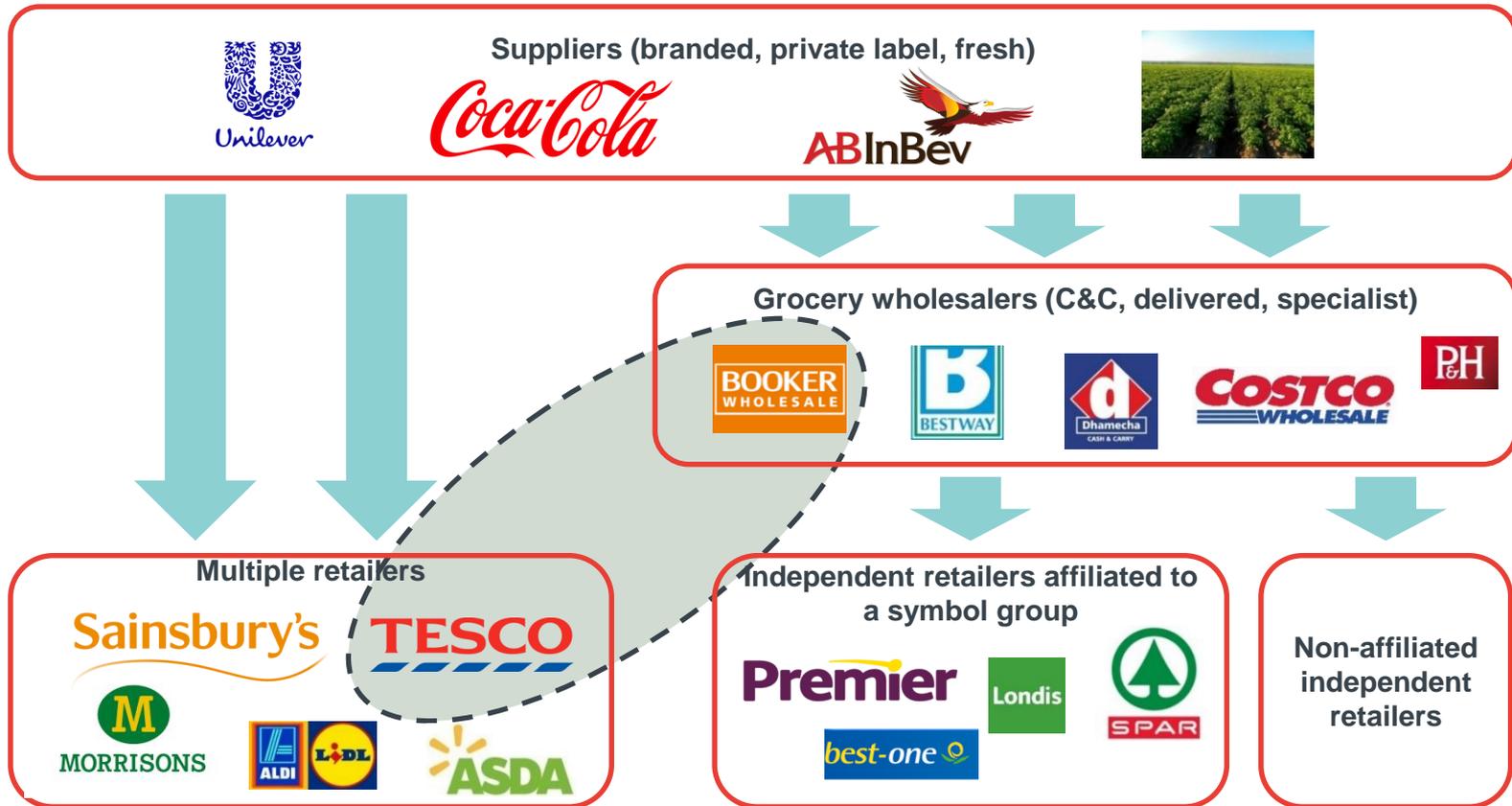
ACE Bologna 2018

15 November 2018

Market structure

Suppliers (branded, private label, fresh)

Grocery wholesalers (C&C, delivered, specialist)

Multiple retailers

Independent retailers affiliated to a symbol group

Non-affiliated independent retailers

Main theory of harm

Standard vertical version of GUPPI

The problem here is the diversion ratio

$$DR_{w \to r}\, m_r \,\underbrace{\frac{p_r}{w_0}}$$

$$vGUPPI_{w \to r}$$

Vertical arithmetic approach particularly problematic in this case – very low critical DRs

Instead – revisit vertical maths and derive GUPPI in terms of **retail diversions**
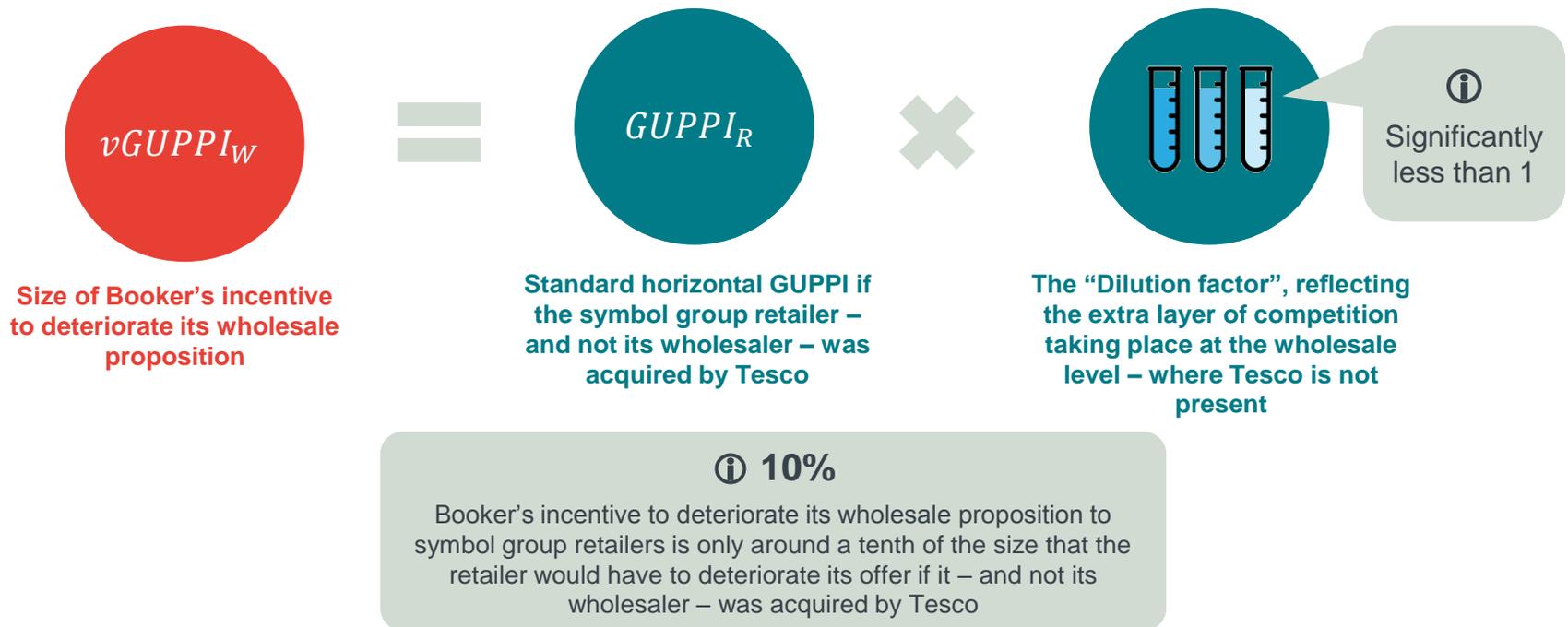
$$vGUPPI_{w \to r} = m_r DR_{w \to r} \frac{p_r}{w^0} = \left(DR_{D \to r} \alpha \frac{w}{p_d} \frac{m_w}{m_d} \right) m_r \frac{p_r}{w^0}$$

Diversion ratio between customer served by wholesaler and merging party retailer

Rate of pass-through of any wholesale deterioration

Ratio of wholesale to downstream retailer prices and margins

The wholesale vGUPPI is a "double diluted" version of the retail (horizontal) GUPPI

$vGUPPI_W$

=

$GUPPI_R$

×

ⓘ Significantly less than 1

Size of Booker's incentive to deteriorate its wholesale proposition

Standard horizontal GUPPI if the symbol group retailer – and not its wholesaler – was acquired by Tesco

The "Dilution factor", reflecting the extra layer of competition taking place at the wholesale level – where Tesco is not present

ⓘ **10%**

Booker's incentive to deteriorate its wholesale proposition to symbol group retailers is only around a tenth of the size that the retailer would have to deteriorate its offer if it – and not its wholesaler – was acquired by Tesco

Two dilution factors

When the wholesaler tries to foreclose downstream competition there two forms of dilution that follow from lack of control:

- An ability to switch to rival wholesalers and avoid the price increase (wholesale sourcing elasticity)

- An ability to absorb prices in lower margins and retain a competitive retail offer (wholesale pass-through rate)

But if the level of control was different, the formula would have to change

Analysis by local area – 10,000 vGUPPIs

Diversion ratios between merging party retailer and downstream retailer customers of merging party wholesaler

Extent to which any wholesale deterioration would be passed-through in the form of higher end-consumer prices

Price levels of merging party retailer and wholesaler, and retailer supplied by merging party wholesaler

Proportion of a downstream retailer's purchases that are sourced from the merging party wholesaler

Variable margins of merging party retailer and wholesaler, and downstream retailer served by wholesaler