

CASE STUDY

The Competition Commission

“WE ARE WHOLLY SATISFIED WITH THE SPEED,
ACCURACY AND PRESENTATION OF THE
ASSESSMENT REPORT.”

John Banfield, Inquiry Director, The Competition Commission

OUR TEAM HAS BEEN INVOLVED IN MOST
MAJOR RETAIL ENQUIRIES CARRIED
OUT BY THE COMPETITION COMMISSION,
PRE/POST REFERRAL BY THE OFT,
SINCE THE ENTERPRISE ACT 2002.



Challenge

In 2005, the Competition Commission was charged by the Office of Fair Trading (OFT) to investigate the competitive landscape in relation to the proposed acquisition of 115 Wm Morrison stores by Somerfield plc, following the acquisition of Safeway by Morrison two years previously.

Solution

The Commission selected Pitney Bowes MapInfo to provide an independent assessment of the proposed acquisition in terms of the impact on competition and consumer choice. Pitney Bowes MapInfo reviewed the methodology and conducted analysis to independently verify the results, thus ensuring the adherence to competition rules and meeting required levels of accuracy.

SUMMARY

The Competition Commission is an independent public body established by the Competition Act 1998, replacing the Monopolies and Mergers Commission on 1st April 1999. The Commission conducts in-depth inquiries into mergers, markets and the regulation of the major regulated industries. Every inquiry is undertaken in response to a reference made to it by another authority; usually by the Office of Fair Trading (OFT) but in certain circumstances the Secretary of State, or by the regulators under sector-specific legislative provisions relating to regulated industries.

The Enterprise Act 2002 introduced a new regime for the assessment of mergers and markets in the UK. A new public interest test replaced those focused on competition issues. The new regime also differed from the previous one where the Commission's power in relation to remedies was only to make recommendations to the Secretary of State.

The focus of the Competition Commission's requirement was in relation to analysis for store locations, based on a number of structured analytical principles and competitive logic.

A structured analytical approach is the main element in determining the existence of local market competition and the potential for adverse market conditions to impact consumers.

The scale of the problem is secondary, the rapid analysis and results can be delivered whether the issue surrounds a single store, or many thousands of trading outlets.

Initial consultation enabled the Competition Commission to explain the requirements from a statutory point of view. This requirement covered an independent verification of work already carried out by Somerfield and by the OFT and a subsequent independent analysis of local competition around the acquired stores.

This outsourcing of the project to Pitney Bowes MapInfo is in line with the Competition Commission's own assessment practice where a requirement to undertake such analytical work is often ad-hoc and a typical analysis may take up to four weeks. Outsourcing of this nature is not uncommon in the retail market where the business need is often intermittent, yet highly technical in terms of skills and access to data and expertise.

"PITNEY BOWES MAPINFO LOCATION INTELLIGENCE ANALYTICAL EXPERTISE HAS PROVIDED US WITH A VALUABLE METHODOLOGY FOR THE ASSESSMENT OF MERGERS AND MARKETS IN THE UK."

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RESULT

The Competition Commission formulated the methodology for the independent analysis, in consultation with Pitney Bowes MapInfo, which provided an expert view both on the appropriateness of the methodology and the practicality given the tight timescales for the project.

The verification process involved a thorough audit of the data and results provided to the OFT by Somerfield plc. Pitney Bowes MapInfo was able to replicate the analysis environment using third party data sources and Pitney Bowes MapInfo Drivetime® software, report on differences to the data used by the acquiring party, and assess whether these had made any material difference to the results of the analysis.

Pitney Bowes MapInfo's independent analysis involved the application of Competition Commission methodology, which sought to determine whether a significant loss in local choice had occurred as a result of each individual store being acquired.

The analysis incorporated enhancements to the Safeway Morrison Merger Inquiry methodology produced in consultation with Pitney Bowes MapInfo, which has been important in the analysis of legislative competition issues in local markets. This included a comprehensive isochrone 'recentering' process, which involved the assessment of provision and impact of acquisition on local competition, relative to each small neighbourhood surrounding each acquired store.

The neighbourhood level recentering process was widely considered to be impractical by retailers and standard GIS suppliers, given the amount of processing that would be required to create the relevant isochrones (in some cases over 1,000 isochrones for a single store). Previous approaches have focused on the location of competing stores rather than the location of customers.

Using Pitney Bowes MapInfo's location intelligence approach it has now become practical to carry out a customer-centric analysis, providing for a much more incisive analysis, allowing the Competition Commission to determine not only whether there was a competition concern, but also exactly which households would suffer a "significant" loss of choice for grocery provision. Critically this measure helped the Commission to determine exactly the extent to which a problem existed with an acquired store.

The results of Pitney Bowes MapInfo's work were delivered to the Competition Commission, within the tight timeframe, in the form of spreadsheets and a summary report, which has been published on the inquiry website.

As a publicly funded resource and cost-conscious government agency, the emphasis placed on the Competition Commission is to be lean and productive, so outsourcing to industry experts is an effective use of time and resources.

The results and deliverables submitted to the Competition Commission are aligned to the organisation's key objectives, and hence present real, tangible benefits. The key aims for the Commission are:

- Make efficient and effective use of all resources
- Review effectiveness
- Make the right decisions
- Take the right remedial action
- Ensure first class procedures
- Contribute effectively to the development of competition policy.

Ultimately the clear benefits were a fast, accurate, comprehensive analysis report delivered through expert partnership to equip the Competition Commission in its decision-making process.

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