

# Buyer Power

-general description of the European Commission's practice\*

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\*The views expressed in this presentation are personal and do not necessarily reflect those of the Chief Economist, the Commissioner for Competition or the European Commission.

# How to think about buyer power

- When one side has one player and the other has many
  - Monopoly/monopsony models allocate all the bargaining power to one side in the market
- When there is only one buyer and one seller:
  - How do the two share the gains from trade?
  - Nash bargaining:
    - Value of outside option
    - Relative “patience”
- When there are many buyers
  - outside option for the seller is to sell to somebody else at market price
- When there are many sellers
  - Outside option is to buy from somebody else at market price

# Types of Buyer Power

## Horizontal Merger Guidelines:

- Ability to resort to alternative sources
- Ability to sponsor entry or expansion
- Credibly threaten to vertically integrate upstream
- Refusal to buy other products from the same supplier
- Delay purchases

# Examples

- Supermarkets have high margins on non-branded goods and low margins on the branded goods
- Defence Industry/ Television Audience Measurement
- Car components are sometimes produced in-house

# Not buying other products

- Schneider/Legrand
  - Commission: No buyer power even when retailers are large.
    - The products with market power constitutes a large proportion of the sales to the retailer
    - A fortiori also no buyer power when retailers are fragmented
  - Court :when downstream markets are fragmented that create fierce price wars and put “constant pressure on manufacturers to give better purchasing terms”
- SEB/Moulinex
  - Buyer power remove concern when market power in less than 10% of the products sold
  - When share is above 40% market power could even “spread”
  - Court: ability by buyers to “penalise any anti-competitive conduct by the new entity, amounts rather to saying that retailers will be able to prevent SEB-Moulinex from abusing its position [..]not have a dominant position”

# Indicators of buyer power

- Many sellers and few buyers
  - Relative importance of the transactions
  - Distribution of gains from trade
  - Sophistication of buyers
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- Commitment power and information plays important roles