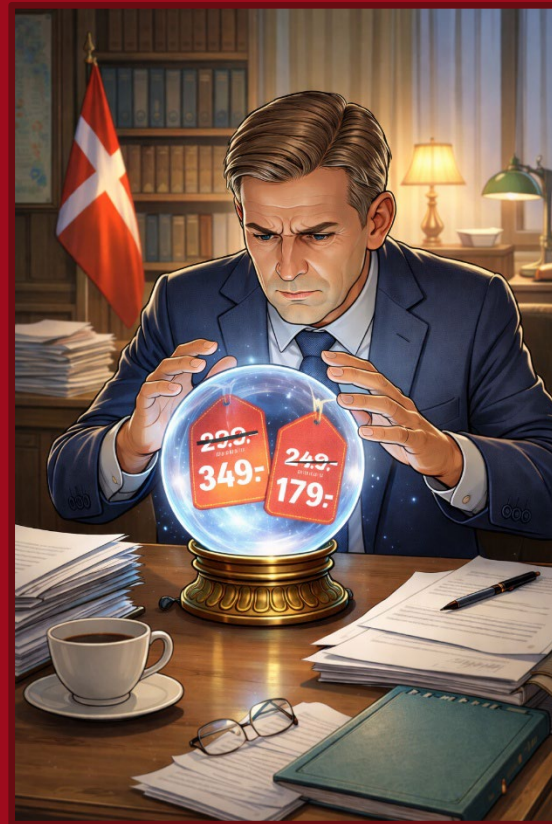


Assessing Horizontal Market Power Beyond Market Shares

*Peter Mouritzen, pmo@kfst.dk – 16 September 2026.
Views expressed in this presentation is my own and do not
necessarily represent the position of the DCCA.*



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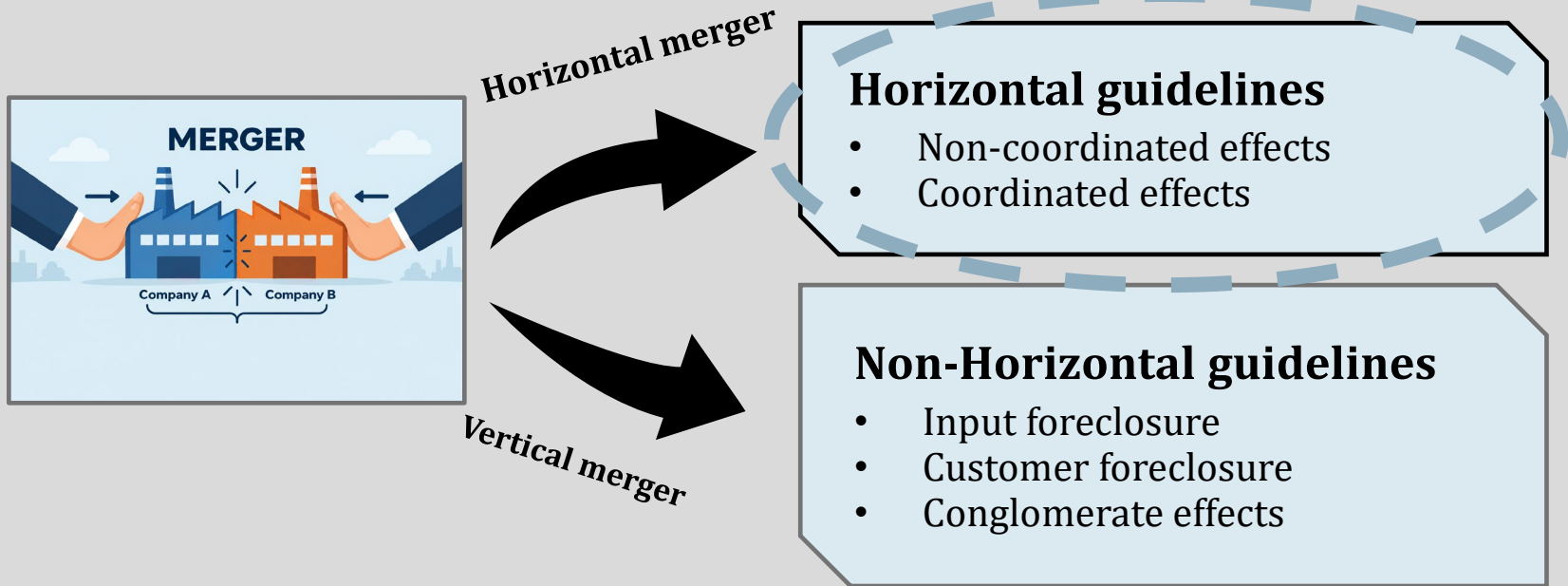


How can mergers harm competition?



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Classical approach



Analytical tools: Horizontal non- coordinated effects



Analytical tools

"Classical methods"

- Focus on **market shares**.
- Focus on market concentration, e.g., **HHI**.

Advantages

- Relatively simple to apply.

Disadvantages

Risk of been too simple

- Some products are in the market – some products are out of the market.
- The approach assumes some product homogeneity.



"New" pricing pressure methods:

- i. Diversion ratio analysis,
- ii. Upward Pricing Pressure (UPP), Illustrative Prices Rise (IPR), etc.
- iii. Merger simulations.

Advantages

- Relatively simple to use.
- Few inputs needed
- Not dependent on market definition.

Disadvantages

- Does not account for dynamic effects (e.g. reactions of competitors).
- Based on assumptions, e.g. assumptions regarding slope of the demand curve.



Illustrative example, price-incentives

Prior to the merger

Fristet Cider A/S

- Sales: 100 bottles.
- Price: 9 kr./bottle.



Target: Sekt A/S

- Price: 10 kr./bottle.



Assumptions

- No marginal costs.
- If **Fristet-Cider** raises prices to 10 kr.
 - **Fristet-Cider** will sell 10 bottles less.
 - **Sekt** will sell 3 bottles more.

Pre-merger-incentive to raise prices for **Fristet**:

Fristet sells 10 bottles less	- 90,-
Fristet earns more on 90 bottles	+ 90,-
Effect	0,-

Post-merger-incentive to raise prices for **Fristet**:

Fristet sells 10 bottles less	- 90,-
Fristet earns more on 90 bottles	+ 90,-
"Sekt" sells 3 bottles extra	+ 30,-
Effect	+ 30,-



Closer look at *UPP* and *IPR*

Upward Pricing Pressure:

- Minimum requirement for efficiency gains that ensures the merger does not create an incentive to raise prices.

$$E_1 < D_{12} \frac{M_2}{1 - M_1} \frac{\bar{P}_2}{\bar{P}_1}$$

Illustrative Price Rise:

- A calculation of "expected" prices changes, as a consequence of the merger (including potential efficiency gains).

$$\frac{P_1^* - \bar{P}_1}{\bar{P}_1} = \frac{[2D_{12}M_2 - E_2(1 - M_2)(D_{21} - D_{12})]\frac{\bar{P}_2}{\bar{P}_1} + [D_{21}(D_{21} + D_{12})M_1 - E_1(1 - M_1)(2 - D_{21}(D_{12} + D_{21}))]}{4 - (D_{21} + D_{12})^2}$$

The methods accounts for :

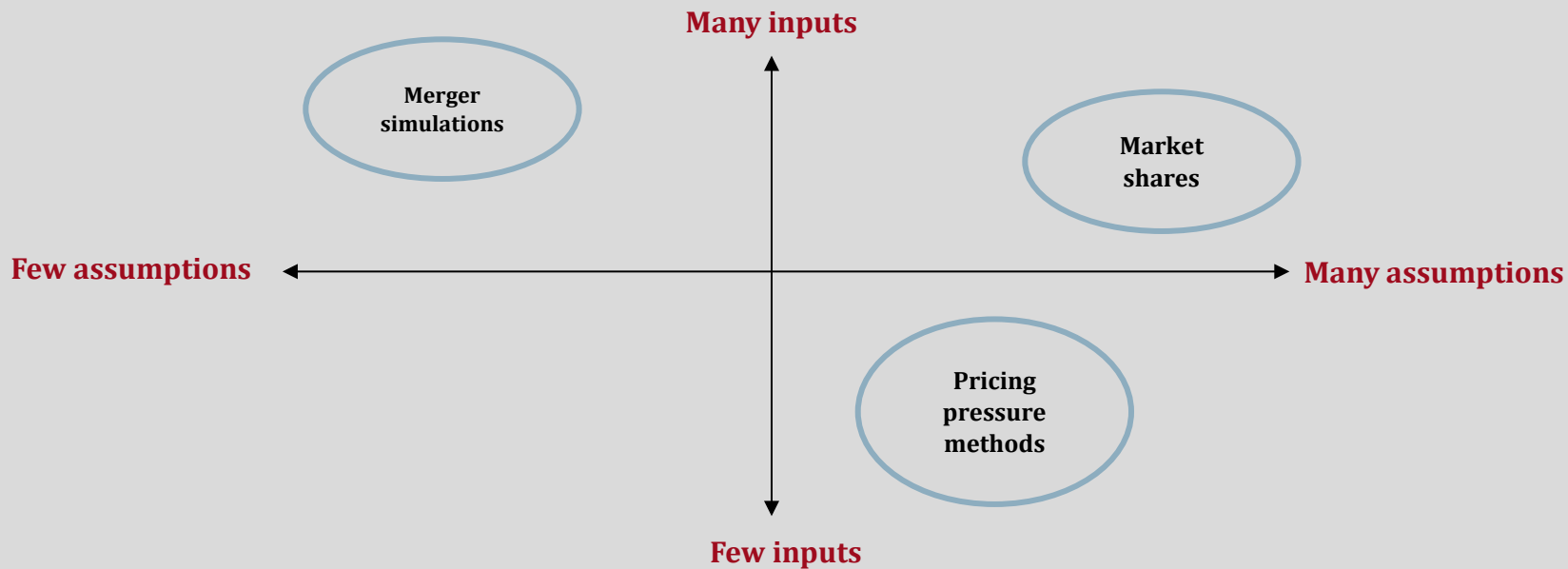
- The **degree of merging firms' market power** through margins.
- The **degree of competitive interaction between merging firms** through diversion ratios.

Limitations:

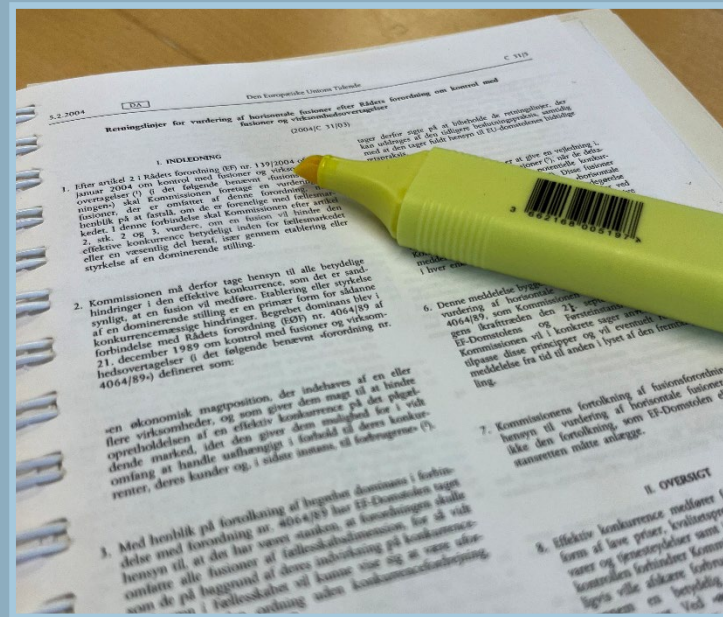
- Obtaining reliable estimates of diversion ratios can be tricky in some industries/cases.
 - Certain amount of customers needed to calculate valid estimates for Diversion ratios.
 - Customers must have knowledge of alternatives.



When to use what method?



Need for a revision of merger guidelines?



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Revision af Merger Guidelines

Overheard conversation in the DCCA

Colleague 1: "Next time, I want to be allocated to a merger with simple markets and a basic theory of harm."

Colleague 2: "I'm sorry, this doesn't exist anymore."

The answer is of course an exaggeration, but:

- Increased digitalization etc. can increase complexity of competition in some markets
- Market structures will often be (very) different today compared to 2004 and 2008, when the current guidelines were issued.

Recent examples from the DCCA decisions:

- a) Merger between Norlys and Ewii Fibernet, 2024.
- b) Merger between Volvo Danmark and Titan Lastvogne, 2022.



Norlys/Ewii Fibernet-merger

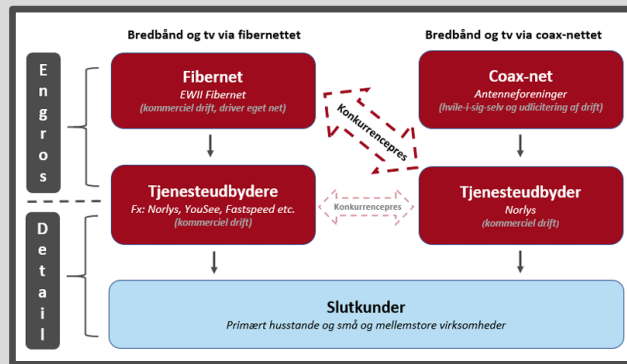
About the merger

- Minor horizontal overlap in market for internet access (**upstream**).
- No horizontal overlap in market for broadband to households (**downstream**).

Analyses conducted

- Market investigations showed significant competitive pressure between EWII Fibernet's fiber activities (**upstream**) and Norlys' activities via antenna associations on parallel coax-network (**downstream**).
- This competitive pressure would not be captured by an analysis of market shares

Figure 1: Competitive structure



Use of pricing pressure tool

- The DCCA applied a vGUPPI-model to support the overall assessment of the merger.
- Calculations showed illustrative increases in prices for certain levels of (not known) diversion ratios



Volvo Danmark/Titan Lastvogne-merger

About the merger

- Both parties were active in the retail market for new Volvo (and Renault) trucks and active in the aftermarkets (e.g. repair and maintenance).
- Prior to the merger Volvo Danmark terminated Titans authorization as a dealer and repairer.

Assessment of the DCCA showed

- Combined *aftermarket* market shares of [70-80] %.
- Relevance to include so-called system market effects.
- Based on a standard IPR-model the DCCA constructed a model to include **i)** effects of the relevant counterfactual scenario and **ii)** effects of system market effects.

Assessment (continued)

- The model made it possible for the DCCA to quantify relevant specific effects and conduct a sensitivity analysis of these elements.

Table 1: Price effects calculated in extended IPR model

	Merger scenario		Counterfactual scenario	
	Volvo	Titan	Volvo	Titan
Repair and maintenance	[10-20]	[20-30]	[5-10]	[10-20]
Sales of trucks	-[5-0]		-[5-0]	
Total lifecycle costs	[0-5]	[0-5]	[0-5]	[0-5]



Revised guidelines – pricing pressure tools

DCCA consider many parts of the “old” guidelines to be relatively sufficient:

- Focus on analyses of how mergers influence opportunity and incentive of the merging parties to raise prices etc. is (and must be) a cornerstone in both “old” guidelines and in the draft revised guidelines.

That being said: The DCCA in general welcomes an update of the “old” guidelines

- A bigger focus on what belongs to the analytical “toolbox” can help both agencies and merging parties to focus on and conduct more relevant analyses.
 - For instance, relevance of using pricing pressure tools (as a supplement to overall assessment) are mentioned in the draft revised guidelines.
- The DCCA will continue to consider the need for – and if relevant – apply pricing pressure tools as a supplement in complex merger cases.
 - Merger-decisions are never based solely on the results of the methods.
 - Other relevant factors will also be considered in the assessment.





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Thank you

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