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**INVESTIGATIVE TECHNIQUES SEMINAR**

# **ABUSE OF DOMINANCE**

**Program Overview and Interview Materials**

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**United States Department of Justice**

**United States Federal Trade Commission**

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## OVERVIEW OF THE SEMINAR

The seminar should begin the first day with a discussion of the major areas of the investigation: relevant product market, relevant geographic market, market participants, entry, harm to competition, and efficiencies. The seminar is designed to focus on market definition issues in an abuse of dominance investigation. This discussion assumes a familiarity with the Course Materials.

In each interview, a Trainer will be the person interviewed. The other Trainer will oversee the interview, leading the discussion before the interview and assisting in the interview. The interview itself will be run by a seminar participant chosen before the seminar. Allow a few hours to meet with this seminar participant to discuss his or her role in the seminar (e.g., go over the information in the Course Materials in detail) before the first meeting with the rest of the trainees. At the end of each of the interviews the Trainers will facilitate the discussion.

Each interview with discussion should last one morning or afternoon session. The pre-interview discussion of the questions will take at least 30 minutes. The interview itself may take from 1-1/2 to 2 hours. The post-interview discussion of information gained will take 30 minutes to an hour. Taking one break during the interview, the interview and the surrounding discussion should take an entire morning or afternoon session.

At the end of each day of interviews (and possibly at the beginning of the next) the relevant product market issues should be discussed, focusing on information relevant to these issues that was gained through the interviews, questions that were raised as a result of the interviews, other questions that remain unanswered, and the best way to obtain answers to these questions. The Trainers should discuss with participants the issues that can arise in connection with defining markets in an abuse of dominance case (e.g., Cellophane fallacy).

Below is the information that should be used to answer the questions in the interviews. The information is divided according to interviewee. On page 15 is a table with sales data on the industry. Each interviewee should be familiar with the data that apply to his or her firm and might have some familiarity with other firms and the industry as a whole. Since it is likely that questions will arise that are not directly answered below, it might be useful for all trainers and interviewees to be familiar with all of the information below. The information presented below is written from the perspective of a competition official, rather than a business person. The interview itself should be conducted as if it is with a business person (e.g., only answer the specific question asked because a business person wouldn't necessarily understand its relevance in terms of competition analysis). Also feel free to expand, as witnesses often do, to talking about what "your company" is particularly interested in, but which may have no relevance to the investigation. Finally, remember your interests as the person interviewed and answer questions accordingly (e.g., Eastern Brewery Corporation is likely to argue that entering West Java is virtually impossible with these contracts, whereas Western Brewery Corporation will make it sound easy).

**Be prepared to answer questions regarding your background in the industry and the firm.** In some cases, a description of the interviewee is included. Feel free to use the description if you like or create your own.

### **INFORMATION RELEVANT TO ALL BREWERIES:**

#### **WESTERN BREWERY CORPORATION, EASTERN BREWERY CORPORATION AND ISLAND BIR**

The typical brewery in Javaland can produce 15,000 to 50,000 barrels of beer per year. There are cost advantages for larger producers, but some feel the smaller producers make a higher quality beer. There is a general consensus that foreign beers that are produced at the enormous breweries would not succeed in Javaland. The primary ingredients in beer are malt, usually made from barley, hops and water. It is important to use clean, pure water. The lower the quality of the water the lower the quality of the beer: this is why breweries tend to locate around water that comes straight from the springs in the mountains before it can be contaminated by civilization.

The brewing in Javaland has, over the past 30 years, been divided regionally. Each brewery would sell in its region and there was very little shipping outside the region. Each beer has its own taste primarily because each has a different water source. The barley and hops have always been plentiful and whenever a brewery had an increase in demand for either, the necessary increase in supply was always forthcoming.

The citizens in each region have developed a taste for their own regional beer, and thus generally prefer it. However, in recent years modest sales have been made between regions.

The capital costs of establishing a brewery vary dramatically according the amount of beer produced. Costs can be very small for small breweries (<15,000 barrels per year). Smaller facilities are labor intensive, and it is not practical to operate a facility less than 10,000 barrels per year because you cannot cover the labor costs. For facilities 15,000 to 20,000 barrels per year and larger, the capital costs are a function of the size of the vat used to brew the beer and the degree to which the facility is automated. It is important to operate a more automated facility at near capacity because the fixed costs are greater. The biggest restraint on starting a facility is finding an appropriate water site. Thus far, this does not appear to be a binding constraint -- breweries in Javaland are not operating at capacity so this is not likely to be a problem for at least a few years (a few small breweries have built completely new facilities and other new breweries have started up at the sites of old breweries that were shut down in past years).

The bottling generally occurs at the brewery. This is the way the breweries were traditionally run; however, there has been some move away from that (very minor so far). The bottled beers are much more expensive because of the extra time and resources required to bottle a beer. The ratio of the volume of bottled beer sold to the volume of barrels of beer sold is consistently 1 to 1 across all breweries.

## WESTERN BREWERY CORPORATION

Western Brewery Corporation is a regional brewery with two major brewing facilities. One has a capacity of 50,000 barrels per year the other can produce 45,000 barrels per year. Currently each produces between 30,000 and 35,000 per year. Some of Western Brewery Corporation's customers are Restoran Melita (an expensive restaurant in West Java), Lorenzo (a large restaurant and bar in West Java), and small food shops like Quick Shop.

There are plenty of other facilities that can produce beer in the country: Eastern Brewery Corporation, Island Bir and many smaller breweries. It is true that historically each has had its own region, but recently some inroads have been made by other breweries into Western Brewery Corporation's territory and Western Brewery Corporation has some sales into other territories, as well as their recent success at exporting. Further some of the smaller breweries are new. Foreign beers definitely compete with Western Brewery Corporation, just go to a restaurant and see what is offered.

They believe their customers prefer their beer because it is better, but they deny they have any market power because they are already experiencing the pressures of competition in their own territory. They cannot recall a time of significant price changes of their beer but there has already been a significant increase in competition in West Java even though Western Brewery Corporation has kept its prices so low. Further, they argue, customers will willingly switch to wine or soft drinks when beer becomes unavailable. They cite to a time a few years ago when there was a contamination scare with their beer and they lost many people to other beverages. Some of those customers never switched back to beer. When asked what competes with Western Brewery Corporation beer, the person interviewed said: all wines and harder liquors and to some extent soft drinks, Eastern Brewery Corporation, Island Bir and all of the smaller breweries, and at least all of the foreign beers currently selling in the country and probably most of the other breweries in those countries. In addition, as has been proven over the past couple years, new smaller breweries can start up very easily within a few months. Other manufacturers of bottled beverages have some economies that they can exploit; however, in many cases, breweries have just started up anew.

Western Brewery Corporation requires its distributors in the region to sign a contract stating they will not distribute any other beer. Their primary distributor is Western Distributors. In one case, the distributor refused to sign the contract and Western Brewery Corporation no longer works with that distributor. The name of that distributor is Rolling Beverages. Western Brewery Corporation insists that there are many distributors in West Java who are not working with Western Brewery Corporation if someone wants to come in and sell. Furthermore, distributors in other regions can easily enter West Java within a month or so, and there are plenty of these distributors available. Western Brewery Corporation requires these contracts because it has developed a network of stores and restaurants that sell its beer, at some expense to Western Brewery Corporation. Because a distributor ships Western Brewery Corporation beer, it knows the network of customers that Western Brewery Corporation developed and which areas have higher demand and which are less lucrative. This is information that competitors would value greatly. The areas that consume

more Western Brewery Corporation beer do so in part because of the marketing and networking paid for by Western Brewery Corporation, Western Brewery Corporation sees no reason another beer company should benefit from that information. Indeed it has considered requiring some stores also to sign exclusive contracts because it believes customers will be drawn to the store because of Western Brewery Corporation beer (which is conspicuously advertised in many store windows) and then purchase a different beer from the store.

## EASTERN BREWERY CORPORATION

Eastern Brewery Corporation was privatized about one year ago. It was purchased by Eastern Brewery Corporation employees and a few local investors. They have three facilities in East Java. They pasteurize their beer so there is not a problem with shipping or shelf life. Two of the three facilities produce 20,000 barrels of beer per year and the third produces 40,000. The larger facility is more automated and uses newer techniques. The larger facility has the capacity to produce 50,000 barrels and the two smaller ones could produce 25,000 each at a maximum. Eastern Brewery Corporation's management feels that if they could increase their sales by about 15,000, it would be feasible to invest in one of their smaller plants to increase the capacity. They have not worked out specific details yet because they are sure they need first to increase their sales.

Eastern Brewery Corporation has begun to consider ways to increase its sales. The export market looks extremely lucrative and Eastern Brewery Corporation intends to move forward with it. However, managers at Eastern Brewery Corporation would like to move into West Java first to gain the experience of entering a new market. That is how they discovered Western Brewery Corporation's anticompetitive practices. In fact, it is Eastern Brewery Corporation's understanding that Western Brewery Corporation did not have these contracts until Eastern Brewery Corporation approached the distributors. Eastern Brewery Corporation thinks Western Brewery Corporation realized that Eastern Brewery Corporation was entering West Java, and that is why Western Brewery Corporation drew up the contracts. There is nothing unique about these distributors. They simply have trucking networks that deliver from the plant to a variety of grocery stores, restaurants and bars. Eastern Brewery Corporation does not know if there are other distributors available to ship its beer, but they don't understand why Western Brewery Corporation should be allowed to do this. Eastern Brewery Corporation currently ships most of its beer, including what it ships to West Java, through an eastern distributor named Eastern Distribution Corporation. Eastern Brewery Corporation's sales in West Java are profitable. It sells to a large restaurant and bar called Lorenzo and a few other bars and restaurants in the area including one restaurant called Restoran Melita.

The Eastern Brewery Corporation interviewees recall a few times when its facility closed down for maintenance reasons (they have now resolved those problems). This happened back when the beer companies stayed within their region. As they recall, many stores did not have beer for some time. They did not think many people changed to wine or other drinks, but they are not sure about that.

There are many smaller facilities that exist and some new ones have started up. Selling beer is becoming more and more competitive; that is why those contracts are so troubling. Foreign beers are also beginning to market in Javaland -- but they are not sure it is profitable for them.

As the market has opened, some of the traditional distribution channels have vanished and others have started. Eastern Brewery Corporation has a very good relationship with Eastern Distribution Corporation and plans to cultivate that relationship. They expect West Java is experiencing the same changes in distribution that Eastern Brewery Corporation is observing in East

Java.

Western Brewery Corporation is definitely dominant in West Java and, with the exclusive dealing contracts, it will continue to be dominant unless the competition authority prohibits the exclusive dealing contracts. Eastern Brewery Corporation thought the market was open, but Western Brewery Corporation is trying to stop the market from working with its exclusive contracts. Wine and hard liquors definitely do not compete with Western Brewery Corporation. A few of the small beer companies may compete and Eastern Brewery Corporation would like to compete but can't right now. Eastern Brewery Corporation is not aware of anyone considering entering the beer industry, but it would not be surprised if there were some small guy somewhere considering it. Eastern Brewery Corporation estimates that it would take approximately one year for a small brewery to start up. However, a small brewery would not make much of a competitive impact on Western Brewery Corporation, because Western Brewery Corporation is so dominant in its region. Eastern Brewery Corporation does not view foreign beers as much of a competitive threat, though it admits that foreign beers have slowly increased market share to about 3%.



## ISLAND BIR

Interviewee: Zak Rahman. Mr. Rahman has been manager of Island Bir for ten years. Before that he worked directly for the government in the agriculture section. He believes very much in reform and hopes to continue in his current position after the privatization of Island Bir. There are no immediate plans to privatize Island Bir.

Island Bir currently sells beer in Central Java. This has traditionally been Island Bir's region. There are a few cities where it overlaps with both Eastern Brewery Corporation and Western Brewery Corporation, but for the most part Island Bir has been the only brewery that sold in Central Java. Island Bir's breweries are located in Central Java. There are four of them each producing between 15,000 and 20,000 barrels per year. The total capacity is 70,000 barrels per year (two at 15,000 and two at 20,000).

Mr. Rahman sees no reason to consider updating the facilities, which have served the company well. He is not sure of the cost of updating the facility.

Island Bir distributes its beer using trucks that are part of Island Bir. The trucks are older but seem to be sufficient for the job. When asked about exclusive contracts with an independent distributor, Mr. Rahman saw no reason for this. He said it sounded like an effort by Western Brewery Corporation to eliminate competition. He was not familiar with any other comparable relationships and was unaware of this relationship until the present interview. He hopes that the government will do something about this because, in his mind, this is just one example of cases in which too much liberty is given to private corporations who use the liberty to profit at the expense of the ordinary citizen.

Island Bir is considering expanding into West Java. It is considering the most feasible way to distribute beer in West Java, whether to use its own trucks, or enter into a contract with a distributor, either already in West Java, or one in Central Java that could enter West Java. Mr. Rahman suspects the most efficient way would be to use an existing distributor already in West Java. He doesn't know how many distributors in West Java there are. He doesn't disregard the possibility that Island Bir could enter with outside distributors or Island Bir's own trucks, but he isn't certain it is possible. He really doesn't know exactly how long it will take Island Bir to begin distributing effectively in West Java. He doesn't think foreign beers are a competitive threat, but he doesn't know what their market share is. He isn't sure how long it would take a new brewery to open in West Java, and estimates about one year, but adds that since Island Bir is the only major brewery in Central Java, it has been a long time since he's seen a new brewery start up. He doesn't think its likely new breweries will open in the area, and hasn't heard of any breweries considering it.

## EASTERN DISTRIBUTION CORPORATION

Interviewee: Mrs. Sonya. She is a strong advocate of reform and hopes to take complete advantage of the opportunities it presents. She is very proud to point out that she has begun to read "Free to Choose." She enjoys extolling the virtues of the free market. She is about 35 years old and has been involved in foreign trade in the food industry for the past ten years. This gave her a substantial amount of capital and the connections necessary to secure foreign capital that allowed her to buy Eastern Distribution Corporation (EDC).

EDC is a trucking company that ships a wide variety of food products around the country. It has a relatively small presence in West Java. Its business in West Java has been increasing over the past few years, but with difficulty. EDC was privatized a couple of years ago and has tried to focus on a particular business since then. Specifically, the managers at EDC have tried to increase the role of EDC as a more complete distributor. As a result of this focus EDC now limits itself to distributing food products and takes on some marketing responsibilities occasionally. It has just started marketing and does not have much experience. It hopes to be able to do it without hiring experts in the field. However, if it is still having trouble a year from now it will probably try to hire a marketing professional.

The contract that EDC currently has with Eastern Brewery Corporation is a fixed fee for delivery so it has little incentive to market. If Eastern Brewery Corporation wants to change to an incentive contract, Eastern Distribution Corporation will pursue sales in the West Java more aggressively. As for now, EDC is simply going where Eastern Brewery Corporation directs it to go. It delivers primarily to very large accounts (relative to Eastern Brewery Corporation's average sized account in East Java), for example, Lorenzo, a very large restaurant and bar in West Java. Entering West Java in general is not a priority for EDC unless a potentially large account (like Eastern Brewery Corporation) asks it to. EDC thinks it would take a couple of years at least to fully develop a network and marketing system in West Java. In a shorter period of time it would have a more limited presence. In fact, shipping goods from East Java to West Java would not take as long because a network within West Java would be less important. The shipping network is more important for shipments to and from locations within West Java. Once it begins any shipments into West Java of sufficient size, however, it will probably try to develop a network within West Java to take advantage of scale economies.

There are some distributors in West Java right now that seem to be doing quite well, but EDC believes that there is enough business for EDC to profitably enter that region, if it did so aggressively. Further the distribution industry in general has been changing enough that EDC is confident that it could enter any region. The distributors that are available in East Java are completely different from the distributors that were available two years ago.

## WESTERN DISTRIBUTORS

Western Distributors has been a distributor for Western Brewery Corporation beer for many years. Western Distributors is a trucking company based in West Java.

Western Distributors relies heavily on old relationships it has with companies. Western Brewery Corporation is one of its important customers. It can not afford to lose Western Brewery Corporation, which is the reason it has agreed to terminate its relationship with Eastern Brewery Corporation even though it was upset about the contract. Eastern Brewery Corporation sold some beer through Western Distributors, but was still quite small. Western Distributors sees no reason for the exclusive contract and feels it is unfair. Western Brewery Corporation indicated some concern that Western Distributors was using its knowledge of beer consumption to benefit Eastern Brewery Corporation. Western Distributors denies ever having had a conversation with Eastern Brewery Corporation about where to sell beer; however, Western Distributors has sold Eastern Brewery Corporation's beer only to large purchasers -- there is no reason to sell to small ones. Eastern Brewery Corporation did not tell Western Distributors where to sell. Eastern Brewery Corporation would just pay a fixed shipping fee to Western Distributors per liter of beer sold. Western Distributors would then ship the beer to the final customer. Western Distributors merely asked firms to whom they were already delivering products if they would be interested in trying Eastern Brewery Corporation beer, and made the initial sales.

Western Distributors has no intention of entering other aspects of distribution (e.g. marketing) In fact, it is unaware of any competitors other than Rolling Beverages that markets products. It may have heard something about Eastern Distribution Corporation, a trucking company out of East Java, doing marketing as well.

Western Distributors is not a complicated business. It has many trucks (about 75) and ships to certain regions. Its truckers are generally quite familiar with the area it ships to, so it is not a problem to have the truckers change commodities (as happened in a few of their areas when they switched away from Eastern Brewery Corporation). Western Distributors has never considered entering other regions of the country.

The distributors that are available now are very different from those that were available a few years ago. Western Distributors managers are not concerned about the future of Western Distributors, however, because Western Distributors is very established and one of the largest. The managers expect the company to be privatized within the next couple of years.

Western Distributors is not familiar with the other distributors in West Java and does not think it would be very difficult for a new distributor to start up in West Java, or for a distributor outside the region to enter, though it may take some time to learn the region. Western Distributors does not know how long it would take such a distributor to become effective, but does not think that new distributors would present much of a threat. Western Distributors does not remember how long it took to become established. It has always been the largest distributor in the region.

## **ROLLING BEVERAGES**

Rolling Beverages is a recently privatized company that is, like Eastern Distribution Corporation, aggressively pursuing a complete distributor niche. It is planning to perform much more promotion and marketing for its clientele than it has in the past.

When Western Brewery Corporation presented the exclusive dealing contract, Rolling Beverages tried to negotiate a deal in which it would perform the marketing in exchange for an incentive compensation package. Western Brewery Corporation was not interested and insisted on the exclusive dealing contract. Rolling Beverages refused, and Western Brewery Corporation terminated them. Rolling Beverages considered complaining to the competition authority, but never did. Rolling Beverages thinks the contract is bad because it eliminates options. However, Rolling Beverages has the sense that if it were ever willing to sign the contract and offer a competitive price for shipping, Western Brewery Corporation would still be considered.

Rolling Beverages is significantly smaller than Western Distributors. Rolling Beverages has only 25 trucks. Consequently it is trying to focus on a single sector: the beverage industry. It has negotiated deals with a few wine producers and soft drink companies. It purchases the wine and soft drink at a fixed price and then sells it for whatever price it can. It receives volume discounts from the companies and must purchase a minimum amount. Rolling Beverages has also begun purchasing small amounts of Island Bir beer directly from Island Bir and selling it to a few large purchasers in West Java. It knows about these purchasers because of its work with Western Brewery Corporation. So far, these sales have been profitable, and it plans to continue. This is not, however, where it currently intends to focus its efforts. If it is able to make a higher profit this way, then it will have to reconsider its focus.

Rolling Beverages is very excited about the prospects for its business. It has considered doing the bottling itself and purchasing only the liquid from the manufacturer. Rolling Beverages researched other distributors around the world and discovered some do their own bottling.

Rolling Beverages thinks that many of the distributors in West Java have signed contracts with Western Brewery Corporation. Rolling Beverages believes it is the largest distributor that is not under contract with Western Brewery Corporation. There may be a couple of other distributors available. It is not sure, but believes that Western Brewery Corporation has more or less than half of the distributors under exclusive dealing contracts. Distribution has changed a lot in the past couple of years and will likely continue to change. The position of each distributor has changed also. Some that were larger have become smaller and others that were smaller have increased in size. In some cases a distributor in another part of the country has moved into West Java.

## **RESTORAN MELITA**

Restoran Melita is a restaurant in West Java. It has used Western Brewery Corporation beer for a long time. It also purchases some imported beers from Germany.

Restoran Melita is a relatively expensive restaurant and considers itself first class. The managers of Restoran Melita said it has always been one of the finest restaurants in Javaland and has taken major steps to retain that position. Restoran Melita was privatized over a year ago.

Restoran Melita finds that most of its patrons prefer Western Brewery Corporation beer. There seems to be a clear preference for Western Brewery Corporation's taste. However, most of Restoran Melita's patrons travel a fair amount and are therefore familiar with Eastern Brewery Corporation and Island Bir as well (both of which Restoran Melita sells). A few prefer Eastern Brewery Corporation and many switch back and forth between Eastern Brewery Corporation and Western Brewery Corporation. The foreign beers are ordered infrequently, and Restoran Melita has noticed that as changes in the exchange rate have made foreign beers more expensive, the consumption of foreign beers has dropped off. It can not quantify the change in consumption of foreign beer, but the drop was noticeable.

Shipments of Eastern Brewery Corporation and Western Brewery Corporation come through different distributors. At one time, the same distributor delivered both beers, but the people interviewed understand that the distributors had to make a choice between the two for some reason, and now the distributor that ships Western Brewery Corporation, ships only Western Brewery Corporation. The restaurant managers are not sure of the reason for this, but they haven't noticed any significant change in the delivery of Western Brewery Corporation. It is more difficult to buy Eastern Brewery Corporation beer but they think this is because of the new distributor. The name of Eastern Brewery Corporation's distributor is Eastern Distribution Corporation. The difficulty in buying Eastern Brewery Corporation beer has not been a serious problem because Restoran Melita does not need to purchase much of it. Further, by simply raising the price by about 20% they have been able to stretch inventory of Eastern Brewery Corporation. Obtaining supplies of Island Bir is not a problem because it always used a different distributor from the one that Western Brewery uses. Island Bir's distributor is Rolling Beverages.

The price of wine relative to beer has decreased a fair amount over the years, but they do not think this has caused people to switch from beer to wine. Generally, people who want beer do not find wine acceptable. They may be willing to switch between beers, but they will not accept wine.

## LORENZO

Lorenzo is a restaurant and bar located in West Java. Lorenzo purchases beer from Western Brewery Corporation and offers some other selections including Eastern Brewery Corporation and foreign beers.

The primary beer offered at Lorenzo is Western Brewery Corporation. Lorenzo buys about 4,500 barrels of beer a year from Western Brewery Corporation. That is more than twice its purchases of all other beers combined. The typical Lorenzo customer is an individual who works very hard all day and wants to go out and relax at night. Lorenzo has the largest eating and drinking facility in West Java. On weekends the restaurant is full and live music is offered on Thursday, Friday and Saturday evening.

The Lorenzo customer is fairly sensitive to price increases. There is a clear preference for Western Brewery Corporation and, when asked about a relative price change, the response was that beer prices do not change very much. When asked further, the interviewees felt that many, if not most, of their customers would switch to the cheapest beer. They could not envision a scenario in which Western Brewery Corporation was not the cheapest, however, and they could not remember a time when the price of beer had changed much (up or down).

Eastern Brewery Corporation has been increasing its presence and sells a significant amount of beer at Lorenzo -- close to 1000 barrels this year. Two years ago, Eastern Brewery Corporation did not sell any. When Eastern Brewery Corporation started selling about a year ago, it used the same distributor that Western Brewery Corporation used. Recently, it has been using a different distributor. The interviewees do not know why. There have not been any major problems with deliveries from Eastern Brewery Corporation. Foreign companies sell their beer in a very different manner. Lorenzo contacts the beer company directly in the case of Eastern Brewery Corporation and Western Brewery Corporation (and all other beer companies in Javaland) but with foreign companies contact the distributor who does the marketing within Javaland -- Lorenzo has no direct relationship with foreign beer companies.

Eastern Brewery Corporation charges about the same price for beer that Western Brewery Corporation does. Lorenzo, however, thinks Eastern Brewery Corporation is charging a lower price now to try to introduce its beer to Lorenzo's customers. Western Brewery Corporation charges a better price to Lorenzo than elsewhere because Lorenzo buys so much. With the volume discount from Western Brewery Corporation and the introductory discount from Eastern Brewery Corporation, the two prices are about the same. There is no substitute for beer. If someone wants beer, that person will not settle for wine or anything else.

Lorenzo has not considered producing beer itself because plenty of beer is available. Lorenzo does not want to produce its own beer, but does not think it would be difficult. With Western Brewery Corporation and all the other producers Lorenzo is not at all concerned about being unable to obtain adequate supplies of beer.

## QUICK SHOP

Quick Shop is a small store that sells food and beverages, including beer. The store is used almost exclusively by people that live in the neighborhood. It stocks basic foods and beer, wine and soft drinks. When the price that it pays for a something increases, it increases the retail price. Over the years prices of beer, wine and soft drinks have changed (changing prices in the store), but the interviewee does not believe people have switched from beer to wine or to soft drinks. Increases in the price of beer have not had a noticeable effect on the demand for beer; however, the price of beer has never changed dramatically. Quick Shop stocks almost exclusively Western Brewery Corporation beer. If another beer that was priced better became available, Quick Shop would be willing to sell it for a while, but is not sure how customers would react to a different beer.

**SALES AND PRODUCTION OF BEER PER YEAR  
(IN BARRELS)**

	<b>Western Brewery Corporation</b>	<b>Eastern Brewery Corporation</b>	<b>Other Domestic</b>	<b>Import</b>
<b>Restaurant</b>	10,000	15,000	20,000	2,000
<b>Small Retail</b>	20,000	30,000	55,000	4,000
<b>Bar</b>	30,000	35,000	45,000	2,000
<b>Exports</b>	5,000		10,000	
<b>TOTAL</b>	65,000	80,000	130,000	8,000
<b>Approximate Revenue Per Year (in USD dollars)</b>	5,050,000	5,800,000	8,450,000	400,000
<b>Annual Capacity Using Capital Equipment Already Available (in barrels)</b>	85,000	100,000	185,000	??

**SALES IN WEST JAVA**

	<b>Western Brewery Corp.</b>	<b>Eastern Brewery Corp.</b>	<b>Other Domestic</b>	<b>Import</b>
<b>Restaurant</b>	8,000	3,000	2,000	1,000
<b>Small Retail</b>	19,000	0	1,500	2,000
<b>Bar</b>	16,000	3,000	4,000	1,000
<b>TOTAL</b>	43,000	6,000	7,500	4,000

•Beer is priced between about 55 to 70 US Dollars barrel; bottled it is prices between about 70 and 90 US dollars per barrel (about 80 one-liter bottles)



## **QUESTIONS TO BE DISCUSSED AT THE END OF THE SEMINAR**

### **PRODUCT MARKET**

- What does the evidence so far indicate is the product market and who are the market participants?
- What evidence supports a "beer only" product market?
- What evidence does not support a "beer only" product market?
- What evidence supports a "Western Brewery Corporation beer only" product market?
- What evidence does not support a "Western Brewery Corporation beer only" product market?
- Is there enough evidence so far to conclusively determine what the product market is?
- If not, what other evidence is needed?

### **GEOGRAPHIC MARKET**

- What does the evidence so far indicate is the geographic market?
- What evidence supports a "West Java" geographic market only?
- What evidence does not support a "West Java" geographic market?
- Is there enough evidence so far to conclusively determine what the geographic market is?
- If not, what other evidence is needed?

### **DOMINANCE/SUBSTANTIAL MARKET POWER**

- What does the evidence so far tell us about whether Western Brewery Corporation has dominance/substantial market power?
- What additional evidence is needed?

## **ENTRY**

- What does the evidence so far tell us about the likelihood and timeliness of entry?
- Is there enough evidence so far to conclusively determine the likelihood of entry?
- If not, what other evidence is needed?

## **EFFICIENCIES**

- What does the evidence so far tell us about the efficiencies of the exclusive contracts?
- What other evidence would be useful?

## **HARM TO COMPETITION**

- What does the evidence so far indicate on whether there are other distributors or alternative distribution channels available to Western Brewery Corporation's rivals?
- What does the evidence so far indicate on whether such distributors/alternative channels would allow the rivals to compete effectively?
- What other evidence would be useful in determining whether competition has been harmed?

## **CONCLUSION**

- Based on the evidence so far, would the competition authority:
  - (a) require the termination of the contracts;
  - (b) continue the investigation for more evidence; or
  - (c) close the investigation?
- Why?