Competition Assessment of Cases in Digital Markets: The Acquisition of Cornershop by Uber in Chile

Vicente Lagos
Mergers Division – Fiscalía Nacional Económica (FNE)
September 2020
Overview

Acquisition of Cornershop by Uber

- Uber: food delivery (and ride-sharing)
  - Multiple-sided platform: (i) restaurants, (ii) delivery people and (iii) final consumers
- Cornershop: grocery delivery
  - Multiple-sided platform: (i) supermarkets, (ii) shoppers (delivery) and (iii) final consumers

Main theories of harm

- Horizontal theory of harm: elimination of a potential entrant
  - Intention of Uber to independently enter the grocery delivery market
- Conglomerate theory of harm: possibility of using loyalty programs to leverage a strong market position from one market to another
Overview

Case with features of a digital market

1. Market definition: platforms and one-sided alternatives
2. Horizontal effects: removal of potential competition
3. Dynamic component: the role of indirect network effects in potentially “amplifying” the effects of certain conducts
Relevant Market: Platforms and One-sided (online) Alternatives

**Differentiation of the service provided by Cornershop**
- Direct communication with shopper
- Higher average ticket size (compared to other platforms)
- Shorter delivery times (compared to supermarket chains)

**Consumer survey**
- Hypothetical scenario of unavailability of Cornershop
  - Users would mainly switch to supermarket chains: both online and brick-and-mortar
- A large fraction of users had tried different supermarket chain apps and sites

**Covid-19 lockdowns viewed as a sort of “natural experiment”**
- Acceleration of investments by supermarket chains (e.g., opening of dark stores)
Relevant Market: Platforms and One-sided (online) Alternatives

**Fast growing market**

- Cornershop is the clear market leader
- The second in the market is a supermarket chain (Jumbo/Cencosud)
Elimination of a Potential Entrant

Uber would enter as an independent alternative to Cornershop
• Pilot project with Uber Eats interface in one supermarket chain
• Evidence of grocery delivery in other countries

Expected positioning (in the short run) similar to competing platforms
• Existent (platforms and one-sided) alternatives would discipline the merged firm to a sufficient extent
• Supermarket chains have certain competitive advantages: control of inventory, relationship with suppliers (scale and discounts), loyalty programs (link online and brick-and-mortar sales).
• Alternative platforms are expanding their services as well (e.g., dark stores)
Dynamic Component linked to Indirect Network Effects

Indirect network effects may generate spiral effects between the different sides of a platform

• Strategies aimed at raising rivals` costs in one side may affect the competitiveness of a platform in its other sides as well

How relevant are indirect network effects in this market?

• Simple test: There is no positive correlation between platform sales and number of supermarket chains on board

<table>
<thead>
<tr>
<th>Platform</th>
<th>Sales (M CLP)</th>
<th>Supermarket Chains on Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cornershop</td>
<td>[150,000-160,000]</td>
<td>Jumbo, Wallmart</td>
</tr>
<tr>
<td>Rappi</td>
<td>[5,000-10,000]</td>
<td>Jumbo, Tottus, Unimarc</td>
</tr>
<tr>
<td>PedidosYa</td>
<td>[0,000-5,000]</td>
<td>Jumbo, Tottus, Unimarc</td>
</tr>
</tbody>
</table>

• Supermarket chains would not benefit from a highly concentrated platform market: a platform may become a direct competitor

• Elements that may reduce the prob. of tipping: (i) multi-homing, (ii) product differentiation, and (iii) capacity constraints (see Haucap 2019)
References


