

Pet Medications: Lessons from the FCLCA

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Did the Rx Release Affect Prices? Methodology

- Has the price gap between online and offline prices changed between Fall 2004 and Spring 2007?
- Data for prices of most popular lenses from most online firms and sample of Northern Virginia ECPs from a variety of retail settings (independent, chain, big box, mass merchandizer).
 - Controlled for lens-specific effects, costs, and time effects.
 - Errors clustered by store to control for idiosyncratic store pricing strategies correlated across lenses.

Did the Rx Release Affect Prices? Results

- Average difference in price gap is statistically indistinguishable from zero.
- On average, optical chains have raised their prices relative to online prices.
- Some evidence that warehouse clubs have lowered their prices relative to online prices.
- Market shares have remained stable.
- Offline price dispersion has remained constant.

Limited Distribution Strategies

- FTC Contact Lens Report and Cooper (2007) examine price differences between limited distribution lenses and others.
- Controlled for lens quality and store differences.
- No statistically significant difference in price.

Some Things to Consider

- Ordered search?
 - Because search is expensive, consumers may choose to buy from prescriber just to economize on search costs.
 - This could explain ECP premiums.
- Limited distribution:
 - Empirical literature suggests that privately-imposed vertical restraints not likely to raise competitive issues (Cooper et al. 2005, LaFontaine & Slade 2008).
 - Antitrust laws treat vertical restraints under the rule of reason.
 - Distinction between horizontal and vertical restraints.