

Horizontal Merger Guidelines Review Project
Questions for Public Comment

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Surveys can be useful tools in antitrust to provide valuable insights on a myriad of merger analysis topics. Consumer surveys can be a source of a crucial data on market definition, market segments, and behavioral intentions such as response to price increases. Likewise, surveys of current and potential competitors can yield information on market definition, competitive response, and barriers to entry. Given the power of surveys to shed light on subjects important in antitrust, *i.e.* product substitutability and factors that may prevent defection even in the face of a small but significant non-transitory increase in price (SSNIP), it is likely that the role of surveys in antitrust can be greatly expanded.

In contrast to traditional marketing surveys, a questionnaire for the purpose of antitrust analysis must be designed to specifically address issues such as market definition and consumer responses to a hypothetical SSNIP. However, designing survey questions to avoid respondent confusion and use of potentially biasing heuristics is a tricky task. It is important to translate regulatory verbiage into concepts relevant to consumers. The core questions that need to be answered are:

- Which products do consumers consider substitutes?
- How does substitutability change with changes in product attributes (price, features, size, etc.), customer loyalty, and switching costs?
- How might the merged firm alter the marketplace?

Research has shown that respondents who are asked to make difficult mathematical calculations often resort to guesstimation instead of doing the math (Converse & Presser 1990, Tourangeau *et al.* 2000). This poses a difficulty when trying to gather data about customers' likely reactions in a 5% SSNIP scenario. With respect to shopping frequency, researchers have found it helpful to ask respondents about a recent specific focal time period (a specific recent week or month) rather than asking consumers about their behavior in a "typical week" or "typical month" (Tourangeau *et al.* 2000).

In regard to SSNIP, technological innovation may eliminate the need for difficult calculations. Instead of by paper and pen, the survey can be administered using a letter-paper-sized electronic device similar to a tablet PC. The device is able to make calculations and store pricing information on hundreds of products, quickly asking each customer whether he or she purchases a particular product while displaying a photo and size information to ensure that the customer has recognized the correct product. If the answer is "yes," the device displays the current price of the product and asks the customer confirm that this is the price that he or she pays. The device then displays a price that is 5% greater than the current price and asks the customer if he or she would still purchase this product at the higher price. If the answer is "no," then the device asks the customer whether he or she would buy a substitute from

the current retailer (cannibalization) or a competitor and to list the product(s) that he or she would buy as a substitute, or to indicate that he or she would not make any purchase at all. (In a between-subjects study, it is unnecessary for each customer to answer the questions for each and every product, as long as groups are large enough and variances are similar enough across groups for statistical inferences to be made).

References

Converse, J. and Presser, S. (1990). *Survey Questions: Handcrafting the Standardized Questionnaire*. Sage University Publications: London.

Tourangeau, R., Rips, L., & Rasinski, K. (2000). *The Psychology of Survey Response*. New York: Cambridge University Press.