The Federal Trade Commission has accepted a proposed settlement to resolve the likely anticompetitive effects of Dollar Tree, Inc.’s proposed $9.2 billion acquisition of Family Dollar Stores, Inc.\(^1\) We have reason to believe that, absent a remedy, the proposed acquisition is likely to substantially lessen competition between Dollar Tree and Family Dollar in numerous local markets. Under the terms of the proposed consent order, Dollar Tree and Family Dollar are required to divest 330 stores to a Commission-approved buyer. As we explain below, we believe the proposed divestitures preserve competition in the markets adversely affected by the acquisition and are therefore in the public interest.

Dollar Tree operates over 5,000 discount general merchandise retail stores across the United States under two banners which follow somewhat different business models. In its Dollar Tree banner stores, Dollar Tree sells a wide selection of everyday basic, seasonal, closeout, and promotional merchandise—all for $1 or less. At its Deals banner stores, Dollar Tree sells an expanded assortment of this merchandise at prices that may go above the $1 price point but are generally less than $10. Family Dollar operates over 8,000 discount general merchandise retail stores. Family Dollar sells an assortment of consumables, home products, apparel and accessories, seasonal items, and electronic merchandise at prices generally less than $10, including items priced at or under $1.

Dollar Tree and Family Dollar compete head-to-head in numerous local markets across the United States. They are close competitors in terms of format, pricing, customer service, product offerings, and location. When making competitive decisions regarding pricing, product assortment, and other salient aspects of their businesses, Dollar Tree and Family Dollar focus most directly on the actions and responses of each other and other “dollar store” chains, while also paying close attention to Walmart. In many local markets, Dollar Tree and Family Dollar operate stores in close proximity to each other, often representing the only or the majority of conveniently located discount general merchandise retail stores in a neighborhood.

To evaluate the likely competitive effects of this transaction and identify the local markets where it may likely harm competition, the Commission considered multiple sources of quantitative and qualitative evidence. One component of the investigation involved a Gross Upward Pricing Pressure Index (“GUPPI”) analysis. As described in the 2010 Horizontal Merger Guidelines, this mode of analysis can serve as a useful indicator of whether a merger involving differentiated products is likely to result in unilateral anticompetitive effects.\(^2\) Such effects can arise “when the merger gives the merged entity an incentive to raise the price of a product previously sold by one merging firm” because the merged entity stands to profit from any sales that are then diverted to products that would have been “previously sold by the other

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\(^1\) This statement reflects the views of Chairwoman Ramirez and Commissioners Brill, Ohlhausen, and McSweeny.
merging firm.”

Using the value of diverted sales as an indicator of the upward pricing pressure resulting from the merger, a GUPPI is defined as the value of diverted sales that would be gained by the second firm measured in proportion to the revenues that would be lost by the first firm. If the “value of diverted sales is proportionately small, significant unilateral price effects are unlikely.”

The Commission’s investigation involved thousands of Dollar Tree and Family Dollar stores with overlapping geographic markets. A GUPPI analysis served as a useful initial screen to flag those markets where the transaction might likely harm competition and those where it might pose little or no risk to competition. As a general matter, Dollar Tree and Family Dollar stores with relatively low GUPPIs suggested that the transaction was unlikely to harm competition, unless the investigation uncovered specific reasons why the GUPPIs may have understated the potential for anticompetitive effects. Conversely, Dollar Tree and Family Dollar stores with relatively high GUPPIs suggested that the transaction was likely to harm competition, subject to evidence or analysis indicating that the GUPPIs may have overstated the potential for anticompetitive effects.

While the GUPPI analysis was an important screen for the Commission’s inquiry, it was only a starting point. The Commission considered several other sources of evidence in assessing the transaction’s likely competitive effects, including additional detail regarding the geographic proximity of the merging parties’ stores relative to each other and to other retail stores, ordinary course of business documents and data supplied by Dollar Tree and Family Dollar, information from other market participants, and analyses conducted by various state attorneys general who were also investigating the transaction. After considering all of this evidence, the Commission identified specific local markets where the acquisition would be likely to harm competition and arrived at the list of 330 stores slated for divestiture.

In his statement, Commissioner Wright criticizes the way that the Commission used the GUPPI analysis in this case and argues that GUPPIs below a certain threshold should be treated as a “safe harbor.” We respectfully disagree.

As an initial matter, Commissioner Wright mischaracterizes the way that the GUPPI analysis was used in this case. Contrary to his suggestion, GUPPIs were not used as a rigid presumption of harm. As explained above, they were used only as an initial screen to identify those markets where further investigation was warranted. The Commission then proceeded to consider the results of the GUPPI analysis in conjunction with numerous other sources of information. Based on this complete body of evidence, we have reason to believe that, without

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3 Id.
4 Id.
6 As Joseph Farrell and Carl Shapiro have noted, “[r]eal-world mergers are complex, and our proposed test, like the concentration-based test, is consciously oversimplified. . . . In the end, the evaluation of any merger that is thoroughly investigated or litigated may come down to the fullest feasible analysis of effects.” Joseph Farrell & Carl Shapiro, Antitrust Evaluation of Horizontal Mergers: An Economic Alternative to Market Definition, 10 B.E. J. THEORETICAL ECON. 1, 26 (2010).
the proposed divestitures, the acquisition would substantially lessen competition in each of the relevant local markets.

Our market-by-market review showed that the model of competition underlying the GUPPI analysis was largely consistent with other available evidence regarding the closeness of competition between the parties’ stores in each local market. For example, stores with high GUPPIs were generally found in markets in which there were few or no other conveniently located discount general merchandise retail stores. The GUPPI analysis did have some limitations, however. For example, there were Family Dollar stores with relatively low GUPPIs in markets that were nevertheless price-zoned to Dollar Tree stores, which meant that if Dollar Tree stores were removed as competition, then the prices of certain items at those Family Dollar stores would likely go up. The GUPPI analysis also was not sufficiently sensitive to differentiate between Dollar Tree and Family Dollar stores that were in the same shopping plaza from those that were almost a mile away from each other. For these situations, we appropriately relied on other evidence to reach a judgment about the closeness of competition.7

More broadly, Commissioner Wright’s view that the Commission should identify and treat GUPPIs below a certain threshold as a “safe harbor” ignores the reality that merger analysis is inherently fact-specific. The manner in which GUPPI analysis is used will vary depending on the factual circumstances, the available data, and the other evidence gathered during an investigation. Moreover, whether the value of diverted sales is considered “proportionately small” compared to lost revenues will vary from industry to industry and firm to firm.8 For example, intense competition between merging firms may cause margins to be very low, which could produce a low GUPPI even in the presence of very high diversion ratios. Such conditions could produce a false negative implying that the merger is not likely to harm competition when in fact it is.9

Indeed, we agree with Commissioner Wright that “a GUPPI-based presumption of competitive harm is inappropriate at this stage of economic learning.”10 We think that a GUPPI-based safe harbor is equally inappropriate. In antitrust law, bright-line rules and presumptions rest on accumulated experience and economic learning that the transaction or conduct in question

7 Commissioner Wright cites the Albertson’s/Safeway transaction as another recent case in which a GUPPI analysis was used. See Wright Statement at 2 n.6. To be precise, the Commission analyzed that transaction using diversion ratios, not GUPPI scores, but in any event, Commissioner Wright himself voted to accept the consent order in that case.
8 Marginal cost efficiencies, as well as pass-through rates, also will vary from industry to industry and from firm to firm. The pass-through rate will determine the magnitude of the post-merger unilateral price effects.
9 Joseph Farrell & Carl Shapiro, Upward Pricing Pressure and Critical Loss Analysis: Response, CPI ANTITRUST J. 1, 6−7 & n.15 (Feb. 2010); Farrell & Shapiro, Antitrust Evaluation of Horizontal Mergers, supra note 6, at 13–14.
10 Wright Statement, supra note 5, at 8 & nn.23 & 24 (citing commentators’ concerns and criticisms regarding the use of GUPPI analysis generally). Such concerns and criticisms, if valid, would apply equally to the wisdom of using GUPPIs to recognize a safe harbor.
is likely or unlikely to harm competition.\textsuperscript{11} We do not believe there is a basis for the recognition of a GUPPI safe harbor.

Accordingly, in any case where a GUPPI analysis is used, the Commission will consider the particular factual circumstances and evaluate other sources of quantitative and qualitative evidence.\textsuperscript{12} As with other quantitative evidence such as market shares and HHIs, we believe that GUPPIs should be considered in the context of all other reasonably available evidence. The 2010 Horizontal Merger Guidelines do not instruct otherwise.\textsuperscript{13} For all of these reasons, we believe it is appropriate to use GUPPIs flexibly and as merely one tool of analysis in the Commission’s assessment of unilateral anticompetitive effects.

\textsuperscript{11} See, e.g., Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877, 886–87 (2007) (“As a consequence, the \textit{per se} rule is appropriate only after courts have had considerable experience with the type of restraint at issue, . . . and only if courts can predict with confidence that it would be invalidated in all or almost all instances under the rule of reason, . . .”); Cal. Dental Ass’n v. FTC, 526 U.S. 756, 781 (1999) (“The object is to see whether the experience of the market has been so clear, or necessarily will be, that a confident conclusion about the principal tendency of a restriction will follow from a quick (or at least quicker) look, in place of a more sedulous one.”); ProMedica Health Sys., Inc. v. FTC, 749 F.3d 559, 570, 571 (6th Cir. 2014) (noting that “the strong correlation between market share and price, and the degree to which this merger would further concentrate markets that are already highly concentrated—converge in a manner that fully supports the Commission’s application of a presumption of illegality” but also noting that “the Commission did not merely rest upon the presumption, but instead discussed a wide range of evidence that buttresses it”).

\textsuperscript{12} See Carl Shapiro, \textit{The 2010 Horizontal Merger Guidelines: From Hedgehog to Fox in Forty Years}, 77 \textit{Antitrust L.J.} 701, 729 (2010) (“The value of diverted sales is an excellent simple measure for \textit{diagnosing or scoring} unilateral price effects, but it cannot capture the full richness of competition in real-world industries. Indeed, as stressed above, all of the quantitative methods discussed here must be used in conjunction with the broader set of qualitative evidence that the Agencies assemble during a merger investigation.”); Farrell & Shapiro, \textit{Upward Pricing Pressure}, \textit{supra} note 8, at 6 (“Whatever measure is used for screening purposes, it is important that the full analysis give proper weight to all the available evidence.”). Notwithstanding Commissioner Wright’s suggestion to the contrary, we do not believe that the Commission’s use of GUPPIs as a tool for assessing unilateral effects differs materially from their use by the Department of Justice.

\textsuperscript{13} Recognizing in the 2010 Horizontal Merger Guidelines that when the “value of diverted sales is proportionately small, significant unilateral price effects are unlikely” does not necessarily mean that “proportionately small” should be reduced to some numerical value that applies in all cases. See Merger Guidelines, \textit{supra} note 2, § 1 (“These Guidelines should be read with the awareness that merger analysis does not consist of uniform application of a single methodology.”).