THE MERGER OF BJØRKS BØGER & DET NÆSTE KAPITEL

ANALYSIS AND POLICY RECOMMENDATION – PARAPARAT

RECOMMENDATION: BLOCK THE MERGER

MASSIVE MARKET SHARE

- HHI score increases greatly
- Even more so if libraries are not counted
- Market power based on importance of location

INELASTIC CONSUMERS

- Hard core of ”collectors”
- Weak price substitution, also to libraries
- Strong incentive for firm to raise prices

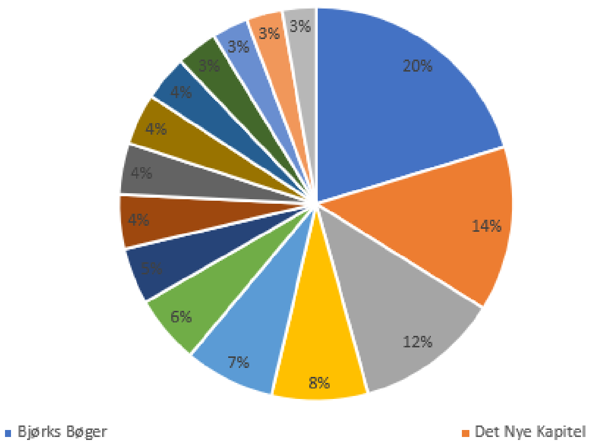
DOUBTFUL GAINS

- Lack of documentation
- Suspiciously high
- Unlikely to be passed on to consumers

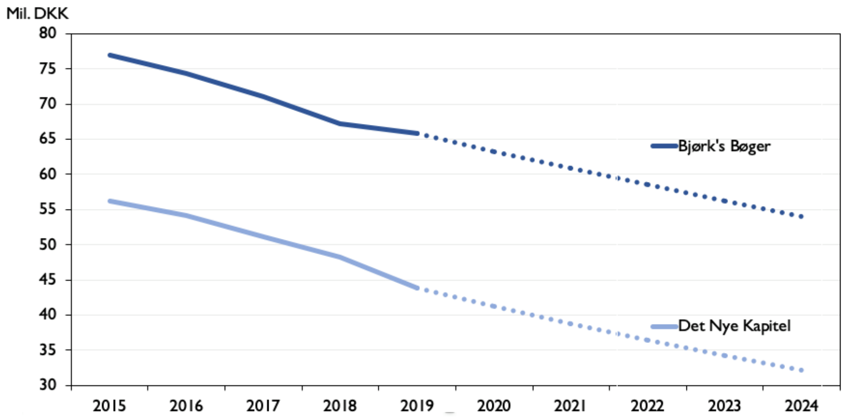
THE INDUSTRY – WHO'S WHO IN THE BOOKSTORE WORLD?

- Bjørks and DNK make up over 1/3 of the market
- Physical book sales and profits are declining
- Increase in shipping and digital product sales, not relevant to them as *physical bookstores*
- Massive trend towards new digital products (Audio books etc.)
- Very few other physical bookstore chains – notable local presence of a Bjørks or DNK

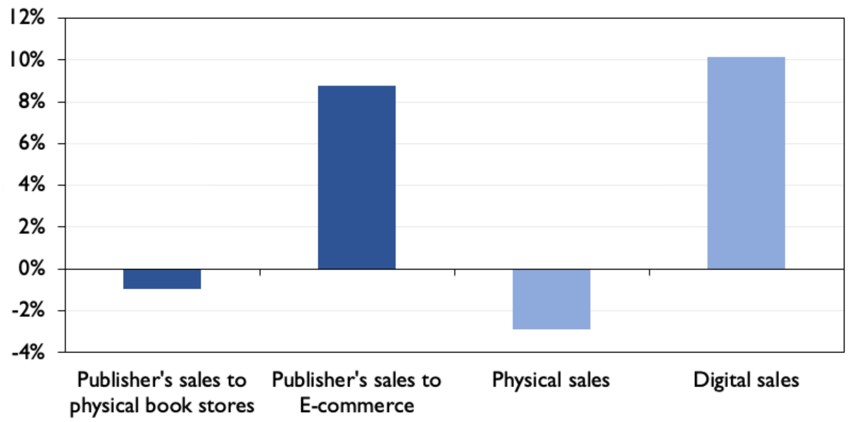
Market shares in the book market (Libraries removed)



Gross profit - Historic and projections



Average growth rates in sales from 2013-2018



A TALE OF TWO CONSUMERS – WHO’S STILL BUYING?

”The Casual”

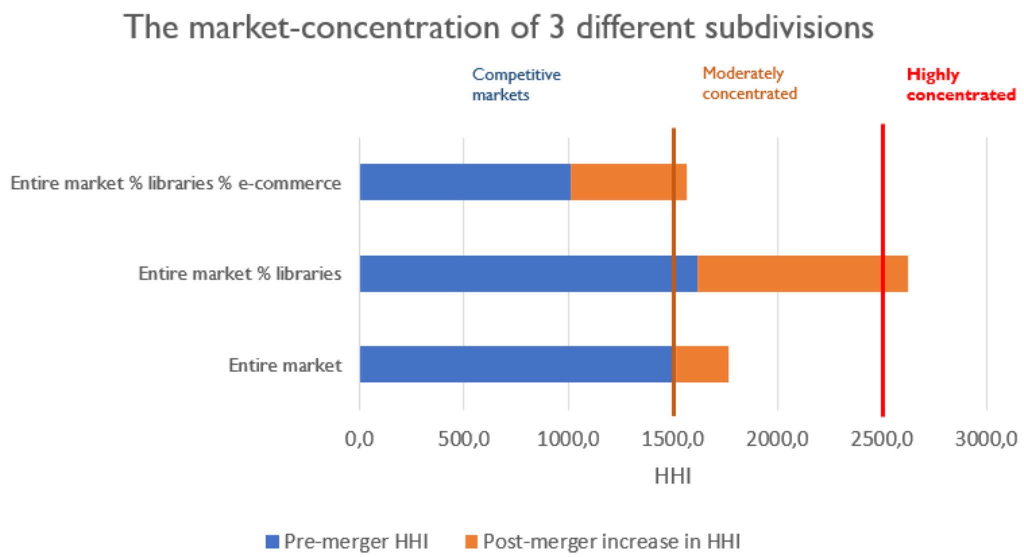
1. Has largely switched to digital and shipping
2. High substitution and migration
3. As many as 41% say that price is central
4. Buys fewer books than collector
5. Of small concern to non-competitive bookstores
6. Looks for alternative media such as audio books

”The Collector”

1. Still buys at bookstores
2. Low migration and low substitution
3. Only 5% say that price is central!
4. Buys more books than casual
5. Vulnarable to non-competitive bookstores
6. Library is *not* a substitute for the bookstore!

THE MERGER'S EFFECT ON COST AND CONCENTRATION

HHI effects of merger:



UPP effects of merger:

Assumptions:

- $C_2 = C_1 = AVC$. Competitive market
- $P_2 = AR$
- E_1 correct

$$UPP_1 = D_{12}(P_2 - C_2) - E_1 C_1$$

$$0{,}5(220 - 71) - 0{,}25\% \times 71 = 56{,}7$$

$\longrightarrow$ increasing price pressure

Gains: Efficiency gain of 25% is based on unfounded numbers and is impossible to verify

CONCLUSION: BLOCK THE MERGER

1. A merger would lead to a massive increase in market concentration
2. A large section of physical bookstore consumers are highly price-inelastic
3. Aggreviated by local presence of a bookstores
4. Cost benefits are doubtful and unfounded
5. Would massively harm consumers, especially the ”collector” segment