

Quiz 1: Market delineation

Developing new truck models is an expensive business, which is only profitable if a truck manufacturer succeeds to reach a large scale. It is therefore necessary for truck manufacturers to be present worldwide and not only on their national markets. Volvo cannot focus exclusively on Sweden and MAN cannot be present in Germany only.

As the costs of developing new models rise, it becomes increasingly important to achieve scale economies. One way to achieve large scale is through mergers and acquisitions. Different brands can then collaborate on developing engines and other parts, thereby reducing the cost of development per truck.

Clearly such mergers reduce competition in the truck market. But the large number of truck manufacturers on the world market suggests that competition is intense today, and that competition will continue to be intense also after a few mergers. Thus, any loss of competition must be assumed to be low compared to the substantial gains in the form of cost reductions.

Based on such calculations Volvo and Scania agreed to merge their companies and applied for approval. But, much to their surprise, the European Commission decided to block the planned merger on the basis that it would lead to near monopoly in Sweden, Finland and some other countries.

One of the Commission's main arguments is that the different manufacturers also have their own networks of service garages, each specializing in their own brand. Also these networks are expensive to maintain which means that countries like Sweden, with a low population density, will only have a few networks. In fact, Volvo and Scania are the only manufacturers with a dense network of service garages here in Sweden. Also independent garages are rare. The road carriers thus have little choice, but to use the specialist workshops for services and reparations.

What is your opinion about the European Commission's decision to block the Volvo-Scania deal? Why did the Commission talk about national markets such as Sweden and Finland? Should the geographic market not be defined as the world or at least Europe? Even if there is little competition in one product market

(services) there might be more intense competition in the other product market (trucks), which arguably is the more important market.