HORIZONTAL ISSUES: MARKET AND THE TRANSACTION

Smartphones:

- oligopolistic market:
- 4 increasingly important players (76% → 91%) and declining fringe (24% → 9%)
- product differentiation (both vertical and horizontal)
- relatively fast changes in market shares
- competition on prices and on new products/features/improvements – the latter probably more important
- probably high barriers to entry

Merger between the declining (A, no 1) and up-and-coming (?) market leader (B, no 2)

Different products: popular (A) and for demanding customers (B)

High economic potential of both firms (ability to come up with new, attractive products)

HORIZONTAL ISSUES: WHAT’S THE PROBLEM

4 to 3 merger of market leaders leaving them with a 50% market share (HHI 0,21 → 0,34)

Static problems:
- prices up?
- loss of diversity/choice?

Dynamic problems:
- possible repositioning of A prevented → less competitive pressure in the (near?) future?
- less innovation? (not so simple)

What I would like to know:
- rationale for the transaction
- closeness of competition between A and B (diversion ratios) – problem: may not be static (possible repositioning)

VERTICAL ISSUES: STREAMING PLATFORM

Potential problems:

- complementarity issues: working best (or only) with B’s hardware.
- bundling

How likely are consumers to abandon other providers for B because of the streaming platform?
How many consumers would switch to other platforms if they were able to use B’s platform only with B’s hardware?

What I would like to know:

- the type of the streaming platform
- its significance for consumers
- alternatives to it

VERTICAL ISSUES: OPERATING SYSTEMS

A uses Z’s OS. Other large players, presumably, use their own OSs (?).

Potential problem: B moving A to B’s proprietary OS → Z without its largest customer (>70%) → bankruptcy (if OS the main source of income for Z) or inability to develop and support the OS as effectively as before (otherwise) → harder to enter the smartphones market (or expand) for players without proprietary OS

Would switching A to B’s operating system involve high costs for B?
How likely is Z to abandon its OS or fail to keep it competitive?
How difficult would it be for new entrants/fringe to enter/expand without access to (competitive) OS by Z (or other suppliers)?

What I would like to know:

- the cost of developing proprietary OS
- Z’s business model, other possible OS providers
- opinion of fringe providers
- why third party OSs relatively unpopular in the industry