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NTUC Foodfare-Kopitiam merger

Some food for thought

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For The Straits Times

In a country where consumers care a great deal about the price and quality of their "quick service" cooked food options, Singaporeans ought to pay some attention to the implications of the proposed acquisition of Kopitiam's foodcourts, coffee shops and hawker centres by NTUC Enterprise. Given that the latter controls NTUC Foodfare, which competes with Kopitiam in the same markets, the Competition and Consumer Commission of Singapore (CCCS) has sought public feedback to assess the likely effects of this merger on competition in the markets for the sale of cooked food to individual consumers and the rental of stalls to vendors within these food outlets.

Does a transaction of this nature raise competition-related issues? Absolutely. Any merger which reduces the number of previously independent competitors in the market, resulting in the creation of a larger economic entity with greater market power, will alter the competition landscape.

However, Section 54 of the Competition Act does not prohibit all mergers which lessen competition; only those which substantially lessen competition. This is a qualitative standard which requires a speculative analysis of how the merged entity is likely to behave in the post-merger landscape.

From the consumer's perspective, one concern is whether the merged entity will have the incentive and ability to unilaterally raise its prices in response to the diminished level of competition – what the CCCS calls the "non-coordinated effects" of the merger.

The market for cooked food sold to individual consumers is unique in some ways. First, these are extremely local in character – workers on their lunch break in Clementi are very unlikely to travel to Changi to buy their meals if the prices in their neighbourhood food outlets were raised. Neither are the elderly or mobility-challenged patrons.

Analysing the competitive effects of the proposed merger will thus require an almost micro-level inquiry into specific local markets, particularly those where NTUC Foodfare and Kopitiam outlets are the main options available to consumers.

Second, even small price increases can produce very significant economic effects on consumers because of the relatively low base price of the products in question. At my workplace canteen, for instance, the only drinks stall recently raised some of its beverage prices by 50 cents. This translated to a 50 per cent increase over the prices that were charged last year. In inhospitable weather conditions, customers are unlikely to travel further afield for their kopi siu dai, particularly where transportation costs would far exceed the quantum of the price increase. The costs for consumers to switch between competitors can thus be prohibitive.

Third, store rentals charged to individual hawkers form the largest cost component of their business operations. It is thus probably safe to assume that any potential increase in the rent charged to hawkers will translate to higher cooked food prices, given that the cost of labour and raw materials is very unlikely to diminish any time soon.

Similarly, the market for the rental of stalls to vendors in foodcourts, coffee shops and hawker centres has special features that need to be factored into the competition analysis.

Stalls are typically rented out by food categories – vendors selling Muslim food compete only with other similar vendors for specifically designated stalls, thereby limiting their stall rental options. News reports have also suggested that the bids placed by vendors to rent stalls in desirable locations have also escalated in recent years. Established hawkers are also likely to have loyal customer bases specific to the neighbourhoods they operate within, making them less likely to be "generally indifferent to stall location", in the words of NTUC Enterprise.

Taken collectively, what all of the above factors indicate is that any competition assessment of these markets, and how they are likely to be affected by the proposed merger, is not as straightforward as one might have initially assumed.

Simply adding up the number of outlets owned by NTUC Foodfare and Kopitiam, and comparing these figures against the total number of other outlets operated by Food Republic, Food Junction and Koufu will not be particularly helpful. Care must also be taken when deciding which other food outlets in the immediate vicinity of NTUC Foodfare and Kopitiam outlets should be included as substitutes in the same market – some fast-food restaurants may be regarded as suppliers of "quick service" cooked food, but most other casual dining establishments may not.

This transaction is also interesting because the parties have indicated their intention not to merge their operations should the merger be cleared by the CCCS. One of the main redeeming characteristics of mergers, even when they raise significant competition problems, is their ability to enjoy economic efficiencies of scale. Cost savings may, for instance, be generated from integrated back office functions, streamlined management operations and bulk savings from the merged entity's combined purchasing power. Under the Competition Act, a merger which results in a substantial lessening of competition can nevertheless be excused if there are countervailing economic efficiencies that outweigh the adverse effects on competition.

It is unclear at present why the parties are unprepared to reap the full spectrum of economic efficiencies that they might enjoy from merging their businesses, which could result in cost savings that allow them to charge lower stall rentals to hawkers, who might then be in a position to lower their cooked food prices.

Finally, the identity of the acquiring party – NTUC Enterprise – makes this an unusual case because the standard economic assumptions of how firms are likely to behave in the post-merger landscape may not apply to this transaction. As a government-linked undertaking with corporate objectives that are not focused solely upon profit maximisation, the merged entity may not behave in exactly the same way as how we would expect other private sector market players to behave when faced with reduced competition.

To what extent is it appropriate to take into account this aspect of the merged entity's corporate identity when evaluating whether there will be adverse non-coordinated effects on the market as a result of the merger?

The intellectual appetites of those keeping an eye on this proposed transaction await to be satiated by the decision of the CCCS.

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