Concurrences
Revue des droits de la concurrence

The low cost model or the return of price competition

Foreword | *Concurrences* N° 1-2008

Emmanuel Combe
combe.emmanuel@wanadoo.fr

- Professor at Paris I – Panthéon-Sorbonne University - PRISM
- Member of the Low Cost "Beigbeder" Commission

Institut de droit de la concurrence
THOMSON TRANSACTIVE

Editorial

The low cost model or the return of price competition

While consumers worry about their standard of living, the recent publication of the Beigbeder report on the low cost model draws our attention. The report proposes to use this economic model as a means for reducing prices and thus to increase purchasing power. For any competition specialist, this report presents an extra, and probably less materialistic, interest. It addresses competition under, what we could called, its "primitive" and original form. It refers to price competition, which means competition before brands, advertising and multi-option products. In other words, when a product is plain and reduced to its most basic form and initial function, when it is devoid of all its accessories and additional services, prices become again an essential vector for consumer choices.

The low cost model manages to reduce prices on a lasting basis by reducing production costs. It differs from commercial practices such as special offers, sales, loss leading prices – which only consist of reducing prices occasionally without tackling the cost saving question.

In order to reduce costs, the low cost model is based on a redefinition and simplification of products and production processes. The strength of the low cost model lies in its ability to achieve small savings at all stages of the value chain. In the air transport sector, which pioneered the low cost model, several means have been used to decrease costs: low airport charges by selecting secondary airports (i.e. Ryanair in Beauvais), standardisation of the offer (single class, same type of aircraft), disintermediation of ticket selling through the Internet, the increase in the number of daily rotations, reduced waiting times between flights, non-stop flights (low cost does not wait), simplified or optional on board services… against payment.

This reduction of production costs generally results in a large reduction of selling prices in comparison to the regular offer. The low cost model is often synonymous with low prices. In the air transport sector, the Beigbeder report indicates that, for the same route, price differences between a low cost airline and a traditional airline may reach … up to 60%. Although it may be difficult to compare offers, the report also reveals substantial price differences between a low cost offer and a regular offer in sectors such as food distribution, banking services, mobile telephony…

However, reducing costs does not automatically lead to lower prices. The low cost model has not yet abolished the law of supply and demand! In the case of the air transport sector, when a consumer books his ticket at the last minute, or when the demand is high (i.e. during school holidays), ticket prices soar and low cost turns out to be…high price.

The low cost model has succeeded in convincing consumers beyond its initial sector, i.e. the air transport market. Today, it has invaded all economic sectors but for the luxury segment: personal services (hairdressers, direct banking, hotels), automobiles, mobiles, houses, and of course, food distribution *(*hard discount*)* and e-commerce.

This expansion of the low cost model is stimulated by the Internet which allows producers to compress, and even to remove, the margin of traditional intermediaries, and allows consumers better to compare offers. There is a second factor favourable to the development of the low cost model: the opening of the French economy towards countries with low wage costs makes the production and the importation of low cost goods possible. It is illusory to think that the Logan, a low cost car, would exist if our borders were not open. The third factor favourable to the low cost model lies in the consumer behaviour of the French. Restrained by the weak progression of their purchasing power, they are more informed. They compare the price of a product to the value derived from using it. Moreover, the Beigbeder report stresses that the low cost model is not limited to the market of the poorest. It simultaneously

Editorial

addresses very different categories of the population. These categories may even be opposite in terms of revenues. As indicated in the report, “*to buy Chanel has never prevented anyone from doing their groceries at Lidl’s*”.

A closer analysis of consumer behaviour shows three different types of demand. First, the so-called substitution demand leads consumers to replace a traditional product by a low cost one. For instance, a consumer who was used to buy second-hand cars will choose a new low cost car. Second, the induction demand refers to consumers who purchase a product, which they were not used to consume until then. This induction effect is particularly noticeable in the air transport sector where the low cost model, through a low price policy, has created a demand, especially regarding leisure passengers travelling in Europe. This type of demand also happens in households with low incomes. They will finally be able to get on the property ladder by buying a house, an unreachable dream until now. The last type of demand is the so-called complementary demand. This demand occurs when a consumer completes his purchases with a low cost product without giving up his usual products. For instance, a household will purchase a low cost car in addition to its first and more luxurious car.

Does this return of price competition have a hidden cost for consumers? Is the reduction of prices compensated by an excessive diminution of quality and safety? In this regard, the Beigbeder report revises some generally accepted ideas. Consumers are not willing to sacrifice quality and safety for low cost prices: “Yes” to the low cost model…but only if the conditions are right. The low cost model reminds us of a simple economic truth: a price is never too low or too high in the absolute. Its level is always relative to the usefulness of the product selected by its purchaser. As Anglo-Saxons say, it is the “value for money” that counts.

Thus, in the air transport sector, certain consumers can do without a breakfast during a short haul flight if fares are lower. However, they will not make any concessions on safety. As a result, low cost air transport services are sometimes unjustly criticised in this respect: low cost airline companies are no less safe than historic airline-operators because consumers do not choose between safety and low prices.

Similarly, in other sectors, the low cost model does not result in diminution of safety, especially in Europe where very stringent rules on safety are implemented. Moreover, low cost products may hide well-known undertakings wanting to avoid any “faux pas” which could ruin their reputation. The Logan car would probably not achieve the same success if it was not offered by a renowned car manufacturer.

The paradox and the strength of the low cost model probably lie in its ability to produce less expensive products or services whilst satisfying minimal and unconditional consumer demands. Producers using the low cost model have to rethink the characteristics of their products and to redefine their relationship with consumers by distinguishing to a greater extent essential needs from accessory needs.

The truth is that problems arising from the low cost model rather result from the quality of the information provided to consumers, especially in the service sector. For example, when consumers book tickets online, transparency of information is not always ensured, especially concerning displayed prices and taxes. Similarly, in spite of consumer-oriented EC regulations, consumers are not sufficiently informed about their rights in case of flight cancellations or delays. In the e-commerce sector, after-sale services may not be satisfactory, even though these failures are not specific to the low cost market. Today, since the low cost market mainly grows via the Internet, the report highlights that consumers should have access to transparent information on prices and sale conditions.

Beyond its analytical dimension, the Beigbeder report also intends to be programmatic. It focuses on certain specificities of the French economic model, because its delay in adopting the low cost model sets France apart from other European countries. For instance, in comparison to Germany or Belgium, the hard discount is little present in the food industry. In the air transport sector, domestic low cost flights are still marginal.

Editorial

In the mobile telephony sector, the number of alternative operators is not significant and they are often limited to niche markets.

The report provides several reasons that are actually similar to the conclusions of the Attali Commission. The late use of the low cost model in France results from excessive regulation in the market of goods and services, which limit the entry of new operators. Actually, this delay reveals well-known and frequently denounced problems – for example the Rueff, the Camdessus, the Cahuc or the Kramarz reports: weak interest of public authorities in competition, preservation of acquired situations, defence of guaranteed income. Let us illustrate our point with some examples drawn from the Beigbeder report. The growth of the low cost air transport service market is limited by very conservative mechanisms of slot allocation. In the hard discount sector, a Malthusian law on commercial urbanism rather prefers implanted companies over new entrants. In the pharmaceutical market, the required presence of a pharmacist in his shop does not justify his monopoly on the selling of pharmaceutical products available without medical prescription. In the mobile telephony sector, MVNOs (Mobile Virtual Network Operators) are limited by restrictive conditions on the access to networks and on wholesale prices. In short, understanding why France is late in developing the low cost model is more about painting the picture of a country that culturally does not easily adapt to…competition! ■

Emmanuel Combe

Professor at Paris I – Panthéon-Sorbonne
University - PRISM
Member of the Low Cost "Beigbeder" Commission

Concurrences

Concurrences est une revue trimestrielle couvrant l'ensemble des questions de droits communautaire et interne de la concurrence. Les analyses de fond sont effectuées sous forme d'articles doctrinaux, de notes de synthèse ou de tableaux jurisprudentiels. L'actualité jurisprudentielle et législative est couverte par neuf chroniques thématiques.

Editorial

Jean-Bernard Blaise, Nicolas Charbit, Laurent Cohen-Tanugi, Claus-Dieter Ehlermann, Laurence Idot, Hubert Legal, Claude Lucas de Leyssac, Denis Waelbroeck...

Interview

Sir Christopher Bellamy, Dr. Ulf Böge, Nadine Calvino, Frédéric Jenny, Neelie Kroes, Mario Monti, Mustafa Parlak, Dominique Voillemot...

Tendances

Jean-François Bellis, Guillaume Cerutti, John Davies, Céline Gauer, Damien Géradin, Pierre Kirch, Christophe Lemaire, Irène Luc, Jorge Padilla, Emil Paulis, Richard Whish...

Doctrines

Guy Canivet, Emmanuel Combe, Serge Durande, Luc Gyselen, Daniel Fasquelle, Barry Hawk, Laurence Idot, Bruno Lasserre, Stanislas Martin, Caroline Montalcino, Catherine Prieto, François Souty...

Pratiques

Tableaux jurisprudentiels : Bilan de la pratique des engagements, Données publiques et concurrence, Droit pénal et concurrence...

Horizons

Allemagne, Belgique, Canada, Japon, Luxembourg, Suisse, USA...

Droit et économie

Penelope Papandropoulos, David Spector

Chroniques

Ententes

Emmanuelle Claudel
Michel Debroux
Cyril Sarrazin

Pratiques unilatérales

Laurent Flochel
Catherine Prieto
Anne Wachsmann

Pratiques restrictives et concurrence déloyale

Daniel Fasquelle
Jean-Patrice de la Laurencie
Marie-Claude Mitchell

Concentrations

Jean-Mathieu Cot
Jérôme Philippe
Stanislas Martin

Aides d'État

Jean-Yves Chérot
Jacques Derenne
Christophe Giolito

Procédures

Valérie Michel-Amsellem
Chantal Momège
Fabien Zivy

Régulations

Denis Lescop
Jean-Paul Tran Thiet
Thierry Tuot

Secteur public

Bertrand du Marais
Stéphane Rodrigues
Jean-Philippe Kovar

Politique internationale

Frédérique Daudret-John
François Souty
Stéphanie Yon

Revue des revues

Christelle Adjémian
Umberto Berkani
Alain Ronzano

Bibliographie

Centre de Recherches sur l'Union Européenne (Université Paris I – Panthéon-Sorbonne)

Direction

e-Competitions est un bulletin d'actualité électronique couvrant en anglais l'actualité des droits nationaux de la concurrence dans les États européens. Tous les quinze jours, le bulletin analyse les décisions nationales d'application du droit communautaire de la concurrence et/ou les textes et décisions des droits nationaux de la concurrence.

e-Competitions

> Décisions nationales d'application du droit communautaire de la concurrence

Avec l'entrée en vigueur du Règlement n° 1/2003, les décisions nationales d'application du droit communautaire de la concurrence sont devenues une nouvelle source d'information. Ces décisions sont encore peu nombreuses et difficiles à recenser, les juridictions nationales n'alimentant pas encore régulièrement le site de la Commission. Grâce à son réseau de correspondants, *e-Competitions* offre à ses abonnés un accès en avant-première à ces décisions.

> Droits nationaux de la concurrence des États européens

Le bulletin *e-Competitions* couvre également les nouvelles dispositions nationales de concurrence, ainsi que les décisions d'application des droits internes de la concurrence dès lors qu'elles présentent un lien direct avec les articles 81 ou 82 CE.

e-Competitions présente et commente les principaux textes nationaux destinés à la mise en œuvre par les autorités de concurrence et les juridictions nationales des pouvoirs prévus par le Règlement n° 1/2003.

Accès aux textes originaux

Chaque commentaire est accompagné de la décision ou du texte en langue originale.

Des liens hypertextes renvoient aux textes et décisions communautaires cités (Commission européenne, arrêts de la Cour de justice, règlements, directives, livres verts, working papers…). Le bulletin est rédigé en anglais. *e-Competitions* est à ce jour la seule base de données systématique sur l'application du droit communautaire de la concurrence dans chacun des Etats membres. Plus de 600 décisions ou textes commentés au 15 mai 2007 par 250 auteurs de 30 États membres.

Les partenaires de e-Competitions

Cabinets

- *Allen & Overy*
- *Debevoise & Plimpton*
- *Freshfields*
- *LECG*
- *Lovells*
- *RBB Economics*
- *Roschier*
- *White & Case…*

Universités

- *Global Competition Law Center (Collège d'Europe)*
- *King's College London*
- *K.U. Leuven (ICL/ICT)*
- *Université Queen Mary London (ICC)*
- *Université Paris I – Panthéon-Sorbonne (CRUE)*
- *Université du Maine (CRDA)*
- *Université de Liège (IEJE)*
- *University College London*
- *University of East Anglia (CCP)…*

Le bulletin *e-Competitions* est consultable en offre d'essai sur le site www.concurrences.com

Tarifs 2008

Revue Concurrences | *Review Concurrences*

	HT *Without tax*	TTC *Tax included (France only)*
❑ Abonnement annuel - 4 n° (version papier) *1 year subscription (4 issues) (print version)*	398 €	406,36 €
❑ Abonnement annuel - 4 n° (version électronique + accès libre aux e-archives) *1 year subscription (4 issues) (electronic version + free access to e-archives)*	490 €	500,29 €
❑ Abonnement annuel - 4 n° (versions papier & électronique accès libre aux e-archives) *1 year subscription (4 issues) (print & electronic versions + free access to e-archives)*	580 €	592,18 €
❑ 1 numéro (version papier) *1 issue (print version)*	100 €	102,10 €
❑ Crédit de 5 articles (version électronique sur concurrences.com) *Pack of 5 articles (electronic version on concurrences.com)*	110 €	131,56 €
❑ 1 article (version électronique sur concurrences.com) *1 article (electronic version on concurrences.com)*	30 €	35,88 €

Bulletin électronique e-Competitions | *e-bulletin e-Competitions*

	HT	TTC
❑ Abonnement annuel multi-postes + accès libre aux e-archives *1 year subscription with multi PC access + free access to e-archives*	498 €	595,68 €
❑ Crédit de 5 articles *Pack of 5 articles*	90 €	107,64 €
❑ 1 article *1 article*	20 €	23,92 €

Revue *Concurrences* + bulletin *e-Competitions* | *Review Concurrences + e-bulletin e-Competitions*

	HT	TTC
❑ Abonnement annuel revue (version électronique) + e-bulletin *1 year subscription to the review (online version) and to the e-bulletin*	695 €	831,22 €
❑ Abonnement annuel revue (versions papier & électronique) + e-bulletin *1 year subscription to the review (print & electronic versions) + e-bulletin*	780 €	932,88 €

Renseignements | *Subscriber details*

Nom-Prénom | *Name-First name* : . . . . e-mail : . . . .
Institution | *Institution* : . . . .
Rue | *Street* : . . . . Ville | *City* : . . . .
Code postal | *Zip Code* : . . . . Pays | *Country* : . . . .
N° TVA intracommunautaire/ *VAT number (EU)* : . . . .

Paiement | *Payment details*

Vous pouvez payer directement sur www.concurrences.com (accès immédiat à votre commande) ou bien utiliser ce formulaire :
For instant access to your order, pay on-line on www.concurrences.com. Alternatively :

❑ Veuillez m'adresser une facture d'un montant de . . . . €
Please bill me for the sum of . . . . €

❑ Veuillez débiter ma carte MasterCard/Visa/American Express d'un montant de . . . . €
Please debit the sum of . . . . € *from my MasterCard/Visa/American Express*

Numéro de carte/*Card n°* : . . . .
Date d'expiration/*Expiry date* : . . . .
Nom-Prénom/*Name-First name* : . . . .

Signature

❑ J'ai transféré au compte bancaire dont références ci-dessous la somme de . . . . . . € à la date du . . . .
I have transferred the sum of . . . . . . € *to the bank account below on* . . . .*(date)*

IBAN (International Bank Account Number)	BIC (Bank Identifier Code)
FR76 3000 4007 9900 0255 3523 060	**BNPAFRPPOP**

Bank : BNP - Agence Opéra | 2, Place de l'Opéra - 75 002 Paris - France

Formulaire à retouner à | *Send your order to*

Transactive – A Thomson subsidiary
1 rue Saint-Georges | 75 009 Paris – France | *contact: information@transactive.fr*

Conditions générales (extrait) | *Subscription information*

Les commandes sont fermes. L'envoi de la revue ou des articles de *Concurrences* et l'accès électronique aux bulletins ou articles de *e-Competitions* ont lieu dès réception du paiement complet. Consultez les conditions d'utilisation du site sur www.concurrences.com ("Notice légale").

Orders are firm and payments are not refundable. Reception of Concurrences *and on-line access to* e-Competitions *and/or* Concurrences *require full prepayment. For "Terms of use", see www.concurrences.com.*

Frais d'expédition *Concurrences* hors France : 18 € | *18 € extra charge for sending hard copies outside France*