

Vertical Foreclosure

A primary focus of the investigation was the possibility of vertical harm including vertical foreclosure and raising rivals' costs. In particular, staff assessed whether the merged firm would have the ability and incentive to foreclose or raise the costs of iECPs. This would be possible if Essilor/Luxottica would (1) have the ability to increase the price of an upstream input, or cut off an input, to iECPs and (2) be able to recapture enough of the sales lost by its iECP customers through the merged firm's downstream operations to be the net effect profitable. In this matter, staff found that neither condition was satisfied.

First, although Essilor is a substantial provider of upstream inputs in the U.S. eyewear industry, including progressive lenses and photochromic lens treatments, iECP customers reported that they currently have alternatives from which to choose. The evidence therefore did not support the hypothesis that Essilor would be able to raise prices for (or completely deny access to) these upstream products without losing substantial sales to competitors.

Second, although Luxottica is one of the largest optical retailers in the United States, its national share of the optical retail business is less than 10 percent. Luxottica's share of the local markets that likely constitute relevant geographic markets for the retail sale of eyewear is below the level necessary for Essilor to recapture enough downstream sales from Luxottica's retail stores to offset lost lens sales.

In its investigation, FTC staff gathered and analyzed evidence from numerous sources that in the end were wholly consistent with its own empirical economic analysis. FTC staff used a variety of quantitative models to analyze the potential vertical competitive effects, and tested the robustness of its findings using a range of reasonable assumptions. None of these economic models support a finding that the merging parties would be able to impose higher prices or reduce output on their downstream rivals or ultimately consumers.

Thus, the vertical theories that formed a primary focus of the investigation ultimately did not support challenging the merger.

