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Methodologies for Conducting Market Studies - Note by Peru

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More documents related to this discussion can be found at www.oecd.org/daf/competition/market-study-methodologies-for-competition-authorities.htm.

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1. Introduction

1. Market studies have become an important tool to enhance a better understanding and knowledge of a specific market or industry as a whole. The common aim of all studies is twofold, identify obstacles that impede strong competition and promote more transparent consumer relationships.

2. In recent years, Indecopi has developed different types of studies on different sectors, dealing with problems related to competition, bureaucratic barriers or consumer protection. The information and analysis applied in each case are highly dependent on the purpose and objectives of the study. For instance, market studies can be developed to promote changes or remove regulations, or to provide information that helps final consumers make informed consumption decisions.

3. The following is a brief description of Indecopi's experience in the development of market studies in recent years, focusing the type of information that is usually collected and the methodology performed for its analysis. Finally, two market studies are further commented as a mean to show the difference regarding the information gathered and methodological approach applied.

2. Information gathering

4. In recent years, Indecopi has conducted and published a diversity of market studies. In all cases, the information collected has relied on data from public sources, stakeholders, primary data collection, and consultancies. Compulsory data requirements to stakeholders are used mainly in the case of an advocacy study. However, in general, the data gathered will depend on the purpose, objective and scope of the study to be performed. In what follows we provide a brief description of a sample of market studies that are considered models of information requirements and methodologies of its analysis.

5. The “*Observatorio de disposiciones de la Administración Pública que afectarían a la inversión privada*” is a brief market study focus on identifying, from an economic view, bureaucratic barriers that impact on the firms' competitiveness of a market or sector. The information is normally provided by the private companies that agreed to collaborate. In these cases, it has been usual to organize a workshop with firms to explain and inform them about the scope and usefulness of this type of studies, as well as to comment on the information that they are expected to provide. Information requirements are private valuations of materials, services, administrative fees or financial expenses required to comply with local regulations. These type of market studies are a unique tool the compute bureaucratic entry barriers and help the public sector to think about whether they are necessary or not.

6. The “*Observatorio de Mercados*” is a concise study referred to the organization, market structure, and business relations in an economic sector. These studies are characterized by an executive view of the current market situation with respect to

¹ The document was prepared by Javier Coronado, Chief Economist and Rodolfo Tupayachi, Deputy Chief Economist at Indecopi with the support of the Economic Studies Management team.

competition and consumer relations. The information employed in this type of study is basically market aggregates from the supply and demand that are usually available from official sources. For instance, production, capacity utilization rate, trade statistics, wholesale and consumer price, among other. That information is combined with more detailed information on firm-level sales, investments, market segments, as well as consumer preferences or regulations. The more specific information is gathered by means of interviews with trade associations or individual firms, public authorities, and academic researchers.

7. The “*Abogacías de la Competencia*” or Competition Advocacy studies are an in-depth study that describes and analyses the potential problems of a market or economic sector with the aim of providing recommendations on regulatory changes and market design to ease competition. Therefore, the information required is usually quite extensive. In some cases, prior to the study, private consulting may be required or past cases may be reviewed to have a better understanding of the particularities of a complex market.² The primary data used for these studies comes from stakeholder information requests, interviews or mini-surveys carried out internally. The information usually requested corresponds to variables of supply, demand, sales, trade, prices or financial data. In some cases, stakeholders may provide additional details about how regulation would be affecting entry, competition, or deployment of investments in a market or sector. In cases where the recommendations considered may involve significant changes in market conditions, a quantitative background research is needed to estimate the magnitude and expected effects of the suggested recommendations.

3. Information analysis

8. In general, the analytical approach applied in all market studies depends on its objectives and the data that can be collected to perform a quantitative or semi-quantitative analysis.

9. In market studies developed to identify obstacles to private investment, data analysis is performed using a common tool called Standard Cost Model (SCM) which is a framework for defining and quantifying administrative costs for businesses. Once identified the administrative procedures imposed by an Administrative Public Entity, the next step is to collect data on financial and compliance costs, and time requirements to deliver all the inputs necessary to meet those obligations. All the information required to apply the SCM is provided by private firms that participate in the identification of the administrative burdens. Key information is rapidly compared to market data to secure its relevance and truthfulness.

10. On the other hand, the analytical method applied in Market Observatory studies, which deal with the executive assessment of competition and consumer protection issue, is more descriptive and based on public quantitative data and short interviews. For instance, typically these documents begin with a section focused on the descriptive analysis of different supply, demand and trade variables. A section containing standard structural analysis follows. It usually shows the evolution of concentration indexes (e.g. HHI, IC4) as well as the existence of significant barriers to entry using industry data and interviews. In the final section, a descriptive analysis of wholesale and retail prices is

² For instance, in health, insurance or financial services markets.

presented with statistics of consumer complaints. Data on consumer complaints are regarded as indicative of competition issues.

11. Finally, in Competition Advocacy studies, both a descriptive and a quantitative analysis are usually carried out, the latter mainly depending on the objective of the market study and the information that may be collected and required to the stakeholders. The descriptive analysis of market indicators is usually carried out in the initial sections of the study. Where possible, quantitative methods are applied as a mean to provide evidence of casual effects of market conditions on key indicators such as prices or number of competitors. The development of a quantitative or econometric analysis helps us to complement and prove the magnitude of the problem and its effects. Moreover, in our experience causal effects estimated by means of econometric methods have proven to be useful to communicate and call general public attention to our recommendations.

4. Case studies

12. The most comprehensive market study conducted so far by Indecopi was related to a competition advocacy targeted to notarial services in Peru.³ The objective of this competition advocacy was to identify regulations that shaped market designed in order to value their impact on price competition. Recommendations on removing or changing regulations with no economic justification were delivered to the corresponding sectoral authorities.

13. Due to the notaries' role in the security of the national legal framework, all the subjects addressed in the study, as well as the suggested recommendations, were analysed in detail and supported by qualitative (interviews) and quantitative (background research) evidence.

14. The background research was designed to study the impact of regulation and allocation of notary offices, as well as the effects of greater market openness. Thus, an empirical exercise was performed to evaluate the hypotheses about the effects of structural variables on the price of notarial services that are highly required by end-users. In particular, the variability, presumably exogenous, of the number of notaries established throughout the national jurisdictions was exploited, in order to identify the causal effect of the number of competitors on prices. Effective price data for notarial services was collected for a sample of notaries around the country by means of *hidden consumer* calls.

15. We were able to perform a regression to analyse the relation between the logarithm of the price of notary services and the number of notaries in a specific market. The semi-logarithmic specification allowed us to interpret the marginal effect of the explanatory variable as the semi-elasticity of the price before changes in this variable. To mitigate possible bias in the regression model, it was included control variables, considering two sets of additional explanatory variables. A first set composed of observable characteristics of the notaries and the second set of variables corresponding to the demographic and economic characteristics of the locality where the notary is located, which would be common variables between observations of the same jurisdiction. Further instrumental variables regression as well as sample selection bias analysis proven the estimates to be consistent and relevant predictors of the causal effect of interest.

³ Available in Spanish here: <https://www.indecopi.gob.pe/documents/51771/818229/ABOGACIA_1-2014.pdf/9335d863-ec07-44ec-b627-a8275da86122>.

16. The econometric specification for semi-reduced price equations provided us with empirical evidence of the effect on the price of notary services, given a marginal increase in the number of notaries. All coefficients were statistically significant and had the expected negative sign. The expected causal effect of increasing by one the number of notaries competing in the area of influence would provide expected price reductions from 1.7% to 7.9% depending on the type of notary service.

17. The quantitative background research developed was central to validate the hypotheses that relaxing unduly entry regulations are likely to promote stronger price competition in this market.

18. In the case of market observatories, the last study performed by Indecopi focused on monitoring prices in the sectors of inland transportation and hotels during Christmas and New Year's Evening holiday.⁴ Because Christmas and New Year's Evening holiday is an appropriate time to travel inland with friends or relatives, the demand for ground transportation and lodging usually reaches its most notorious peak in the year, with a significant impact on market prices.

19. The study contained a brief analysis of the main destinations visited in this season, as well as the offer by type of services available to each place, considering departures from Lima. Then a descriptive analysis of transport tickets by weeks and type of service is presented to each of the cities visited in this season. The price information is collected two months in advance, to identify and analyse the period in which the tickets increase significantly. In addition, it was analysed the period in which certain types of transport services were fully booked. A similar procedure was applied in the case of lodgings in hotels in each of the cities visited during this season.

20. Thus, the observatory provided to all travellers information of dates that would be suitable to buy or book travel tickets and lodging in these holidays. Savings could be significant in many cases. In addition, the study would show that ground transportation tickets increase to a lesser extent in cases where there is an offer of air transportation, mainly to distant destinations.

5. Conclusion

21. Market studies are undoubtedly an important mechanism for promoting competition for Indecopi. The information that has been collected in each of the different studies developed so far explains the different methodological approaches applied in each of the cases. Although also conditioned to the objectives or results that are sought to achieve with the study.

22. In this case, in our experience, the information that has been gathered from interviews, workshops, primary price data collection, background research, consultancies, and stakeholder information requests have been very useful, for instance, to apply the method of Standard Cost Model, measure the level of concentration through the HHI and IC4 indicators, or practice a quantitative method. Certainly, applying a quantitative analysis is always desirable to have a better understanding and knowledge of the effects or outcomes that are expected to be achieved with the recommendations to be issued with the market study and to persuade local authorities to adopt them.

⁴ Available in Spanish here:
<https://www.indecopi.gob.pe/documents/20182/418318/observatorio+de+mercados+A%C3%B1o+10%2C+n%C2%B0+34%2C+Diciembre+2016/7909990b-cd90-5ffb-0ca9-446a05f69589>.