

Statement of Dr. Debra J. Aron
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I. Qualifications and introduction

1. My name is Debra J. Aron. I am an Adjunct Associate Professor in the School of Communication at Northwestern University and a Director at LECG, LLC in Evanston Illinois. My business address is 1603 Orrington Avenue, Suite 1500, Evanston, IL, 60201.
2. LECG, LLC is an economics and finance consulting firm, providing economic expertise for litigation, regulatory proceedings, and business strategy. Our firm comprises more than 350 economists and professional staff from academe and business, and has offices in North America, South America, Europe, Australia and New Zealand. LECG's practice areas include antitrust analysis, intellectual property, and securities litigation, in addition to specialties in the telecommunications, gas, electric, and health care industries.
3. I received a Ph.D. in economics from the University of Chicago in 1985, where my honors included a Milton Friedman Fund fellowship, a Pew Foundation teaching fellowship, and a Center for the Study of the Economy and the State dissertation fellowship. I was an Assistant Professor of Managerial Economics and Decision Sciences from 1985 to 1992, at the J. L. Kellogg Graduate School of Management, Northwestern University, and a Visiting Assistant Professor of Managerial Economics and Decision Sciences at the Kellogg School from 1993-1995. I was named a National Fellow of the Hoover Institution, a think tank at Stanford University, for the academic year 1992-1993, where I studied innovation and product proliferation in multiproduct firms. Concurrent with my position at Northwestern University, I also held the position of Faculty Research Fellow with the National Bureau of Economic Research from 1987-1990. At the Kellogg School, I have taught M.B.A. and Ph.D. courses in managerial economics, information economics, and the economics and strategy of pricing. I currently teach a Master's course on competition and strategy in communications

markets at Northwestern University. I am a member of the American Economic Association and the Econometric Society, and an Associate member of the American Bar Association.

4. My research focuses on multiproduct firms, innovation, incentives, and pricing, and I have published articles on these subjects in several leading academic journals, including the American Economic Review, the RAND Journal of Economics, and the Journal of Law, Economics, and Organization. My academic publications include research on penalty mechanisms and incentive devices.
5. I have consulted on numerous occasions to the telecommunications and media industries on issues pertaining to the development of competition, the effects of regulatory rules on competition, and strategic and efficient pricing. I have submitted affidavits to the FCC on various issues pertaining to competition analysis, including an analysis of market power in support of an incumbent local exchange carrier's petition for Section 10 forbearance from regulation of high-capacity services in the Chicago LATA, CC Docket No. 95-65. I have conducted analyses of mergers in many other industries under the U.S. Department of Justice and Federal Trade Commission 1992 Horizontal Merger Guidelines, and in other countries, including cable industry mergers. In addition, I have consulted in other industries regarding potential anticompetitive effects of bundled pricing and monopoly leveraging, market definition, and entry conditions, among other antitrust issues, as well as matters related to employee compensation and contracts, and demand estimation. In 1979 and 1980, I worked as a Staff Economist at the Civil Aeronautics Board studying price deregulation of the airline industry. In July 1995, I assumed my current position at LECG. My professional qualifications are detailed in my curriculum vitae, which is attached as Appendix A.
6. I have been asked by the National Cable & Telecommunications Association to respond to comments and inferences made by various industry observers regarding the market power of cable service providers. My discussion will not focus on the market power of specific carriers themselves, which I have not analyzed, but rather will focus on the economic principles that are critical in any market power analysis. In particular, my purpose is to correct two oft-repeated but erroneous inferences regarding market power.

These are (1) the claim that sustained increases in real prices (that is, sustained price growth faster than the rate of inflation) indicates market power; and (2) that market share is a reliable indicator of market power. Neither of these is an economically valid statement and subscription to either one is likely to lead to erroneous conclusions.

II. Sustained growth in a firm's real prices does not imply market power

7. Industry observers have noted in the press with much indignation that prices in the cable television industry have risen faster than the rate of inflation in recent years. These observers argue (or simply claim) that this observation is evidence of market power by the cable companies. High growth rates of prices, however, do not in general create an economic inference of market power.
8. As a basic economic principle, firms with greater market power would be expected to charge higher prices than those with less market power, all else equal. This means that if one were to imagine two markets, A and B, in which cost conditions, demand conditions, and other economic conditions were identical, one would expect prices to be higher in market A than in market B if firms in market A had a greater degree of market power than those in market B. This familiar proposition, that prices are expected to be correlated with market power at a point in time, is virtually tautological.
9. It is not true, however, nor does it follow from the preceding discussion, that firms with higher market power would be expected to demonstrate a higher *growth rate* of prices over time than would firms with lesser market power, all else equal. The latter proposition, though often asserted or implied in the popular press and similar venues, is not supported by economic logic.
10. Similarly, one would not expect firms with high market power necessarily to demonstrate higher growth rate of prices over time than the rate of inflation, nor, conversely, can one expect that a firm with price growth faster than the rate of inflation has an above-average level of market power.

11. Prices change over time for various reasons.¹ At a microeconomic level, firms raise prices because something in their profit calculation changes. This could be a change in demand, a change in the costs of inputs, a change in technology, a change in the competitive characteristics of the market, or other factors. Changes in demand can include increases or decreases due to overall population growth or demographic changes, changes in the prices of related products, or more subjective factors such as changes in fashion or tastes. Changes in the costs of inputs could include interest rate changes, changes in labor costs due to renegotiation of union contracts or increased demands for certain skills in the economy, or changes in the supply of certain types of skills. Cost changes can also result from changes in the costs of material inputs into production, or equipment necessary for production. Changes in technology can include process improvements that lower the cost of production, or that offer new product features or functionalities. Changes in the competitive characteristics of the market may include entry of new providers, mergers, technological changes that lower entry barriers, and regulatory changes. In all cases, one would generally expect that sustained—as opposed to one-time—price changes are the response to sustained changes in one or more of the above-listed factors. For example, if the demand for a product were suddenly to rise significantly, one would expect a relatively rapid adjustment in price, followed by a new plateau at the new price. Over time, the higher price might attract entry into the market or expansion of existing capacity, ultimately driving price back down. But a one-shot demand increase would not be expected to generate sustained growth in price over time. In contrast, continued growth of demand due to population growth could cause price to rise continuously if the rate of entry or expansion in the market did not keep up with the rate of population growth.

¹ I focus here on changes in the level of prices, rather than the structure of prices. By price structure, (as opposed to pricing levels) I refer to the particular combination of price elements charged. Per-unit charges, flat rates, fixed fees, tiered prices, menus of prices, bundles of units, volume discounts term commitments, volume commitments, and combinations of the above are all different kinds of pricing structures. Pricing levels refer to the dollar value of the rate elements.

A firm might change its pricing structure without necessarily changing its pricing level, and may do so for a variety of strategic, economic, or marketing reasons. I do not consider the specific reason for such changes in this affidavit.

12. The effect that each of the factors I have listed would have on the price would depend on the unique characteristics of the market. For example, the effect on price of a given cost increase would depend on whether the increased costs are fixed or variable costs, the degree of substitutability with other inputs whose prices did not rise, the elasticity of demand, the nature of competition, and other factors.
13. At a macroeconomic level, changes in the overall level of prices (i.e., inflation or deflation) may be triggered by a number of policy variables (such as fiscal, monetary, or trade policy), but these policy changes find their way into prices changes through the individual microeconomic mechanisms I discussed above. For example, macroeconomic policy efforts might increase interest rates, but this ultimately affects the price of various goods and services because interest rate changes affect the costs of production and demand for various goods. The effect on each individual market will be unique to that market.
14. The rate of inflation in the economy is, very roughly, a weighted average of the increase in prices overall in the economy. When there is inflation, some prices will necessarily have increased more than inflation, some less, and some may have decreased. How the prices of each individual product will have changed in a given year will depend on how the various changes I discussed earlier—costs, demand, technology, and competition—have changed in that particular industry, how those unique changes affected the price, and the interaction of the changes with the other characteristics of the market.
15. One reason, then, that one cannot infer the level of market power from observations of price growth is simply that there are many causes of price growth, and all may play a role in any observed price path. Moreover, the price path of any particular industry is not likely to exactly equal the rate of inflation, simply by virtue of the fact inflation is an average of all the disparate price paths in the economy.
16. In particular, the observation that an industry's prices are growing at a rate faster than the rate of inflation establishes no inference about market power. A monopolist who is fully exploiting its market power, as it normally has every incentive to do, would have no

reason to increase its price unless its costs, demand, or technology changed. If it is fully exploiting its market power, it does not benefit from increasing its price because *it is presumably already charging the profit maximizing price*, any deviation from which would simply lower profits.

17. One might ask, though, whether a monopolized industry, or one with firms holding a high degree of market power, would be expected to show higher price growth holding all these other factors constant. The answer in general is no. As I indicated earlier, market power would be expected to lead to higher prices, but not higher price growth. Price growth would typically be associated with market power only to the extent that market power itself is growing over time. Hence, regardless of the existing market power of the ostensible monopolist, if the evidence is that the competitive power of rivals is growing, rather than declining, one would not generally expect the growth in prices to be attributable to market power factors.
18. One might nevertheless seek to justify the claim that sustained, above-average price growth signals market power, on the basis of a theory that market power magnifies the effect of other changes in the market. For example, if the fundamental source of price growth in a market is that costs are growing, one might ask whether cost increases would be passed through more readily by a firm with market power than by a firm in a competitive market.
19. The answer, surprisingly, is no, not as a general rule. The determinants of how much of a cost increase is passed through are somewhat complex, but the general principles are these. In a market that resembles the textbook construct of “perfect competition,” all cost increases (and no more) will be passed through in the long run. In the short run, an increase in variable costs will be partially passed through, with full adjustment in price coming as unprofitable firms drop out of the industry. An increase in fixed costs will be fully passed through in the long run also, as firms drop out of the industry due to the higher cost structure.

20. The other extreme market structure is perfect monopoly. In that textbook setting, how much of a cost increase is passed through to consumers depends on the elasticity of demand for the product. Two simple cases illustrate the fact that there can be many possible outcomes and that, unlike the case of a perfectly competitive market, it is quite possible that substantially less than the full cost increase will be passed through to consumers, even in the long run. First, when demand is linear, half of any increase in variable cost will be passed through to consumers, and half will be absorbed as a decrease in profit. If demand is of the constant elasticity form, more than 100% of the cost increase will be passed through (with less elastic demand resulting in greater passthroughs). Other demand functions will generate other results, the implication being that a monopolized market may pass through less than the total increase in variable costs, all of it, or more, depending on factors that are unique to the market demand. When a monopoly experiences a cost increase, moreover, there is no long run adjustment period comparable to that in a competitive market. The effect of cost increases in a competitive market—that marginal firms exit—is not a factor in a monopolized market. The short run response is the full response.²
21. Moreover, in a monopolized market, any increase in fixed (as opposed to variable) costs is fully absorbed by the monopolist. Unlike a competitive market, which fully passes along an increase in fixed costs in the form of higher prices in the long run, a rational monopolist cannot improve its profits by increasing price in response to an increase in fixed costs if it was charging the profit maximizing price to begin with. Hence, considering increases strictly in fixed costs, one would expect the result to be higher prices over time in the competitive market, but no price increases from a monopolist.
22. When the market is characterized by oligopoly, the theoretical predictions about the degree to which price increases would be passed on to consumers is still more complex and is less well established. In my experience teaching pricing theory and strategy, and

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There may be “longer” run effects reflecting adjustments to costs that can only be accomplished over time. For example, if demand increases, the firm might not be able to expand its capacity immediately to satisfy the demand efficiently. Hence, there may be a longer run adjustment by which costs decline as the firm efficiency expands output. These cost adjustments typically, if anything, would cause prices to decline after an initial price increase, but not to continue to increase.

consulting on various pricing issues, I have not seen any general theoretical result in the professional economics literature that describes the degree to which cost increases are passed through as a function of different degrees of market power in oligopoly market structures, nor have I seen any cross-industry statistical analyses of this issue.

23. Hence, to my knowledge, there is no theoretical or empirical basis upon which to conclude that continuous, sustained increases in cost would result in higher growth rates of prices in a monopoly market or an oligopoly market than in a perfectly competitive market.
24. The foregoing discussion pertains to the effect of sustained increases in costs, but one could analyze the effects of other sources of price changes as well, such as technological change. The qualitative conclusion would be the same: there is no theoretical reason to predict as a general matter that greater market power would be expected to lead to higher growth rates of prices, nor is there any reason to predict that a market exhibiting higher growth rates of prices is characterized by firms with greater market power. A specific theory as to how the price behavior in the market in question would deviate from the predictions of standard economic principles, coupled with specific factual evidence, would be necessary to overcome this robust economic principle. For any given industry, if one observes prices rising faster than the rate of inflation, one could test empirically whether the growth rate could be explained in that case by market power. Doing so would require controlling for other factors, such as cost increases, demand increases, and technological changes. But absent some sort of empirical demonstration, there is no basis on general principles for attributing sustained real price growth to market power.

III. Market share is not a reliable measure of market power

25. I understand that industry observers have also argued that the high degree of concentration (i.e., the high market share of the incumbent cable providers) in the market for delivery of video programming demonstrates that the incumbent cable providers have a high degree of market or monopoly power. Market share is not, however,

determinative of market power; indeed, it is not even the primary determinant. This is true as a general matter, but, in particular, in a market in which an incumbent is moving from a protected or de facto monopoly to a competitive environment, market share can be a very misleading measure of market power, and other measures are more informative and useful.

26. A market share analysis focuses on past competitive losses, rather than forward-looking competitive alternatives. In economics, market power can be defined as "the ability ... to raise price above the competitive level without losing so many sales so rapidly that the price increase is unprofitable and must be rescinded."³ The true determinant of the market power of a given firm, then, is the extent to which competitive alternatives are available or poised to be available, to which customers could turn if the firm attempted to raise price. If competitors could expand their output or enter the market with sufficient capacity in a timely fashion to satisfy the demand for alternatives created by the firm's price increase, those competitors would impose a competitive constraint on the firm's ability and desire to raise its price. That is, they would decrease or eliminate its market power.
27. Most fundamentally, it is the availability of competitive alternatives, not a competitor's current market share, that is relevant to assessing competition. In particular, the ability of actual competitors to expand output to meet consumer demand and/or the ability of potential competitors to enter and provide reasonably substitutable services are the key determinant of market power. The ability of suppliers to respond to potential price increases in a timely fashion can be summarized as the "supply elasticity," which generally measures the extent to which rivals will increase output through expansion and/or entry in response to a given increase in price. Market share can sometimes be a useful, simple proxy for the viability of competitive alternatives, but because it is not

³ W.M. Landes, and R.A. Posner, "Market Power in Antitrust Cases," *Harvard Law Review*, vol. 94 (1981), p. 937. The Department of Justice/Federal Trade Commission *1992 Horizontal Merger Guidelines* similarly defines market power as "the ability profitably to maintain prices above competitive levels for a significant period of time," but also note that "sellers with market power also may lessen competition on dimensions other than price, such as product quality, service, or innovation." See the introductory section of the *Merger Guidelines*.

always or necessarily a good proxy for the supply elasticity, it can be misleading and induce erroneous conclusions.

28. Market share data can mask the true competitive situation for several reasons, all of which appear to be relevant to the market for delivery of video programming.
29. The first and most fundamental reason that market shares can be a misleading measure of competition is, as I indicated, that they are a static picture of the market that do not reflect the presence or absence of barriers to expansion and entry into the market. Economists, the courts, and the federal antitrust agencies recognize that the ability of rivals to expand output is critical to determining the ability of any firm in a market to exercise market power. If there are no significant barriers to expansion and/or entry, then market share is essentially irrelevant; no firm, no matter how large its market share, could exert significant market power for any length of time. Ease of expansion of existing competitors or entry of new competitors, therefore, trump market share.
30. Second, market share is a particularly inappropriate measure of competition in a market that is emerging from regulated monopoly environment, because an incumbent's market share tends to understate the degree of competition during a transition to competition, and tends to underestimate a competitor's future competitive significance.⁴ A market that was, in recent history, a protected monopoly, may well be much more concentrated than an equally competitive market without a regulated history. Market shares are "path-dependent;" i.e., they depend upon past market shares, even if the market is now highly competitive. An incumbent that prices competitively need not lose customers to competitors; if the incumbent prices so as to reflect the competitive threat, there is no incentive for its existing customers to move. Customers nonetheless receive the benefits of competition even if the incumbent's market share does not change.
31. The shortcomings of market share as a measure of market power are well recognized by U.S. competition policy. The US Department of Justice's Merger Guidelines, for example, memorialize into competitive policy the economic principle that "a merger is

⁴ The *Merger Guidelines* state that "recent or ongoing changes in the market may indicate that the current market share of a particular firm either understates or overstates the firm's future competitive significance." (§ 1.521)

not likely to create or enhance market power or to facilitate its exercise, if entry into the market is so easy that market participants, after the merger, either collectively, or unilaterally, could not profitably maintain a price increase above premerger levels.”⁵ The statement is equally applicable to supply responses via the expansion of output from providers who are already in the market. The antitrust courts have also reflected these economic principles.⁶

32. Indeed, the FCC itself has repeatedly recognized the significant shortcomings of market share as a measure of competition. In its 1996 order declaring AT&T non-dominant, the FCC wrote:

It is well established that market share, by itself, is not the sole determining factor of whether a firm possesses market power. Other factors, such as demand and supply elasticities, conditions of entry and other market conditions, must be examined to

⁵ *Merger Guidelines*, §3.0.

⁶ See also ABA Section of Antitrust Law, *Antitrust Law Developments* (4th ed. 1997), pp. 328-332, a standard source for practicing antitrust attorneys and economists, citing: *United States v. Baker Hughes Inc.*, 908 F.2d 981, 987 (D.C. Cir. 1990) (“In the absence of significant entry barriers, a company probably cannot maintain supracompetitive pricing for any length of time”); *California v. American Stores Co.*, 872 F.2d 837, 842-43 (9th Cir. 1989) (recognizing that “[a]n absence of entry barriers into a market constrains anticompetitive conduct, irrespective of the market’s degree of concentration,” but finding that district court could properly have concluded, based on conflicting evidence, that defendant’s proof of ease of entry was not sufficient to overcome plaintiff’s prima facie case), *rev’d on other grounds*, 495 U.S. 271 (1990); *Oahu Gas Serv. v. Pacific Resources, Inc.*, 838 F.2d 360, 366 (9th Cir.) (“A high market share, though it may ordinarily raise an inference of monopoly power, ... will not do so in a market with low entry barriers or other evidence of a defendant’s inability to control prices or exclude competitors.”), *cert. denied*, 488 U.S. 870 (1988); *United States v. Waste Mgmt., Inc.*, 743 F.2d 976, 981-83 (2d. Cir. 1984) (prima facie illegality of 48.8% postmerger market share rebutted by ease of entry into Dallas County commercial trash collection market); *United States v. Gillette Co.*, 828 F. Supp. 78m 84 (D.D.C. 1993) (“there is ample evidence that the mechanics of fountain pen design are readily available, thus leaving no technological barriers to [new] entry [and there] ... are also no legal or regulatory barriers”); *Pennsylvania v. Russell Stover Candies, Inc.*, 1993-1 Trade Cas. (CCH) ¶ 70,224, at 70,093-94 (E.D. Pa. 1993) (“defendant can rebut the evidence [of a prima facie violation] by showing that barriers to entry are not significant”); *United States v. Syufy Enters.*, 712 F. Supp. 1386, 1401 (N.D. Cal. 1989) (showing of absence of entry barriers “undermines any claim of monopoly power”), *aff’d*, 903 F.2d 659 (9th Cir. 1990); *United States v. Calmar Inc.*, 612 F. Supp. 1298, 1306-07 (D.N.J. 1985) (ease of entry ensured that merger would not injure competition, despite the fact that it resulted in leading firm with 50% of market and HHI of 3000); *Echlin Mfg. Co.*, 105 F.T.C. 410, 485-92 (1985) (Lack of entry barriers into the assembly and sale of carburetor kits eliminates any possibility of a substantial anticompetitive effect); *Frank Saltz & Sons v. Hart Schaffner & Marx*, 1985-2 Trade Cas. (CCH) ¶ 66,768 at 63,724 (S.D.N.Y. 1985) (dictum) (noting that even if concentration had been high, relative ease of adapting a factory from lower quality clothing to better quality men’s suits would have precluded finding an antitrust violation); *United States v. Tracinda Inv. Corp.*, 477 F. Supp. 1093, 1108 (C.D. Cal. 1979) (no barriers to entry into motion picture market); *United States v. M.P.M., Inc.*, 397 F. Supp. 78, 92, 94 (D. Colo. 1975) (entry barriers relatively low in ready-mix cement business).

determine whether a particular firm exercises market power in the relevant market [footnote omitted]. As we noted in the First Interexchange Competition Order, “[m]arket share alone is not necessarily a reliable measure of competition, particularly in markets with high supply and demand elasticities.[footnote omitted]”⁷

33. In its decision in *AT&T v. FCC*, Case No. 99-1535, released January 23, 2001, the DC Circuit court pointed out that in the FCC’s COMSAT Non-dominance Order (1998) it “went so far as to view market share as irrelevant where there was other evidence that a carrier lacked market power.” In that Order, the FCC also rejected evidence of increased profitability as relevant to a determination of market power, as well as finding that COMSAT’s competitive advantages due to size and superior access to certain resources did not preclude the FCC from concluding that COMSAT did not have market power in certain markets.⁸ Consistent with the principles I have described, the FCC focused, instead, substantially on supply considerations and noted the importance of intermodal competition (meaning, in that case, competition between cable and satellite carriers) for proper competitive analysis.⁹

34. A firm’s future competitive significance can, of course, in many cases be reasonably reflected in its market share, which is one reason why market shares are considered useful despite (and if one fully recognizes) their limitations. For example, consider the market for a conventional consumer good that requires factory capacity, labor, machinery, and raw materials with which to produce each unit. If there are, say, two firms in the market, each of which is running without substantial excess capacity, and if the production process requires significant intellectual property, expertise, or other unique resources that are possessed by these firms but not easily attainable in a

⁷ Federal Communications Commission, *In the Matter of Motion of AT&T Corp. to be Reclassified as a Non-Dominant Carrier*, Order, FCC 95-427, October 12, 1995 (“*AT&T Reclassification Order*”), ¶ 68.

⁸ Federal Communications Commission, *COMSAT Corporation, Petition Pursuant to Section 10(c) of the Communications Act of 1934, as amended, for Forbearance from Dominant Carrier Regulation and for Reclassification as a Non-Dominant Carrier*, Order and Notice of Proposed Rulemaking, FCC 98-78, April 24, 1998 (“*COMSAT Reclassification Order*”), ¶ 93.

⁹ *COMSAT Reclassification Order*, ¶ 76.

reasonable period of time by any third party, then each firm's market share is likely to be a good proxy for its competitive significance in the near term. If one firm attempted to raise price, the other's ability to increase its output substantially in a short period of time would be constrained by its capacity, and its relative capacity in the market would be roughly summarized by its market share. A firm with, for example, a 20% market share might have limited ability realistically to absorb sufficient quantities of demand that it would be able to defeat the profitability of the rival's price increase.

35. In contrast, in a market in which each firm's costs are characterized by relatively high fixed costs but relatively low incremental costs of providing more units or serving more customers over a large range of output, the firm's existing market share provides very little insight into its ability to expand rapidly to meet the demand created by a competitor's price increase. A firm with a 20% market share in such a market might easily and realistically be able to absorb all of the demand quickly without substantially increasing its costs. The latter cost characteristics are thought to apply to many information goods, such as software, newspapers, and music recordings, as well as, in principle, to delivery of video services over satellite.
36. Hence, the market power of a firm cannot as a general rule be summarized by its market share or, indeed, by any other single statistic or number. Rather, an economically compelling analysis of market power requires an analysis of the ability of existing firms to expand output, to provide a product or service that is viewed as a reasonable substitute for the product or service of the firm at issue by a sufficient subset of customers, and/or the ability of potential entrants to enter the market and provide a reasonable substitute in a timely fashion. Short of such a full analysis, however, some statistics can be useful, if incomplete, tools for examining market power. One such statistic is the firm's share of the *growth* in the market, or what I will call the "growth share." If, for example, a market grew by 100,000 customers (or dollars, or units of output) in a given month, and the firm captured 20,000 of those, its growth share for that month would be 20%. Growth share can be useful because it indicates the degree to which customers view the services of competitors as attractive and substitutable for the services of the firm at issue. It also

provides evidence of the extent to which the prices of the firms are considered to be competitive with one another.

37. Growth shares can be very informative in communications markets such as local telecommunications and video delivery, because these are markets recently emerging from regulation and facing competition. As I explained, in markets recently emerging from regulation, current market share may well reflect historical market shares more than future competitive significance of rivals. In such a case, growth share overcomes the backward looking characteristic of static market shares and provides a valuable measure of the vigor of competitive alternatives.
38. Another measure that can be useful in assessing competition in some markets is the “addressability” of customers by existing competitors. Addressability measures the extent to which the existing facilities of firms can serve new customers without substantial incremental cost. Addressability is a way of reflecting ease of expansion by capturing the degree to which existing facilities of competitors can be expanded or exploited more fully at low cost in order to serve more customers. In the context of a cable provider, all households passed by cable facilities would be considered addressable by the cable provider, assuming other capacity constraints or technical limitations on the cable were not binding on the provider’s technical capability to serve the households. Hence, the addressability of a cable provider in a given geographic area would be measured by the percentage of households passed by its cable. For a satellite provider, all households with necessary line of sight would be addressable, assuming any incremental costs (such as antennas) specific to the customer do not outweigh the benefits of a small but significant price reduction or small but significant increase in quality.