

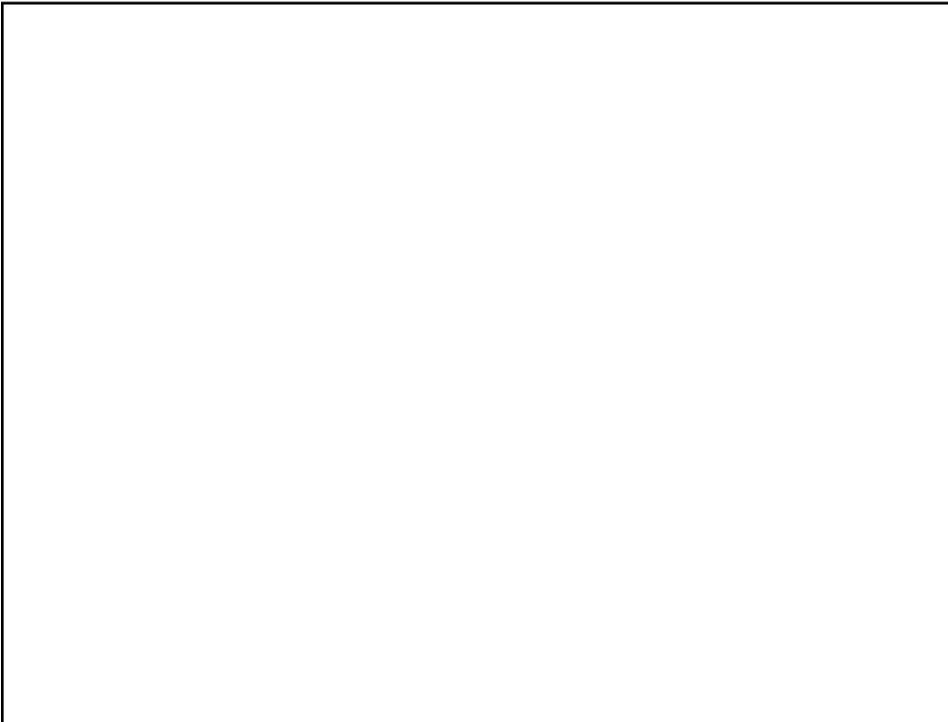
Overview: Collusion and Competition in Oligopolistic Markets

- General Electric vs. Westinghouse
 - The competitive situation in 1963
 - Strategy consultant: recommendation
 - What GE did
 - Westinghouse consultant: recommendation
 - What Westinghouse did
 - Consent decree
- Cartels

The Turbine Generator Business

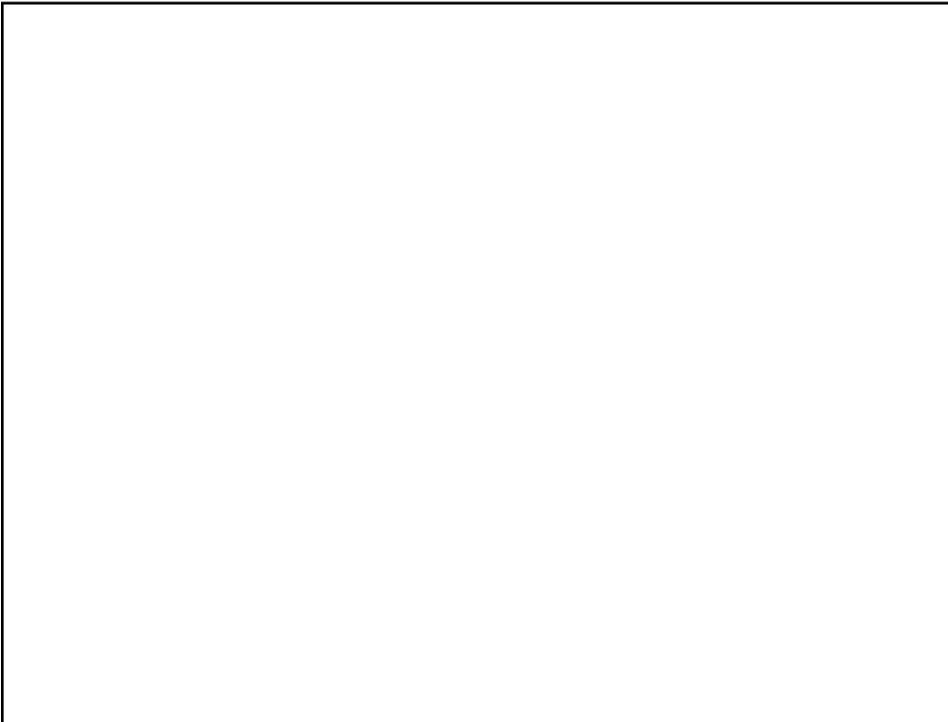
- The product?
- The players?
- The purchasing process?
- History of competition & pricing

Industry Attractiveness



Consultant's Recommendations

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GE Response: New Price Policy

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GE Response: Continued

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Why a Price Book?

- Facilitation of pricing for complex array of related products
- Steel and basing point pricing
- Airline attempts

Westinghouse Response

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Consent Decree

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A New Era for Anti-Trust

“The prototype price-fixing deal calls for competitors to gather in a smoke-filled room. But last week the Justice Department chalked up its first significant victory against a pricing arrangement so indirect that the supposed conspirators never even met.”

-- Business Week, December 1976

Cartels

- What is a cartel?
- What's conducive to cartel formation?
 - Homogeneous products. Why?
 - Cartels often arise after “destructive competition.”
 - Inelastic demand
 - High entry barriers
 - No Legal Impediments.
 - International business

Examples of Cartels

- Oil (OPEC)
- Uranium
- Diamonds (DeBeers)
- Government Supported Cartels

Understanding Cartels

Pinpoint the essentials:

- Agreement - How, where, etc.?
- Monitoring - How is it done?
- Enforcement - What is the threat to cheaters?

OPEC: Basic Analysis

- Agreement?
 - Open meetings among members
 - Production quotas set
- Monitoring?
 - OPEC monitors imports/exports, prices
- Enforcement
 - Threat to cheaters? Saudis will flood market.
- Ongoing Issues
 - External (non OPEC suppliers)
 - Internal - Domestic financing of OPEC members

What are the Most Visible Cartels in the United States?

Hints:

- Exempt from Antitrust
- There is a section of (almost) every daily newspaper devoted to them

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Take Away Points

- Successful Collusion requires three elements: Agreement, Monitoring, Enforcement.
- Again: credibility, commitment, and the ability to understand your opponent are key aspects of strategic interaction.
- "Price protection/Most favored nation" clauses may actually limit competition.