

BOARD STAFF INTERROGATORY #16

INTERROGATORY

Reference: p.8, lines 17-19

Preamble: “Certainly, it may be the case that there is a minimum efficient scale of distributor that allows fixed costs to be spread over a large enough customer base for the distributor to be an efficient stand-alone entity.”

Would you consider the minimum efficient scale of a distributor?

RESPONSE

The “minimum efficient scale of a distributor” is a threshold in terms of number of customers and other parameters below which an operationally efficient distributor cannot be price competitive in offering service to its own customer base. Hence, a larger competitor can offer a lower price on the basis of economies of scale alone.

Although there appears to be a general perception that rationalization was needed because many distributors were too small to be efficient, there was no empirical evidence to support a target threshold. As a matter of policy, there was no attempt to mandate a minimum size, but distributors were encouraged to pursue rationalization where it would result in increased efficiency.

Given the reality that minimum efficient scale can be achieved in many ways other than through creating larger distribution service areas, it is probably not possible to define “minimum efficient scale”. For example, a very small distributor could achieve economies of scale through sharing of services or contracting services out to larger, more efficient entities.

