

MERGER ANTITRUST LAW

LAW 1469
Georgetown University Law Center
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Tuesdays and Thursdays, 3:30 pm – 5:30 pm
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CLASS 26 WRITTEN ASSIGNMENT

Instructions

Submit by email by 3:30 pm on Tuesday, November 25

Send to wdc30@georgetown.edu

Subject line: Merger Antitrust Law: Assignment for Class 26

Assignment: Calls for an outline

For our last homework assignment, prepare an exam-style issue outline for last year's final exam hypothetical. Using the hypothetical as your only source, identify the questions being asked, list the major issues each question raises, and, for each issue, briefly note the governing legal or economic test, the two to four most important facts to which that test would apply, and a short tentative conclusion—at the level of detail you could realistically produce in roughly 45 minutes of reading and outlining during a five-hour exam.

Before you begin on the hypothetical, I suggest you prepare a form to use in creating your outline. For example, here is a possible set of bullets for market definition (leaving lots of room for your notes):

I. Market definition

- A. Product market definition—[space for tentative conclusion]
 - 1. *Brown Shoe* factors
 - a) Outer boundaries
 - b) Practical indicia
 - 2. Hypothetical monopolist test
 - a) Uniform critical loss test
 - b) One product SSNIP recapture test
- B. Geographic market definition—[space for tentative conclusion]
 - 1. Commercial realities test
 - a) Local market
 - b) Nationwide market
 - c) Regional market
 - 2. Hypothetical monopolist test

When you are actually outlining your answer, cross off the entries in your outline that do not apply and fill in two to four major facts you want to remember for the entries that do apply

In addition to product and geographic market definition, I suggest that you include at least the following major headings (with appropriate subheadings):

II. Horizontal mergers

- A. The *PNB* presumption
- B. Merger to monopoly
- C. Coordinated effects
- D. Unilateral effects
- E. Elimination of a maverick [unless you want to treat this under coordinated effects]
- F. Conclusion on the prima facie case (so that you don't forget it)

Defenses

- G. Entry/expansion/repositioning
- H. Power buyers
- I. Efficiencies
- J. Failing firm
- K. Weakened competitor
- L. Room for other defenses

Conclusion on horizontal liability

III. Potential competition mergers

- A. Actual potential competition
- B. Perceived potential competition

IV. Vertical mergers

- A. Input foreclosure/RRC
- B. Output foreclosure/RRC
- C. Anticompetitive information conduits
- D. Coordinated effects

V. Settlement possibilities

- A. Divestiture remedies for horizontal mergers
- B. Divestiture remedies for actual potential competition mergers
- C. None for perceived potential competition mergers
- D. Access contracts for vertical foreclosure/RRC mergers
- E. Firewalls for vertical anticompetitive information conduits

VI. "Litigate the fix"

VII. Injunction standards

- A. Clayton Act § 15 for DOJ actions
- B. FTC Act 13(b) for FTC preliminary injunction proceedings

These are only suggestions. You should create an outline form that works best for you. But all of these issues are fair game in the exam.

Finally, you should have boilerplate paragraphs for the law or economic tests for each second-level entry in your outline.

If you have any questions, send me an email. See you in class.

Mattress Merger

This hypothetical presents a simplified version of the mattress industry. In this world, mattresses are only sold to individuals for personal use at home. There are no commercial sales to hotels, furnished apartment buildings, dormitories, or similar establishments. All mattresses are innerspring, with no foam, latex, or hybrid mattresses. While all mattresses use springs, they vary in features, quality, and price.

Note: Market shares tables are on the last page

You are an associate at Gambini & Galloway LLP, working with partner Mona Lisa Gambini on a potential acquisition. Your client, ComfortPlus Bedding, Inc., the nation's largest manufacturer of mattresses, is negotiating to acquire Bedding Warehouse, Inc., the nation's largest retail mattress chain, for approximately \$4 billion in cash and stock. Due diligence is ongoing, and no merger agreement has been signed. Bedding Warehousing was not on the market, but the \$4 billion offer price was too attractive not to pursue.

ComfortPlus has requested a preliminary antitrust risk assessment of the transaction.

Ms. Gambini has advised ComfortPlus that the Federal Trade Commission (FTC) would likely conduct any antitrust review. She has tasked you with drafting a memorandum for ComfortPlus that addresses the following: (1) the likelihood of an FTC investigation; (2) the theories of anticompetitive harm the FTC would likely explore, the defenses the merging parties might raise, and the conclusions the FTC is likely to draw; (3) the prospects of resolving any investigation, whether without conditions or through a mutually acceptable consent order; (4) the FTC's likely enforcement actions and ComfortPlus' options if precomplaint resolution efforts fail; (5) any steps ComfortPlus could take before or during the investigation to improve its chances of ultimately closing the deal; and (6) the overall likelihood of successfully closing the deal, whether before or after litigation, based on what you know so far.

ComfortPlus has provided some preliminary information and documents in response to your initial request, although key details remain to be learned. You have also extensively researched publicly available materials concerning the industry and its participants. This is what you have learned.

The parties

ComfortPlus. ComfortPlus Bedding, Inc., headquartered in Hickory, North Carolina, is a publicly traded Delaware company and the world's largest mattress manufacturer and supplier. Formed in 2010 through the merger of SleepLux International and Restwell Corp., ComfortPlus now operates in over 30 countries, with more than 20 manufacturing facilities worldwide and a workforce exceeding 10,000 employees. In 2023, the company generated nearly \$6 billion in revenue globally, with over \$4.3 billion from U.S. sales alone. Its primary mattress brands in the U.S. include ComfortPlus, the company's flagship premium product; Restwell, the top mattress brand in the U.S. by sales; and CloudNest, the third-highest-selling mattress brand. Pursuing growth through acquisitions, ComfortPlus has acquired four mattress manufacturing companies since 2018.

In 2020, ComfortPlus began vertically integrating into retail by acquiring Dreamland Mattress Corporation, a U.S. mattress retailer with 50 stores in Pennsylvania, Maryland, and Virginia. ComfortPlus retained Dreamland's management and operates the company as a fully functional independent subsidiary. Dreamland has its own headquarters in Pittsburgh, Pennsylvania, and

maintains independent back office operations, including finance, human resources, merchandising, real estate, IT systems, distribution, and logistics. Approximately 75 employees support these corporate functions.

To maintain Dreamland's competitive position in the retail market, ComfortPlus operates Dreamland independently of its manufacturing division. This independence enables Dreamland to continue to market and sell mattresses from other manufacturers alongside ComfortPlus-branded products. All Dreamland stores, for example, carry both of DreamHaven's national brands. Consistent with this arms-length relationship, ComfortPlus has designated both its mattress wholesale division and its Dreamland retail subsidiary as separate profit centers, with the compensation of each division's senior executives based primarily on their own division's operating profits. Accordingly, the ComfortPlus mattress manufacturing division and Dreamland have to negotiate the price at which ComfortPlus will sell mattresses to Dreamland, just as they did before Dreamland was acquired. As a result, the prices ComfortPlus charges Dreamland for mattresses have not changed materially since the acquisition, except for inflation.

ComfortPlus also has established an information firewall between its manufacturing division and Dreamland's operations. Mattress manufacturers routinely share confidential business information with retailers to support effective product marketing, including wholesale pricing, product development plans, launch schedules, marketing calendars, promotional strategies, and category-specific growth initiatives. ComfortPlus' firewall aims to prevent this competitively sensitive information from flowing from Dreamland to ComfortPlus's manufacturing division.

Under its independent management, Dreamland has opened an additional 25 stores and expanded its retail operations into New York and North Carolina. As of the end of 2023, approximately 99% of ComfortPlus-branded mattress sales in the U.S. come through third-party retailers, while less than 1% come through Dreamland stores. ComfortPlus estimates that Dreamland's going concern value as a company is between \$120 and \$160 million.

In August 2024, ComfortPlus announced plans to allocate \$100 million to Dreamland to fund an aggressive retail expansion that would open 40 to 50 new stores in the next three years. The plan is to open 10 to 12 stores in 2025, 20 stores in 2026, and the remaining stores in 2027. Eight sites have already been identified—State College, Pennsylvania; Frederick, Maryland; Charlottesville, Virginia; Ithaca, New York; Wilmington, North Carolina; Harrisonburg, Virginia; Binghamton, New York; and York, Pennsylvania—and Dreamland is in negotiations with landlords to obtain long-term leases on suitable space in each location. Dreamland's management team, which does not know about the possibility of ComfortPlus acquiring Bedding Warehouse, is actively working on locations for the remaining stores. If the acquisition of Bedding Warehouse goes forward, ComfortPlus will immediately withdraw Dreamland's funding and cancel all of Dreamland's expansion efforts.

Bedding Warehouse. Bedding Warehouse, Inc., a privately held mattress specialty retail chain, is the largest mattress retailer in the United States in revenue. Headquartered in Dallas, Texas, the company has expanded significantly through a series of acquisitions, growing from under 600 stores in 2010 to its current size of 2,200 stores nationwide, including 130 locations across Pennsylvania, Maryland, and Virginia. It offers a wide range of mattress brands from various suppliers, including ComfortPlus, DreamRest, PlushSleep, CloudNest, Restful Haven, GentleSlumber, and SoftSpring. In addition to these brands, Bedding Warehouse sells two private-label brands, SnoozeMate and DreamEase. The company employs over 9,000 people

across its extensive network of brick-and-mortar retail locations and, in 2023, generated \$6.3 billion in revenue from its mattress sales.

Bedding Warehouse has also invested heavily in its digital presence, developing a robust e-commerce platform that provides consumers with a seamless online shopping experience, detailed product descriptions, and personalized recommendations. Their website also features an innovative sleep education hub with articles, videos, and interactive tools designed to help customers understand mattress options, sleep health, and product care. However, the company does not offer online sales.

The deal

The parties are discussing an acquisition of Bedding Warehouse for a total purchase price of \$4.0 billion, consisting of \$2.7 billion in cash and \$1.3 billion in stock, representing a deal premium of approximately 25% over Bedding Warehouse's recent market valuation. Following the transaction, ComfortPlus shareholders will own 85% of the combined entity, while Bedding Warehouse shareholders will hold a 15% stake. Upon closing, ComfortPlus will expand its board of directors to include two designated members from Bedding Warehouse. After that, the combined company's shareholders will elect all board members in the ordinary course.

Following the acquisition, ComfortPlus will merge Dreamland into Bedding Warehouse, which will operate as an independent subsidiary under the same arrangements as it did Dreamland premerger. ComfortPlus will retain Bedding Warehouse's current management team to lead the combined retail operations to maintain BW's brand identity and operational focus while leveraging ComfortPlus' broader infrastructure and resources. Given Bedding Warehouse's existing capabilities and infrastructure, substantially all of Dreamland's corporate, administrative, sales, and operational personnel will be redundant postmerger and their positions eliminated. Dreamland's headquarters facility and warehouses, as well as retail locations that compete with Bedding Warehouse, will be divested to buyers not engaged in the mattress business.

The deal rationale

Bedding Warehouse and ComfortPlus already have substantial business ties. Every Bedding Warehouse store carries all three ComfortPlus brands (ComfortPlus, Restwell, and CloudNest), which account for 50% of BW's revenue. (Bedding Warehouse also carries both DreamHaven national brands—DreamRest and GentleSlumber—which accounts for 30% of Bedding Warehouse's revenues nationally, with all other brands accounting for 20% of its revenues nationally.)

Building on this existing relationship, ComfortPlus anticipates three strategic benefits from acquiring Bedding Warehouse.

First, the combined company will significantly increase its customer reach, enabling it to respond more effectively to keep pace with evolving consumer preferences, drive brand awareness, and broaden avenues for developing lifetime relationships with consumers.

Second, the acquisition would expand and diversify ComfortPlus' retail operations by combining Bedding Warehouse's 2,200 stores, well-known website, and sleep education resources with ComfortPlus' own stores. Currently, ComfortPlus earns 99% of its revenue from wholesale sales and less than 1% through its Dreamland retail stores. While ComfortPlus has been devoting effort and resources to building a more substantial retail capability, acquiring Bedding Warehouse—

already the leader in retail mattress sales—offers a much more attractive route to achieve this growth. With Bedding Warehouse’s strong retail operations, the combined company is expected to shift its revenue balance to around 42% from wholesale and 58% from retail channels.

ComfortPlus believes the market will react favorably to this diversification and its stock price will significantly increase postacquisition.

Third, ComfortPlus anticipates significant opportunities for product innovation by collaborating closely with Bedding Warehouse’s experienced sales associates, who interact daily with customers and understand their needs firsthand. This partnership will provide valuable consumer insights that ComfortPlus’s product development team can use to create more tailored and innovative sleep solutions. Key areas of innovation will include addressing common sleep issues, such as developing features to reduce snoring, enhance temperature regulation, and provide optimal support. ComfortPlus also plans to incorporate advanced sleep-tracking technology and introduce new materials and designs to elevate overall comfort, ensuring products meet a wide range of customer preferences for a better night’s sleep.

The acquisition is expected to be accretive to earnings per share in the first year after closing, primarily due to the elimination of duplicative corporate overhead costs from Dreamland’s operations and the increased operational scale of the combined company. The company expects to use the improved earnings to fund investments in Bedding Warehouse’s retail operations and increase dividend payments to shareholders.

Mattresses

A mattress is a layered sleep surface consisting of three main components: a support core of steel coils providing foundational alignment and motion isolation; a comfort layer of foam, fiber, or cotton batting for cushioning and pressure relief; and a quilted top layer of breathable fabrics for comfort and airflow. Consumers consider mattresses essential items. Mattresses are purchased by over 95% of households across all income levels. Most consumers replace them every seven to ten years.

Mattress pricing is distinctive, characterized by high retail margins, frequent promotional pricing, and significant price discrimination between models despite similar production costs. A mattress is a significant purchase for most consumers. Surveys show that many consumers like to comparison shop at two or more stores and are willing to travel up to 20 miles if necessary before making their final selection.

Alternative sleep surfaces such as futons, waterbeds, hammocks, and floor mattresses typically serve as secondary or specialized options rather than primary beds. These products differ from mattresses in key ways: they lack dedicated retail channels and industry trade associations, sell at lower price points (under \$300 versus around \$1,000 for mattresses), have shorter lifespans, and exhibit more elastic demand as they are more discretionary purchases than necessities. These alternatives also lack specialized manufacturing facilities, and production costs are usually significantly lower due to simpler construction and less expensive materials. While some consumers choose alternatives for philosophical or cultural reasons, market data shows no measurable substitution between mattresses and these products for general use due to a relative increase in the price of mattresses.

Industry data indicates mattress demand is relatively price inelastic, with an aggregate short-run demand elasticity averaging -0.2 for all mattress products. This is likely because consumers view mattresses as necessity purchases that significantly impact their quality of life and are infrequent enough that price rarely determines replacement timing. For a 5% price increase, sales in the

short run are expected to decrease by only 1%, but the lost customers do not substitute with alternative bedding products. Instead, they delay their purchase of a mattress. While customers may switch between mattress brands based on relative quality and price, those in the market for a mattress are ultimately committed to purchasing a mattress rather than a non-mattress substitute.

Mattress manufacturing

The mattress manufacturing process is a highly specialized operation designed to ensure durability, comfort, and adherence to rigorous quality standards. It begins with selecting materials based on the mattress's intended firmness, comfort, and longevity. Key raw materials include steel coils, cotton or polyester batting, fabric covers, and adhesives, which are carefully cut and shaped to precise specifications. Facilities dedicated to mattress manufacturing are uniquely tailored to integrate these materials with precision, ensuring that every product meets both regulatory and customer expectations. Unlike simpler production lines for alternative sleep surfaces such as futons or hammocks, these facilities are designed exclusively for mattress production.

The assembly process starts with constructing the support core, where steel coils are arranged as either interconnected units or individually wrapped components to provide foundational alignment and motion isolation. Above this core, the comfort layer—cotton or fiber batting—is added to enhance cushioning and pressure relief. Finally, a quilted top layer of breathable fabrics is attached to improve airflow and overall comfort. Once the core and comfort layers are assembled, the quilted cover is sewn, with additional padding incorporated for extra softness. This cover is securely attached to the mattress, and reinforced edge supports are added to prevent sagging along the perimeter.

All mattresses sold in the United States must comply with strict federal flammability standards designed to reduce the risk of fire-related injuries. These regulations require mattresses to meet specific resistance criteria to open-flame ignition, ensuring consumer safety. Manufacturers must also adhere to labeling guidelines and maintain detailed records to demonstrate compliance, as enforced by the Consumer Product Safety Commission (CPSC).

Recent innovations in innerspring mattress design have further advanced functionality and consumer appeal. Enhanced coil arrangements and advanced breathable covers have significantly improved temperature regulation. Dual-comfort designs allow for different firmness levels on each side of the mattress to accommodate varying preferences. Reinforced perimeter coils now offer better edge stability and an expanded usable surface area. In response to the growing demand for sustainability, manufacturers are incorporating eco-friendly materials, such as organic cotton covers and recycled steel in coil production. These advancements highlight the industry's ongoing commitment to enhancing traditional innerspring technology while maintaining its core benefits.

Mattress manufacturers sell to specialty mattress stores and other mattress retailers rather than directly to consumers. The U.S. mattress manufacturing industry is highly concentrated and dominated by three major players: ComfortPlus Bedding, DreamHaven Industries, and SleepSmart Corporation. Together, these firms account for 75% of all U.S. mattress manufacturing revenue. While the past decade has seen the emergence of innovative startups like SlumberBox and CozyRest, these newer entrants have struggled to gain significant market share.

Despite introducing fresh approaches to mattress design and marketing, these companies each command less than 2% of nationwide sales. See Table 1 for sales and share of national sales. The two largest manufacturers produce and promote several well-known national brands. ComfortPlus Bedding's portfolio includes the ComfortPlus, Restwell, and CloudNest brands, while DreamHaven Industries produces the DreamRest and GentleSlumber brands. These national brands require substantial ongoing investment in advertising and promotion to maintain consumer awareness and preference. Many manufacturers, including ComfortPlus and DreamHaven, also operate as contract manufacturers, producing private-label or in-house brands for retail chains. This dual approach—maintaining national brands while serving as contract manufacturers—allows manufacturers to achieve higher capacity utilization in their production facilities and lower their overall production costs. SleepSmart, SlumberBox, CozyRest, and SnoozeNest are exceptions and produce only their own brands, which they sell exclusively through their own retail stores.

Mattress manufacturers ship nationwide at uniform wholesale prices throughout the United States despite varying transportation costs. Trucking remains the primary mode of transport, although rail transport is a cost-effective alternative for bulk shipments across longer distances, particularly when moving large quantities between major population centers. While some manufacturers may utilize regional distribution centers to streamline delivery further, the ability to ship across state lines has become a standard industry.

ComfortPlus and other mattress manufacturers charge retailers around \$600 per mattress, earning roughly 50% margins, with some variation based on product features and brand strength. ComfortPlus' analysis shows that a 10% price increase to all retailers in a market would reduce its unit sales by 20%, as retailers raise prices to maintain their 40% margins. Similarly, if other manufacturers raised prices by 10%, they each would lose 20% of sales. The analysis also indicates that if a manufacturer increases its price on one product to all but one retailer in a market, at least 60% of lost unit sales would shift to the same product at the lower-priced store as customers engage in comparison shopping (with the remaining 40% would purchase a different mattress at the original store). ComfortPlus defines a store's market as a 20-mile radius around the store, and includes as market participants all mattress stores within a 40-mile radius (so that their draw areas overlap).

Almost all participants in the mattress industry belong to the American Sleep Products Association (ASPA). The ASPA has separate committees for mattress manufacturers, suppliers, and related businesses. Working with its members, the ASPA collects and distributes market intelligence, provides research and educational resources, fosters collaboration and networking within the industry, and organizes events and initiatives that connect businesses and promote innovation. Furthermore, the APSA, directly and with its members, lobbies federal and state governments on behalf of the industry on issues such as flammability standards, environmental regulations, and trade policies. The internet shows that there are also third-party market research reports specifically on mattress manufacturing, although ComfortPlus has yet to provide any copies.

Mattress retailing

In 2023, U.S. retail sales of mattresses to end-user customers totaled \$18 billion. Most sales occur through local brick-and-mortar stores, where customers can “test drive” various brands, models, and firmness levels before making a purchase. This hands-on experience is critical, as

most consumers insist on assessing a mattress in person due to the wide range of comfort levels, materials, and features available.

Mattress retailers purchase their inventory directly from manufacturers at wholesale and maintain ownership until sale, with no consignment arrangements. Over the course of a year, retailers charge an average of \$1000 per mattress and earn an average percentage gross margin of around 40%. However, prices and margins can vary due to differences in mattress features, quality, and brand and store reputation. Prices can be as low as \$700 and as high as \$1300, and margins can be as low as 30% and as high as 50%. Net income as a percentage of revenues is typically around 25% due to high fixed costs such as rent, utilities, inventory carrying costs, and staff salaries, combined with relatively low inventory turnover. A typical mattress retail store sells fewer than ten mattresses per day.

The U.S. mattress retail market includes national and regional chains, specialty stores, and department stores like Baxter and Fulton. While some retailers, such as SleepSmart and SlumberBox, sell exclusively in-house brands, most offer a mix of products from multiple manufacturers. These include major brands like ComfortPlus and DreamHaven, private-label options from contract manufacturers, and additional offerings across a range of price points and customer needs.

Retailers differentiate themselves through product variety, pricing strategies, customer service, and in-store experiences. For example, some prioritize everyday low pricing, while others rely on frequent promotions. Customer service features, such as personalized consultations, trial periods, and no-hassle return policies, build trust and loyalty. Many stores enhance the shopping experience with luxury showrooms or interactive sleep assessment tools. Despite these differences, all mattress products sold at retail, regardless of brand, features, or price, are subject to similar market forces.

All mattress stores, regardless of their business model, carry a range of mattress products that vary significantly in features, quality, and price. Even stores that sell only in-house brands, such as SleepSmart or SlumberBox, offer product lines spanning different features, quality, and price points. The variety within each store ensures that consumers can compare and select mattresses based on their specific preferences. Given the popularity of ComfortPlus brands, essentially all multibrand mattress stores carry the ComfortPlus line of products and consider them essential for a successful mattress store business.

Each store (in coordination with the home office if in a chain) selects the mix of products it will carry and sets the price for each product. Products sell at the prices posted in the store, which can be changed quickly. Mattress stores frequently advertise on television, newspapers, and other media, especially when products are “on sale.”

The largest players in the U.S. mattress market include Bedding Warehouse, MattressDepot, and SleepSmart. Bedding Warehouse leads as the largest specialty retailer, with approximately 35% of national mattress sales revenue across its 2,200 stores, offering a mix of brands and private-label options. MattressDepot holds 20% of the market and distinguishes itself within the furniture retail sector with a selection of in-house and third-party brands. While neither Bedding Warehouse nor MattressDepot operates its own manufacturing facilities, both contract with third-party manufacturers to produce private label products. SleepSmart accounts for about 10% of the mattress market, selling its own manufactured brand exclusively through its 723 retail stores.

Together, these three firms control 65% of mattress sales nationally. See Table 2 for sales and share of national sales.

Most mattresses are sold through brick-and-mortar stores, as consumers traditionally prefer to test mattresses in person. While some retailers offer online sales through their websites, they have achieved only negligible sales in this channel.

Mattress retail stores are strategically located to maximize visibility and accessibility for consumers. They are commonly found in high-traffic suburban retail corridors, often near other furniture stores, home improvement centers, or major shopping malls. Freestanding stores and showrooms are particularly prevalent for larger chains or specialty mattress retailers. Increasingly, mattress retailers are establishing a presence within mixed-use developments and lifestyle centers, capitalizing on the growing trend of combining shopping with residential and entertainment options.

Most large retail chains employ sophisticated methods for selecting store locations. Their planning departments analyze demographics, competition, traffic patterns, and lease terms to identify optimal locations for new stores, ensuring profitability and market reach. Bedding Warehouse, for example, has achieved dominant positions in many local markets identified by its large planning department. For internal purposes, Bedding Warehouse defines its local draw area as 20 miles around each store (the maximum distance a shopper is willing to travel to shop at multiple stores). Of its 2,200 stores nationwide, 675 stores (about 30% of its network) face limited competition:

- 150 BW stores have no mattress retail competitor that competes in the BW store's draw area (i.e., the nearest competitor is at least 40 miles away so that the draw areas do not overlap)
- 225 BW stores have just one competitor that competes in the BW store's draw area
- 300 BW stores have two competitors that compete in the BW store's draw area

Moreover, Bedding Warehouse does not locate stores within 40 miles of each other to avoid intracompany competition. This ensures each location serves a distinct customer base and avoids cannibalizing sales. For every store it operates, Bedding Warehouse seeks at least a 60% market share by revenue in that store's draw area. In each of the last four years, Bedding Warehouse has achieved this goal in over 90% of its stores.

However, some chains have adopted simpler strategies. Dreamland, for example, locates its retail stores primarily by identifying the most successful Bedding Warehouse retail stores in areas with sufficient population to support another retailer. To maintain profitability, Dreamland, like Bedding Warehouse, avoids locating its stores within 40 miles of another company store to prevent intracompany competition. Of Dreamland's 75 stores, 50 are located within a two-mile radius of a Bedding Warehouse store with no other mattress retailers within 40 miles, while 15 are near Bedding Warehouse locations that have one other competitor within that radius. The remaining ten Dreamland stores are in areas where they are the only mattress retailer within 40 miles. This focused strategy of targeting Bedding Warehouse locations has proven successful, and ComfortPlus has authorized and funded Dreamland to open 40 to 50 new stores using the same approach.

Dreamland's preference for entering markets with fewer competitors aligns with observed pricing trends. Market research shows that average mattress prices decrease as the number of competing stores increases, which further incentivizes it to focus on underserved markets where

Bedding Warehouse is the sole existing retailer. See Table 3.

Table 3
Competitors and Prices

	Average Price
Area 1 (1 store)	\$1,144
Area 2 (2 stores)	\$1,052
Area 3 (3 stores)	\$989
Area 4 (4 stores)	\$947

Dreamland also has observed that prices converge in areas where multibrand mattress retail stores compete. This is because consumers typically visit multiple stores to compare options before purchasing, creating pressure for retailers to track and match competitors' prices. In particular, ComfortPlus confirms this has been the case where Dreamland competes with Bedding Warehouse.

The typical multibrand mattress retail store requires substantial space and capital investment. Each store occupies 4,000 to 5,000 square feet of showroom space. Opening a new location involves significant costs, whether purchasing land and constructing a new building or leasing an existing space. Building a new showroom from scratch can cost between \$2,000,000 and \$4,000,000. Leasing and renovating an existing space of the same size can cost between \$800,000 and \$1,800,000 or more (plus ongoing lease expenses ranging from \$12,500 to \$17,500 per month). In addition to the building, these upfront costs include store fixtures and equipment, initial inventory, pre-opening costs like permits and marketing, and working capital to cover operating expenses until profitability. The choice between purchasing land and constructing a new building or leasing an existing space depends on factors like location, market conditions, and the retailer's long-term business strategy. Beyond high startup costs, several operational barriers to entry confront a new multibrand mattress retail store. These include competition from established local retailers, the need to secure agreements with multiple mattress manufacturers, and the challenge of differentiating the store from other brands.

Dreamland is unaware of any competitor planning to enter any of the markets in which it competes with Bedding Warehouse. Moreover, if a new store decided to enter, it would take at least two years to begin operation due to the time required to complete a market assessment, locate suitable retail space, obtain the necessary permits and manufacturer supply agreements, and complete renovations or construction.

Expanding an existing mattress retail store presents its own set of challenges. Physical constraints often limit growth within existing locations. The typical store has limited excess capacity, making it difficult to introduce additional brands or product lines without compromising showroom layout or display quality. Physical expansion of a store's footprint is usually impractical due to building and zoning limitations. Relocating to a larger space, while technically feasible, involves costs similar to opening a new store—including renovation, rebranding, and reestablishing the business in a different market area. Such moves also risk disrupting established customer relationships, as customers may not follow the store to a new location, especially if it is less convenient. This need to balance additional inventory capacity against logistical and financial constraints creates significant barriers to expansion, even for successful retailers. Expansions of an existing store are rare in the retail mattress business, and

Dreamland is unaware of any competitor planning to expand or reposition its product line in any of these markets.

Table 1
U.S. Mattress Manufacturers

Manufacturer	Units	Revenues	Revenue Shares
ComfortPlus	7,200,000	\$4,320,000,000	40.00%
DreamHaven Industries	4,500,000	\$2,700,000,000	25.00%
SleepSmart*	1,800,000	\$1,080,000,000	10.00%
RoyalSleep	900,000	\$540,000,000	5.00%
SoftSpring	900,000	\$540,000,000	5.00%
Sleep Haven	900,000	\$540,000,000	5.00%
SlumberBox*	360,000	\$216,000,000	2.00%
CozyRest*	360,000	\$216,000,000	2.00%
SnoozeNest*	360,000	\$216,000,000	2.00%
Others	720,000	\$432,000,000	4.00%
	18,000,000	\$10,800,000,000	100.00%

* Sold exclusively through the manufacturer's retail stores

Table 2
U.S. Mattress Retailers (All)

Retailer	Type	Stores	Units	Revenues	Revenue Share
Bedding Warehouse	Multibrand	2,200	6,300,000	\$6,300,000,000	35.00%
MattressDepot	Multibrand	1,000	3,600,000	\$3,600,000,000	20.00%
SleepSmart	Exclusive*	723	1,800,000	\$1,800,000,000	10.00%
Mattress Warehouse	Multibrand	281	720,000	\$720,000,000	4.00%
Raymour & Flanigan	Multibrand	136	360,000	\$360,000,000	2.00%
SlumberBox	Exclusive*	130	360,000	\$360,000,000	2.00%
CozyRest	Exclusive*	125	360,000	\$360,000,000	2.00%
SnoozeNest	Exclusive*	120	360,000	\$360,000,000	2.00%
Dreamland	Multibrand	75	135,000	\$135,000,000	0.75%
Others**	Multibrand	1,000	4,005,000	\$4,005,000,000	22.25%
		5,765	18,000,000	\$18,000,000,000	100.00%

* Sells only its vertically integrated manufacturer's brand

** Includes smaller chains, specialized single stores, and department stores