Merger Review for Markets with Buyer Power

ABSTRACT:
We analyze the competitive effects of mergers in markets with buyer power. Using mechanism design arguments, we show that without cost synergies, a merger between symmetric suppliers is harmful for a buyer regardless of buyer power, although post merger the buyer demands a lower price from the merged entity. Although buyer power can deter harmful mergers, it can never eliminate harm if mergers occur. With buyer power, a merger increases rivals' incentives to invest in cost reduction and entrants' incentives to enter; a merger may or may not increase the merging parties' incentives to invest. Buyer power increases the profitability of perfect (undetected) collusion relative to a merger and makes such collusion harder to detect. Cost synergies can eliminate merger harm. They can also render an otherwise profitable merger unprofitable. Extensions allow for asymmetric suppliers, coordinated effects, multi-product firms, and cross-market effects.

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