

Buyer Power Merger Cases

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Buyer Power in Empirical Research on Determinants of Merger Decisions

- Literature studies determinants of intervention decisions
- Buyer power/countervailing buyer power rarely considered:
 - **Buyer power:** Mini (2018) (?), inconclusive effect
 - **Countervailing buyer power:** Lindsay et al. (2013), Bergman et al. (2010, 2019), Cottyn (2019), negative or insignificant effects
- Data Challenges:
 - Few observations/mergers discussing issues of (countervailing) buyer power
 - Analysis should be at market rather than merger level

Ex-post Analysis of Effects of Buyer Power on Post-Merger Supplier Performance

- **Goal:** Quantify *causal* effect of merger-induced buyer power on outcome variable of interest
- **Ideal Set-Up:**
 - Isolate effect of buyer power from other effects of merger
 - Difference-in-Difference: Compare mergers similar in all characteristics but degree of buyer power
 - Ideal data: Upstream prices, quantities, performance, costs, contract information between suppliers and buyers
- **Data Challenges:**
 - Few observations if need mergers that are similar in all respects but buyer power
 - Contract information generally not available
 - Information on pass-through necessary to assess welfare effects

Ex-post Analysis of Effects of Buyer Power on Post-Merger Supplier Performance

- **Most studies:**
 - Outcomes at supplier level post downstream consolidation
 - Often use industry-level data
- **Exception: Shen (2018)**
 - Estimates effect of buyer power on input prices following horizontal mergers in electricity generation
 - Plant-level data on input prices and supply contracts
 - Difference-in-difference based on control plants not involved in merger
 - Input prices of merging firms' plants decrease 3-4% post merger
 - Merging firms renegotiate existing procurement contracts & seek new suppliers
- **Challenges:**
 - Estimation of *causal* effect of buyer power
 - Assessment of welfare effects

Questions

- Are there empirical papers that, beyond effects of horizontal mergers on suppliers, study also the welfare effects?
- What about effects other than price effects? Studies about effects on innovation, entry?
- Effects of (countervailing) buyer power industry and case specific: Heterogeneity of effects based on industry characteristics?