A Theory of Conglomerate Mergers

Zhijun Chen and Patrick Rey

Discussant: Yossi Spiegel

EAGCP Plenary meeting 2018

European Commission – DG Competition

Brussels, March 6, 2018

The main idea

- What are the welfare effects of conglomerate mergers?
  - Microsoft and LinkedIn
  - Facebook and WhatsApp
  - Google and Motorola Mobility
  - AT&T and DIRECTV

- The main idea: the merged firm sells a bundle of both products which generates an extra utility, s (convenience, lower transaction costs)

- s is distributed in the population: in equil. consumers with low s buy stand alone products and consumers with high s buy the bundle

- Consumers who buy the bundle get an extra utility

The equilibrium

- The merger raises prices:
  - The bundle creates vertical product differentiation due to s which softens competition (if you buy the bundle you s is high so the merged firm charges you more)
  - Independent products become strategic complements (both compete with the bundle that depends on the stand alone prices) which creates double marginalization

- The price effect may or may not outweigh the extra utility that bundle consumers get, depending on the distribution of s
  - With uniform differentiation, CS$\downarrow$

Comment 1

- The merger is not horizontal or vertical, but it's not purely conglomerate either (the paper is not about holding companies…):
  - Firms in the two markets share the same set of customers
  - Products are "complementary" due to s

- Could we call it adjacent markets?

Comment 2

- The paper is really about bundling more than about mergers. Suppose that:
  - A1 and B1 get together and sell a bundle (“marketing JV”) – the result is like a merger in this paper
  - A1 buys from B1 and sells a bundle (Code sharing? Majors buy flights from regionals?)
  - Firm C buys from A1 and B1 and creates a bundle (CATV sells both CNN and ESPN)
  - What distinguishes a merger from bundling?

Relevant cases in Israel

- Kamur-Delek Motors: the IAA opposed the merger alleging that it will facilitate multimarket contact between Delek Motors and Colmobil
  - The remedy: Delek Motors gave up the franchise for cherry…

- Shufersal-Newpharm: concern about the buying power of Shufersal (Unilever, Diplomat, Schestowitz, …)

- But there's a cost: Ronnie Kobrovsky about CBC-Tara: "you are only as strong as your weakest product"

Relevant cases in Israel – Bezeq

- Bezeq-Yes: the ministry of communications still does not allow Bezeq to offer bundles
  - Originally this was due to concern about the foreclosure of IPTV
  - Currently its because the ministry wants to (or wanted to…) force Bezeq to provide unbundeled access to rivals

- Bezeq-Walla: Shaul Elovitch allegedly used Walla news to flatter Netanyahu (who's the minister of Communication since 2015) in exchange for favorable policy towards Bezeq

- Similar story with Fishman and Globes, Dankner and Maariv, and possibly Milchan and Ch. 10

Relevant cases in Israel – economy-wide concentration

- The concentration debate: Large firms can have:
  - Political influence
  - Good press
  - Favorable financing (too big to fail and "if you do not finance me I'll pull all my business from you)
  - Threats: The Israeli electricity company, ports and airports
- The IAA considers these factors when allowing firms to buy privatized firms and when allowing firms to bid for government licenses (say to operate ports, or mines, or spectrum)