NON-PRICE EFFECTS OF Mergers: Issues and Evidence

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Why Study Non-Price Effects?

• Price is not the key strategic variable for some firms, industries, and mergers
  • Might be cost, quality, R&D
• Where both price and non-price variables matter, there may be trade-offs
  • Thus, higher price may be due to improved quality
• Mergers and concentration are not related to non-price outcomes in the same manner as price
  • For example, literature on R&D suggests that some amount of concentration may be helpful
Why So Little Economic Research?

- There is increasing attention to non-price effects in current Merger Guidelines, but...
- Many non-price variables are harder to quantify
  - For example, “quality”
- Data more often are not available
- Causation and implications harder to set out
  - For example, if R&D falls, could be good or bad
  - If quality rises, not necessarily worthwhile
What Are Merger Retrospectives?

- They isolate the effects of mergers by carefully controlling for other possible causes.
- About 60 such published studies, covering about 50 individual mergers plus hundreds of groups of mergers collectively.
- Most thoroughly studied outcome is price:
  - Shows that most merger result in price increases.
  - Price increases are substantial.
  - Remedies, especially conduct remedies, not very effective.
- Focus here is on non-price effects.
What Do Retrospectives Show?

• Fifteen studies examine non-price outcomes
  • Three examine individual mergers
  • Rest look at numerous mergers collectively
• Studies report 34 distinct measures of non-price effects
• Two categories of effects of special interest
  • Quality
  • Innovation
Effects on Quality

- Total of 14 distinct measured quality outcomes from 182 mergers
  - In airlines, flight frequency, load factor, etc.
  - In hospitals, readmission rate, in-patient mortality, etc.
- Of these 14 measures:
  - 1 case of quality improvement
  - 1 case of no significant change
  - 12 cases where quality declined after merger
- Overall average effect was decline of 4.2 %
Effects on Innovation

- Five separately measured effects on innovation from 229 total mergers
  - R&D expenditures
  - R&D productivity (patents/R&D)
- Of these, none shows an improvement
  - One case of no change
  - Four cases where innovation effort or output fell
- Overall average effect was decrease of 4.0 %
Caveats

- Data base of studies not very large
  - Many mergers covered in grouped studies, where results are more aggregated
  - Need to be more cautious about sweeping conclusions or policy implications
- But data base and results quite adequate to
  - Underscore concern over non-price effects
  - Cast doubt on argument that non-price effects outweigh price increase
  - Justify much greater efforts to better understand non-price outcomes
Conclusions

• No current evidence that mergers yield non-price effects systematically benefitting consumers or offsetting price increases from mergers

• Need for more and better evidence on wider range of non-price performance measures