

E.CA Economics

Horizon/Brink attempted merger

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Why is Horizon/Brink merger interesting?

Example of *Two is enough*



Agenda

1	Merger effects in bidding markets	3
2	Two is enough	8

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Ideal bidding markets

Characteristics of ideal bidding markets (Klemperer, 2007)

- Winner takes all
- Competition is “lumpy”
- No lock-in effects
- Bidders are identical

...leave no role for market shares based on past contracts in determining market power in a new tender

Bidding in automotive supply (1)

Bidding for tow bar supply

- Small number of bidders invited to tender
 - Tender is costly for both OEM and bidders
 - OEMs have an incentive to invite small number of bidders
 - Suppliers have no incentive to bid if low chance of winning
 - OEM decides whom to invite
 - Can keep the number of bidders the same (e.g. replace Brink by ProfSvar)
- Transparency
 - Bidders expected to provide detailed cost breakdowns
 - Cost workshops even after contract award

Bidding in automotive supply (2)

OEMs are strategic buyers

- Detailed technical specifications reduce competition to price
- OEMs own key manufacturing machine (e.g. jigs tailored to the platform), which can be moved to a different supplier
- **OEMs multi-source**
 - Double-sourcing
 - More than half OEMs awarded contracts to several different suppliers
- **Sponsored entry** - OEMs “sponsor” suppliers if they wish more competition:
 - Brink originally active in aftermarket, entered OEM supply with BMW and expanded since then
 - ProfSvar originally supplied forged steel and entered tow bar supply with Skoda

Bidding in automotive supply (3)

How far is tow bar reality from the ideal?

- Winner gets long-term contract (or two winners if double-sourcing)
- Lumpiness: tenders announced when new platform/car model enter the market
- Lock-in: some degree exists (some OEMs stick to particular suppliers)
- Identical bidders – OEMs can chose similar bidders



Automotive supply markets resemble bidding markets [FCO, *Continental/Veyance*]

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Tow bars

Horizon

Brink

Bosal

ProfSvar

Aragon, CCR, Curt, MVG



Fixed



Detachable



Retractable
mechanic



Deployable
(semi)electric

Bosal and ProfSvar viable competitors

- **Bosal** was believed to be the **closest competitor** by both parties
 - Supplier in all segments
 - Most frequently believed to be met in tenders
- **ProfSvar has been expanding**
 - Supplier in fixed and detachable segments, developing products for retractable
 - Expanding capacity
 - Bidding and winning tenders with several OEMs
 - Increasing frequency and share in lifetime volume

Data behind the bidding analysis

All tenders for tow bars in EEA 2015-2017, in which Parties participated

- **Bid characteristics**

- Date of receiving the invitation, OEM's name, platform, vehicle model, product segment and distribution channel (e.g. 1 Jan 2015, Volvo, global C1 platform, model V40, detachable tow bar to be sold in OES)

- **Beliefs/expectations about**

- Identity of bidders participating (factual for the Party that reported)
- Winner of tender (factual if Parties won)
- Lifetime volume and value

- **Price proxy** is one Party's estimate of the winning bid, another Party's final bid price

- If both parties participated, the price is the minimum of both records, unless one Party won and in that case the winner's price is used

Four types of bidding data analysis

- **Tender participation**
 - Overlap in tenders
 - Win/loss analysis
- **Price effects**
 - Effect of the number of bidders
 - Effect of ProfSvar bidding

Factual overlap limited

Parties compete against each other rather infrequently

- **Met in only 13% tenders** in which at least one participated
 - Overlap covers 26% of expected lifetime volume
 - **Upper limit** since tenders without parties' participation not included
 - The overlap is **decreasing over time**
 - Believed overlap higher
- **Parties do not lose to each other too often (factual)**

(Stylized figure)

Price effect of the number of bidders (1)

Having three rather than two bidders does not reduce prices

(Stylized figure)

Price effect of the number of bidders (2)

Econometric analysis: prices are neither economically nor statistically significantly affected by the number of bidders

- Regression of tow bar price on number of bidders, controlling for
 - Product segment (fixed, detachable, mechanically deployable, EDT)
 - Distribution channel (OEM, OES, OEM/OES)
 - Expected lifetime quantity of tow bars in a tender
 - Size and segment of the respective vehicle
- **No statistically significant relationship between the price and the number of bidders** was identified
- **Results robust to:** alternative definitions of beliefs about the identity of other bidders, the price being an estimate by Horizon, OEM-specific effects, exclusion of extreme price values, clustering of standard errors by tender, exclusion of US-type tow bars.

Price effect of ProfSvar

ProfSvar's presence creates price pressure in tenders

- Final tender **price lower when ProfSvar participated**
 - In all three segments
- **Price drop larger for fixed and mechanically deployable tow bars** than for detachable tow bars
- Price effect **remains even when controlling for** number of bidders, tender volume, distribution channel, vehicle size and price class
 - But statistically insignificant

(Stylized figure)