

Horizon Brink

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"As can be seen from Table 1, ..."

Jahr der Ausschreibung	Anzahl Ausschreibungen	Anteil (%)
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
Summe	165	100

Tabelle 1: Anzahl an Ausschreibungen im Zeitverlauf

Structure of the Presentation

- Potential **procompetitive** and **anticompetitive** effects of the acquisition
- **Difficulties** in the evaluation of these effects
- Strong **hold-up problems** and their consequences

- Bidding market (Klemperer, 2008)
 - Competition for the market through tender process
 - Long-term contracts according to the life time of the product
- Nevertheless, main insights on merger evaluation also hold in this market although usually winner-takes-all competition in each tender

Anticompetitive effects

- 3 **dominant** firms (Horizon, Brink, Bosal) with aggregate market share of around 90%
- 1 **emerging** firm (Prof Svar) which still has a low market share
- 2 of the dominant firms merge
⇒ strong **increase** in market power

Potential procompetitive effects

Arguments from the academic literature

- **Efficiency gains:** Farrell and Shapiro (1990); Nocke and Whinston (2013)
 - Argument was not made
 - Lower production costs due to the acquisition are unlikely
- **Merging parties own several patents**
 - Patents could be complementary, leading to more innovation and lower production costs (Shapiro, 2001)
 - Argument does not seem to apply in this case

Potential procompetitive effects

Arguments from the academic literature

- Merger can counter the buyer power OEM and car manufacturers:
Inderst and Wey (2007)
 - Margins in the industry are very small due to buyer power
⇒ Low innovation incentives
 - Argument does also not seem to supply (patents, supplier power)
- Conclusion:
Anticompetitive effects seems to dominate
- Main question:
How large is the anticompetitive effect?

Are Horizon and Brink competitors?

- FCO: Strong overlap in the tenders in which the firms participate
- E.CA: Overlap is only 13%
- Critique of the FCO: Cases were considered that could not be counted as tenders but only e.g., model specification with only one bidder

⇒ Potential solution:

Consider only cases with more than one bidder

Price effects of the merger

- Analysis of E.CA estimated that an decrease in the number of bidders does not affect the price (as long as there is more than one bidder)
- **Difficulty:** A merger can still have significant price effects

Possible scenario:

Tender with three bidders and bidders bid more or less the same price before and after the acquisition

Firms have a good estimate about rival bids

Price effects of the merger

Two scenarios:

Scenario 1:

Firm	Bid
Horizon	10
Brink	11
Bosal	11

Scenario 2:

Firm	Bid
Horizon	10
Brink	11
Bosal	15

- **Scenario 1:** Merger changes the price only by a small amount
- **Scenario 2:** Merger leads to a significant price increase
- **The same result applies with more than three bidders**
⇒ Although the number of firms has no effect on the price, a merger can lead to a large price increase
- **Important information** to evaluate price effects:
Difference between winning and losing bids!

Hold-up problems

- Industry is characterized by large **hold-up problems**
Tow bar manufacturers design bar for the specific model
OEMS cannot switch to other manufacturer
- Firms sign **long-term contracts** and also rely on **reputation**
- In these cases, building a long-term relationship between firms is common and can partially solve the holds-up problem (Grossman, and Hart, 1986)
- For example, VW established Prof Svar in recent years

Consequence for competition

- If price increase is very large after the merger, OEM will try to work **closer together** with other tow bar manufacturers
- This is acknowledged in both reports but **weighed differently**
- Effect cannot mitigate the anticompetitive consequence of the merger in the **short-run** (entry costs, patents, etc) but potentially in the **medium-run**.

Conclusion

- **Anticompetitive effects** of the acquisition are likely to dominate the procompetitive ones
- Finding out whether there is competition between the merging firms or an analysis about price changes with the number of firms tells **very little** about price effects in bidding markets
- **Short-run effects** are perhaps more detrimental than **medium-run effects**