

Retail mergers that benefit consumers and producers: Empirical evidence from the German milk market

Dennis Rickert and Manal Tannani

Discussion by Mert Demirer (MIT Sloan)

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Overview and Background

The paper builds on Rickert et al (2021)

The same merger is studied by both papers

Rickert et al (2021) finds increase in market power, decline in costs

Net effect on prices are heterogeneous, increase in some markets, decrease in others

Rickert et al (2021) leaves an important question is unanswered

What generates the decline in cost? There are two alternatives:

- 1) Decrease in wholesale prices
- 2) Marginal cost efficiencies (coming from distribution)

Why should we care about sources of cost savings?

Decrease in wholesale prices reduces “trading partner welfare”
Scott Hemphill and Rose (2020)

Standard monopsony model: Reduces consumer welfare

Bargaining model: Good or bad for consumers welfare

May not be cognizable efficiencies

Active empirical literature on monopsony/buyer power

This paper

- Use combination of reduced-form and structural approaches to study a retrospective merger
- A full analyses of price effects of mergers: market power, buyer power, and efficiencies

My discussion: Comments and some suggestions

Comments (1) Some Puzzling Results

Table 6: Supply Results

	Retail Prices p	Elasticity $\frac{\partial s}{\partial p}$	Retail Margins γ	Costs ($c + w$)
<i>Post</i>	-0.029*** (0.003)	0.225*** (0.028)	1.235*** (0.104)	-1.235*** (0.104)
<i>Acquirer</i>	0.001 (0.008)	-0.002 (0.069)	0.390 (0.259)	-0.390 (0.259)
<i>Acquirer</i> \times <i>Post</i>	-0.006 (0.013)	0.062 (0.112)	0.629 (0.417)	-0.629 (0.417)
<i>Target</i>	-0.086*** (0.009)	0.681*** (0.080)	1.613*** (0.297)	-1.613*** (0.297)
<i>Target</i> \times <i>Post</i>	-0.039*** (0.015)	0.372*** (0.126)	1.808*** (0.469)	-1.808*** (0.469)
Constant	0.740*** (0.002)	-5.914*** (0.016)	20.270*** (0.059)	79.730*** (0.059)
Observations N	19810	19800	19810	19810
R^2	0.02	0.01	0.02	0.02

Notes: Standard errors are clustered at the brand level and shown in parentheses.

***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

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- Similar increase in the margin of competitors and acquirer

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Comments (2): Vertical Bargaining Model

The goal of the bargaining model is to recover wholesale prices

The paper considers the standard Nash-in-Nash bargaining model (Crawford and Yurukoglu, 2012)

It is not clear to how to implement the model. Two alternatives:

- Estimate the model independently with and post-merger to recover wholesale prices

- Take a merger simulation approach, use pre data to estimate the parameters

How about identification: some well-known challenges

- Identifying both wholesale prices and bargaining weights is difficult

- Separating wholesale price from the marginal cost of retailer

Suggestions:

- More institutional details on how firms negotiate in this industry

- Identification of model parameters, how to use post-merger data

Other Comments

3) An underlying assumption is efficiencies are the same in markets where

Both targets and acquirers have presence

Only acquirer or target has presence

Efficiencies might differ based on market characteristics

4) Divestitures: 300 stores of acquirers are divested

Still there are some markets where acquirer and target merge

How to use divestitures in a merger retrospective?

5) The event study drops 6 months before and after the merger

It would be interesting to know anticipation effects and timing of changes

Final Thoughts

Important paper to understand the mechanisms of price effects of mergers
- Buyer power, market power, efficiencies

The use of reduced form and structural approaches is appealing

Great paper, looking forward to seeing the next version