Foreclosure, Bundling, and Innovation in Competitive Markets

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Summary

- Motivation: Competitive effects of bundling not always clear. (NXT/Qualcomm Case)
- This paper:
  - Firms face competition in respective markets
  - Can benefit from anticompetitive strategies (simulataneous foreclosure and bundling)
- Pre-merger: there is licensing and investment in innovation
- Post-merger: foreclosure in market A and bundling of components A and B decrease entry

Comments I

(1) Firms constrained by the extend of competition (Assumption)

- Limits pro-competitive side of the merger (internalization of externalities)
- Direct effect in some results of the paper: no benefits to consumers (prices do not change by assumption)
- They are constrained even for the increased levels of cost reduction innovation after merger...
- **Question:** Why not endogenizing this?

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(2) Is the input essential?
- EC says it is, in the paper you argue it is not
- If it is, it goes against your previous Assumption. Rivals are not an alternative (by definition), and technology owner is unconstrained

Comments II

(3) Discussion regarding generality of the results

- Works with imperfect substitutes within a market more generally?
- Same results with quality-enhancing innovation? (More in line with the case in your motivation maybe?) Interplay with the constraint that rivals represent?
- What would happen with differentiation of suppliers or of phone manufacturers?

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(4) Discussion regarding the range of the results

- For which range of parameters or cases, we should expect the Theory of Harm to work or be relevant?
- In these lines, I think it is important to endogenize constraint of incumbents

Minor Comments I

- Make assumptions explicit:
  - Technology owner not to enter competition in stage 3. Otherwise rivals should not accept $r > c_{AT} - \underline{c_A}$
  - Credible bundling and denial to supply after entry.
    - Maybe you can find ex-post optimality of bundling with merger synergies that boost quality (more in line with the defense of the parties?)

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- Downstream: consumers or firms with market power?
  - Model: (too little information)
    - Sequential or simultaneous ? (both across markets and regarding the pricing decision of D)
    - How does the demand for phones looks like? Does it matter?
  - Potential counter-strategies by downstream firms in order to favor entry?

Thank you

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