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MERGER POLICY IN DIGITAL MARKETS

Dominant companies in the digital market often use merger and acquisitions to stifle competition and cement their market dominance. This column analyses acquisition activity by Apple, Microsoft, Amazon, Alphabet and Facebook between 2008 and 2018, and finds that they often targeted young firms. Because the evolution of young firms is still uncertain, it is difficult for competition authorities to assess the effects of these mergers, especially when the focus is on single acquisitions without considering the overall acquisition strategy.

This trend is pervasive across industries and countries and is particularly pronounced in the digital economy. Companies active in digital markets – especially tech giants like Amazon, Apple, Facebook, Google, and Microsoft – are aggressively involved in M&A, targeting and purchasing young start-ups that might fit their ecosystem. The four largest digital companies in the world have a combined net worth of 4,85 USD trillion. An obvious financial advantage allows companies to pursue an aggressive acquisition policy [1].

Name of company	Market capitalization 2020, billions of USD
Apple	1000,27
Microsoft	1000,22
Amazon	946,38
Alphabet	893,38
Facebook	516,19

Figure 1 – Market capitalization of companies in 2020

Acquisition prospects may foster inefficient innovation. Indeed, Cunningham et al. document that the real target of killer acquisitions in the pharma industry are R&D efforts of drugs falling in the same therapeutic market or using the same mechanism of action as the incumbent's products. If the prospect of being acquired drives R&D, innovation incentives focus on the development of drugs that represent strong competitive threats (i.e. drugs for conditions already cured) – a social waste [1].

To better understand the dynamics of acquisitions, figure-1 shows the M&A activity carried out by Amazon, Facebook, Google, Apple and Microsoft between 2008 and 2018. In total – 479 companies absorbed by 5.

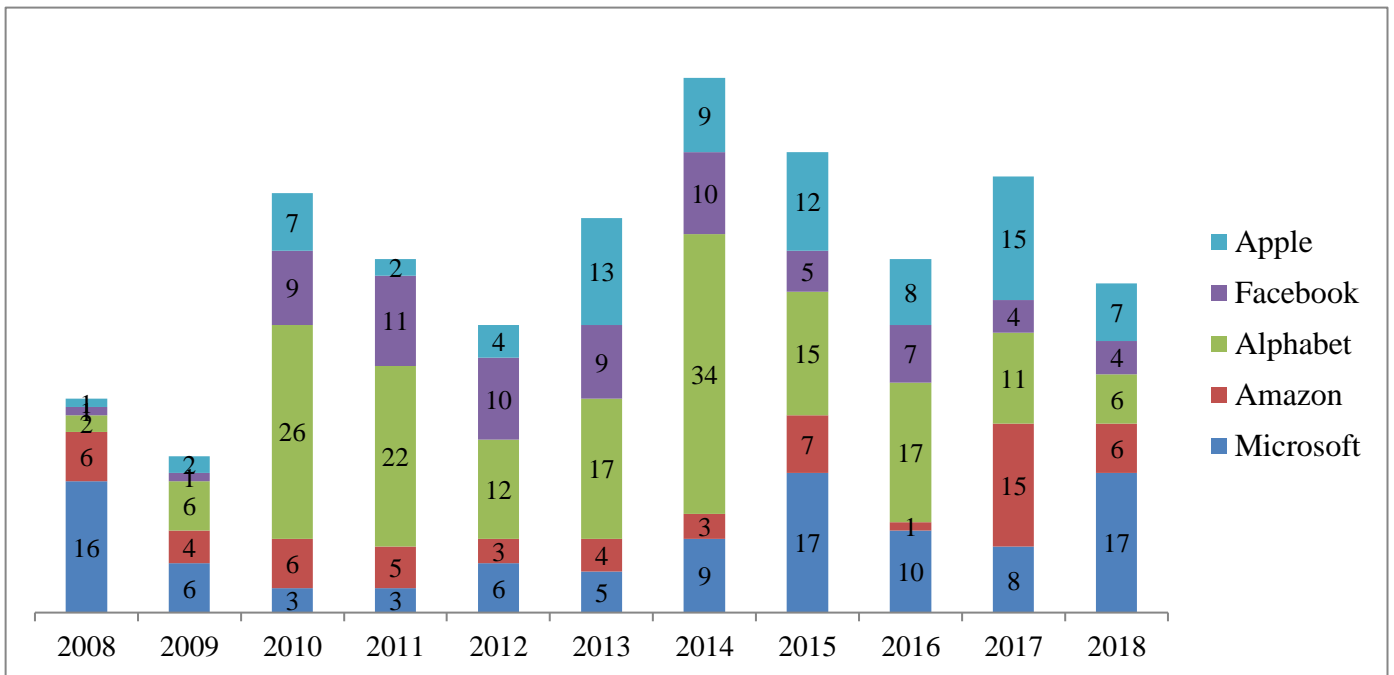


Figure 2 – Acquisitions by Apple, Facebook, Alphabet, Amazon and Microsoft, 2008–2018.

The main feature – most of the acquisition companies were startups. The average age of the acquired company’s is 4.5 years. A key issue for enforcement of merger control is that it is very difficult to assess the potential of very young firms to survive and become serious competitors for the incumbents in a way that stands up in court.

The main implications that have an impact on digital markets and competition in them:

1. The volume of transactions by major digital platforms is substantial.
2. Targets are typically very young firms.
3. Most transactions appear has vertical in nature.

REFERENCES:

1. Argentesi, E. et al. Tech-over: Mergers and merger policy in digital markets [Electronic resource] : Centre for Economic Policy Research. – Mode of access: <https://voxeu.org/article/mergers-and-merger-policy-digital-markets>. – Date of access: 05.03.2020.
2. Ycharts [Electronic resource] : Companies Stock Price & Charts. – Mode of access: <https://ycharts.com/companies>. – Date of access: 05.03.2020.