How Large Mergers Can Benefit Smaller Players

By Xabier Barriola , INSEAD

Joint ventures between dominant incumbents can create opportunities for smaller firms to enter the market and capture market share.

Mergers between large firms have profound impacts on smaller firms. When two big companies join forces they typically **drive prices up for customers** and control a large portion of the market, making it more difficult for smaller firms to enter the market and compete.

However, not all mergers have a negative effect on the entry and proliferation of smaller firms. Instead of pushing firms out, some mergers have the potential to create opportunities for new players to enter the market.

For instance, the 2007 MillerCoors joint venture (between SABMiller and Molson Coors) inadvertently increased the number of smaller craft brewers in the market. **José Azar** at the University of Navarra and I examined the effect of the MillerCoors merger in a **research paper** published in the *International Journal of Industrial Organization.*

We found that the merger between two large commercial brewers created an opening for independent brewers to enter the market and gain market share. Craft brewers seized the opportunity to differentiate themselves by offering specialised products and a new experience.

Making the most of a merger

While craft brewers have been gaining traction in the brewing industry over the past 20 years, the industry has historically been dominated by a few large firms that have carried out mergers and acquisitions to solidify their presence across the globe. Consolidation in the brewing industry has raised concerns about the possibility of increased market power and price coordination.

To understand how craft brewers in the United States responded to the MillerCoors joint venture, we analysed retail scanner data from 1,088 grocery stores in 36 states. We measured the impact that a sudden increase in concentration had on the presence and the market share of craft brewers in the four years that followed.

We found that the merger led to an 11.59 percent increase in the number of craft brewers in the average market, and a small but significant increase in their market share. A potential explanation could be that consumers got bored of seeing the same brands and jumped at the opportunity to try something different. Craft brewers had the opportunity to enter the market because grocery stores wanted to maximise the number of products they offered to increase their sales.

However, this does not mean that craft brewers were introducing an endless stream of products to the markets. Smaller players often do not have enough financial flexibility to test out several products and only release products they know are successful in their portfolio.

Furthermore, we found that commercial brewers were not entering the market at the same rate as craft brewers and were increasing the prices of their existing products by approximately 4 percent. Essentially, consumers were getting the raw end of the deal and craft brewers played the situation to their advantage.

How can small players benefit?

Our findings show that mergers by large incumbent firms can have a positive effect on the number and market share of smaller firms.

If a small firm can enter the market following a merger, the first thing they need to do is to study the price changes that the merger is creating. If they see that the price is increasing, this creates an opportunity to go in and show consumers that they have a new, different product at a competitive price.

Then, from a marketing perspective, how a small firm positions its product is really important – it needs to differentiate itself from the big brands. This could involve playing up the localness or exclusivity of the brand, or the fact that it only produces small batches. The idea is to create a differentiating point from the big firms.

In a really concentrated market post-merger, it is usually extremely difficult for small firms to enter and capture market share. But this is not always the case. After the MillerCoors joint venture, craft brewers spotted an opportunity to carve out space and offer consumers something different. Instead of killing off independent brewers, the merger acted as a catalyst for a craft beer revolution.

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About the research

"Did the MillerCoors joint venture strengthen the craft beer revolution?" is published in *International Journal of Industrial Organization.*