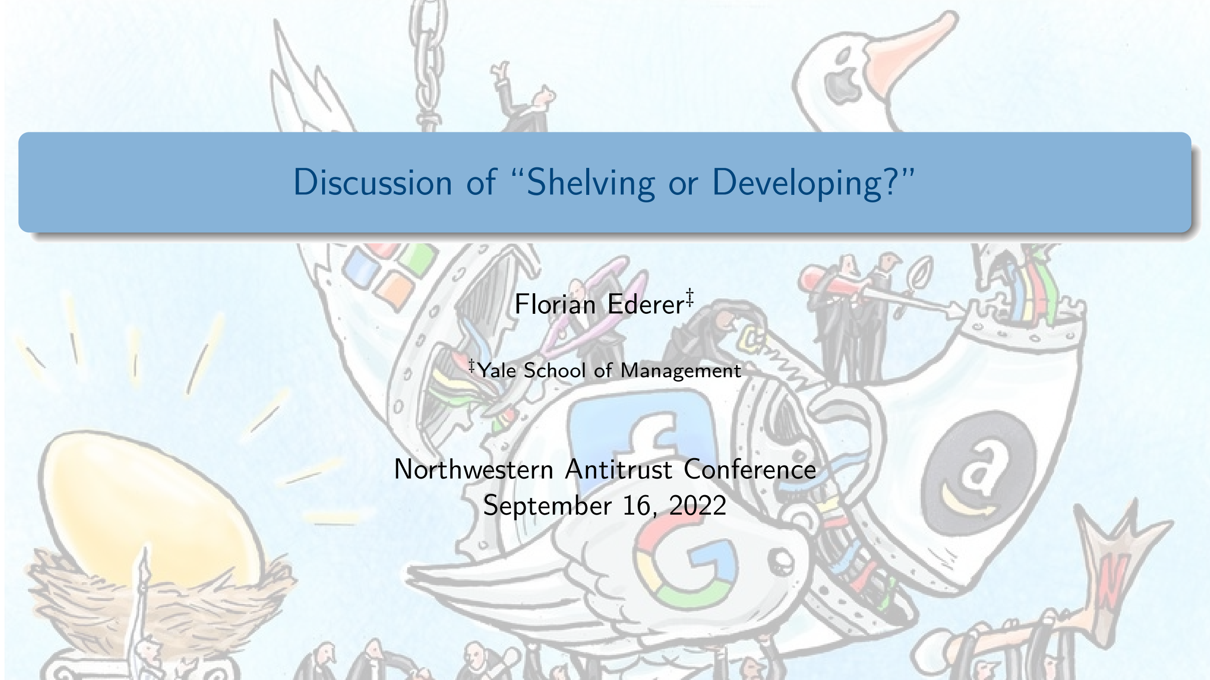


Discussion of “Shelving or Developing?”

Florian Ederer[‡]

[‡]Yale School of Management

Northwestern Antitrust Conference
September 16, 2022

I am a serial ...

I am a serial **discussant**

I am a serial **discussant**

- **Disclosure Statement**
  - I am incredibly biased in favor of this paper given my own work on this topic.
  - I obviously encourage more (complementary) work on this topic.
  - I have not served as a consultant or expert witness related to any work on killer acquisitions/acquisitions of nascent competitors
- Theoretical contribution to the growing literature on nascent and killer acquisitions
  - A formal model of project development and merger review
  - Provides guidance for how antitrust policy should respond to such acquisitions

Main Takeaway

- Acquisitions can **alleviate organizational/managerial/financial constraints** but lead to **shelving & reduced competition**
  - Welfare loss of high-price acquisitions is larger because they include **viable startups**
- Optimal merger policy should **not be lenient** towards nascent competitor acquisitions
  - Optimal merger policy commits to standards of review that **prohibit high-price takeovers** that are expected to increase welfare
  - Selection effect reminiscent of Nocke and Whinston (2013)
- Optimal merger policy should be **stricter** towards acquisitions of potential competitors than towards those of committed entrants
  - Allowing late takeovers relaxes development constraints and strict early antitrust policy pushes incumbents towards acquisitions of unviable potential competitors
  - Surprising at first, but clear after seeing the model

Facebook Massively Overpaid for WhatsApp

Yahoo Finance
February 24, 2014

Albert Wenger is a partner at Union Square Ventures in New York City. He was the president of del.icio.us through the company's sale to Yahoo and has been a founder of five companies. Albert graduated from Harvard and holds a Ph.D. from MIT. You can find his smart writing daily on The Continuations Blog.

A couple of days have passed since the news of the monster acquisition of WhatsApp by Facebook broke. More people have written about it already than I can possibly link to so I won't even try. My immediate reaction just based on financial metrics was that Facebook massively overpaid but I wasn't sure about the strategic side. Having had some time to think about that I am now convinced that this deal makes no sense.

Alec Stapp
@AlecStapp

A lot of hindsight bias regarding Facebook's acquisition of Instagram.

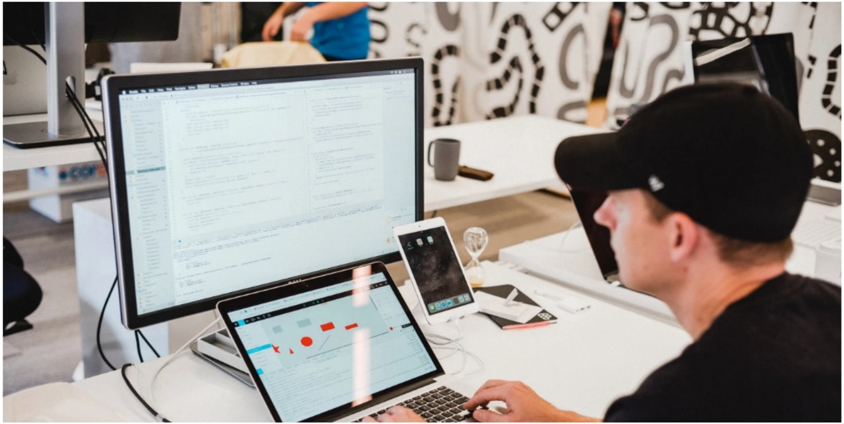
Today, everyone thinks it was obvious that Instagram was going to become a huge business.

But that's not what people were saying back in 2012 when Instagram had 30 million users and zero revenue.

Adobe snaps up Figma for $20B, taking out one of its biggest rivals in digital design

Ingrid Lunden @ingridlunden / 8:13 AM EDT • September 15, 2022

Comment



Jaimin Desai
@JaiminDesai93

Give @figmadesign time, I'd bank on them to replace Adobe in 15 years

10:12 AM · 1/29/21 · Twitter Web App

Dylan Field
@zoink

Replying to @JaiminDesai93 @itsrishabh and @figmadesign

Our goal is to be Figma not Adobe

10:18 AM · 1/29/21 · Twitter Web App

TECH / CREATORS / ADOBE

Adobe to acquire Figma in a deal worth $20 billion / Adobe buys up a key rival

By TOM WARREN / @tomwarren
Sep 15, 2022, 8:27 AM EDT | 15 Comments / 15 New

My Previous Comments

- Clearer model to bring out the main trade-off between preventing harm from killer acquisitions and allowing welfare-enhancing acquisitions ✔
  - Main result holds quite generally (informational assumptions, bargaining power, tools of the antitrust authority)
  - Intuition about the driving force of the model is now very clear
- More general exposition without specific focus on financial frictions ✔
  - How important are (financial) frictions really in a world awash with VC funding?
- Focus on harm-based rather than price-based merger policy ✔
- Graphical presentation of the acquisition decisions and the merger policy thresholds ✔
- Thorough discussion of literature on nascent competition and optimal merger policy ✔

The Role of the Antitrust Authority

- Consumer welfare is the “lodestar of antitrust”
  - But the model uses a **total welfare standard** that includes firm profits
  - What changes if the antitrust authority chooses a standard based on consumer welfare?
  - Or should I think of this as a consumer welfare standard with carveouts for “failing firms” and “efficiencies?”

The Role of the Antitrust Authority

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  - What changes if the antitrust authority chooses a standard based on consumer welfare?
  - Or should I think of this as a consumer welfare standard with carveouts for "failing firms" and "efficiencies?"
- Only role of antitrust enforcement in this model is to allow or prohibit mergers
  - Can the model explore more actions for the antitrust authority?
  - What about other remedies (e.g., require development, minimum service quality, ...)?
- Does anything change if the harms are unknown?

Innovation and Antitrust

- What is the impact on the level and direction of **ex-ante innovation?**
  - Startups have less of an incentive to become viable on their own with stricter merger policy.
  - How does this shift the optimal value of the harm threshold?
  - How does this contrast with existing results (Letina, Schmutzler and Seibel, 2021)?
- Binary setup (S_u, S_v) yields very strong predictions
  - What happens if a competitor is viable without an acquisition but the acquisition still enhances (consumer) welfare?

Smaller Issues

- How do these results change when there are multiple incumbents?
  - Does the presence of multiple incumbents differentially affect early and late antitrust policy?
  - What about multiple acquirers and bidding wars?
- Does a takeover price-based merger policy require a valuation analysis?
  - But merging parties can probably game such a regime (Kepler, Naiker and Stewart, 2021)
- Is there a reason why α is a probability for an incumbent take-it-or-leave-it offer rather than just the share of the acquisition surplus for the incumbent?

Conclusion

- What this paper says
  - Early and decisive antitrust enforcement is crucial for minimizing harm to welfare
  - Development frictions do not mean that early merger policy should be very lenient
- An intriguing paper
  - Recognizes that antitrust policy can/should be different for potential and actual competitors
  - Suggests that future work in IO should study the interplay between antitrust enforcement and development frictions
  - Actual policy recommendations for how to address the challenges of startup acquisitions

Thank You!

References I

Kepler, John D, Vic Naiker, and Christopher R Stewart, "Stealth acquisitions and product market competition," *Available at SSRN 3733994*, 2021.

Letina, Igor, Armin Schmutzler, and Regina Seibel, "Killer acquisitions and beyond: policy effects on innovation strategies," *University of Zurich, Department of Economics, Working Paper*, 2021, *358.*

Nocke, Volker and Michael D Whinston, "Merger policy with merger choice," *American Economic Review*, 2013, *103* (2), 1006–33.