RESEARCH INSIGHTS

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How Do Changes in Brand Ownership Affect Competition and Consumer Welfare?

Changes in brand ownership resulting from cross-border mergers and acquisitions impact competition and consumer welfare.

Foreign acquisitions of local brands often lead to an increase in cost or a decline in appeal for the acquired brand, with limited gains in efficiencies. However, the accompanying rise in market power has translated into higher profits for the majority of brand-acquiring firms.

Pro-competitive policies in the United States and European Union that required divestitures in the beer industry as a condition for merger approval led to significant consumer savings. Similar policies in South America would have reduced consumer prices by 18%.

CONTEXT

Over the past three decades, increasing market concentration has led to diminished competition and higher product markups. This trend has coincided with a significant increase in international mergers and acquisitions, allowing companies to enter new markets and expand their product range. The beer and spirits industries, in particular, have undergone a transformation in which multinational corporations with globally recognized brands (global giants) acquire popular domestic brands (local stars), resulting in changes in brand ownership and potential shifts in the dynamics of market competition. This phenomenon raises questions about the impact of brand ownership changes on competition and consumer welfare.

PROJECT

This project examines the effects of changes in brand ownership on competition and consumer welfare. Using a comprehensive dataset on the beer and spirits industries in 76 countries from 2007 to 2018, this project explores the implications of cross-border acquisitions for brands' cost and appeal. First, we evaluate the efficacy of the forced divestitures during this period compared to a counterfactual scenario in which competition authorities allowed multinationals to retain all their brands. Additionally, we quantified the potential consumer savings that could be realized through the enforcement of brand divestitures as a prerequisite for approving mergers.

RESULTS

In the beer and spirits industries, a few large firms headquartered in a handful of countries have expanded primarily via cross-border acquisitions. The growth in market shares and brand ownership of the seven largest beer companies has been remarkable. As Figure 1 shows, AB InBev's market share has expanded from 11% to 26% between 2007 and 2018, with Heineken, Asahi, and Molson Coors also making significant gains. These firms also had substantial increases in the number of brands they owned, and by 2018, the top beer makers owned brands from around 40 countries in their portfolios. A similar trend has occurred in the spirits industry. This pattern trend responds to the fact that home brands in the beer and spirits industry have a huge advantage over foreign ones – equivalent to imposing a tax of 55-65% on competitors from abroad – making the acquisition of popular local brands an attractive strategy for multinational firms looking to establish a foothold.

This process of multinational brand amalgamation can be harmful to consumers, especially when foreign firms owning global giant brands acquire domestic companies with local stars' brands in their portfolios. Indeed, switching owners from a local to a foreign company with a remote headquarters immediately imposes an increase in cost and a decline in appeal equivalent to imposing an 11-12% tariff, resulting in higher prices and lower consumer welfare.

Government interventions, however, can mitigate the anti-competitive effects of mergers and acquisitions in the beer and spirits industries. In the United States and European Union, enforced brand divestitures to prevent excessive market concentration have led to significant consumer savings, with prices 3-4% lower than they would have been without such policies. Conversely, in countries with less proactive regulatory environments, consumers have faced the adverse effects of brand concentration, paying up to 18% more than they would have if similar divestiture policies had been applied. This is particularly striking in Colombia, Ecuador, and Peru, where consumer price increases of 9-18% could have been avoided with a less passive response by competition authorities.

POLICY IMPLICATIONS

Competition policy is important in regulating mergers and acquisitions. Regulatory interventions can play a critical role in maintaining market competition and safeguarding consumer welfare.

While multinational corporations have used market power and efficiency as reasons to justify mergers and acquisitions, the acquisition of local brands by multinationals may lead to higher prices for consumers. In instances where authorities have forced acquiring firms to divest brands in markets where the mergers could have anticompetitive effects, consumers have seen significant savings. Conversely, adopting a passive approach to regulating mergers and acquisitions results in substantial losses in consumer welfare. Unfortunately, South America and the Caribbean are among the regions in which double-digit price increases are attributable to mergers.

These findings are highly relevant to shaping competition policy. Although our study does not consider the effects of cross-border acquisitions on innovation, the insights gained from the beer and spirits industries can be applied to other sectors experiencing similar multinational brand amalgamation patterns, such as dog food, eyeglasses, and chocolate bars; but to a much lesser extent, industries intensive in research and development, such as electronics, software, and pharmaceuticals.

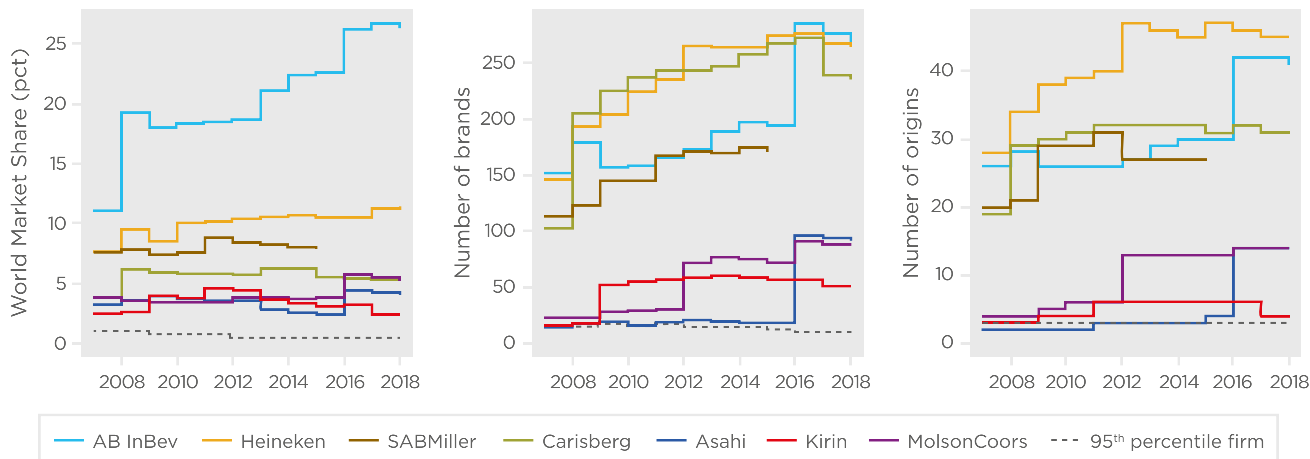
A rigorous evaluation of mergers and acquisitions, coupled with appropriate divestiture requirements, can effectively protect consumer welfare and prevent the accumulation of excessive market power.

Key Concept

MARKET CONCENTRATION

when a few firms hold a large share of a market, reducing competition and potentially resulting in higher prices.

Figure 1. The Growth of Beer Multinationals



Notes: In 2008, AB InBev acquired Anheuser-Busch, while Heineken and Carlsberg jointly purchased Scottish & Newcastle (along with BBH) and redistribute the acquired brands among themselves. In 2009, AB InBev sold Korean and East European brands, forming Starbev, and Kirin acquired Lion (NZ). In 2012 Molson Coors bought Starbev and Heineken bought Asia Pacific Breweries. In 2016, AB InBev bought SABMiller, while divesting some SABMiller brands to Molson Coors and others to Asahi to comply with antitrust orders.

Key Concept

BRAND OWNERSHIP

the legal rights and authority a company holds over a brand, including its name, logo, and other distinctive features.

Key Concept

DIVESTITURE

the action or process of selling off subsidiary business interests or investments, often mandated by regulatory authorities to prevent excessive market concentration.

FULL STUDY

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