Research proves effects of company mergers on prices

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Assistant Professor Umut Güler of Koç University College of Administrative Sciences and Economics and his colleagues (Kanishka Misra, Rady School of Management, University of California, San Diego and Vishal Singh, Stern School of Business, New York University) proved in their latest paper published in the journal *Marketing Science* that the welfare effects of company mergers can be different for various consumer groups. This finding has been documented for the first time based on data.

Thanks to the ability to simultaneously track prices for various companies and markets on the internet, Güler and his team were able to monitor price movements before and after mergers between car rental companies operating in 343 airports across the United States with exact accuracy.

According to the findings, which analyze the service prices for three major car rental companies operating in 343 airports in 2005, 2009 and 2016, company mergers create a trend of increase in prices during periods when business travel increases. On the other hand, during holiday periods, a trend of decrease in prices is observed thanks to the cost advantages provided by mergers. Güler and his colleagues explain these findings with an economic model based on the relative price flexibilities of various customer groups.

These findings may appear easy to predict, but Güler's work documents them with a rigorous and long-term research effort for the first time. These results are of great importance for government bodies regulating competition. In most countries, there are tight restrictions regulating competition and monitoring monopolization, and company mergers are mostly subject to permission.

In general terms, mergers that are not considered to have a substantial effect on prices may not be subject to intervention by the authorities. However, as this research shows, looking at the average prices may be misleading, as the price effects of company mergers can be different for various consumer groups. In other words, this research illustrates that a company merger that may not be considered to have a significant effect on prices may actually produce undesired results for certain customer segments.

More information: Ali Umut Guler et al. Heterogeneous Price Effects of Consolidation: Evidence from the Car Rental Industry, *Marketing Science* (2019). DOI: 10.1287/mksc.2018.1103

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