

Anti-Monopoly Research on Internet Platform M&A

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Abstract

With the development of Internet platforms, more and more platform enterprises expand through M&A. Large Internet platform enterprises have formed a winner-takes-all situation in a short period of time. In order to enhance market power and kill potential competitors, large platform enterprises carry out killing M&A transactions to start-ups. Due to the imperfect anti-monopoly system, it is difficult to define the relevant market and evaluate the consequences of competition damage in dealing with the killing M&A of platform enterprises. In view of this situation, we can adjust the strength of anti-monopoly regulation, weaken the value of relevant market definition, and improve the substantive evaluation and review.

Keywords

Internet Platform; Platform Enterprise M&A; Killing M&A; Anti-Monopoly.

1. Introduction

With the development of Internet platforms, more and more platform enterprises expand through M&A. There are numerous cases of M&A of large Internet platforms at home and abroad. Large Internet companies such as Apple, Facebook, Amazon, Microsoft and Google have made more than 400 acquisitions over the past few decades [1]. M&A is the main way for dominant platforms to achieve market expansion, and it is also an important strategy for them to increase their existing market monopoly power and extend to neighboring markets [2]. Due to the complexity of business model and competitive ecology, wide scope and strong specialization, there are problems such as untimely and incomplete response of platform economic regulation. In 2021, six batches of cases involving Tencent, Ali, Meituan, Baidu and other major platform companies were uniformly registered and investigated for suspected failure to declare according to law in the Internet field. These platform companies acquire start-ups to eliminate potential competitors. Killing M&A by platform companies strengthen the market power of enterprises, but also reduce the innovation of start-ups. In this context, foreign anti-monopoly agencies are constantly exploring and trying to regulate platforms, and China is gradually strengthening its attention to anti-monopoly issues.

2. Characteristics of Internet Platform M&A and Harm Analysis of Killing M&A

2.1. The Unique Characteristics of Internet Platform M&A

2.1.1. Internet Platforms are Buying Startups

The most important force in the market competition of Internet platform enterprises is innovation entrants, who grow rapidly to replace some platform enterprises. Therefore, the disruptive innovation of start-ups will pose a considerable threat to the market power of large platform enterprises. In order to eliminate threats and strengthen market dominance, large platform companies will choose to acquire start-ups. This kind of merger is also known as "Killing M&A". Killing M&A was first proposed by Colleen Cunningham and three other scholars in the field of medicine, it mainly refers to the process in which existing large enterprises

eliminate start-ups by means of M&A. They found that about 6% of M&A in America's pharmaceutical industry were killing [3]. As a result, killing M&A can seriously hurt competition and innovation.

2.1.2. Internet Platform M&A Enhance Market Monopoly Power and Lead to High Market Concentration

Gautier and Lamesch (2020) found that from 2015 to 2017, the enterprises acquired by large Internet platform enterprises in the United States had significant achievements in innovation achievements, patented technology, user base and product functions. The main purpose of M&A is to enhance the dominant position of the core business in the market and strengthen the attractiveness of the platform [4]. M&A are the main tools for large Internet platforms to dominate the market and strengthen their monopoly position. A large number of M&A of Internet platforms are an important reason for increasing market concentration, which poses a great threat to maintaining fair competition and innovation in the market.

2.2. The Characteristics of a Killing Merger

2.2.1. The Strength Gap between the Two Parties is Significant

Differs from the traditional sense of the M&A, the Internet platform killing M&A transaction both sides advantages in market power, economic resources and data, there are huge differences in such aspects as the Internet platform as a buyer has a more powerful than the target enterprise monopoly, start-up as M&A target companies tend to have advantage position in the field of industry or, Startups with more users or more product overlap are generally considered more valuable to acquire and more likely to be "killed."

2.2.2. Take "Kill" as the Motive of M&A

Killing M&A originated in the pharmaceutical industry. According to Colleen Cunningham et al., killing M&A refers to the M&A transaction in which the acquirer acquires the target enterprise and terminates its R&D project in order to seize future competitive advantage. In the field of Internet platform, of the 175 M&A initiated by GAFA and Microsoft from 2015 to 2017, 105 of the brands of target enterprises were terminated within one year after the acquisition [3]. Thus, the motive of killing M&A is to kill the target enterprise to enhance its market dominance. Under the huge status gap between the two sides, the dual pressure from internal and external enterprises makes the start-ups unable to resist risks and escape the fate of "killing".

2.3. The Dangers of Killing Mergers

Damage the competitive order. As an intervention mechanism for the behaviors of market subjects, the anti-monopoly law prohibits the behaviors of specific subjects in essence to ensure more universal freedom of competition, and the restrictions on the freedom of specific subjects are limited to the needs of protecting the competitive order [5]. Strengthen the market dominance of Internet platforms. Internet platforms are highly centralized, mainly due to economies of scale and scope. In a killing M&A, although the market share of the target enterprise is small, the completion of the transaction will not significantly enhance the market concentration of the Internet platform, but will further strengthen its market dominance.

Impeding market innovation. The motive for a stifling merger is to eliminate potential competitors from threatening their market power. Such killing M&A directly lead to fewer start-ups in related industries and fields, and the fewer startups that actually survive, the fewer significant sources of innovation. In addition, after the merger, the acquirer may choose to stop the R&D products of the target enterprise, further weakening the diversity of products, and market innovation will suffer a serious impact.

3. The Dilemma of Antimonopoly Regulation for Killing M&A

3.1. The Intensity of Antitrust Regulation is Hard to Control

The M&A behavior and market concentration are the result of competition. Too much market concentration hurts competition, and too much competition leads to reduced efficiency and welfare. If the anti-monopoly regulation is too strict or involves too much, the regulation will affect the operation of the market, reduce the efficiency of resource allocation, and cause the unfair distribution of social welfare surplus [6]. On the other hand, too lax antitrust regulations will also sow more trouble. In the stage of rapid development of platform economy, market segmentation becomes more and more obvious, and absolute and complete monopoly rarely exists [7]. If the anti-monopoly regulation is too loose, the M&A behavior of platform enterprises will not become the target of anti-monopoly regulation. However, from the observation of long-term development, according to the scale of users and data advantages, Internet platforms carry out cross-border M&A, infiltrate into other industries, and eventually form a strong market power in related markets.

3.2. It is Difficult to Define Relevant Markets

Defining relevant market is an important part of anti-monopoly regulation. However, due to the complexity of platform enterprises, it is difficult to define the relevant market. "In the Guide to the Definition of Relevant Markets", the principles of substitution analysis are determined, and the definition of relevant commodity markets and relevant regional markets is clearly stipulated. When defining the relevant commodity market and the relevant regional market, we should make judgment according to the relevant factors of supply and demand substitution analysis. However, due to the particularity of platform enterprises, mainly the particularity of cross-border attributes and bilateral user locking effect, there are controversies in the identification of supply and demand substitution analysis. Killing mergers occur neither in horizontal concentration of the same related market nor in vertical concentration of upstream and downstream markets. Therefore, the concentration system based on the definition of relevant markets is difficult to be applied to killing M&A that break through the boundaries of relevant markets.

3.3. It is Difficult to Evaluate the Consequences of Competition

Many factors need to be considered in the evaluation of competition impact of Internet platform enterprises. It is pointed out in the "Anti-Monopoly Guide on Platform Economy" (hereinafter referred to as the "Guide") that factors such as market share, market control, market concentration, market access, technological progress and consumer influence should be considered in evaluating the competitive impact of concentration of operators in platform economy. At the same time, the guide also stipulates that for the concentration of operators of platform enterprises, the bilateral business scope of operators should be considered, and the network externalities caused by concentration should be investigated. As can be seen from the following provisions, factors that need to be considered to evaluate the competitive impact of operators are extremely complex and there are great difficulties in practice.

4. Conclusion and Recommendations

4.1. Adjust the Intensity of Anti-Monopoly Regulation

The development of Internet platform enterprises usually goes through three stages, namely start-up stage, growth stage and maturity stage. It is necessary to properly analyze the motives and development strategies of the platform enterprises for the M&A behaviors in different stages. For example, in the initial stage of the market, enterprises usually use subsidy wars, the market is in a highly competitive situation, and there are few M&A at this stage. In the growth

stage, M&A increase, and enterprises with market dominance will initiate M&A frequently. Platform enterprises in the mature stage have experienced fierce market competition and started to consolidate their user scale and market advantages. M&A launched at this stage are likely to limit or eliminate competition to maintain their market advantages. Therefore, M&A initiated in the growth stage can implement relatively loose anti-monopoly regulations; In the mature stage of M&A, law enforcement departments can enhance the anti-monopoly intensity.

4.2. Weaken the Value of Relevant Market Definition

The traditional anti-monopoly framework regards the relevant market definition as the prerequisite of the anti-monopoly regulation of operator concentration. Because it is impossible to quantify accurately, too wide or too narrow definition may lead to inaccurate identification of market power. Therefore, to strictly implement the provisions of the "Anti-monopoly Law" and strengthen the regulation of monopoly behavior rather than monopoly itself should be supported by direct evidence.

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