Unsuccessful Vertical Integration? Evidence from the U.S. Carbonated Soft Drink Industry*

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Abstract

This paper empirically illustrates new aspects of vertical mergers that may hurt consumer welfare other than foreclosure and misuse of rivals' information by allowing the possibility that a vertical merger turns out detrimental to the merged entity. My empirical results show that one company's vertical merger is consistent with the efficiency-based view: it raised its market shares, lowering its product prices. In addition, whether its bottler also distributes another company's products has little effects on its prices and market shares. These results hold qualitatively if heterogenous time trends and non-uniform weighting across the treatment and the control groups. However, it is less apparent that the other big company's vertical merger improved its production. As opposed to the efficiency-based view of vertical integration, its prices did not decrease, though its market shares rose. More importantly, its vertical merger increased another company's shares by 5 to 6 percent (with a slight price increase) in counties where it takes charge of that company's distribution, and this effect is statistically significant, remaining true with the robustness checks described above. This contrast is also observed in a complementing event study analysis.

Keywords: Vertical Mergers; Difference-in-Differences; Vertical Structure.

JEL Classification: L13; L49; L66.

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