Mergers and acquisitions & consumer welfare

Mergers and acquisitions, or “economic concentration” activities as termed by the Competition Law 2004 of Vietnam, have become more vibrant recently. However, it is widely thought that it should be the sole concern of enterprises and investors (as an aspect of financial investment and management strategy), or competition authorities (in supervision of the structure and concentration level of markets). In reality, the merging of two enterprises A and B into enterprise A-B or C is not just some financial or stock market information or a competition case, but it is also an incidence with possible far-reaching and sustainable effects on our welfare as individual consumers, especially in case where merging parties are large enterprises, which dominate the market for the products they manufacture or supply.

Why do firms merge?

Herebelow are some reasons why enterprises make or participate in a merger or acquisition:

- To achieve economies of scale;
- To enhance efficiency via synergies, making use of the complimentary strengths of the merging parties or cost reduction;
- To expand the market or penetrate in a new market (either product or geographical markets)

Mergers and acquisitions (M&As) and consumers welfare

So where stand the consumers amid firms’ strategic considerations regarding business and investment? According to the economics of competition, as a result of firms achieving economies of scale and enhanced efficiency, while competing with each other, consumers are to derive the benefits of higher value for money, improved quality; and diversity.

However, this might not be the ultimate consequence of M&As. If these M&As’ target is to expand the market, and are undertaken by dominant enterprises in the markets, it is very likely that they would result in a more concentrated or monopolied market structure. And in all likehood, these dominant enterprises might abuse their new power by raising prices, lowering quality standards in order to extract rents, whereas consumers are left with less or practically no choice.

These are the cases where M&As were driven solely by the merging parties’ selfish objectives, at the cost of consumer welfare. Competition authorities, during their merger review process, often try to achieve a balance between producer surplus (brought about by economic concentration) and consumer surplus (brought about by competition).

The experiences of the Australian banking industry

2008 is an important year for the Australian banking industry, with a lot many mega-mergers happening in this sector. In September 2008, Australia’s fourth largest bank, Westpac obtained the approval to buy the fifth largest bank in the country – St George. In December 2008, Australia’s largest bank (Commonwealth) acquired the largest bank of West Australia (BankWest). Australia has a long history of mergers and acquisitions in the retail banking markets which have slowly led to the current heavily concentrated oligopoly of the Big Four banks. Even before the two recent mergers, the major banks had been growing through acquisitions. Westpac, for example, was formed in 1982 with the merger of the Bank of New South Wales with the Commercial Bank of Australia. Since then Westpac has swallowed the Challenge Bank (1995), the Bank of Melbourne (1997), BT Financial Group (2002) and now St George Bank (2008), which itself grew by taking over the Advance Bank (1997).

CHOICE, Australia's leading consumer organisation with a subscriber base of more than 200,000, raised their concerns about these mergers and acquisitions. According to CHOICE, these mergers and acquisitions were approved (if such conditions as "minimising community concerns about the merger and its impact on customers and the community" are met) without full consideration from the competition angle, as well as their possible adverse effect to consumer welfare to a large extent. The core of CHOICE's concern is the substantial likelihood of reduced consumer welfare. These concerns are strong at any time but currently exacerbated by the prevailing global financial crisis. The crisis has already reduced competition and will continue to alter the nature of markets for some time. If these mergers were being proposed during a period of robust competition, there would at least be non-bank competitors able to keep rates and fees in check in the lending markets. But at this time, in this environment, competition cannot sufficiently constrain excessive market power, which might lead to the following outcomes:

- crowding out new entrants,
- poor customer service,
- poor employee satisfaction,
- excessive fees and interest rates,
- low rates of customer switching,
- poor product innovation,
- reduced access to essential banking services, and
- reduced diversity in local areas.

CHOICE also supported their case with evidence gathered from the marketplace; and recommend that the Australian Competition and Consumers Commission (ACCC) be appointed to review these mergers and acquisitions before they are given the green light.

What about Vietnam?

Vietnam has quite a large number of banks, in relation to its current population of 85 millionaire people and a GDP totalling US$65bn. According to the State Bank of Vietnam, till the end of June 2008, in Vietnam, there are 95 banks of all types (State-owned, social policy, development-related, joint-venture, joint-stock commercial, foreign bank branches, and 100% foreign-invested) and 1021 non-bank credit and financial institutions.

Hence, in this current global financial crisis, it is the appropriate time to allow bank mergers and acquisitions to increase competitiveness, and help facilitate restructuring, avoid bankruptcy, domino effects and possible fallout of national financial system. However, during the merger review process, in addition to economic development priorities, the competition authorities should pay appropriate consideration to consumer concerns, especially in small and specific market segments and provincial markets, as well as to dynamic competition in the long term to avoid such problems as in Australia.

Consumer organizations, as well as concerned individuals, should also actively undertake assessments and consumer perception surveys which could be submitted to competition authorities for their consideration.