

# Wave of Megadeals Tests Antitrust Limits in U.S.

**Analysis shows that in many industries, most firms are competing in highly concentrated markets**



If regulators approve the merger of Anheuser-Busch InBev and SABMiller, it will create an international beer behemoth. Photo: Luke Sharett/Bloomberg News

By

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A growing number of industries in the U.S. are dominated by a shrinking number of companies.

The past year has brought major mergers in many industries, from health insurers and food manufacturers to cable-TV providers. At the same time, many companies are focusing on narrower markets that they can more easily dominate.

The result: In nearly a third of industries, most U.S. companies compete in markets that would be considered highly concentrated under current federal antitrust standards, up from about a quarter in 1996, a Wall Street Journal analysis of competition data from the University of Southern California shows.



— ADVERTISEMENT —



Last week's \$104.2 billion deal between big brewers illustrates the trend: If regulators approve the merger of Anheuser-Busch InBev NV and [SABMiller PLC](#), it will [create an international behemoth](#) commanding nearly 30% of the global beer market. It is the culmination of years of mergers among a half-dozen major brewing companies.

The trend toward increased concentration extends well beyond beverages, into household appliances, mobile-phone service, air travel, grocery stores and more. In some cases, technological advances or the rise of national markets for advertising and branding are driving consolidation.

Market concentration is a two-edged sword. Mergers can generate economies of scale that drive down prices and yield better products for consumers. They can also preserve jobs at companies too weak to survive on their own. But when a shrinking number of companies dominate a

market, they may be able to jack up prices, and block competitors seeking to offer superior products or services.

In Shreveport, La., beer-industry consolidation has left Chase Boytim dependent on AB InBev and SABMiller's joint venture MillerCoors LLC for about 40% and 80% of the beer he sells at the two bars he runs. That is despite beer menus listing dozens of labels, and local craft breweries.

SABMiller's [stake in MillerCoors](#) is likely to be sold if the merger goes through, leaving two major competitors in the U.S. market. Still, today Mr. Boytim pays \$84 for mass-market kegs that cost \$51 about a decade ago, while stiff bar-scene competition means he has been able to raise prices by only about 50 cents a drink to \$3, he says. "Every year the beer costs rise, and every year, I want to compensate a little bit, but I really can't."

The appliance business illustrates how stark consolidation can be. In 1996, two dozen companies that primarily made household appliances traded on U.S. markets. Today, a third as many do.

[Whirlpool](#) Corp., which acquired rival Maytag in 2006, claims more than 37% of the U.S. clothes-dryer market, despite incursions from foreign competitors over the past decade, according to researcher TraQline. Meantime, [General Electric](#) Co.'s bid to [sell its appliance business](#) to Electrolux AB has drawn opposition from federal antitrust regulators, who say the deal would leave just two companies competing for the bulk of stove top and oven sales, potentially pushing up prices.

An Electrolux spokeswoman said the appliance industry remains competitive and the GE acquisition will let the company provide more innovative products and better value.

"Appliances is a highly competitive industry with at least seven manufacturers and 21 brands," GE Chief Executive Jeff Immelt said on Friday.

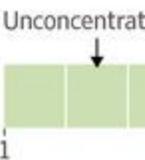
More broadly, almost two-thirds of all publicly traded companies operated in more highly concentrated markets in 2013 than they did in 1996, according to the Journal analysis of data generated by USC economists Gerard Hoberg and Gordon Phillips.

# Measuring Concentration

The **Herfindahl-Hirschman Index (HHI)** is a widely accepted measure of market concentration.

The Department of Justice and the Federal Trade Commission use it to determine the effects of a merger on an industry.

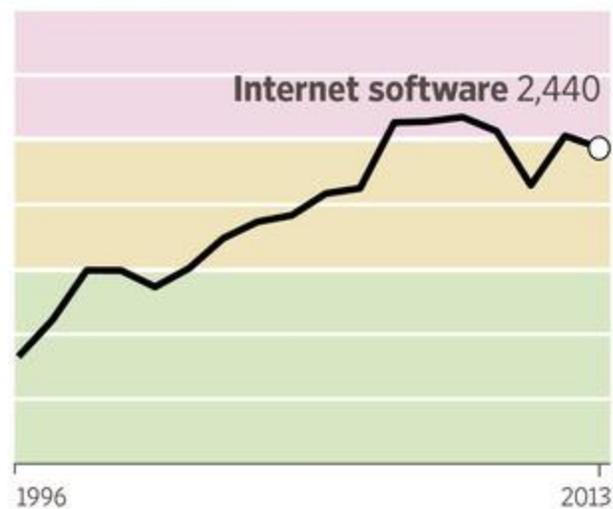
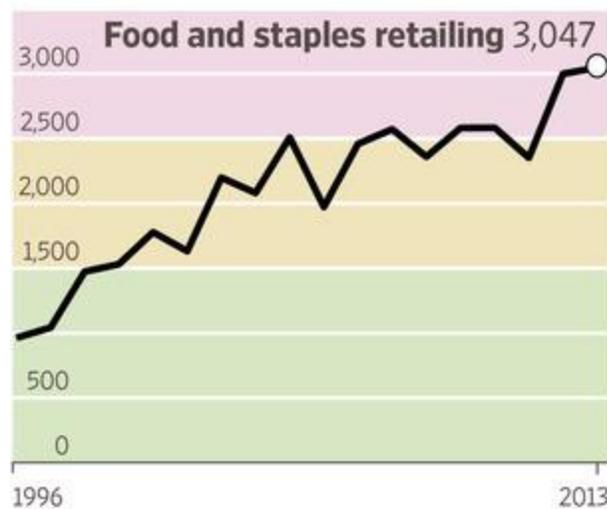
**Theoretical range: 1 to 10,000**  
The DOJ and FTC have the following general guidelines for measuring market concentration.



## A Company-Specific Approach

Researchers at USC developed an HHI score that is based on the data used in securities filings to determine the specific markets in which a company competes. Regulators, who typically measure concentration by studying a single

Median custom HHI for companies primarily operating in each industry over time



## 2013 HHI's for select companies

Safeway	4,114
Rite Aid	2,759
Wal-mart Stores	2,391

Safeway, which was recently acquired by Albertsons, is one of a handful of large grocery chains that lead many markets, while Wal-Mart Stores—though huge—competes across many more lines of products, in some cases against significant competition. Rite Aid, like other large drug-store chains, has grown in part through mergers and acquisitions.

Facebook	3,106
Twitter	2,895
Google	1,940

Even as the number of Internet companies has soared, many have stayed focused on specific markets, which they have come to lead, as with Twitter and Facebook. Even though Google dominates the search business, it competes in multiple industries, reflecting a lower overall HHI.

Southwest	
United Com	
American A	

Although many airlines have significantly increased their market share, head-to-head competition remains intense. Southwest Airlines argues that the U.S. government's pricing practices are anticompetitive.

“There’s definitely a global race to become the biggest and survive,” said Mr. Phillips, professor of finance and business economics at USC. Mr. Phillips says mergers tend to result in greater corporate profits—generally bad news for consumers because the benefit of the merger isn’t being passed along—as well as an increased number of product offerings, which is generally good for consumers because it reflects innovation.

Messrs. Hoberg and Phillips’s data examines how dominant companies are in the customized markets they have carved out over time. To do so, they analyzed public filings to identify each company’s product lines and associated revenues, then calculated customized Herfindahl-Hirschman Index scores, the same measure used by the U.S. Justice Department in antitrust analysis.

HHI scores are calculated by squaring the market shares of participants in a market and then adding them. A company with 40% of sales in a market would have an HHI of 1,600 for that market, while another company with 35% of sales would bring the combined total to 2,825. Recognizing the U.S. economy had become more concentrated, the Justice Department in 2010 raised the threshold for what it considers highly concentrated to 2,500 from 1,800.

Whereas regulators determine market-share for specific products or services, the researchers do so for a company’s individual combination of businesses. So the USC scores would likely differ from HHI scores calculated for merger reviews.

Overall, among more than 1,700 public companies operating in 1996 and 2013, 62% had a bigger share of the markets in which they competed at the end of the period than at the beginning, the USC data show. For example, half the public companies in the consumer staples sector in 2013 had an HHI for their products above 2,893, up from 2,661 in 1996.

In addition to mergers, the pattern may reflect a decision by companies to jettison business lines with more competition, to focus on those they can expect to dominate, Mr. Phillips says. So one electronics firm may avoid competing head-to-head with another by specializing in specific kinds of components, for example.

The increasing concentration is a reflection of how much more easily companies can access large, global markets and gain economies of scale, said Mark Cooper research director at the Consumer Federation of America. “The question of how many firms there should be changes with the nature of the economy,” Mr. Cooper said.

In the grocery business, large firms like Kroger Co. and [Wal-Mart Stores Inc.](#) are massive compared with rivals. In 1996, 40 publicly traded companies operated food retailers, according to S&P Capital IQ. As of this year, only 18 do.

Jonathan Weis is the CEO of one of those players, [Weis Markets Inc.](#), based in Sunbury, Pa. Mr. Weis says that while the grocery industry still has many smaller regional and independent companies, it has become more difficult for mom-and-pop shops to stay in business.

“We are seeing more and more sales of independents who are just unable to compete or are ready to cash out,” he said. Weis Markets, which generates nearly \$3 billion in annual revenue from 163 stores, has acquired around eight smaller grocers in the past five years, Mr. Weis said.

Census data suggest that even considering foreign and closely held firms, the grocery business was growing more concentrated through at least 2007, the most recent year for which data are available on retailers. That year, the four biggest grocers accounted for 31% of U.S. sales, up from 20% in 1997.

Consolidation has left the wireless industry dominated by just four national players, and even there, [AT&T Inc.](#) and [Verizon Communications Inc.](#) tower over [T-Mobile US Inc.](#) and [Sprint Corp.](#) The two smaller companies combined have fewer customers and generate less revenue than Verizon alone. The four carriers hollowed out the industry’s midsection in recent years as AT&T bought Leap Wireless and T-Mobile bought MetroPCS.

That has made it more difficult for still smaller companies to stay afloat. Recently, Syringa Wireless, a small carrier in Idaho serving a few thousand customers, said it would shut down at year’s end. “As a small, locally owned and operated provider, we have arrived at a point where it’s simply not feasible to continue to operate,” the company wrote in a letter to its customers.

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