**The Effect of Retail Mergers and Variety: An Ex-post Evaluation**

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**Abstract:**

We use an original dataset on Dutch supermarkets to assess the effect of a merger that was conditionally approved by the Dutch Competition Authority (ACM) on prices and
on the depth of assortment.

We adopt a difference-in-differences strategy that exploits local variation in the merger’s effects and we further control for selection on observables when defining our control group through a matching procedure.

We find that the merger did not affect individual products’ prices but it led the merging parties to reposition their assortment and increase average category prices.

While the low-quality target stores reduced the depth of their assortment when in direct competition with the acquirer’s stores, the latter increased their product variety.

By analyzing the effect of the merger on category prices, we find that the target most likely dropped high priced products, while the acquirer added more of them.

These findings suggests that the merging firms reposition their product offerings in order to avoid cannibalization and lessen local competition.

We further show that other dimensions of heterogeneity such as market concentration, whether a divestiture was imposed, and the re-branding strategy of the target stores are important to explain the post-merger dynamics.

A simple theoretical model of local-market assortment competition explains most of our findings.