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THE IMPACT OF MERGERS:

A Focus on Digital Start-Up Acquisitions and Policy Implications in Europe

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Executive Summary

This report is motivated by recent merger enforcement and takes place in the context of the European Commission's ongoing revision of its Merger Guidelines. Competition authorities have recently raised concerns that some acquisitions could entrench incumbents' market power or remove emerging competitive threats. At the same time, the Draft Merger Guidelines recognise the central role of innovation and how combining complementary capabilities can enable firms to scale. The report examines the economic evidence relevant to the assessment of these competing effects, with a focus on start-up acquisitions.

This assessment must reflect the conditions in which European start-ups operate. The fragmentation of the EU Single Market raises the cost of cross-border expansion, while fragmented capital markets constrain access to growth finance. These barriers limit the scale that firms can often realistically achieve on their own. Acquisition can provide access to resources and commercial networks that help overcome some of these constraints. From a public policy angle, deeper market integration is the first best, but acquisitions are often a second best, the realistic alternative being a feeble growth in a national market.

Against this background, this report brings together evidence from economic literature, a quantitative survey of acquired firms, and in-depth one-to-one interviews with founders of acquired firms to assess how start-up acquisitions affect competition and innovation. The literature identifies both procompetitive and anticompetitive mechanisms, while the industry evidence gathered in this report is predominantly positive. Surveyed founders and senior leaders reported improved market access, broader product scope, and increased research and development (R&D) investment following acquisition. These findings illustrate how complementary capabilities and financing can help start-ups commercialise their technologies and expand beyond the scale they could achieve on their own. Taken together, the report's central conclusion is the need for a case-specific approach focusing on the potential benefits and harm against realistic alternatives to the transaction.

This is consistent with the economic literature: there is no general presumption that start-up acquisitions are either harmful or beneficial. Acquiring a credible competitive threat can weaken innovation incentives or protect an incumbent's position. Conversely, combining complementary technologies and capabilities can improve R&D productivity and accelerate commercialisation. Common ownership can also enable coordination and knowledge transfer that contractual partnerships cannot credibly replicate. In addition, financial backing can sustain projects that would otherwise be abandoned. The balance of effects depends on the relationship between the parties and the target's prospects without acquisition.

The empirical research reviewed also presents a mixed picture. Some studies identify greater technological diffusion and continued innovation, while others find reduced product development, patenting, or investment in affected markets. However, the disappearance of a standalone product does not, by itself, demonstrate suppression of the underlying technology: it may reflect integration into the acquirer's offering. The evidence favours targeted scrutiny of

credible competitive threats, including the cumulative effects of repeated acquisitions in related technology areas, rather than a broad prohibition.

The industry findings show that commercialisation requires more than an innovative product. Start-ups described difficulties establishing customer trust and securing the operational resources needed to scale. Sufficient financing to launch or sustain a business was not necessarily enough for substantial expansion. Acquisition provided access to capabilities that founders considered difficult to build independently. In the survey, more than 90% reported positive effects from each of the acquirer's brand recognition, distribution networks, and commercial relationships. More than 80% reported positive effects on access to markets across the EU and to international markets. Following acquisition, 91% reported growth in their home country and 79% reported headcount expansion in Europe.

The strongest results on innovation concern product scope and development resources. 95% of respondents reported an expansion in product scope and 79% reported increased R&D investment, compared with only 2% and 1% reporting reductions, respectively. More than 90% agreed that combined efficiencies accelerated development of their strongest products or services. Respondents also identified opportunities they believed would not have been feasible independently. These include 60% who cited improved market readiness for ongoing R&D projects and 36% cited faster R&D cycles. Interviews illustrated how access to technical infrastructure and specialist teams supported these outcomes. Together, the findings support the relevance of complementarities and financing relief. There is no suggestion that the target's technology was killed among the firms surveyed.

Greater development activity can nevertheless coexist with narrower external access to technology. Some interviewed firms became internal teams serving the acquirer, losing their previous customer base while gaining resources for more sophisticated development. Innovation continued, but its direction and intended users changed. Merger assessment must therefore distinguish improved outcomes for the target from benefits to end customers and competition more broadly. Relevant questions include whether third parties retain access to the technology and whether integration removes an independent competitive constraint. The industry evidence does not measure total R&D across the combined firms or establish whether investment increased at the expense of other projects.

The counterfactual evidence challenges any preconceived assumption of equivalent continued independent expansion absent the merger. Less than half (46%) believed their company would have remained independent but grown at a slower pace without the acquisition. Other anticipated paths included sale to another buyer, further external investment, or partnerships, each cited by 11%. A further 15% anticipated selling assets, winding down, or reducing operations or expansion. Interviewees described possible independent survival with slower growth and a narrower geographic reach. Some questioned whether their firms would have survived.

Acquisition opportunities also influence decisions before a transaction. Across the survey, 63% reported that acquisition prospects increased their motivation to innovate, while 4% reported a reduction. Their influence was more commonly reported for product development strategy (37%) than for the initial market-entry decision (20%). Among respondents whose development strategy

was affected, around three quarters prioritised products complementary to potential buyers' offerings and around two thirds accelerated development or innovation. Only 13% of the full sample said that, without acquisition prospects, they would have developed products competing more directly with large market players. These findings support a positive incentive effect for some firms, alongside changes in innovation direction. They neither establish that buyout was founders' original objective nor rule out forgone disruptive innovation or wider deterrence effects.

Reported benefits extended beyond the acquired business. Some 81% of respondents identified increased skills transfer within the start-up community, 43% stronger investor networks and investment activity, and 14% new start-ups founded by former employees. Interviews described how experience gained within larger organisations, alongside proceeds from successful exits, supported subsequent ventures. These accounts illustrate channels for knowledge diffusion and reinvestment, pointing that acquisitions have an overall positive contribution to regional growth and business creation.

Regulatory review carries costs that are particularly relevant for firms with limited cash and short operating horizons. In the survey, 38% reported moderate to significant challenges from review and 45% reported minor challenges. Interviewees described the uncertainty and disruption of transaction's assessment. While this does not mean that intervention was unjustified, or that merger control generally discourages innovation, these reported experiences call for clear, proportionate procedures that account for start-ups' financial circumstances.

Four main conclusions emerge from the report: (i) the effect of start-up acquisition are case-specific and the evidence does not support a general presumption of harm, (ii) acquisitions can support innovation and scaling by combining complementary capabilities, financing and market access, (iii) assessment must compare each transaction with a realistic counterfactual scenario, and (iv) authorities must consider both potential benefits and harms to competition. Authorities should examine the target's competitive role, changes in innovation incentives and direction, the capabilities combined through integration, and realistic alternatives to acquisition. Claimed benefits require evidence, just as theories of harm do. The assessment of both should be subject to a symmetric standard. In Europe, that assessment must account for a fragmented Single Market, and the lack of a single capital market, which constrain independent scaling. Acquisitions can help individual firms navigate those barriers but cannot remove them completely. Better integration and access to financing remain important complements to a balanced merger policy, expanding the range of viable development paths available to European start-ups.

1 Introduction

1. Acquisitions of start-ups are a common feature of the digital sector. They offer founders and investors means to realise adequate returns and allow to combine innovative technologies with the resources needed for further development and commercialisation. This is particularly relevant in the European Union, where fragmented capital markets and incomplete integration of the Single Market can constrain firms' access to financing and their ability to scale independently across borders. Notwithstanding this, these transactions have also attracted increasing scrutiny from competition authorities and policymakers, who are concerned that acquisitions may enable incumbents to leverage network effects, data advantages and economies of scale to entrench or extend their market power.

2. This debate is reflected in the European Commission's ongoing review of its Merger Guidelines. The draft guidelines published in April 2026 (the "Draft Merger Guidelines") seek to update the framework for assessing mergers, with greater emphasis on innovation, investment and dynamic competition. They recognise both potential competitive harms and benefits of these transactions, including the role of acquisitions in combining complementary capabilities and enabling firms to scale. This makes the review particularly relevant to acquisitions of innovative start-ups.

3. Against this background, this study examines how acquisitions of digital start-ups impact competition, innovation, and the development of the acquired firms. It draws on economic research to explain the main channels through which these transactions shape competitive outcomes, with the aim of giving a balanced, evidence-based approach to merger review.

4. Acquisitions of start-ups differ from traditional horizontal mergers. Start-ups typically have limited revenue, if any, at the time of the acquisition, and subsequently a small market share. Despite this, they may be developing products or research projects capable of posing a threat to incumbent in the market. Their competitive relevance depends not only on their current market position, but also on the outcome of the innovation process. Static indicators, such as market shares and concentration indices, provide an incomplete picture of the target's potential either standalone or in combination with the acquirer's assets.

5. For this reason, the **assessment of start-up acquisitions must focus on dynamic effects**. An acquisition may affect the parties' incentives and ability to innovate, as well as the direction of the innovation. It can determine whether a research project remains active, is discontinued, or is consolidated with another project. The prospect of an acquisition may also modify entrepreneurs' incentives to enter and invest before a transaction takes place. These effects are not necessarily confined to the merging parties, as the transaction influences the investment and entry decisions of other firms. Some of these acquisitions also have local spillovers through the retentions and consolidation of talents in a particular cluster.

6. Integration also modifies the resources and capabilities available for developing and commercialising a new product. Start-ups often have valuable technology or specialist knowledge, but lack the financial resources, infrastructure, or distribution channels needed to

bring their product to the market. An acquisition combines these assets in a way that cannot easily be replicated through contracts or other forms of collaboration between firms.

7. Identifying a realistic counterfactual is also central to this analysis. The effect of the transaction must be compared to the most likely outcome absent the acquisition, incorporating the economic conditions in which the target operates. This requires considering whether the target could have expanded independently. The assessment should not assume either that the target's position would have remained unchanged or that every start-up would eventually have become an effective independent competitor. This is particularly relevant in the European Union, where the unattained promises of the internal market make the development of standalone global technological leaders particularly challenging.

8. The report is structured in three parts. The first (Section 2) reviews recent contributions from industrial organisation, corporate finance, and organisational economics, together with a discussion of the relevant empirical evidence and recent enforcement developments. It considers the effects of acquisitions on innovation incentives and direction, as well as the role of financing, governance, and organisational capabilities. It also examines the structural constraints affecting the ability of European start-ups to finance and scale their activities independently.

9. The economic literature finds that the effects of start-up acquisitions on competition and innovation are ambiguous and do not support a general negative presumption. The outcome depends on the nature of the target and its relationship with the acquirer, the effect of the transaction on innovation, the capabilities and resources combined through integration, and the target's realistic prospects without the acquisition. A competitive assessment should therefore consider potential harms and benefits symmetrically and should be supported by case-specific evidence.

10. The second part (Section 3) complements the literature review with evidence from industry participants, drawing on detailed interviews with founders of start-ups acquired by Amazon and other relevant stakeholders. These accounts illustrate how the mechanisms discussed in the literature operate in practice, offering insights into how financing needs, investor expectations and acquisition opportunities shaped founders' decisions over time. They also shed light on changes in product strategy following acquisition and founders' assessments of their firms' realistic prospects for remaining independent.

11. The interviews are complemented by the quantitative results of a survey prepared in collaboration with Ipsos and conducted among European start-up founders and senior leaders across diverse fields of the digital sector including commerce and fintech, enterprise software and productivity, AI and data analytics, media, digital health and biotech. The survey covers the areas highlighted by the literature review. These include the challenges start-ups face when developing products, accessing customers, entering geographic markets, and raising finance. It also examines the effects of acquisition on product development and innovation, likely outcomes without the transaction, founders' exit strategies, and the influence of large digital companies on entry and product choices.

12. The third and final part (Section 4) draws together the economic literature and the evidence from industry participants to identify the main considerations for assessing acquisitions of digital start-ups.

2 Economic framework to assess the impact of mergers in the digital sector

Acquisitions in the digital sector affect competition and innovation through multiple channels. The economic literature shows both potential procompetitive and anticompetitive effects, instead of a general negative presumption against mergers, supporting a case-specific framework to assess all the relevant competitive dimensions.

13. Start-up acquisitions have attracted increasing attention from policymakers and academic researchers. Berger et al. (2025) document around 18,000 acquisitions from a sample of 90,000 start-ups across 60 countries and over 200 industries between 2001 and 2021, illustrating the widespread occurrence of this phenomenon.[1] In recent years, competition authorities have expressed particular concerns about the potential effects of such acquisitions on innovation and competition, especially in technology sectors.[2,3]

14. The theories of harm developed by competition authorities often reflect the concern that mergers may reduce firms' incentives to innovate. However, this perspective is incomplete, as it may overlook the dynamic nature of competition, which is fundamental to understand start-ups and their growth trajectories.

15. In this context, the present section reviews the academic literature on the dynamic effects of mergers, with particular attention to acquisitions of start-ups. **The literature does not find that such transactions are necessarily either beneficial or harmful to competition.** Conversely, their effects depend on case-specific factors. This section focuses on the three main factors driving the welfare impact of these acquisitions:

    15.1. *The nature of the acquired firm*: The impact of acquisitions depends on whether the target is an actual competitor, a potential future entrant, or provides complementary assets, technologies, capabilities, or know-how. The literature generally suggests that concerns are more likely to arise where the target represents a credible competitive threat to an incumbent, whereas transactions involving **complementarities** can generate efficiencies and facilitate the commercialisation of innovative products.

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1 Berger, M., S. Calligaris, A. Greppi, and D. Kirpichev (2025): "Acquisitions and their effect on start-up innovation". OECD Science, Technology and Industry Working Papers, n. 10.

2 For example, former Commissioner for Competition, Margrethe Vestager, stated that the European Union needs "to figure how to make sure that small thriving companies scale instead of being swallowed up… because very often you have a tiny company that is being swallowed by a big one. And part of that may be to prevent future competition or to harm innovation." (The Capitol Forum, 3 February 2025, available at https://thecapitolforum.com/resource/transcript-of-capitol-forums-exclusive-interview-vestager/). A related approach to tackle this problem can be seen in the Digital Markets Act (DMA), article 14, in which gatekeepers "shall inform the Commission of any intended concentration within the meaning of Article 3 of Regulation (EC) No 139/2004, where the merging entities or the target of concentration provide core platform services or any other services in the digital sector or enable the collection of data, irrespective of whether it is notifiable to the Commission under that Regulation or to a competent national competition authority under national merger rules."

3 Two academic papers that also look at acquisitions in technological sectors are: Gautier, A., and R. Maitry (2024): "Big tech acquisitions and product discontinuation", *Journal of Competition Law & Economics*, 20(3), pages 246-263; Lemos, T. D. M. E., and G. M. Resende (2025): "Nascent competition and killer acquisitions in digital markets: a decade of acquisitions by Big Tech", Journal *of Antitrust Enforcement*.

15.2. *Impact on innovation*: The literature identifies two distinct channels through which acquisitions may affect innovation.

i. First, acquisitions may influence **innovation incentives**. The direction and magnitude of these effects are theoretically ambiguous and depend on the interplay between several opposing mechanisms, including innovation diversion effects, R&D consolidation, financing constraints, demand expansion effects, and scale and scope synergies. As a result, the overall effect on investment and innovation activity must be assessed on a case-by-case basis. For the specific case of start-ups, acquisition opportunities may strengthen incentives to enter and innovate by increasing the expected returns to entrepreneurial activity through "entry-for-buyout" strategies.

ii. Second, acquisitions may affect the **direction of innovation**. The prospect of acquisition can encourage entrants to orient their R&D efforts towards technologies that complement those of established firms, potentially reducing the likelihood of disruptive innovation. Anticipating market entry, incumbents can also adapt the direction of their own R&D investments, making the potential effect of stricter acquisition policy on innovation ambiguous.

15.3. *Corporate governance and organisational capabilities*: The literature indicates that acquisitions may also generate efficiencies by improving the governance and organisational capabilities of the target firm. Integration can enhance innovative performance through more effective coordination, access to managerial expertise, and the transfer of tacit knowledge across organisations. These potential benefits form an important component of the overall competitive assessment. Relatedly, the integration of target firms into broader acquirers may facilitate liquidity and funding to sustain projects that would be otherwise abandoned.

16. A central point of this analysis is the importance of the relevant **counterfactual**. The effects of an acquisition must be assessed relative to the most plausible scenario absent the transaction. In the case of start-ups, the counterfactual cannot be the status quo. It should account for the target's realistic prospects for independent growth and commercialisation. In this respect, recent evidence suggests that structural characteristics of the European Union, including the fragmentation of capital markets and the incomplete integration of the Single Market, limit firms' ability to independently access financing, scale operations, and expand across borders. These constraints are particularly relevant for start-ups and may therefore influence both the likelihood of independent expansion and the competitive implications of acquisitions, when the acquisition alleviates some of these weaknesses of European markets.

17. The remainder of this section is organised as follows. Section 2.1 focuses on the dynamic effect of mergers on competition and innovation, reviewing research from industrial organisation, corporate finance, and organisational economics. Section 2.2 examines certain features of products and services with digital components, before turning to the effects of mergers on innovation in the specific context of start-up acquisitions, including empirical evidence. Section 2.3 then surveys the existing evidence on the structural constraints that limit the competitiveness

and scale of EU digital firms. Finally, Section 2.4 summarises all the findings of the literature reviewed and identifies four key points that merger review should address symmetrically across pro- and anticompetitive dimensions.

2.1 Dynamic effects of mergers on competition and innovation

18. **Traditional merger assessment has often focused on static elements.** Competition authorities conduct their economic analysis of mergers based on static models, using market shares as a proxy for unilateral competitive pressure. In such a setting, and absent significant efficiencies, the economic literature finds that horizontal mergers reduce competition in the market and harm consumers.[4] The logic is that, post-merger, the sales diversion between the merging parties is internalised: a larger share of the sales lost by one party from a price increase is recaptured within the merged entity, thereby raising the incentive to increase prices unilaterally (Farrell and Shapiro, 2010)[5].

19. While this traditional framework can be suited for some markets with homogeneous demand, it does not necessarily apply in markets with heterogeneous demand, where customers have strong preferences for specific product characteristics, **or in markets characterised by rapid technological change or high investment intensity.**

20. Start-ups operate by nature in evolving markets, where dynamic elements, such as innovation, investment and future competitive constraints, are important drivers of competition. In this context, observed shares do not accurately capture diversion patterns or competitive pressure. These limitations are particularly pronounced in digital sectors, where competition is compounded by structural features such as network effects, product complementarities and scale, which further weaken the informational value of market shares.[6]

21. This section discusses the strands of economic literature that assess the dynamic competitive effects of mergers on the parties' incentives to invest, their innovative capabilities, and their financial constraints.

2.1.1 Effects of mergers on incentives to invest

There is no theoretical basis for a presumption of negative effects on investment brought by acquisitions. The economic literature has identified both positive and negative effects, suggesting that the impact of mergers on incentives to invest is not straightforward.

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4 Cournot, A. (1838): Recherches sur les principes mathématiques de la théorie des richesses; Bertrand, J. (1883): "Théorie mathématique de la richesse sociale and of recherches sur les principles mathematiques de la theorie des richesses", *Journal de Savants*, 67, pages 499-508; Deneckere, R. and C. Davidson (1985): "Incentives to Form Coalitions with Bertrand Competition", *RAND Journal of Economics*, 16 (4), pages 473-486; Farrell, J. and C. Shapiro (1990): "Horizontal Mergers: An Equilibrium Analysis", *American Economic Review*, 80(1), pages 107-126; Affeldt, P., T. Duso, K. Gugler, and J. Piechucka (2021): "Assessing EU Merger Control through Compensating Efficiencies", *Discussion paper DIW Berlin*.

5 Farrell, J., and C. Shapiro (2010): "Antitrust evaluation of horizontal mergers: An economic alternative to market definition", *The B.E. Journal of Theoretical Economics*, 10(1), Article 9.

6 Schumpeter, J. A. (1942): Capitalism, socialism and democracy, Routledge; Aghion, P., C. Harris, P. Howitt, and J. Vickers (2001): "Competition, imitation and growth with step-by-step innovation", *The Review of Economic Studies*, 68(3), pages 467-492; Argentesi, E., P. Buccirossi, E. Calvano, T. Duso, A. Marrazzo, and S. Nava (2021): "Merger policy in digital markets: An ex post assessment", *Journal of Competition Law and Economics*, 17(1), pages 95-140.

22. The literature identifies one strand which shows how mergers may reduce competition when the acquirer internalises competing R&D projects. This is called "innovation diversion" and is related to the removal of a future competitor or product that could cannibalise a firm's profits (Section 2.1.1.1). However, there are several other mechanisms that can increase or reduce incentives to innovate (Section 2.1.1.2). The overall effect is ambiguous, as mergers can influence innovation incentives through multiple, potentially offsetting mechanisms the net impact of which is ultimately an empirical question.

2.1.1.1 A reduction in innovation incentives: the "innovation diversion" effect

The innovation diversion effect theory shows that incumbents internalise the effect of competing innovation paths. It serves as the basis for the innovation theory of harm that predicts a negative effect of mergers on firms' incentives to innovate (including through so-called "killer-acquisitions"). However, it is an incomplete framework and should not be the main or only framework through which incentives to innovate are assessed.

23. A strand of the economic literature, led by Federico et al. (2017), and follow-up papers, e.g. Federico et al. (2018) and Valletti (2025), argue that, beyond unilateral price effects, mergers tend to weaken firms' incentives to invest by internalising competition between previously independent R&D efforts.[7]

24. Federico et al. (2018) consider a symmetric oligopoly in which firms innovate to improve product quality. When an innovation is successful, the new product replaces the old one. The authors perform numerical simulations to quantify the effect of mergers on incentives to invest and identify two opposite effects. The higher prices stemming from unilateral effects increase margins and, therefore, incentives to invest. However, in this model, this is more than offset by the "innovation diversion effect". The merged entity internalises that a successful innovation by one party diverts sales away from the other, reducing the net gain from innovating and leading to an overall decline in investment incentives.

25. The innovation diversion effect may also arise when the potential competitive constraint originates from an innovative entrant rather than an established rival. Arrow's (1962) replacement effect underlies the asymmetry in innovation incentives between the incumbent and the entrant: because the incumbent would partly cannibalise its own profits by introducing the innovation, it has weaker incentives than the entrant to develop the project.[8] In this setting, the incumbent internalises the negative impact that the entrant's future innovation would have on its own profits and may therefore acquire the entrant before the project even reaches the market. This is the basis of the "killer acquisition" theory of harm: following an acquisition, the incumbent may discontinue, delay, or redirect the target's project to protect its existing profits from future competition.[9]

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[7] Federico, G., G. Langus, and T. Valletti (2017): "A simple model of mergers and innovation", *Economics Letters*, 157, pages 136-140; Federico, G., G. Langus, and T. Valletti (2018): "Horizontal mergers and product innovation", *International Journal of Industrial Organization*, 59, pages 1-23; Valletti, T. (2025): "The innovation theory of harm in merger control: Some clarifications", *Economics Letters*.

[8] Arrow, K. J. (1962): "The economic implications of learning by doing", *The Review of Economic Studies*, 29(3), pages 155-173.

[9] Cunningham, C., F. Ederer, and S. Ma (2021): "Killer acquisitions", *Journal of Political Economy*, 129(3), pages 649-702.

26. Cunningham et al. (2021) formalise this mechanism, showing that "killer acquisitions" arise when developing a project would reduce the incumbent's profits, but the entrant would otherwise proceed and erode those rents.[10] In such cases, the acquisition's motivation would be to eliminate a competitive threat. Motta and Peitz (2021) develop a complementary framework and show that whenever the start-up has the independent capacity to develop its project, acquisition leads to a reduction in competition and consumer surplus, regardless of whether the acquired project is subsequently commercialised or shelved.[11] In the model considered, acquisition can only be welfare-improving when the entrant lacks the financial means to carry the project forward independently.

27. While these models predict a negative effect of merger on firms' incentive to innovate, they capture only one side of the story.

2.1.1.2 Beyond innovation diversion: the multiple effects of mergers on innovation incentives

Recent economic literature shows that the impact of mergers on innovation is ambiguous. In differentiated product markets, mergers can increase product variety and expand demand. They can also incentivise further innovation through technological spillovers or synergies.

28. Federico et al. (2018) and the literature presented above argue that mergers tend to reduce innovation competition through the innovation diversion effect.[12] Recent contributions revisit this conclusion and argue that **mergers create other direct effects which can lead to an overall procompetitive effect**. Denicolò and Polo (2018) argue that Federico et al. (2018) do not account for the possibility that merging firms consolidate overlapping R&D projects into a single programme. Rather than terminating the target's project, the acquirer may redirect funds toward a single project.[13] The authors show that, if returns to R&D do not decrease too rapidly, this can increase the probability of innovation success.

29. Besides, Federico et al. (2018) assume that innovation always cannibalises the other party's sales, making the diversion effect unambiguously negative. However, in differentiated markets, R&D may increase product variety rather than displace competitors. Bourreau and Jullien (2018) show that investment by one firm can benefit rivals by relaxing price competition and expanding total demand, implying that mergers may strengthen incentives to invest in differentiation-oriented projects.[14] D'Annunzio et al. (2025) extend the framework to allow successful R&D to generate new products that coexist with existing ones, rather than replacing them.[15]

30. In addition, **mergers affect firms' investment incentives through several mechanisms** that go beyond these competitive effects**.** A merger internalises externalities between the merging parties

[10] Cunningham, C., F. Ederer, and S. Ma (2021): "Killer acquisitions", *Journal of Political Economy*, 129(3), pages 649-702.
[11] Motta, M., and M. Peitz (2021): "Big tech mergers", *Information Economics and Policy*, 54, page 100868.
[12] Federico, G., G. Langus, and T. Valletti (2018): "Horizontal mergers and product innovation", *International Journal of Industrial Organization*, 59, pages 1-23.
[13] Denicolò, V., and M. Polo (2018): "Duplicative research, mergers and innovation", *Economics Letters*, 166, pages 56-59.
[14] Bourreau, M., and Jullien, B. (2018): "Mergers, investments and demand expansion", *Economics Letters*, 167, pages 136-141.
[15] D'Annunzio, A., Jullien B., Lefouili Y., Madio L. (2025): "Mergers and Investments in New Products", *Working Paper TSE*, n. 949.

and may create spillovers or synergies across projects that alter incentives to invest. Jullien and Lefouili (2018) formalise five channels that are relevant for merger assessment[16]:

30.1. **Innovation diversion** reflects how merging firms internalise the impact of their investments on each other's sales. If investments create competing products, the firm internalises lost sales and has weaker incentives to invest. If investments increase differentiation and expand demand for both firms, internalising these gains can strengthen investment incentives.

30.2. **Margin and demand expansion** are interrelated through the changes in price-cost margins and output following a merger and depend on whether investment is on product or process. Higher margins raise returns on investments that expand demand, output, or market coverage, encouraging product innovation. Bourreau and Jullien (2018) show that a merger to monopoly can increase investment in technology coverage despite higher prices, although Bourreau et al. (2024) find that such investment does not necessarily benefit consumers without synergies or spillovers.[17] By contrast, margin expansion generally weakens incentives for process innovation, as cost-saving investments apply to a smaller output after the merger, reducing the expected return from the investment. However, this effect may be mitigated if the merging firms' investments are non-rival across plants or products.

30.3. **Technological spillovers** affect investments depending on the degree of appropriability of the spillovers' returns (i.e., how much of the technology would benefit the firm that invested in it and how much it would benefit rival firms). If appropriability is low, meaning that rivals capture a significant share of the returns, a merger can strengthen incentives to invest. If appropriability is high, the effect is smaller (Régibeau and Rockett, 2019).[18] In cumulative innovation settings, spillovers may offset the (negative) innovation diversion effect. Salinger (2019) proposes the "net innovation pressure" ("NIP") framework to quantify the trade-off, comparing the spillover rate with the innovation diversion ratio.[19]

30.4. **Innovation synergies** due to mergers can raise R&D productivity and strengthen incentives to invest by, for example, pooling complementary assets such as knowledge, research facilities or talent. However, Motta and Tarantino (2021) argue that, in the case of cost-reducing innovation, strategic interactions in price competition may have the opposite effect: firms anticipate that higher investment will intensify price competition, which can reduce the merged entity's incentives to invest.[20]

31. The direction and magnitude of the effects of mergers on incentives to invest are case-specific, and depend on the type of innovation considered, as well as on market characteristics such as

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16 Jullien, B., and Y. Lefouili (2018): "Horizontal Mergers and Innovation", *Journal of Competition Law & Economics*, 14(3), pages 364–392.

17 Bourreau, M., and B. Jullien (2018): "Mergers, investments and demand expansion", *Economics Letters*, 167, pages 136-141; Bourreau, M., B. Jullien, and Y. Lefouili (2024): "Horizontal mergers and incremental innovation", *Working Paper TSE*, n. 907.

18 Régibeau, P., and K. E. Rockett (2019): "Mergers and innovation*", The Antitrust Bulletin*, 64(1), pages 31-53.

19 Salinger, M. A. (2019): "Net innovation pressure in merger analysis", *SSRN*, n. 3051249.

20 Motta, M., and E. Tarantino (2021): "The effect of horizontal mergers, when firms compete in prices and investments", *International Journal of Industrial Organization*, 78, n. 102774.

spillovers, synergies, and competitive interactions. **No uniform prediction can be made ex ante on these effects.** This conclusion is supported by Boutin et al. (2026), who recently reviewed the literature on the topic and conclude that there is no theoretical basis for a negative presumption of mergers on incentives to invest.[21]

2.1.2 The effect of mergers on firms' boundaries and capabilities

Mergers can overcome contractual limitations by integrating complementary assets and facilitating the commercialisation of innovative products. They may also strengthen firms' capabilities to adapt and generate dynamic efficiencies.

32. Another strand of economic literature investigates supply-side elements that drive firms' behaviour on the market. This mainly includes 3 elements: firms' boundaries, capabilities, and business model innovation.

33. First, the economic literature on the theory of the firm and firm boundaries offers a conceptual lens for understanding how firms can coordinate complex activities. This strand of literature explores how issues of transactions and investment incentives shape firm boundaries.[22]

34. Mergers are not only means to generate operational synergies or expand in size. They also offer a way to overcome the limitations of contracts to discipline the relationship between two firms. In principle, firms could organise their activities among themselves through contracts, alliances, joint ventures or mergers with other parties. Regulators often view contractual alternatives as potentially less distortive to competition than mergers, as they preserve separate decision-making entities, while still facilitating cooperation towards a certain outcome. However, Coase (1937) argues that market transactions entail costs, such as searching for suppliers, bargaining, and monitoring contractual performance.[23] Incorporating an activity within the firm can reduce these costs and provide a more practical alternative to manage complex processes, shaping the firm boundaries. Simple contracts fail to ensure complex or long-term cooperation, and in such circumstances a merger may represent the only viable means of integrating activities and pursuing a given objective (Williamson, 1979, 1985, 2002; Klein et al., 1978).[24] This is particularly relevant in cases where actions, investments, or contingencies cannot be fully anticipated or specified in advance. In dynamic and digital sectors, where technological conditions evolve rapidly, it is often difficult to write contracts that remain complete or enforceable over time.

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[21] Boutin, X., L. Eymard, and M. Williams (2026): "A Dynamic Framework for the Assessment of Horizontal Mergers", *Berkeley Research Group*.

[22] Firm boundaries refer to the business governance structures that arise to save on costs related to transactions in the market. For example, firm boundaries are related to why a firm hires employees for a given task rather than outsourcing it. In this case. enforcement costs may be higher for the outsourced case rather than for an internal team. See Coase, R. H. (1937): "The nature of the firm", *Economica*, 4(16), pages 386–405.

[23] Coase, R. H. (1937): "The nature of the firm", *Economica*, 4(16), pages 386–405.

[24] Williamson, O. E. (1979): "Transaction-cost economics: The governance of contractual relations", *Journal of Law and Economics*, 22(2), pages 233–261; Williamson, O. E. (1985): *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, Free Press; Williamson, O. E. (2002): "The theory of the firm as governance structure: from choice to contract", *Journal of Economic Perspectives*, 16(3), pages 171-195; Klein, B., R. G. Crawford, and A. A. Alchian (1978): "Vertical integration, appropriable rents, and the competitive contracting process", *The Journal of Law and Economics*, 21(2), pages 297-326.

35. This is particularly relevant for merger assessment: **integration can deliver pro-competitive effects when contractual arrangements cannot replicate the coordination benefits** obtained within a single organisation and common ownership. By enabling capability reallocation and combining complementary technological, organisational or managerial assets, mergers facilitate knowledge transfer, joint problem-solving and dynamic efficiency gains that would be difficult to achieve through contracts or alliances alone.

36. These limits are not uniform across the innovation process; they tighten as a project moves from discovery toward deployment. Early-stage R&D and product development can be managed through flexible partnerships, while scaling, deployment and commercialisation of new technologies often require integration beyond what contractual arrangements can deliver. Empirical evidence from European high-technology industries supports this distinction: alliances tend to be more effective during exploration and experimentation phases, whereas acquisitions become more effective at the commercialisation and scaling stage (Cassiman et al., 2005; Hagedoorn and Hesen, 2007).[25] As technologies mature, many alliances gradually evolve into acquisitions. When control conflicts and divergent strategies emerge, integration becomes the natural way to stabilise cooperation (Gulati, 1998; Hagedoorn and Duysters, 2002).[26]

37. Second, the capability framework focuses on the processes through which firms deploy, renew, and transform their resource base over time. Not all capabilities are of equal strategic importance: ordinary capabilities ensure efficiency in existing operations ("doing things right"), superordinary capabilities allow firms to outperform rivals within the current technological paradigm ("doing things better"), and dynamic capabilities enable firms to sense, seize, and transform in response to shifting conditions ("doing the right things") (Teece, 2007; 2014; 2025; Helfat et al., 2009).[27] The capability framework posits that the firms that develop dynamic capabilities are better placed to compete effectively in the long term.

38. This distinction explains why firms with strong operational competence or superior assets may still fail when confronted with disruptive change, while those with dynamic capabilities can thrive (Helfat et al., 2009).[28] Capabilities provide the link between investment and successful innovation (Winter, 2003; Teece, 2025).[29] In a merger context, **firms with complementary capabilities may**

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[25] Cassiman, B., M. G. Colombo, P. Garrone, and R. Veugelers (2005): "The impact of M&A on the R&D process: An empirical analysis of the role of technological and market relatedness", *Research Policy*, 34(2), pages 195-220; Hagedoorn, J., and G. Hesen (2007): "Contract law and the governance of inter-firm technology partnerships — An analysis of different modes of partnership governance and their contractual implications", *Journal of Management Studies*, 44(3), pages 342-366.

[26] Gulati, R. (1998): "Alliances and networks", *Strategic Management Journal*, 19(4), pages 293-317; Hagedoorn, J., and G. Duysters (2002): "External sources of innovative capabilities: The preferences for strategic alliances or mergers and acquisitions", *Journal of Management Studies*, 39(2), pages 167-188.

[27] Teece, D. J. (2007): "Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance", *Strategic Management Journal*, 28(13), pages 1319-1350; Teece, D. J. (2014): "The foundations of enterprise performance: Dynamic and ordinary capabilities in an (economic) theory of firms", *Academy of Management Perspectives*, 28(4), pages 328-352; Teece, D. J. (2025): "Understanding dynamic competition: New perspectives on potential competition, 'monopoly,' and market power", *Antitrust Law Journal*; Helfat, C. E., S. Finkelstein, W. Mitchell, M. Peteraf, H. Singh, D. Teece, and S. G. Winter (2009): *Dynamic capabilities: Understanding strategic change in organizations*, John Wiley & Sons.

[28] Helfat, C. E., S. Finkelstein, W. Mitchell, M. Peteraf, H. Singh, D. Teece, and S. G. Winter (2009): *Dynamic capabilities: Understanding strategic change in organizations*, John Wiley & Sons.

[29] Winter, S. G. (2003): "Understanding dynamic capabilities", *Strategic Management Journal*, 24(10), pages 991-995; Teece, D. J. (2025): "Understanding dynamic competition: New perspectives on potential competition, 'monopoly,' and market power", *Antitrust Law Journal*.

generate dynamic efficiencies that outweigh potential short-term price increases, provided the integration enhances rather than weakens their collective adaptive capacity (Boutin et al., 2026).[30]

39. Finally, business model innovation supports the view that mergers are not merely structural changes that alter concentration levels; they can be engines of renewal in dynamic markets. By integrating complementary assets and capabilities, mergers can enable innovation and scaling, and strengthen adaptive capacity in ways often unattainable through contracts, alliances, or organic growth alone. Incumbents may use integration to overcome organisational rigidities and manage uncertainty, while start-ups often possess distinctive technological capabilities but lack the complementary assets (e.g., distribution networks, brand capital, regulatory expertise) required to bring innovations to scale (Teece, 1986; Cohen and Levinthal, 1990; Christensen, 1997).[31] The welfare effects depend not only on size or concentration but on how effectively firms combine, redeploy, and leverage their integrated assets (Nelson and Winter, 1985; Teece, 2007).[32]

2.1.3 The effect of mergers on firms' financing conditions

Mergers can positively affect firms' access to finance and borrowing costs. Because access to capital determines which projects can be undertaken, mergers shape the set of investments available to the new entity relative to the no-merger scenario.

40. The literature identifies three principal channels: liquidity provision between the merging parties, joint financing and coinsurance, and the allocation of resources within internal capital markets.

    40.1. Liquidity merger: Almeida et al. (2011) define this as a transaction where a financially healthy firm acquires a liquidity-constrained industry peer to fund and preserve viable projects that would otherwise be terminated.[33] In their model, the cash flows from the target's project have limited collateral value: it cannot raise sufficient external finance, risking inefficient liquidation of positive-NPV projects. An industry peer can act as liquidity insurance, as its sector expertise allows it to manage the assets and capture non-pledgable returns that outside investors cannot. This financial constraint qualification is particularly relevant in the context of start-up acquisitions (Motta and Peitz, 2021).[34] Indeed, Fumagalli et al. (2022) show that although incumbents are less inclined than entrants to develop new innovations, acquisitions can still improve welfare by allowing otherwise unviable projects to reach the market.[35] According to the authors, a key policy insight is that the acquisition price can act as a signal. A relatively low

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30 Boutin, X., L. Eymard, and M. Williams (2026): "A Dynamic Framework for the Assessment of Horizontal Mergers", *Berkeley Research Group*.

31 Teece, D. J. (1986): "Profiting from technological innovation: Implications for integration, collaboration, licensing and public policy", *Research Policy*, 15(6), pages 285-305; Cohen, W. M., and D. A. Levinthal (1990): "Absorptive capacity: A new perspective on learning and innovation", *Administrative Science Quarterly*, 35(1), pages 128-152; Christensen, C. M. (1997): The innovator's dilemma: When new technologies cause great firms to fail, *Harvard Business Review Press*.

32 Nelson, R. R., and S. G. Winter (1985): An evolutionary theory of economic change, *Harvard University Press*; Teece, D. J. (2007): "Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance", *Strategic Management Journal*, 28(13), pages 1319-1350.

33 Almeida, H., M. Campello, and D. Hackbarth (2011): "Liquidity Mergers", *Journal of Financial Economics*, 102(3), pages 526-558.

34 Motta, M., and M. Peitz (2021): "Big tech mergers", *Information Economics and Policy*, 54, page 100868.

35 Fumagalli, C., M. Motta, and E. Tarantino (2022): "Shelving or developing? Optimal policy for mergers with potential competitors", *CEPR Discussion Papers*, 15113.

acquisition price compared to the target's revenue may indicate welfare-enhancing transactions and mainly occurs for financially constrained start-ups without any alternative options. By contrast, high prices, which do not distinguish between constrained and unconstrained targets, are more likely to reflect pre-emptive motives. Based on this theory, economists have suggested conditioning merger review on observable deal characteristics.[36]

40.2. **Joint financing and coinsurance**: This refers to pooling different projects to secure funding on more favourable terms. Combining cash flows can reduce default risk because the success of one can offset the failure of another, which improves borrowing terms and supports investment (Lewellen, 1971).[37] However, the effect is not always positive. Banal-Estañol et al. (2013) show that pooling can lead to weak performance in one project triggering default on the combined debt and affecting all projects (a phenomenon referred to as "risk-contamination").[38] Whether joint financing is beneficial depends on project characteristics: it works best when default costs are low, returns are high and stable, and outcomes are weakly correlated; otherwise, risk contamination may dominate. However, if joint financing yields worse terms than separate financing, the merged entity can simply finance projects individually. Therefore, joint financing cannot leave the firm worse off than in the no-merger counterfactual, as it will only be used when it improves on stand-alone financing conditions.

40.3. **Internal capital markets**: When different projects are grouped under common ownership, the merged entity can decide to reallocate scarce internal funds across them (Cestone and Fumagalli, 2005).[39] When productivity differences across projects are large or liquidity is tight, the merged entity tends toward winner-picking, directing funds to its most productive units and withdrawing support from weaker ones. When those differences are modest and liquidity is relatively abundant, cross-subsidisation prevails instead, raising investment in lower-productivity projects.

41. Overall, the industrial organisation literature on dynamic effects points to a multitude of dimensions, more or less relevant depending on the specificities of the merger. Based on these findings, Boutin et al. (2026) advocate for **a dynamic and integrated assessment in which pro- and anticompetitive effects on investment and innovation are evaluated symmetrically across all relevant dimensions of competition**.[40] Competition authorities should treat nonprice dimensions that affect consumer welfare (such as investment) as core competitive variables. For each relevant dimension, they must articulate a theory of competitive effects, and not only of harm,

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[36] Kühn (2021) proposes a related screening approach based on transaction prices. The mechanism is based on comparing the deal's multiple, the price paid for a target relative to its current revenue. He shows that deals in the top 5% of those observed for similar-sized targets in the same industry can serve as a practical filter to identify transactions that merit closer scrutiny. See Kühn, KU (2021): "Screening for Potential Killer Acquisitions across Industries", *CCP Perspectives on Competition and Regulation Working Paper* n. 21-3.

[37] Lewellen, W. G. (1971): "A Pure Financial Rationale for the Conglomerate Merger", *The Journal of Finance*, 26(2), pages 521-537.

[38] Banal-Estañol, A., M. Ottaviani, and A. Winton (2013): "The Flip Side of Financial Synergies: Coinsurance versus Risk Contamination", *The Review of Financial Studies*, 26(12), pages 3142-3181.

[39] Cestone, G., and C. Fumagalli (2005): "The Strategic Impact of Resource Flexibility in Business Groups", *The RAND Journal of Economics*, 36(1), pages 193-214.

grounded in economic theory and supported by case-specific evidence. The European Commission appears to endorse this approach in the new draft Merger Guidelines (the "Draft Merger Guidelines").[41] This is of relevance for start-up acquisitions, where dynamic effects typically dominate the assessment. However, start-up acquisitions raise additional specificities that warrant further analysis, as discussed in the next section.

2.2 Digital acquisitions and incentives to innovate

Acquisitions in the digital sector require a case-specific competitive assessment. Certain literature highlights procompetitive effects by generating efficiencies, facilitating scaling and commercialisation of new products, and encouraging entry. Other literature highlights how incumbents may rely on these transactions to eliminate competitive threats.

42. All the aspects described above apply to digital start-up acquisitions. However, these transactions are specific in many aspects and deserve a specific discussion. Digital sectors can be marked by network effects, economies of scale and scope, data accumulation, and the interaction of products with various degrees of complementarity or dependencies, a situation the literature sometimes describes as “digital ecosystems.” The interaction of these characteristics has made acquisitions a central issue in the competition policy debate, and a large body of academic literature has examined their effects on competition, innovation, and market structure.

43. In line with the research on the dynamic effects of mergers, this literature finds that the effect of start-up acquisitions is ambiguous. On the one hand, they may eliminate actual or potential competitive constraints, strengthen incumbency, discourage subsequent entry, or redirect innovation to the detriment of customers. On the other hand, they may generate efficiencies through complementarities, facilitate the commercialisation and scaling of innovative technologies, improve corporate governance and organisational capabilities, and strengthen incentives for entrepreneurial entry by providing an attractive exit route for start-ups.

44. As a result, **the literature, both theoretical and empirical, suggests that the impact of these transactions depends on a range of case-specific factors,** including the relationship between the parties, the role of ecosystems, the nature of the innovation involved, and the realistic prospects of the target absent the transaction. Rather than supporting a broad prohibition, the evidence points to the need for targeted, context-sensitive review frameworks that distinguish procompetitive transactions from those that would have negative competitive effects. Recent policy developments, including the Draft Merger Guidelines, increasingly reflect this nuanced approach by recognising both the potential risks and benefits associated with acquisitions in the digital sector.

2.2.1 Characteristics of the digital sector and digital ecosystem

Competition authorities have developed new theories of harm based on distinctive features of the digital sector. However, these features do not justify a general anticompetitive stance towards those transactions.

45. The digital sector can exhibit distinctive features, such as network effects, economies of scale and scope, data accumulation, complementarities, interoperability and dependencies, that shape the competitive effects of mergers. These features have contributed to the recent emergence and consolidation of the concept of so-called "digital ecosystems".

46. The concept has been integrated in the Draft Merger Guidelines, which explain that *"(digital) ecosystems can, in certain circumstances, consist of a primary core product and several secondary (digital) products whose consumption is connected to the core product, e.g., by technological links or interoperability"*.[42]

47. Ecosystems are the consequence of synergies in the consumption and/or production of products and services, which are at first directly and indirectly beneficial to customers (e.g., providing an integrated offering for which a consumer can better extract its value). Although they might raise competitive issues, they should not be understood as intrinsically negative industry features.

48. The recent literature by Bourreau (2020), Fletcher (2020), Garces (2023), Jenny (2021), Petit and Teece (2020), and Robertson (2021) identifies recurring elements that characterise digital ecosystems, and distinguishes two types of synergies:[43]

    48.1. Demand-side synergies: consumers derive higher utility from within-ecosystem consumption than from standalone alternatives, for example through reduced transaction costs, network effects, or switching costs;

    48.2. Supply-side synergies: economies of scope and/or scale across the product or service portfolio. Firms may leverage shared infrastructure, data, or brand reputation to expand into adjacent markets at relatively low marginal costs.

49. These characteristics should not be understood as independent or mutually exclusive. They are often intertwined and mutually reinforcing. For instance, a multi-product ecosystem could exhibit demand side synergies, while technological linkages may underpin both supply- and demand-side synergies. Moreover, it is not a strict requirement that an ecosystem is structured around a single "core" product with clearly defined secondary products or complementors. In practice, ecosystems may exhibit more complex and fluid configurations, with multiple interdependent products and services evolving over time and without a clearly identifiable hierarchical structure.

50. In turn, these characteristics shape how digital firms organise their competitive strategies around their industries' ecosystems. Contributions from Bourreau (2020), Jenny (2021) and the OECD (2020) delineate two distinct competitive dynamics[44]:

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[42] Draft Merger Guidelines, para. 252, footnote 334.

[43] Bourreau, M. (2020): "Some Economics of Digital Ecosystems", OECD 134th Meeting of the Competition Committee, n. 89; Fletcher, A. (2020): "Digital competition policy: Are ecosystems different?", OECD 134th Meeting of the Competition Committee, n. 96; Garces, E. (2023): "Regulation and Competition in Digital Ecosystems: Some Missing Pieces", *Network L. Rev.*, page 114; Jenny, F. (2021): "Competition law and digital ecosystems: learning to walk before we run", *Industrial and Corporate Change*, 30(5), pages 1143-1167; Petit, N., and D. J. Teece (2020): "Taking Ecosystems Competition Seriously in the Digital Economy: A (Preliminary) Dynamic Competition/Capabilities Perspective", OECD Meeting of the Competition Committee, n. 90; Robertson, V. H. S. E. (2021): "Antitrust Market Definition for Digital Ecosystems", *Concurrences Competition Law Review*, n. 2.

[44] OECD (2020): "Executive Summary of the hearing on Competition Economics of Digital Ecosystems", OECD 134th Meeting of the Competition Committee.

50.1. **Competition between ecosystems:** at a broader level, firms may compete through their whole ecosystems against rival ecosystems that are, at least to some degree, mutually incompatible or only partially interoperable. In such cases, competition takes place not only at the level of individual products, but also at the level of integrated systems of products and services seeking to attract users, developers, and other complementors;

50.2. **Competition within ecosystems:** individual products or services of an ecosystem face rivalry from specialised firms or complementors operating either within the same ecosystem or across competing (open or closed) ecosystems. This intra-ecosystem competition may involve independent providers offering complementary functionalities.

51. Both dynamics are relevant in the context of acquisitions. On the one hand, a transaction may involve merging with a potential rival ecosystem, thereby impacting competition **between** ecosystems. On the other hand, a deal may target a specialised product or an innovative firm that could be integrated into the acquirer's existing ecosystem, thereby strengthening its internal offering and impacting competition **within** the ecosystem.

52. Both types of acquisitions can raise anticompetitive concerns, categorised as leveraging theories of harm, either offensive or defensive (Fletcher, 2020; OECD, 2020; Bundeskartellamt, 2022; ACCC, 2023).[45] In the context of digital sectors, offensive leveraging is often referred to as *platform envelopment,* while defensive leveraging is referred to as *entrenchment*. Both theories propose a scenario in which the acquirer theoretically affects competition by acting in its core and adjacent markets.

52.1. Offensive leveraging is a mechanism through which an acquirer with significant market power in its core market seeks to leverage it into another, adjacent market, where the target is active. In such cases, the acquirer uses its market power in its core market to strengthen its position in the adjacent market and potentially conquer it.

52.2. Defensive leveraging is a mechanism through which an acquirer defends its market position in the core market by deterring entry in a secondary one. It typically involves incorporating additional products or services into its ecosystem to raise barriers to entry and make it more difficult for competitors to challenge its core market position.

2.2.2 The effects of start-up acquisitions on competition and innovation

Start-up acquisitions differ from standard horizontal mergers because the target is often marginally active in the incumbent's market. While these acquisitions may eliminate competitive threats, they also generate efficiencies by combining start-ups' technologies with the acquirers' established assets.

[45] Fletcher, A. (2020): "Digital competition policy: Are ecosystems different?", OECD 134th Meeting of the Competition Committee, n. 96; OECD (2020): "Executive Summary of the hearing on Competition Economics of Digital Ecosystems", OECD 134th Meeting of the Competition Committee; Bundeskartellamt (2022): "Merger control in the digital age – Challenges and development perspectives", Background Paper – Working Group on Competition Law; ACCC (2023): "Digital Platform Services Inquiry – September 2023 Report on the expanding ecosystems of digital platform service providers".

53. Due to the specificities of the digital sector described above, the effects of start-up acquisitions extend well beyond the market dynamics of the acquiring firms. The prospect of acquisition structures the incentives, financing decisions, and innovative choices of entrepreneurs. Ederer and Pellegrino (2023) document that acquisition has overtaken IPOs as the primary exit route for VC-backed firms, with the share of start-ups exiting via IPO declining sharply over the past two decades.[46]

54. A key question is what distinguishes start-up acquisitions from standard horizontal mergers. Start-up acquisitions frequently occur at a stage when the target is not yet active, or only marginally so, in the acquirer's market. Dijk et al. (2024) study an acquisition involving a firm whose products are still under development.[47] Their model considers a start-up that allocates resources between a rival project, intended to challenge the incumbent, and a non-rival one in an independent market.

55. They highlight two main features. First, the start-up invests more in the rival project if its success raises the expected acquisition price ("innovation for buyout" effect), and less in it if the acquisition price is instead higher when the project fails. Second, if the acquirer takes control of R&D, investment decisions depend on the profits from the new product relative to the profits from the incumbent's existing product that the innovation would replace (replacement effect).

56. While those mechanisms can generate procompetitive effects, modern economic literature focuses primarily on the more sophisticated mechanisms of complex theories of harm. These theories remain relevant from a policy perspective, but empirical evidence supporting the prevalence of these strategies remains limited (see Section 2.2.3 on empirical evidence). Conversely, the potential procompetitive effects are largely based on more traditional merger effects and therefore receive less attention in the recent start-up acquisition literature environment. These include the integration of complementarities between the incumbent's assets and the target's technology. This can notably translate into cost savings and quality improvements arising when merging firms integrate their assets. These would be typically passed on to consumers in the form of lower prices, better products or faster innovation. While less often mentioned in the recent economic literature, **these mechanisms are particularly relevant for start-up acquisitions, where innovative technologies can be combined with the acquirer's established capabilities and brought to market more effectively**.

2.2.2.1 The effects on start-ups' strategic behaviours

The prospect of acquisition may encourage start-ups to enter and innovate. However, it is not the only effect: it may also entrench incumbents and steer the start-ups' innovation towards incremental improvements rather than disruptive technologies.

57. A whole body of literature examines the ex-ante effects of acquisition prospects on entrants' innovation incentives. Since Rasmusen (1988), **economists have recognised that the expectation of being acquired at a profitable price can stimulate innovative entry, an effect known as the "entry**

[46] Ederer, F., and B. Pellegrino (2023): "The great start-up sellout and the rise of oligopoly", *AEA Papers and Proceedings*, 113, pages 274-278.

[47] Dijk, E. S., Moraga-González, J. L., and E. Motchenkova (2024): "How do start-up acquisitions affect the direction of innovation?", *The Journal of Industrial Economics*, 72(1), pages 118-156.

for buyout" or "innovation for buyout" mechanism.[48] In Cabral (2018) and Katz (2021), this effect is generally considered beneficial: start-ups innovate more vigorously in anticipation of acquisition, raising aggregate innovative output.[49] However, several authors have pointed out that the entry-for-buyout mechanism may not be unambiguously procompetitive.

58. From a longer-run perspective, Denicolò and Polo (2025) develop a model arguing that the entry-for-buyout effect may stimulate innovation. They describe an economy in which, in the short run, repeated acquisitions might progressively entrench the incumbent's market dominance through consumer inertia, data accumulation, and dynamic economies of scale. In the longer term, this entrenchment effect can dominate the innovation stimulus, such that the aggregate rate of innovation is lower under permissive acquisition policy than under prohibition.[50]

59. In contrast to the "entry-for-buyout" mechanism, Kamepalli et al. (2021) identify a mechanism through which acquisition prospects can in fact depress entry.[51] In markets characterised by network externalities and limited interoperability, consumers anticipate that a newly entered product may soon be absorbed by the incumbent, reducing the value of adopting the entrant's product. This expectation depresses the entrant's customer base and standalone value, which in turn reduces VC incentives to invest in potential competitors, making entry in the market less likely.

60. Beyond affecting the intensity of innovation, this theory shows that the prospect of acquisition also shapes its direction. Bryan and Hovenkamp (2020) show that in markets with a dominant incumbent, start-ups may endogenously bias their R&D choices toward technologies that complement or improve the leader's position, rather than toward innovations that would help rivals challenge the leader's dominance.[52] The leader pays a higher acquisition premium for technologies that widen the technological gap, which shapes the direction of innovative effort in a way that reinforces rather than contests the incumbent's position. Similarly, Callander and Matouschek (2022) and Gilbert and Katz (2022) both demonstrate that anticipating acquisition, start-ups tend to direct their innovation toward products technologically closer to the incumbent's existing offerings, rather than exploring more distant and potentially disruptive directions.[53] The logic is that the incumbent values incremental improvements to its own technology more highly. Hence, the entry-for-buyout effect does not merely raise total innovative effort but may also pull that effort away from radical novelty and toward more incremental innovation.

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48 Rasmusen, E. (1988): "Entry for buyout", *The Journal of Industrial Economics*, pages 281-299.

49 Cabral, L. (2018): "Standing on the shoulders of dwarfs: Dominant firms and innovation incentives", *SSRN*, n. 13115; Katz, M. L. (2021): "Big Tech mergers: Innovation, competition for the market, and the acquisition of emerging competitors", *Information Economics and Policy*, 54, page 100883. See also for a synthesis: Cabral, L. (2021): "Merger policy in digital industries", Information *Economics and Policy*, 54, page 100866.

50 Denicolò, V., and M. Polo (2025), "Acquisitions, Innovation and the Entrenchment of Monopoly", *RAND Journal of Economics*, 57(2), pages 386-401.

51 Kamepalli, S. K., Rajan, R., and Zingales, L. (2021): "Kill zone", *SSRN*, n. 3555915.

52 Bryan, K. A., and E. Hovenkamp (2020): "Antitrust limits on startup acquisitions", *Review of Industrial Organization*, 56(4), pages 615-636.

53 Callander, S., and N. Matouschek (2022): "The novelty of innovation: Competition, disruption, and antitrust policy", *Management Science*, 68(1), pages 37-51; Gilbert, R. J., and Katz, M. L. (2022): "Dynamic merger policy and pre-merger product choice by an entrant", *International Journal of Industrial Organization*, 81, page 102812.

2.2.2.2 The effects on incumbents' strategic product positioning

The "incumbency-for-buyout" mechanism describes how incumbents may adjust their R&D choices, bargaining position, and conduct towards entrants in anticipation of acquiring start-ups. However, these models predict ambiguous effects on competition.

61. Another recent strand of literature examines how the prospect of acquisition reshapes the strategic behaviour of incumbents themselves. Katz (2021) defines the "incumbency-for-buyout" effect: the idea that a permissive acquisition policy can induce the incumbent to make strategic investments aimed primarily at improving its negotiating position in future acquisitions. [54]

62. Motta and Shelegia (2025) take a complementary perspective, presenting a model in which an incumbent platform may deploy a product-copying strategy as a disciplining device: by threatening to replicate the start-up's complementary product, it reduces the entrant's profits and deters it from developing a substitute platform that would contest the incumbent's dominance, thus creating an ex-ante "kill zone" even in the absence of any acquisition.[55] Interestingly, allowing acquisitions in this setting can partially offset the kill zone by giving the start-up a valuable exit option, thereby restoring its incentives to develop competitive products.

63. Dijk et al. (2024) explore more generally how the prospect of acquisition alters the incumbent's portfolio of R&D investments, showing that the incumbency-for-buyout effect manifests as a change in the direction of the incumbent's innovation, not merely its level.[56] Letina et al. (2024) also study the joint innovation responses to different types of merger control for both the incumbent and the entrant. They reach the important conclusion that prohibiting acquisitions in this model has a weakly negative overall effect on innovation: while the entry-for-buyout logic suggests that removing the acquisition option discourages entrant innovation, the paper shows that this result is robust even when one accounts for the incumbent's innovation response. This is because the incumbent's increased incentive to innovate only materializes for duplicate projects rather than new directions.[57] The implication is that alternative instruments, in particular those that improve the attractiveness of IPO exits for start-ups, may be more effective than acquisition bans at maintaining entry incentives and preserving competitive dynamics.

64. These research papers stress the importance of accounting for the full strategic interaction between incumbents and entrants when designing rules for merger control, as **restrictions intended to protect entrants and innovation can, under certain conditions, prove counterproductive**.

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[54] Katz, M. L. (2021): "Big Tech mergers: Innovation, competition for the market, and the acquisition of emerging competitors", *Information Economics and Policy*, 54, page 100883.

[55] Motta, M., and S. Shelegia (2025): "The 'kill zone': When a platform copies to eliminate a potential threat", *Journal of Economics & Management Strategy*, 34(3), pages 657-673.

[56] Dijk, E. S., Moraga-González, J. L., and E. Motchenkova (2024): "How do start-up acquisitions affect the direction of innovation?", The *Journal of Industrial Economics*, 72(1), pages 118-156.

[57] Letina, I., Schmutzler, A., and R. Seibel (2024): "Killer acquisitions and beyond: policy effects on innovation strategies", *International Economic Review*, 65(2), pages 591-622.

2.2.3 Empirical evidence on the effect of start-up acquisitions

Empirical evidence aligns with theory on the competitive effect of start-up acquisitions. Rather than supporting a broad prohibition, it favours targeted, case-specific review. Killer acquisitions are rare, and acquired technologies may gain visibility, diffusion, and follow-on innovation, though some acquisitions are found to reduce product development, patenting, or innovation.

65. The following sections review the empirical evidence on the effects of start-up acquisitions in digital sectors (Section 2.2.3.1) and other sectors (Section 2.2.3.2). These studies assess their impact on several dimensions, including innovation, entry and firm performance.

2.2.3.1 Acquisitions in the digital sector

Killer acquisitions in the digital sector appear to be a limited phenomenon, confined at worst to specific cases. Even when some projects are discontinued, it does not necessarily mean that aggregate innovation drops. Effects on patenting, technology diffusion, and market entry are mixed or positive on average.

66. Several studies document patterns consistent with the "killer acquisition" hypothesis or with broader chilling effects on competitive dynamics.

66.1. Gautier and Lamesch (2021) find that more than 60% of GAFAM-acquired products were discontinued post-acquisition, with younger start-ups and those operating in the same user or income segment as the acquirer being most likely to be discontinued.[58] Gautier and Maitry (2024) extend the analysis to 329 acquisitions over 2015–2021. They find that most products offered by acquired start-ups became unavailable post-transaction and confirm that same-sector acquisitions are most strongly associated with prima fasciae product discontinuation.[59] These findings should nonetheless be read with some caution, as tracking the fate of an acquired product, service or technology is empirically challenging. Brand disappearance, which is often the primary criterion available to outside observers, could be the direct consequence of genuine integration into the acquirer's offering. This does not mean that the product or service became unavailable to customers. Conversely, it often means that it is offered to a larger base, in a different form or under a different brand.

66.2. Affeldt and Kesler (2021a, 2021b) study app acquisitions on the Google Play Store and find that approximately half of acquired apps are discontinued; moreover, competing apps in the same market reduce their innovation (as measured by the frequency of product updates) by approximately 2.8 percentage points following a GAFAM acquisition, with developers partially reallocating effort toward applications in markets unaffected by the acquisition.[60] This pattern is suggestive of a chilling effect on

[58] Gautier, A., and J. Lamesch (2021): "Mergers in the digital economy", *Information Economics and Policy*, 54, page 100890.
[59] Gautier, A., and R. Maitry (2024): "Big tech acquisitions and product discontinuation", *Journal of Competition Law & Economics*, 20(3), pages 246-263.
[60] Affeldt, P., & Kesler, R. (2021a): "Big Tech Acquisitions—Towards Empirical Evidence", *Journal of European Competition Law & Practice*, 12(4), 271–279 and Affeldt, P., & Kesler, R. (2021b): "Competitors' Reactions to Big Tech Acquisitions: Evidence from Mobile Apps" (DIW Berlin Discussion Paper No. 1957). Deutsches Institut für Wirtschaftsforschung (DIW).

competitive dynamics extending beyond the directly acquired firm. However, the discontinuation of an app does not necessarily mean the discontinuation of the technology, which could have been included in the acquiring firm's tech stack.

66.3. Berger et al. (2025), drawing on the OECD/STI Start-ups Database covering approximately 18,000 acquisitions across 60 countries and more than 200 industries, find that post-acquisition innovation performance of acquired start-ups declines substantially: the quality of remaining patent activity falls as measured by citation-weighted flows and average portfolio radicalness, and these effects are more pronounced when the acquirer and the target operate in the same industry and country.[61] However, these results should be interpreted with caution, as the observed decline is driven primarily by start-ups ceasing to patent altogether post-acquisition, a pattern that may reflect deliberate suppression but equally the redirection of innovative effort toward non-patentable forms of development within the acquirer's organisation.

67. Other studies similarly conclude that acquisitions in digital sectors are not systematically harmful.

67.1. Gugler et al. 2025 conducted a large-scale study of GAFAM acquisitions since 1990. They show that VC investment falls in fields related to the acquired start-up in comparison to similar but unaffected fields by the acquisition. This suggests a "kill zone" effect which discourages further funding in the area. However, the authors also find that patenting activity in these same fields tends to increase, a pattern inconsistent with the view that acquirers simply shelve or suppress the target's technology after purchase.[62]

67.2. Ivaldi et al. (2024), examining twelve high-profile EU merger cases in the ICT sector, find that in most cases competitors continued to perceive the acquirer as a rival post-transaction, and that product discontinuation was in most instances attributable to legitimate integration motives rather than competitive pre-emption. The authors acknowledge that their sample, limited by construction to transactions that cleared the Commission's notification threshold, is likely to exclude the category of smaller, below-threshold acquisitions where pre-emptive motives could also be present.[63]

67.3. Lemos and Resende (2025), reviewing 476 GAFAM acquisitions over 2009–2018, identify only 14 transactions – less than 3% – satisfying strict killer acquisition criteria, casting doubt on proposals for broad prohibition while acknowledging the need for more targeted review of horizontal overlaps.[64]

68. Ederer et al. (2025) represent, to date, one of the most comprehensive and rigorous sets of evidence of the effects of acquisitions on innovation in the digital sector.[65] Drawing on a manually

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[61] Berger, M., Calligaris, S., Greppi, A., and D. Kirpichev (2025): "Acquisitions and their effect on start-up innovation", *OECD Science, Technology and Industry Working Papers*, n. 10.

[62] Gugler, K., Szücs, F., and U. Wohak (2025): "Start-up acquisitions, venture capital and innovation: A comparative study of Google, Apple, Facebook, Amazon and Microsoft", *International Journal of Industrial Organization*, 99, page 103148.

[63] Ivaldi, M., Petit, N., and S. Unekbas (2024): "Killer acquisitions: Evidence from European merger cases", *Antitrust Law Journal*, 86(2).

[64] Lemos, T. D. M. E., and G. M. Resende (2025): "Nascent competition and killer acquisitions in digital markets: a decade of acquisitions by Big Tech", *Journal of Antitrust Enforcement*.

[65] Ederer, F., Seibel, R., and T. Simcoe (2025): "Digital (killer?) acquisitions", *Working Paper*.

compiled dataset of 1,200 acquisitions by GAFAM firms as well as Cisco, Intel, and Qualcomm, and linking these to patent data and labour market data, the authors assess post-acquisition innovation outcomes across narrowly defined technological domains. The paper yields four main findings of policy relevance.

68.1. First, the majority of acquired start-ups hold no patents at the time of acquisition, suggesting that many deals target capabilities, talent, or data rather than formal, tangible IP. Acquisitions are usually concentrated in specific technological domains in which the acquirer was already active.

68.2. Second, innovation in the affected technology space tends to rise before the acquisition, undermining the "killer acquisition" hypothesis. The authors interpret this pre-acquisition surge in patenting as evidence that incumbents acquire start-ups to access promising technologies. Post-acquisition, patenting activity continues to rise, but only in technology classes where follow-on acquisitions occur.

68.3. Third, at the patent level, acquired patents receive significantly more citations after the acquisition than comparable patents in the same technology domain. This citation boost extends to third-party citations rather than being driven solely by self-citations from the acquirer.

68.4. Fourth, they document substantial workforce attrition at acquired firms, with on average more than 50% of the target's employees leaving the acquirer within three years of the deal. This result undermines the concerns raised by the theoretical literature on acquihiring.

69. **On average, acquisitions appear to amplify rather than suppress the diffusion and visibility of acquired technologies. Therefore, the findings challenge the narrative that digital acquisitions by large incumbents are primarily anticompetitive**. That said, the authors do not rule out killer acquisition dynamics in individual cases, and they emphasise the specific attention that should be devoted to serial acquisitions, i.e., repeated acquisitions by the same firm within closely related technology categories, within a given technology class, a concern increasingly reflected in the 2023 U.S. Merger Guidelines and the EU Digital Markets Act.

70. This conclusion is broadly consistent with those of Jin et al. (2023, 2025), who document that GAFAM acquisition patterns are not structurally distinct from those of other major technology acquirers, and that they are not associated with a reduction in subsequent entry or acquiring activity in affected technology categories.[66] Jin et al. (2025) further document that serial acquisitions account for between one quarter and one third of all majority-control M&A activity in the technology sector and propose a cumulative screening approach to merger review that would capture individually sub-threshold but collectively significant consolidation patterns.

[66] Jin, G. Z., Leccese, M., and L. Wagman (2023): "How do top acquirers compare in technology mergers? New evidence from an S&P taxonomy", *International Journal of Industrial Organization*, 89, page 102891; Jin, G. Z., Leccese, M., L. Wagman, L., and Y. Wang, (2025): "Serial Acquisitions in Tech", *National Bureau of Economic Research, Working Paper*, n. 34178.

71. **The overall empirical picture is thus more measured than much of the policy debate suggests.** Killer acquisitions appear to be a limited phenomenon, confined to specific market configurations, rather than characteristic of digital acquisitions as a class. Several dimensions of post-acquisition innovative activity show neutral or positive trends on average. The evidence does not support broad prohibition, but points to the value of targeted and context-sensitive review frameworks, attentive both to the specific characteristics of individual transactions and to the cumulative effects of repeated acquisitions within the same technology space.

2.2.3.2 Acquisitions in other sectors

Evidence from other sectors confirms that acquisitions can improve firm governance, performance and innovation, although outcomes depend on the characteristics of the transaction, and the firms involved.

72. Extending our analysis beyond the digital sector and the specific concerns raised by start-up acquisitions, **evidence from broader markets suggests that acquisitions generate positive expected returns, at least for target firms**. Event studies consistently find positive abnormal returns for target shareholders following acquisition announcements, indicating that markets expect the transaction to create value. Jensen and Ruback (1983), reviewing the early US evidence, document positive gains in both mergers and tender offers, with target shareholders capturing the majority of those gains, and find no systematic evidence that these gains derive from the creation of market power.[67] Martynova and Renneboog (2011) confirm this pattern for European markets during the fifth takeover wave, documenting substantial share price increases at announcement, again concentrated among target shareholders, with cross-border transactions generating comparatively higher premia.[68]

73. The performance benefits of acquisitions extend beyond financial markets. Hussain et al. (2024), using a global sample of public firms, find that acquisitions transfer governance quality from better-governed acquirers to their targets, with improvements in board independence, audit committee oversight, and minority shareholder protection translating into measurable gains in post-acquisition operating performance.[69] Li and Wang (2020) document a complementary mechanism operating through human capital: acquisitions expand the opportunity set for collaboration between acquirer and target inventors, and patents produced by such cross-firm inventor teams are systematically more radical, impactful, and valuable than those produced by either firm's inventors working alone, with tacit knowledge transfer rather than codified knowledge spillovers identified as the underlying mechanism.[70]

74. The effects of acquisitions on innovation incentives are more nuanced but on balance positive. Phillips and Zhdanov (2013) show, using US data, that an active acquisition market raises small

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[67] Jensen, M. C., and R. S. Ruback (1983): "The market for corporate control: The scientific evidence", *Journal of Financial Economics*, 11(1-4), pages 5-50.

[68] Martynova, M., and L. Renneboog (2011): "The performance of the European market for corporate control: Evidence from the fifth takeover wave", *European Financial Management*, 17(2), pages 208-259.

[69] Hussain, T., A. A. Tunyi, and J. Agyemang (2024): "Corporate governance transfers: the case of mergers and acquisitions", *International Journal of Disclosure and Governance*, 21(4), pages 543-567.

[70] Li, K., and J. Wang (2020): "Human Capital Synergies in Mergers and Acquisitions", *Working Paper*.

firms' incentives to invest in R&D, as the prospect of being acquired amplifies the expected return to successful innovation; large firms, by contrast, may rationally reduce their own R&D in response, delegating innovation to smaller firms and subsequently acquiring successful innovators.[71] Feys and Manigart (2011), studying a sample of unlisted Belgian firms acquired between 2000 and 2004, find that cross-border acquisitions generate meaningful operational synergies, particularly through improvements in margins and asset efficiency, while domestic acquisitions show limited post-acquisition performance gains relative to comparable independent firms.[72] Taken together, these findings suggest that the effects of acquisitions on innovation and performance depend significantly on the characteristics of the transaction, notably its cross-border nature, the degree of human capital complementarity between acquirer and target, and the relative governance quality of the parties involved.

2.2.4 Evidence from enforcement

The new Draft Merger Guidelines recognise the potential benefits of combining the complementary capabilities of new entrants, in line with evidence from the literature. This contrasts with recent cases where enforcers have assessed digital acquisitions through the lens of theories of harm based on incumbents' ability to leverage their market power.

75. On the enforcement side, **there is growing recognition of both risk and benefits of mergers in the digital sector, as evidenced by recent European Commission cases and the Draft Merger Guidelines**.

76. As mentioned, the main theories of harm typically considered in digital acquisitions relate to distinct ways in which diversified companies may leverage their market power. Through offensive leveraging (platform envelopment), the acquirer extends its market power from its core market into an adjacent market in which the target operates. Through defensive leveraging (entrenchment), the acquirer incorporates a product/service to raise barriers to entry into its core market and deter potential competitors.

77. Recent Commission decisions have operationalised these theories of harm. In 2023, the European Commission blocked Booking's proposed acquisition of eTraveli, a flight online travel agency (OTA). The decision was motivated by concerns that the transaction would have expanded Booking's travel ecosystem, generated additional traffic through flight-to-accommodation cross-selling, reinforced network effects, and increased barriers to entry for competing OTAs (Booking/eTraveli, 2023).[73]

78. In Amazon/iRobot, the parties abandoned the transaction after the Commission issued a Statement of Objections.[74] The Commission was concerned that Amazon could favour iRobot and

[7171] Phillips, G. M., and A. Zhdanov (2013): "R&D and the incentives from merger and acquisition activity", *The Review of Financial Studies*, 26(1), pages 34-78.

[72] Feys, C., and S. Manigart (2011): "The post-acquisition performance of acquired owner-managed firms", *Investment Management and Financial Innovations*, 8(1), pages 72-79.

[73] European Commission, *Case M.10615 – Booking Holdings/eTraveli Group*, 25 September 2023. The General Court subsequently upheld the Commission's prohibition in Court of Justice of the European Union (2026): "*Judgment of the General Court in Case T-1139/23, Booking Holdings v Commission*", 9 September 2026.

[74] European Commission (2024): "Statement by Executive Vice-President Vestager on announcement by Amazon and iRobot to abandon their transaction", Case *M.10920 – Amazon/iRobot*, Statement 24/521, 29 January 2024.

disadvantage competitors' robot vacuum cleaners on its marketplace through delisting, reduced visibility, higher advertising costs, or restrictions concerning interoperability with Alexa. iRobot's subsequent bankruptcy opened a debate over whether merger review accounts for dynamic efficiencies and the target's ability to remain financially viable absent the merger (Baron and Padilla, 2026).[75] In particular, the acquisition could have given iRobot access to Amazon's investment resources, which could have accelerated innovation and improved product quality.

79. In Adobe/Figma,[76] the Commission issued a Statement of Objections finding that the proposed acquisition could have significantly reduced competition. In particular, the Commission identified concerns in the market for interactive product design tools, in which Figma was the market leader and Adobe would likely have discontinued its own competing product. It also raised concerns in the market of vector editing tools, where Adobe was dominant and Figma was considered a significant potential competitor likely to enter absent the transaction.

80. While the Commission's theory of harm did not explicitly rely on ecosystem dynamics, the case carries an implicit defensive leveraging dimension. The Commission claimed that, by acquiring Figma, Adobe would have neutralised a nascent competitive threat capable of challenging its dominant position across its broader creative software ecosystem.

81. On the other hand, **the Draft Merger Guidelines acknowledge the existence of procompetitive effects arising from scale-enhancing mergers**, particularly where they combine "complementary capabilities" that foster innovation without generating significant competitive overlaps.[77] Such complementarities are pertinent for the digital sector, where integrating different products or services can improve user experience. This concept is operationalized also through the introduction of an "innovation shield", which provides a safe harbour for acquisitions of small innovative companies or start-ups, subject to conditions relating to overlaps in R&D projects or capabilities and the presence of rivals with comparable innovative potential. However, it should be noted that the Draft Guidelines exclude DMA gatekeepers from the innovation shield, preventing acquisitions by such firms from benefiting from this safe harbour.

2.3 Barriers to expansion and fragmentation of the EU internal market

The fragmentation of the EU's internal and capital markets currently makes the independent expansion of many start-ups into global technology leaders a rather unrealistic scenario. Acquisition by a larger firm could often be the second-best route to grow and innovate in Europe.

82. A final relevant dimension for the analysis of start-up acquisitions in Europe arises from structural limitations. **Barriers to expansion and the fragmentation of the EU internal market drastically affect the growth prospects of start-ups in Europe, which impacts the counterfactual of the transactions**. Due to structural weaknesses in European integration, European start-ups are currently unlikely to scale up into pan-European firms and global European champions on their own. The alterations of merger control should therefore be understood in perspective with the

[75] Baron, G., and J. Padilla (2026): "When iRobot Met Amazon", *Journal of European Competition Law & Practice*, advance article, pages 1-17.
[76] European Commission, *Case M.11033 – Adobe/Figma*, 18 December 2023.
[77] Draft Merger Guidelines.

impact of other potential policy reforms. In other words, independent growth prospects would be higher in a functioning internal market, making this path more often the first-best option both for entrepreneurs and the public. However, in the current setup, acquisition by a larger player is often the second best, while the independent path is the third best, marked by a feeble and regional growth in a dysfunctional internal market.

83. Economic integration has been one of the main promises of the European project. It delivered significant economic growth in the EU during the second half of the twentieth century. This resulted in a rapid convergence with the US in terms of productivity and economic growth. The culmination of decades of European integration was the establishment of the EU Single Market in 1993, which aimed to remove all remaining barriers to the free movement of goods, services, capital, and people, and harmonise national regulations across Member States. Lehtimäki and Sondermann (2020) quantify the growth premium attributable to this integration step, finding that it increased GDP per capita by approximately 12–22% over the period 1993–2014, relative to a counterfactual scenario without such integration.[78]

84. Frey and Hussinger (2011) suggest that the removal of barriers to the movement of capital, goods and labour encouraged European firms to use cross-border M&A to enter other EU markets and acquire new technological capabilities. M&A enabled firms to respond to Single Market liberalisation by reallocating productive assets and sourcing technology across national borders.[79]

85. However, while the EU Single Market brought substantial gains, starting from the 1990s, EU economies started to decelerate compared to the US, and the gap has widened since then. This divergence has become even more pronounced after the Covid-19 pandemic. A growing body of recent reports on EU policy and competitiveness identifies persistent fragmentation as a major constraint on economic growth and competitiveness, pointing to the incomplete integration of the EU internal market and capital markets as central factors behind this decline.

86. Letta (2024) identified that, after decades of EU Single Market reforms, around 60% of the barriers to the Single Market for services identified in 2002 continue to persist today.[80] Moreover, EU capital markets remain highly fragmented and subject to divergent national frameworks, preventing the efficient allocation of savings across the economy. As a result, €33 trillion in private savings are held primarily in currency and low-yield deposits, not fully mobilised to support business growth, and a substantial portion of European households' savings continues to flow abroad, primarily to the US economy.

87. Draghi (2024) stresses these same two themes. Firms face high costs when expanding across borders and cannot exploit the full scale of a continental economy.[81] This reduces expected

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78 Lehtimäki, J., and D. Sondermann (2020): "Baldwin vs. Cecchini revisited: the growth impact of the European Single Market", *ECB Working Paper*, n. 2392.

79 Frey, R. and Hussinger, K. (2011), "European market integration through technology-driven M&As," *Applied Economics*, 43(17), pages 2143-2153.

80 Letta, E. (2024): "Much more than a market: Speed, security, solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens", available at: https://european-research-area.ec.europa.eu/documents/letta-report-much-more-market-april-2024.

81 Draghi, M. (2024): "The future of European competitiveness", available at: https://commission.europa.eu/topics/competitiveness/draghi-report_en

growth opportunities within the EU compared to more integrated markets like the US. As a result, many high-potential firms either remain small or choose to expand abroad. This fragmentation also carries macroeconomic costs, with remaining intra-EU frictions estimated to leave around 10% of potential GDP unrealised.

88. This section analyses the extent of market fragmentation, its causes and its effects on the competitiveness of EU companies.

2.3.1 Lack of integration in the EU Single Market

Policy papers and empirical research show that the fragmentation of the EU internal market increases the cost of entering new geographic markets. This can prevent start-ups from achieving the scale required to innovate and commercialise their products independently.

89. This section quantifies the costs of fragmentation of the EU internal market (Section 2.3.1.1), analyses its causes (Section 2.3.1.2), and describes how it hinders expansion within the EU (Section 2.3.1.3).

2.3.1.1 Persistent internal market fragmentation

Intra-EU trade barriers prevent firms from taking advantage of the scale of the Single Market.

90. A large body of qualitative and quantitative evidence illustrates the presence of barriers to trade within the EU. On the qualitative side, Garicano et al. (2025) provide examples of how Member States continue to impose additional product tests, certifications, labelling rules, or outright restrictions on goods and services produced in other EU countries.[82] These requirements force firms to adapt goods country by country even when they already comply with EU standards, thereby fragmenting market access and increasing compliance costs.

91. Quantitatively, Bernasconi et al. (2025) indicate that while integration of goods and services has increased, the goods markets are far more integrated than services: intra-EU trade of goods exceeds 40% of the EU GDP in 2024, but services only 16%. This occurs in a context where services account for nearly 75% of the EU economic activity.[83]

92. Furthermore, the authors estimated intra-EU trade costs for goods and services. Their results suggest that intra-EU trade frictions are equivalent to an implicit tariff of 67% for goods and 95% for services relative to domestic trade. These numbers are to be interpreted as upper bounds, given that they also include factors beyond policy reach, such as home bias and consumer preferences. To produce a more realistic estimate of what integration could achieve, the authors benchmark each country against the Netherlands, the EU's most trade-integrated Member State. They find that closing the gap would reduce frictions by around 8 percentage points for goods and 9 for services, translating into welfare gains of up to 1.3% and 1.8% respectively.

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[82] Garicano, L., Petit, N., and Holmstrom, B. (2025): "The Constitution of Innovation: A New European Renaissance", available at: https://constitutionofinnovation.eu/.

[83] Bernasconi, R., Cordemans, N., Gunnella, V., Pongetti, G., and L. Quaglietti (2025): "What is the untapped potential of the EU Single Market?", Economic Bulletin Articles, 8.

93. Cerdeiro and Rotunno (2026) use a similar gravity model to compare intra-EU barriers with trade costs between US states.[84] They conclude that intra-EU goods trade barriers are estimated to be two to three times those observed across US states, with simulations suggesting that fully closing this gap could raise EU productivity by nearly 6%. Furthermore, they specify that the high intra-EU trade costs operate primarily by shrinking the effective market size faced by firms. **When selling across borders remains costly, firms tend to focus on national markets rather than treating the EU as a single demand space**.

2.3.1.2 Sources of fragmentation in the EU Single Market

Regulatory, administrative, institutional, and enforcement differences across Member States are the main sources of intra-EU market fragmentation.

94. Even if Single Market rules applied uniformly, **large differences in the quality of business regulation, capital markets, and innovation ecosystems create *de facto* barriers to integration**: firms face different competitive conditions, financing costs, and regulatory burdens depending on where they operate, making it harder to expand in the EU.

95. Budina et al. (2025) document these gaps systematically across six policy areas: labour markets, business regulation, innovation, capital markets, trade, and governance.[85] They benchmark each European country against the "frontier," defined by top performers among European countries and the US. Their findings show that advanced European economies underperform relative to the US and the frontier particularly in business regulation, innovation, and capital market depth.

96. Bernasconi et al. (2025) identify five categories of barriers explaining persistent fragmentation: i) regulatory barriers include diverging technical standards and 27 separate VAT systems; ii) administrative barriers encompass fragmented authorisation processes and residency requirements for services; iii) enforcement barriers arise from inconsistent application of EU law and gold-plating by Member States; iv) competition-related barriers include discriminatory public procurement practices, with only around 5% of contracts awarded to foreign firms; and v) infrastructure barriers reflect fragmented financial and transport networks. [86]

97. Garicano et al. (2025) further note that the European Commission has largely stopped enforcing Single Market violations, as infringement cases decreased by 75% during the period 2014-2024, leaving Member States effectively free to restrict trade.[87] There is therefore ample room for the Commission to refocus its policy action in favour of European integration.

98. Empirical evidence suggests that there are significant political and institutional barriers impeding cross-border merger and acquisition activity within the EU. Dinc and Erel (2013) find that EU

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[84] Cerdeiro, D. A., and L. Rotunno (2026): "EU barriers to scaling up: The case of fragmented product markets", VoxEU/*CEPR,* available at: https://cepr.org/voxeu/columns/eu-barriers-scaling-case-fragmented-product-markets

[85] Budina, N., Adilbish, O. E., Cerdeiro, D. A., Duval, R. A., Égert, B., Kovtun, D., Nguyen, A. T. N., Panton, A. J., and M. Tejada (2025): "Europe's national-level structural reform priorities", *International Monetary Fund*, Working Paper, n. 104.

[86] Bernasconi, R., Cordemans, N., Gunnella, V., Pongetti, G., and L. Quaglietti (2025): "What is the untapped potential of the EU Single Market?", Economic Bulletin Articles, 8.

[87] Garicano, L., Petit, N., and Holmstrom, B. (2025): "The Constitution of Innovation: A New European Renaissance", available at: https://constitutionofinnovation.eu/.

governments oppose foreign acquisition attempts, while supporting domestic acquirers through, among other measures, moral persuasion and the use of golden shares.[88] Umber et al. (2014) show that national borders continued to have a restraining effect on EU M&A activity. Although European integration facilitated cross-border M&A by lowering border barriers by 17% between 1991 and 2007, there was no significant reduction after the mid-1990s.[89]

2.3.1.3 Consequences on EU firms

Market fragmentation contributes to slow productivity growth and weak investment, particularly among small digital sector firms.

99. Fragmentation has measurable and severe consequences for the competitiveness of European firms. Because cross-border expansion is costly, firms tend to operate within national markets rather than treating the EU as a single demand space. This prevents them from reaching the scale required to absorb the fixed costs of innovation and productivity-enhancing investment (Cerdeiro and Rotunno, 2026).[90] This constraint is particularly binding in sectors, such as digital and AI, where large upfront investments in R&D, customer acquisition, and data collection can only be sustained at continental scale (Adilbish et al., 2025).[91]

100. The firm-level consequences are documented in productivity stagnation and an innovation gap. Adilbish et al. (2025) show that, over the last two decades, annualised productivity growth among European non-tech listed firms averaged just 0.9%, compared with 2.6% in the US. In the tech sector, European listed firms experienced an annualised productivity decline of 0.3%, against growth of 1.5% in the US. Moreover, fewer innovative firms enter the EU market, and those that do so struggle to scale. High-growth young firms account for six times more employment in the US than in Europe, and the median founding year of top listed firms is 1985 in the US versus 1911 in Europe (Adilbish et al., 2025).[92]

101. Beyond fragmentation, **certain EU regulations intended to set global standards are actively hampering the competitiveness of small and young European firms**. For example, Jia et al. (2021) estimate the effects of the GDPR, a comprehensive EU data protection framework that imposes substantial compliance obligations on firms handling personal data.[93] While designed to protect consumers, it imposes disproportionately large costs on smaller European firms relative to large US incumbents, which can spread them across a broader revenue base. The authors find that this cost disadvantage for smaller firms is associated with a 26% reduction in EU technology venture investment relative to the United States.

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88 Dinc, I. S. and Erel, I. (2013), "Economic nationalism in mergers and acquisitions," *The Journal of Finance*, 68(6), pages 2471-2514.

89 Umber, M. P., Grote, M. H. and Frey, R. (2014), "Same as it ever was? Europe's national borders and the market for corporate control," *Journal of International Money and Finance*, 40(C), pages 109-127.

90 Cerdeiro, D. A., and L. Rotunno (2026): "EU barriers to scaling up: The case of fragmented product markets", VoxEU/CEPR, available at: https://cepr.org/voxeu/columns/eu-barriers-scaling-case-fragmented-product-markets

91 Adilbish, O., Cerdeiro, D. A., Duval, R., Hong, G. H., Mazzone, L., Rotunno, L., Toprak, H., and M. Vaziri (2025): "Europe's productivity weakness: Firm-level roots and remedies", *International Monetary Fund*, Working Paper, n. 040.

92 Adilbish, O., Cerdeiro, D. A., Duval, R., Hong, G. H., Mazzone, L., Rotunno, L., Toprak, H., and M. Vaziri (2025): "Europe's productivity weakness: Firm-level roots and remedies", International Monetary Fund, Working Paper, n. 040.

93 Jia, J., Jin, G. Z., & Wagman, L. (2021): "Data regulation and technology venture investment: What do we learn from GDPR", *Competition Policy Internat. Antitrust Chronicle*, 1(1).

2.3.2 Lack of integration in the EU capital markets

EU capital market's structural and regulatory weaknesses have negative consequences for European start-ups' growth.

102. Fragmentation is not confined to the Single Market. The EU's fragmented capital markets fail to finance investment in innovation due to an overreliance on debt financing (Section 2.3.2.1). This prevents start-ups from accessing the capital they need to develop innovative products (Section 2.3.2.2).

2.3.2.1 Structural fragmentation, inadequate regulations and lack of attractiveness of EU capital markets

Regulatory fragmentation prevents European savings from funding productive investment, reinforces firms' reliance on bank finance, and restricts cross-border fundraising.

103. Despite high household saving rates (EU households save 15% of their income, compared with 8% in the US), European savings are not efficiently channelled into productive investment. Instead, they are held primarily in currency and low-yield bank deposits, and a substantial share flows abroad, primarily to the US (Letta, 2024).[94]

104. This misallocation is generated by the structural fragmentation in EU capital markets. A firm headquartered in one Member State seeking investors from others must comply with multiple national rulebooks, creating legal, regulatory, and administrative barriers that make cross-border capital allocation costly and uncertain (Garicano, 2025; Invest Europe, 2025).[95]

105. EU firms are consequently over-reliant on bank financing. Banks dominate not only lending, but also access to capital markets more broadly, and tend to favour established firms with tangible collateral and predictable cash flows. Innovative, young, and risky ventures require equity financing, which does not demand fixed repayments. Adilbish et al. (2025) confirm this pattern with firm-level data, showing that EU listed firms' net equity issuance is approximately half of US levels relative to firm size. [96]

106. Fragmentation is compounded by a regulatory architecture that imposes disproportionate burdens on smaller fund managers. Invest Europe (2025) highlights that small and mid-sized venture capital and growth fund managers face compliance requirements under EU rules that resemble those imposed on large institutions, regardless of their size, investor base, or fund structure. The AIFMD threshold (the asset level below which fund managers face lighter regulation,

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[94] Letta, E. (2024): "Much more than a market: Speed, security, solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens", available at: https://european-research-area.ec.europa.eu/documents/letta-report-much-more-market-april-2024

[95] Garicano, L. (2025): "How to build a Capital Markets Union", *Silicon Continent,* available at: https://www.siliconcontinent.com/p/how-to-build-a-capital-markets-union; Invest Europe (2025): "Invest Europe's response to European Commission's Targeted Consultation on Integration of EU Capital Markets", available at: https://www.investeurope.eu/publications-policy/publications/2025/response-to-the-european-commission-consultation-on-eu-capital-markets/

[96] Adilbish, O., Cerdeiro, D. A., Duval, R., Hong, G. H., Mazzone, L., Rotunno, L., Toprak, H., and M. Vaziri (2025): "Europe's productivity weakness: Firm-level roots and remedies", *International Monetary Fund*, Working Paper, n. 040.

set at €500 million since 2013) had lost 35% of its real value due to inflation as of 2025. As a result, the regulation today captures managers that were never intended to be fully regulated. This has led some fund managers to cap fundraising in order to remain below the threshold, while investors increasingly allocate capital to the US or UK funds instead.

107. Cross-border fundraising within the EU is further restricted by divergent national authorisation procedures. The practice of Member States imposing additional requirements on fund managers on top of EU law (known as "gold-plating") forces fund managers to redesign their structures on a country-by-country basis, making expansion viable only for the largest.

2.3.2.2 Consequences for European firms

European start-ups do not have adequate access to equity financing, which is crucial during their early stages of development.

108. Capital market fragmentation and the over-reliance on bank finance have direct consequences for firm-level investment and innovation. Because European firms rely less on equity, their R&D spending is more sensitive to short-term financial shocks: Adilbish et al. (2025) show that temporary cash-flow shocks translate into significantly larger investment reductions in Europe than in the US, as measured by the marginal propensity to invest. This financial fragility is particularly damaging in sectors where R&D requires sustained, long-term spending that cannot be interrupted without losing progress.

109. The consequences for high-growth and innovative firms are especially acute. The Draghi Report (2024) documents that 30% of European unicorns founded between 2008 and 2021 relocated to the US, and venture capital investment in the EU remains considerably lower than in the US both in absolute terms and as a share of GDP.[97] Invest Europe (2026) reports that EU private companies increasingly list in the US rather than the EU, particularly innovative and strategically important firms, while average holding periods for EU private equity investments have increased significantly, indicating structural exit difficulties rather than temporary market conditions.[98] State-aid rules create an additional disincentive: companies receiving equity investment may lose eligibility for public support schemes, creating a cliff-edge effect that reinforces reliance on traditional bank financing and discourages risk capital deployment (Invest Europe, 2026). [99]

2.4 Lessons from the literature

There is no evidence in the literature to suggest a negative presumption towards the acquisition of digital start-ups. The competitive analysis must rely on case-specific evidence, including the nature of the acquired firm, the effect on innovation and changes in the firm's governance and

[97] Draghi, M. (2024): "The future of European competitiveness", available at: https://commission.europa.eu/topics/competitiveness/draghi-report_en.

[98] Invest Europe (2026): "Invest Europe's response to the Targeted Consultation on Private Equity Exits", available at: http://investeurope.eu/publications-policy/publications/2026/response-to-the-european-commission-consultation-on-private-equity-exits/.

[99] Invest Europe (2026): "Invest Europe's response to the Targeted Consultation on Private Equity Exits", available at: http://investeurope.eu/publications-policy/publications/2026/response-to-the-european-commission-consultation-on-private-equity-exits/.

capabilities after the merger. The assessment should also establish a realistic counterfactual, accounting for the target's financial constraints and, particularly in the EU, barriers to independent scaling.

110. The literature reviewed in this report does not support a general negative or positive presumption regarding acquisitions of nascent firms in the digital sector. Such acquisitions may lead to procompetitive or anticompetitive effects. They can enable acquirers to adapt to rapidly evolving digital markets or to enhance their ecosystem by reinforcing complementarities. At the same time, acquisition can provide the target with access to growth and development opportunities that might otherwise be unattainable. They can also serve as a viable exit strategy. In turn, the prospect of acquisition may incentivise entry and innovation, thereby fostering the emergence of new competitors.

111. Instead of relying on assumptions and presumptions, the competitive assessment must rely on a set of case-specific questions that competition authorities need to address.

112. First, the **nature of the acquired firm**. The literature shows that dominance alone is not a theory of harm but anticompetitive effects are more likely to arise when the acquirer is already dominant and the target poses a direct or nascent competitive threat (Cunningham et al., 2021; Motta and Peitz, 2021).[100] However, they are unlikely to arise when the transaction is primarily driven by complementarities, or when the target would not be able to commercialise its products (see, e.g., Fumagalli et al., 2022).[101]

113. Second, the **effect on innovation**. The literature suggests that acquisitions can affect innovation along two distinct dimensions: innovation incentives and the direction of innovation. Both dimensions are relevant to the competitive assessment, as a transaction may influence not only whether innovation is made, but also the type of innovation that firms pursue.

    113.1. With respect to **innovation incentives**, the literature suggests that competitive analysis should be based on case-specific elements. While the innovation diversion effect predicts a reduction in investment incentives (Federico et al., 2017, 2018), R&D consolidation (Denicolò and Polo, 2018), financing relief for constrained start-ups (Fumagalli et al., 2022; Almeida et al., 2011), demand expansion effects (Bourreau and Jullien, 2018), and scale synergies can offset or reverse this effect.[102] The net impact is

[100] Cunningham, C., F. Ederer, and S. Ma (2021): "Killer acquisitions", Journal of Political Economy, 129(3), pages 649-702; Motta, M., and M. Peitz (2021): "Big tech mergers", *Information Economics and Policy*, 54, page 100868.

[101] Fumagalli, C., M. Motta, and E. Tarantino (2022): "Shelving or developing? Optimal policy for mergers with potential competitors", *CEPR Discussion Papers*, 15113.

[102] Federico, G., G. Langus, and T. Valletti (2017): "A simple model of mergers and innovation", *Economics Letters*, 157, pages 136-140; Federico, G., G. Langus, and T. Valletti (2018): "Horizontal mergers and product innovation", *International Journal of Industrial Organization*, 59, pages 1-23; Denicolò, V., and M. Polo (2018): "Duplicative research, mergers and innovation", *Economics Letters*, 166, pages 56-59; Fumagalli, C., M. Motta, and E. Tarantino (2022): "Shelving or developing? Optimal policy for mergers with potential competitors", *CEPR Discussion Papers*, 15113; Almeida, H., M. Campello, and D. Hackbarth (2011): "Liquidity Mergers", *Journal of Financial Economics*, 102(3), pages 526-558; Bourreau, M., and B. Jullien (2018): "Mergers, investments and demand expansion", *Economics Letters*, 167, pages 136-141.

theoretically ambiguous (Jullien and Lefouili, 2018; Boutin et al., 2026) and must be assessed on a case-by-case basis.[103]

113.2. The **direction of innovation** is a separate, but related, dimension to be considered. A growing theoretical literature shows that, in the presence of large incumbents, start-ups may rationally bias their R&D towards technologies that complement or reinforce the incumbent's position, rather than pursuing more disruptive trajectories that would erode its market power (Bryan and Hovenkamp, 2020; Callander and Matouschek, 2022; Gilbert and Katz, 2022).[104] The prospect of acquisition thus shapes not only the level of innovation, but also its direction, potentially reducing the likelihood that entrants generate independent competitive pressure. This effect interacts with incumbents' own strategic responses. Permissive acquisition environments induce incumbents to reallocate their own R&D and product strategies to reinforce their existing position and improve their negotiating leverage in future acquisitions (Katz, 2021; Dijk et al., 2024).[105] Prohibiting acquisitions, however, can entail a negative effect on innovation even after accounting for the incumbent's potential repositioning response, suggesting that other policy tools may be more effective than acquisition bans at preserving innovation incentives (Letina et al., 2024).[106] Merger review should understand whether the transaction redirects innovation away from directions that would have generated independent competitive pressure on the incumbent.

114. A third element concerns the improvement in **corporate governance and organisational capabilities** after the transaction. Acquisitions can improve governance of the target (Hussain et al., 2024) and integration can enhance innovative output through more effective collaboration and tacit knowledge transfer across firms (Li and Wang, 2020).[107] The assessment should therefore also account for efficiency gains arising from improved governance and integration.

115. Lastly, the competitive assessment should establish **the relevant counterfactual**. The effects of an acquisition must be compared against the most likely alternative scenario absent the transaction. This may be particularly important in the context of start-up acquisitions, where the competitive significance of the target does not depend only on its current market position, but also on whether it could realistically have grown and successfully commercialised its products absent the transaction.

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[103] Jullien, B., and Y. Lefouili (2018): "Horizontal Mergers and Innovation", *Journal of Competition Law & Economics*, 14(3), pages 364–392; Boutin, X., L. Eymard, and M. Williams (2026): "A Dynamic Framework for the Assessment of Horizontal Mergers", *Berkeley Research Group*.

[104] Bryan, K. A., and E. Hovenkamp (2020): "Antitrust limits on startup acquisitions", *Review of Industrial Organization*, 56(4), pages 615-636; Callander, S., and N. Matouschek (2022): "The novelty of innovation: Competition, disruption, and antitrust policy", *Management Science*, 68(1), pages 37-51; Gilbert, R. J., and Katz, M. L. (2022): "Dynamic merger policy and pre-merger product choice by an entrant", *International Journal of Industrial Organization*, 81, page 102812.

[105] Katz, M. L. (2021): "Big Tech mergers: Innovation, competition for the market, and the acquisition of emerging competitors", *Information Economics and Policy*, 54, page 100883; Dijk, E. S., Moraga-González, J. L., and E. Motchenkova (2024): "How do start-up acquisitions affect the direction of innovation?", The *Journal of Industrial Economics*, 72(1), pages 118-156.

[106] Letina, I., Schmutzler, A., and R. Seibel (2024): "Killer acquisitions and beyond: policy effects on innovation strategies", *International Economic Review*, 65(2), pages 591-622.

[107] Hussain, T., Tunyi A. A., and Agyemang, J. (2024): "Corporate governance transfers: the case of mergers and acquisitions", *International Journal of Disclosure and Governance*, 21(4), pages 543-567; Li, K., and Wang, J. (2020): "Human Capital Synergies in Mergers and Acquisitions", *Working Paper*.

115.1. The literature discussed in Section 2.1.3 on financing constraints highlights that this counterfactual may, in many cases, involve limited or no independent expansion by the target. Almeida et al. (2011) show that acquisitions can relax binding liquidity constraints and allow positive-NPV projects to be completed that would otherwise be inefficiently abandoned. Acquisitions can also improve access to finance through coinsurance and internal capital markets, enabling the reallocation of funds toward higher-value projects, although this may also involve withdrawing funding from weaker activities.[108] The relevant counterfactual therefore depends on whether the target would realistically have overcome its financial constraints and expanded independently.

115.2. On this matter, there is also ample evidence in the EU that fragmentation of the Single Market and capital markets structurally limits firms' ability to scale and access risk capital, reducing start-ups' ability to scale independently. Letta (2024) and Draghi (2024) emphasise that cross-border frictions and underdeveloped equity markets constrain the effective deployment of savings, while Adilbish et al. (2025) and Cerdeiro and Rotunno (2026) document the resulting gaps in firm scaling, productivity, and innovation relative to the U.S.[109] In this environment, acquisition by a larger firm may represent not only an exit option, but a primary channel through which viable projects are financed and brought to scale. Authorities should therefore account for the structural barriers that constrain start-ups' ability to finance R&D, commercialise their products, and expand across EU markets when assessing what would realistically occur absent the transaction.

[108] Almeida, H., M. Campello, and D. Hackbarth (2011): "Liquidity Mergers", *Journal of Financial Economics*, 102(3), pages 526-558.

[109] Letta, E. (2024): "Much more than a market: Speed, security, solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens", available at:https://european-research-area.ec.europa.eu/documents/letta-report-much-more-market-april-2024; Draghi, M. (2024): "The future of European competitiveness", available at: https://commission.europa.eu/topics/competitiveness/draghi-report_en; Adilbish, O., Cerdeiro, D. A., Duval, R., Hong, G. H., Mazzone, L., Rotunno, L., Toprak, H., and M. Vaziri (2025): "Europe's productivity weakness: Firm-level roots and remedies", *International Monetary Fund*, Working Paper, n. 040; Cerdeiro, D. A., and L. Rotunno (2026): "EU barriers to scaling up: The case of fragmented product markets", VoxEU/CEPR, available at: https://cepr.org/voxeu/columns/eu-barriers-scaling-case-fragmented-product-markets.

3 Evidence from the industry

Evidence from the Ipsos survey of tech start-up founders and executives, together with in-depth interviews indicates that acquisitions of digital start-ups can ease funding and market-access constraints, support innovation, and favour knowledge spillovers. Their effects require case-by-case assessment against realistic alternatives, including whether the start-up could have secured funding to grow or survive independently.

116. To complement and test the findings from the economic literature, we have investigated the experience of industry participants, focusing on the experience of start-up founders. To this end, we conducted a series of in-depth interviews with start-up founders. The interviews were intended to provide a nuanced understanding of the topics discussed in the literature from the perspective of individual experience. In total, we interviewed six start-up founders acquired by Amazon and other relevant stakeholders.

117. These founder interviews provide very useful insight, but it is difficult to ensure that a small sample of interviews is representative enough. To complement the findings of these qualitative interviews, we worked with Amazon to instruct Ipsos to conduct a survey of 105 European start-up founders and executives who have sold their business. Interviewed founders' start-ups were operating in Europe or globally across diverse fields of the digital sector including commerce and fintech, enterprise software and productivity, AI and data analytics, media, digital health and biotech.[110] The survey covers the key topics identified by the economic literature, including access to markets, innovation dynamics, financing conditions, exit strategies and the role of large companies. The findings discussed in this report reflect only the perspectives of the surveyed individuals and cannot be generalised to the broader population of start-up founders. Quotas were applied across country, industry, and deal value to capture balanced coverage across these key dimensions of the acquired founder community.[111]

118. The evidence collected through the survey and interviews broadly supports the following conclusions: (i) acquisitions can provide significant benefits in terms of access to markets, resources and scaling opportunities. However, they may also narrow the strategic options available to targets and redirect innovation trajectories towards the acquirer's needs; (ii) the prospect of acquisition plays an important role in shaping ex-ante incentives for entrepreneurship and innovation; (iii) the European start-up ecosystem faces structural challenges related to market fragmentation, access to financing and the limited availability of exit routes; (iv) acquisitions generate spillover effects, which impact local economies as well as incentivise the creation of more start-up firms; and (v) overall, the effects of start-up acquisitions are case-specific and depend on the relationship between the parties, the nature of the innovation and the realistic prospects of the target absent the transaction.

[110] See Figure A.1 in the Appendix for a breakdown of the sectors represented by the interviewed start-ups.
[111] Further details on the start-up survey and its methodology are provided in Appendix A and in the accompanying Ipsos report, which can be found at: https://thinkbrg.com/insights/publications/the-impact-of-mergers-a-focus-on-digital-start-up-acquisitions-and-policy-implications-in-europe/

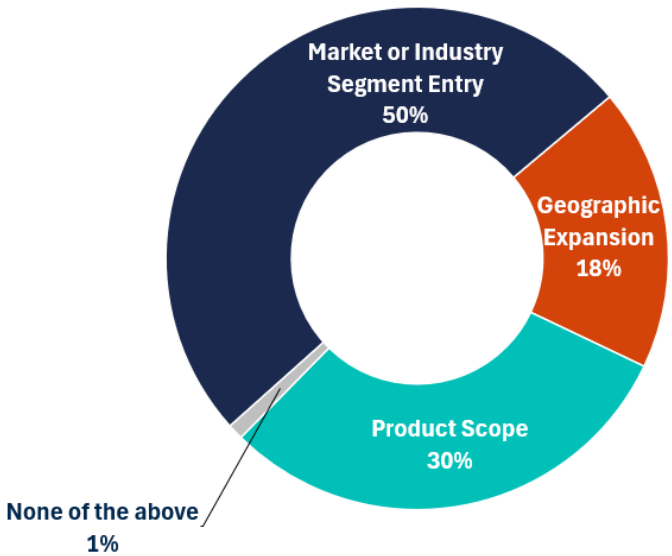
119. This section is organised to follow the main topics covered in the survey and discussed during the interviews. Section 3.1 examines the constraints on start-ups development and growth at an early stage. Section 3.2 presents funding and resource constraints and the role of acquisitions on them. Section 3.3 discusses the effects of acquisition on market access and on post-acquisition product development and innovation. Section 3.4 explores counterfactual scenarios, assessing the likely evolution of start-ups in the absence of acquisition and the conditions under which they might have remained independent. Section 3.5 examines how acquisition prospects influence market entry and exit decisions, as well as product development and innovation strategies. Finally, Section 3.6 considers the wider effects of acquisitions and exits on start-up ecosystems, covering entrepreneurial learning and knowledge diffusion, the circulation of experience and capital into new ventures, and local economic effects.

3.1 Constraints on start-up early development and growth

The survey and founder interviews indicate that European start-ups face major barriers in gaining customer trust, integrating products into existing systems, and entering new geographic markets. European market fragmentation makes these challenges particularly difficult to overcome.

120. The survey investigated three principal challenges to growth that start-ups may face in their early development: reaching customers, developing their products and expanding into new geographic markets. For start-ups, winning customers and developing a product that meets their needs are closely connected tasks. Limited resources can constrain both, while expansion into new geographic markets can add further demand. In the survey, 50% of respondents identified market or industry segment entry as the most acute challenge, 30% indicated product scope and 18% geographic expansion (Figure 1).

Figure 1. Main challenge faced by the target company before the acquisition



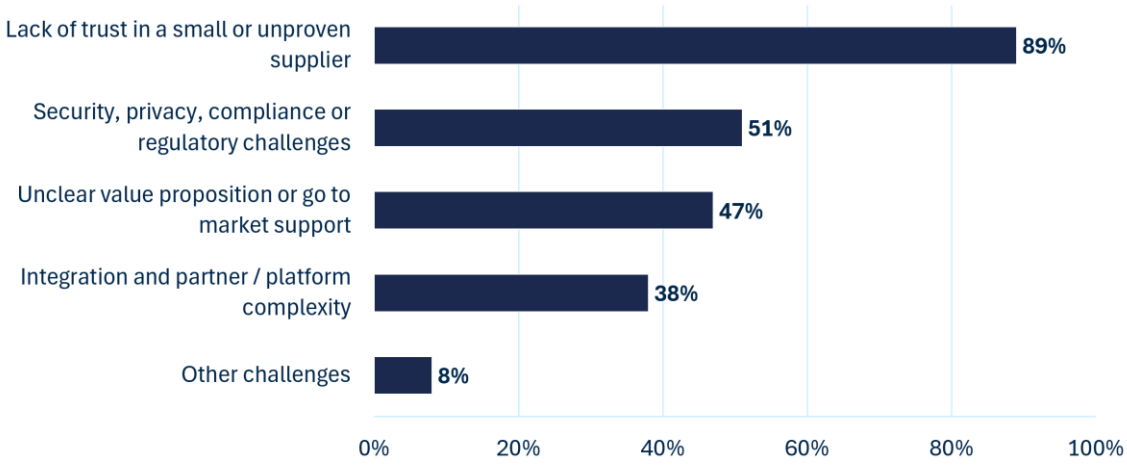
Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "Which one of the following challenges did your company face most acutely in its early development and growth phase before the acquisition?" (single

response). The total sample comprises 105 respondents (full sample). Percentages do not sum to 100% due to rounding.

121. For respondents facing market-entry difficulties, a central hurdle was persuading customers to rely on a small or unproven supplier. Among respondents who identified market or industry segment entry as their most acute challenge, a clear majority reported lack of trust in such suppliers. Other difficulties concerned security, privacy, compliance, or regulation, as well as explaining the product's value and ensuring its fit with partners or platforms (Figure 2).

Figure 2. Early-stage market and industry challenges faced by the target company



Source: BRG analysis based on Ipsos data.
Note: Tech company founders' and senior leaders' responses to the question "Which, if any, of the following market or industry challenges did the company face in its early development and growth phase before the acquisition?" (multiple responses). The sample comprises 53 respondents who identified market or industry segment entry as their most acute challenge compared to product scope or geographic expansion.

122. (Figure 1). Respondents could choose several answers. The founder interviews illustrate how this lack of trust can impede early sales, particularly to larger customers. One founder explained that *"they* [the customers] *were also worried because we were unproven at scale, and we were not implemented"*. The same founder noted that *"our brand was not strong enough because if you are a small business, people do not really want to put* [themselves] *in a position where they are dependent on us."* This creates a self-reinforcing cycle: customers may wait for evidence that the product is already trusted and widely used before adopting it themselves, yet building such a reputation requires a customer base that is not attainable. Establishing market credibility therefore takes time, even where the underlying product is innovative or technically superior.

123. Establishing that trust also depends on whether the product meets customers' operational needs. Among the 32 survey respondents who identified product scope as their most acute challenge, almost all reported difficulties with integration and workflow fit. Difficulties with device, architecture, or performance coverage were reported by around two thirds, while over half cited unproven or immature technology. Due to the small base size, these results should be interpreted as directional findings.

124. Meeting these requirements takes time, specialist expertise, and sustained investment. The founder interviews illustrate how limited resources can constrain the work needed to adapt and refine a product. One described having developed a distinctive technology but lacking the resources to take it further: *"We knew we were onto something, that we had something really unique. The problem was: I don't think our pockets were deep enough as a business."* Where resource constraints delay development, they may also slow customer acquisition and restrict the revenues available to fund further improvements.

125. These commercial and resource challenges can recur when a start-up seeks to expand beyond its initial market. Geographic expansion was identified as the most acute challenge by around a quarter of surveyed firms in the UK and Ireland,[112] a higher share than among firms elsewhere in Europe. Of the 19 survey respondents who selected this challenge, most reported difficulties with local market knowledge, the cost of establishing coverage, and regulatory compliance or data requirements.

126. The founder interviews help explain why entering another market can be costly. Several described the United States as attractive for early growth because a product developed and marketed in one language can reach a large customer base within a relatively integrated market. Reaching a comparable number of customers across Europe may require entry into several national markets, each with its own legal, cultural and commercial requirements. Founders described the need for local sales teams and country-specific legal and tax expertise, alongside market-specific commercial strategies. An interviewee offering a policy perspective similarly identified European market fragmentation as a structural barrier to start-up growth.

127. The difficulties reported by the survey respondents and founders interviewed are consistent with the literature on complementary assets and organisational capabilities. As discussed in Section 2.1.2, possessing an innovative technology does not necessarily provide a start-up with the distribution networks, brand recognition, expertise and organisational resources needed to commercialise it or broaden its applications. Developing and scaling a product require the ability to combine these assets effectively, which may be difficult to achieve through contractual partnerships alone.

128. The evidence on the difficulties of geographic expansion is also consistent with the findings of the literature on the fragmentation of the EU Single Market discussed in Section 2.3.1. According to this literature, regulatory, administrative and institutional differences increase the costs of expansion across European markets and can prevent start-ups from reaching the scale needed to sustain innovation and commercialise products independently.

129. These findings also provide context for explaining the fact that more than 30% of start-ups surveyed operated in only one country (Figure A.3) although the survey does not establish the reasons for their geographic reach.

130. Overcoming these commercial and operational barriers usually requires sustained investment. The following section examines the funding and liquidity constraints that can limit start-ups' ability

[112] Low base size: 43 of the 105 interviewed start-ups were from UK and Ireland.

to support that investment and maintain their operations, as well as the role acquisitions may play in alleviating these constraints.

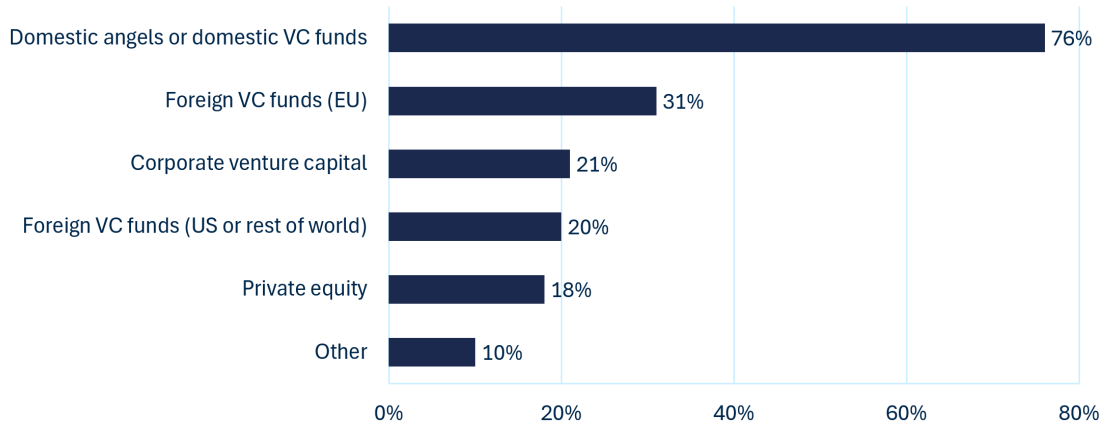
3.2 Funding and resource constraints and the role of acquisition

Surveyed start-up founders indicate that funding constraints and limited access to specialist support can hinder start-up growth and operations, particularly in Europe. They also suggest that acquisition can alleviate these pressures by providing financial stability and resources for continued development.

131. Start-ups' resource needs evolve as they develop. Funding that is sufficient to launch a business may not support subsequent expansion, while access to further investment can depend on meeting investors' growth expectations. Alongside financing development and maintaining sufficient cash for operations, firms may also need specialist expertise and operational support that they cannot readily afford to build internally.

132. The survey identifies several sources of investment across start-ups' funding rounds. Domestic angel investors or domestic venture capital funds were the most commonly reported source, cited by 76% of respondents. Venture capital funds from elsewhere in the EU were reported by 31%, and funds from the United States or the rest of the world by 20%. Corporate venture capital and private equity were reported by 21% and 18%, respectively (Figure 3).

Figure 3. Start-up funding sources



Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "Which, if any, of the following sources invested across your funding rounds?" (multiple responses). Full sample (n=105). The "Other" category includes the following replies: "Pension funds/insurance companies" (2%), "Don't know/No answer" (2%), "Sovereign/International Financial Institutions" (3%) and "Other" (3%).

133. However, according to the firms we interviewed, securing capital becomes increasingly challenging as the company grows older. Access to funding also depends significantly on the type of funding available. Initial funding based on personal savings or angel investors generally provides funds for the launch of the business but it is typically insufficient to finance larger growth stages. As one founder noted, that company's financing progressed from "*my money, angel investors, VC (5 million), Series A and we were going to Series B when Amazon approached.*" They also noted

that while venture capital funds provide additional financing at later stages, it was conditional on rapid revenue growth and credible short-term prospects: "*VCs were expecting higher growth to give more investment. They think week by week, month by month.*"

134. Access to further venture capital thus depended on demonstrating sufficiently rapid growth: investors expected annual growth of approximately 150% to 200%, compared with the company's growth of around 100%. Multiple founder interviews indicated that their growth was insufficient to meet investors' expectations: "*traditional VC investors… preferred scalable software models. Our revenue model (project-based services) made it harder to show the exponential growth curves that attract VC.*" Founders ultimately questioned whether external investors could have provided the funding needed to achieve the scale ultimately reached following acquisition: "*It would be hard to persuade a VC to invest 100 million. It is difficult to raise any kind of money to get the scale. With any kind of attainable money, it wouldn't have been possible to grow to this level* [after the acquisition]."

135. Such expectations can create tension between the conditions attached to financing and the timeframe of business development. Venture capital funding puts pressure on a firm "*to grow very fast.*" Yet refining a product and establishing customer trust can entail sustained effort, as the preceding subsection illustrates. A start-up may therefore need additional investment to develop its product and customer base while facing growth expectations that are difficult to meet during that process.

136. The availability of growth capital may also depend on where a firm operates. One founder described European venture capital investors as more conservative than their US counterparts. Recalling conditions 10 to 15 years earlier, the founder observed that US competitors had raised substantial funding at an earlier stage, despite having less revenue and commercial traction: *"our competitors in the US, in the early days, would easily raise $10, $20 million, and this was 10, 15 years ago. At a much earlier stage,* [they] *had less revenue than us and traction, but it was just easier. It's easier in America to raise money"*. This experience illustrates a potential geographic dimension to funding constraints, and additional difficulties in Europe in line with the literature pointing to the fragmentation of EU capital markets in Section 2.3.2. This literature identifies fragmentation in European capital markets as one of the barriers restricting access to the equity needed by innovative firms, making R&D more vulnerable to financial shocks and constraining independent growth.

137. Securing investment for development and expansion does not remove the need to finance day-to-day operations. The survey indicates that a majority of start-ups (57%) took more than five years from founding to reach €1 million in liquid capital/funding. [113]

138. The founder interviews provide more direct evidence of operating under cash constraints. One founder described the need for a cash buffer to pay salaries and other expenses before work could be invoiced and payments received. Managing this working capital required close monitoring of invoices and incoming payments, which can divert the founder's attention from growing the

[113] This illustrates the lengthy period that can precede a substantial liquidity outcome, although it does not directly establish whether firms experienced cash shortages during that period.

business. The founder emphasised the consequences of exhausting that buffer: *"If you run out of that, you'll need to stop."*

139. Acquisition may address these constraints not only through financial backing, but also by making specialist teams and operational support available within the acquiring firm. Interviewees described access to legal, tax and other expertise that they could not previously afford, alongside greater stability in meeting ongoing operating costs. One of the interviewed founders described gaining access to operational resources they could not afford: *"Within Amazon, we have access to a lot more resources that we would never have been able to afford. There are specialist legal teams, specialist immigration teams, there are tax teams... most resources are free for the PnL."* Another interview reported that the acquisition provided financial stability to continue working: *"I think [the acquisition] made it, in that sense, easier, because now we have these kinds of monthly salaries without thinking where the money comes from."*

140. These impacts were also indicated in the open-ended questions of the survey. Respondents described acquisitions as alleviating the financial burden while providing further resources to focus on growth and innovation. For example, one respondent noted that "*employees felt more secure in a larger business at a time of economic uncertainty... Greater management resource, network and expertise. Less pressure on the founders.*" Similarly, another explained that "*by providing greater financial confidence and reducing business uncertainty, the acquisition allowed us to concentrate on innovation and enhancing value for customers and partners.*"

141. Taken together, these accounts suggest that financial constraints and limited access to operational resources can affect both the pace of expansion and the continuity of operations for start-ups. Interviewed founders and some survey respondents described acquisition as providing greater financial stability and access to resources needed to continue developing their businesses.

142. These experiences are consistent with two complementary conclusions from the literature. First, firms may struggle to obtain sufficient external finance to complete economically viable projects, and acquisition by a financially stronger firm can enable development when independent financing is unavailable (see Section 2.1.3). Second, finance alone may be insufficient: commercialisation also requires complementary assets and organisational capabilities that start-ups may lack and cannot always obtain effectively through contractual partnerships (see Section 2.1.2). The industry accounts illustrate how acquisition can address both constraints by combining financial backing with access to the acquirer's expertise, teams and infrastructure.

143. The following section examines how access to these resources affects market expansion, product development and innovation. The constraints identified here also inform the later assessment of start-ups' likely prospects without acquisition (see Section 3.4).

3.3 Effects of acquisition on growth and innovation

The evidence from the industry indicates that acquisitions enable combining complementary products and capabilities to support start-ups' growth and innovation, while integration can redirect development and change the nature of the targeted demand.

144. As discussed above, acquisitions may help start-ups overcome the growth constraints by providing access to established operational and financial resources but also by enabling access to distribution channels and existing customer bases.

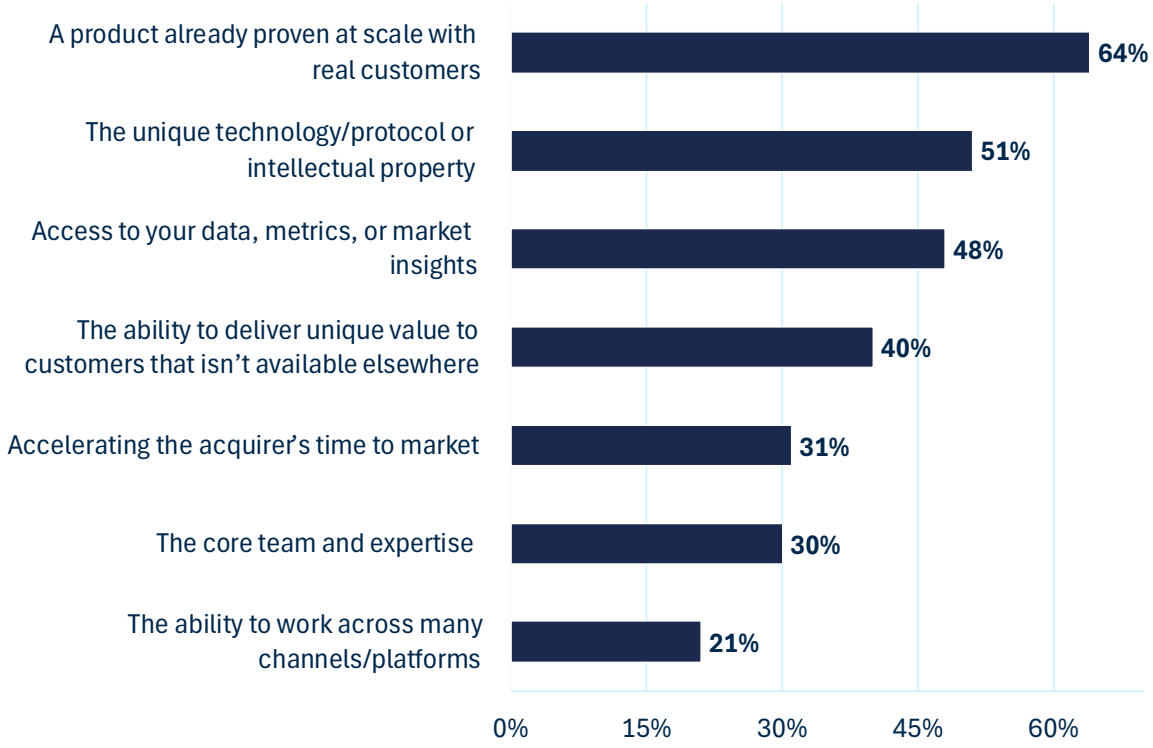
145. While the economic literature finds an ambiguous effect of merger on growth and innovation, notably due to ambiguous effects on the incentives to innovate (see Sections 2.1.1 and 2.2.2), the evidence presented below paints a much more positive picture of the impact of start-up acquisitions. This evidence points mainly to beneficial effects of start-up acquisition on customer access, product development, and innovation. These positive findings are consistent with a part of the literature which emphasises the role of complementarities: mergers help to put together complementary assets, expand firms' capabilities and promote innovation (see Sections 2.1.1 and 2.1.2).

146. In line with the evidence from the empirical literature presented in Section 2.2.3, the survey and founder interviews do not support the prevalence of a general pattern of suppression of innovation related to "killer acquisition" theories of harm developed in the literature (see Section 2.1.1.1). However, evidence indicates that acquisitions may influence the direction of product development and innovation by aligning the target's activities more closely with the acquirer's priorities, as theorised in the literature (see Section 2.2.2). This may change how the technology is used and which customers it serves, potentially narrowing market access even where development continues. Whether benefits identified here for the acquired firm translate into wider competitive benefits therefore depends on how the acquirer deploys the technology and on the effects on other market participants.

3.3.1 Motivation for acquisition

147. Before examining the effects of acquisitions on the acquired firm's activities, the survey provides some insights into the attributes that founders believed made their companies attractive acquisition targets. When asked to select up to three primary factors they believe attracted acquirers, the most frequently cited factor was a product already proven at scale with real customers, identified by 64% of respondents. This was followed by unique technology, protocols or intellectual property (51%), access to valuable data, metrics or market insights (48%), and the ability to deliver distinctive value to customers that was not available elsewhere (40%) (Figure 4).

Figure 4. Factors attracting acquirers



Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "What primarily attracted the acquirer to your company?" (up to three responses). Full sample (n=105).

148. The pattern of responses suggests that acquirers were primarily attracted to capabilities that had already demonstrated commercial viability and that could complement or enhance their own activities. In particular, the prominence of product maturity, proprietary technology, and data assets indicates that targets were valued not only for their existing businesses, but also for the strategic assets and know-how they could contribute post-transaction.

149. Other frequently selected factors reinforce this interpretation. Nearly one-third of respondents indicated that their companies could help accelerate the acquirer's time to market (31%), while 30% highlighted the importance of the target's core team and expertise. A further 21% pointed to the ability to operate across multiple channels or platforms. Together, these findings suggest that acquirers were attracted to a combination of technological capabilities, specialised human capital, and commercially proven products that could be integrated with their own resources to accelerate innovation and growth.

150. Overall, the survey evidence is consistent with acquisitions motivated by the desire to combine complementary assets rather than to eliminate competing activities. The factors most frequently identified by founders relate to the transfer and integration of valuable technologies, knowledge, customer relationships, and market capabilities that can enhance the acquirer's operations. This interpretation is also reflected in the qualitative evidence from the interviews. As one founder explained: "*there was never an idea of them buying us out of business, we collaborate, the tech is spread*." Other respondents of the survey indicated in the open-ended questions that "*we got to plug our tool into a massive global network*" and "*we were able to combine our product vision with*

a larger platform." These responses are consistent with acquisitions seeking to leverage and scale distinctive assets and expertise from both parties, as discussed in Section 2.2.2.

3.3.2 Impact of acquisition on market access

Acquisitions help start-ups to scale their products through the acquirer's commercial network and resources. However, the acquirer may retain the product for internal use only, making it unavailable to external customers.

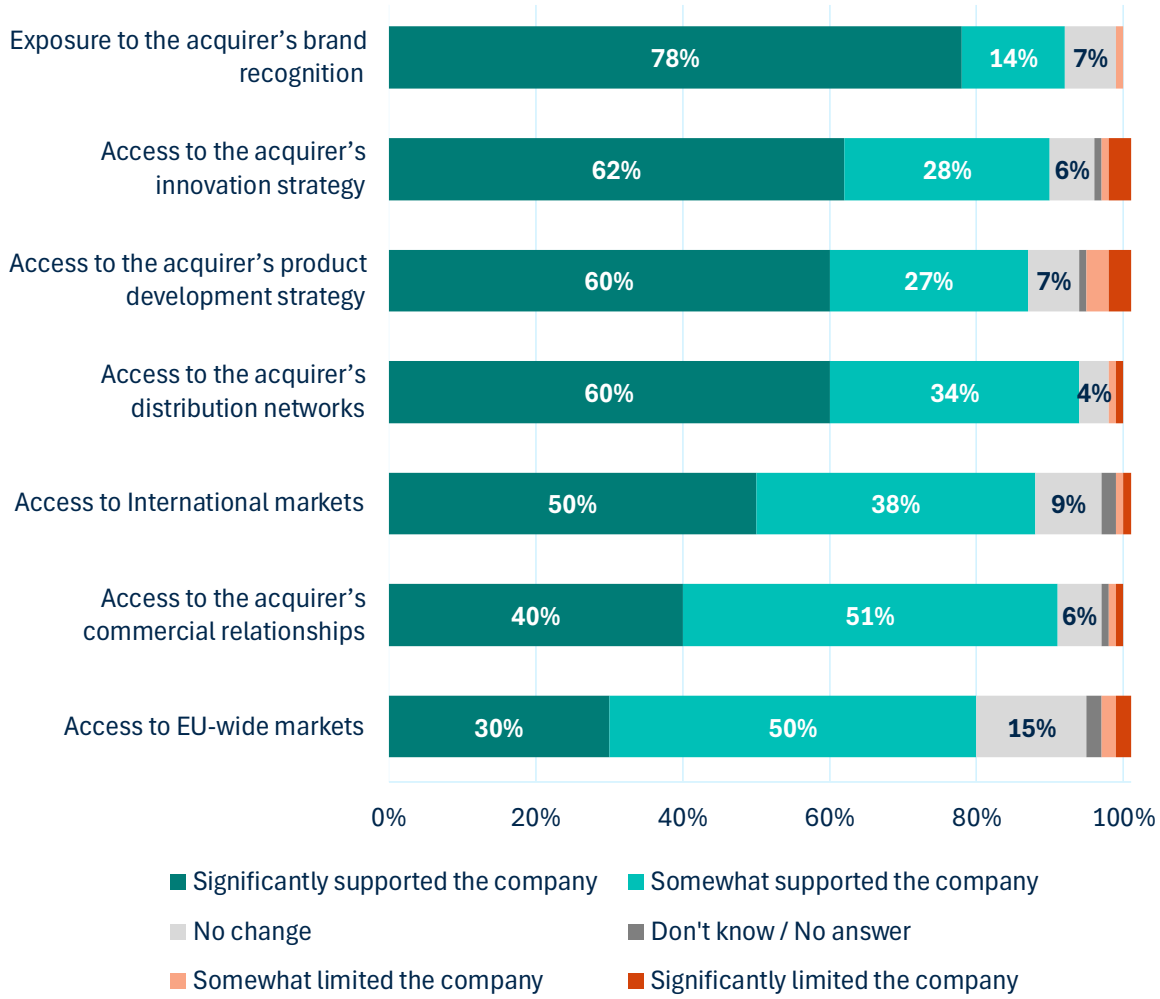
151. Acquisition may help a start-up reach customers by allowing it to draw on the acquirer's reputation and established commercial networks. These resources can address some of the barriers identified earlier, particularly the difficulty of building customer trust and establishing a presence in new markets.

152. The survey findings point to benefits through several channels. More than 90% of respondents reported a positive impact from each of the following: exposure to the acquirer's brand recognition, access to its distribution networks, and access to its commercial relationships. The reported benefits also extended beyond existing markets. 80% reported a positive impact on access to markets across the EU and 88% on access to international markets (Figure 5).

153. Respondents do not seem to believe that access to new geographic markets within Europe was much easier than to other economic zones. The similarity in responses across the two categories suggests that acquisitions help firms overcome barriers to expansion irrespective of geographic scope. In particular, the fact that reported benefits for international expansion are only marginally higher than those for expansion within the EU indicates that, while the Single Market was intended to remove many obstacles to cross-border activity, firms continue to face important commercial, operational, and scaling challenges when expanding across Member States (see Section 2.3.1).

154. Respondents also identified support for the products they could offer those customers. More than 80% reported benefits from access to the acquirer's innovation and product development strategies. Acquisition may therefore support both the commercialisation of existing products and their further development, examined in more detail in the next subsection. By contrast, very few respondents reported any negative effects on market access following the acquisition. In particular, only 2% to 6% of respondents indicated that their company had experienced limitations following the acquisition, suggesting that concerns regarding reduced commercial opportunities were rare.

Figure 5. Reported effects on the target after the acquisition



Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "What impact, if any, did the following have on your company following the acquisition?" (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.

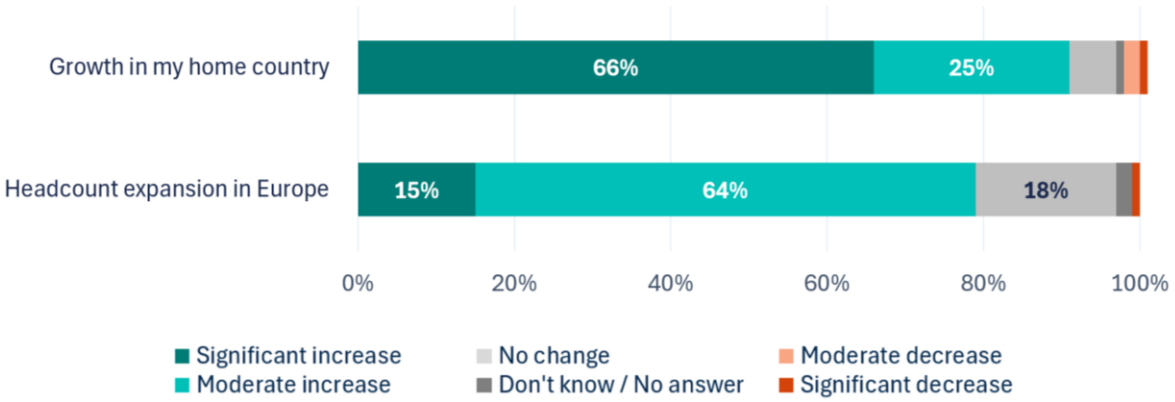
155. The open-ended survey question responses help explain how the acquisitions improved the distribution and reach of their products. One respondent explained that "*we have been able to leverage the relationship in our marketing and credibility, which has helped us win additional clients.*" Others noted that integration allowed them to reach a wider audience: "*we were able to combine our product vision with a larger platform, enabling us to expand our impact in global markets*" and "*we got to plug our tool into a massive global network.*"

156. Access to technical infrastructure and expertise could also help the acquired firm deploy its technology at scale. Another founder interviewee described *"immediately talking to the hardware team, the security team, the network team about bringing the* [technology] *into the Amazon's data centers and machine rooms and things like that […]. So, it was kind of like an immediate massive boost."* More generally, survey respondents also echoed this technological push as "*integration into a larger ecosystem enabled us to realize the full potential of our technology by leveraging synergies with greater resources, expertise, and global reach."* The financing evidence discussed

in the preceding subsection suggests that access to these capabilities may be accompanied by the financial backing needed to serve a larger market.

157. The survey also records growth following acquisition. Some 91% of respondents reported growth in their home country and 79% reported headcount expansion in Europe, while only 1% reported a decrease after the acquisition (see Figure 6). These outcomes are consistent with the reported improvements in market access and access to resources, although the survey alone does not directly assess how much of the growth was caused by the acquisition.

Figure 6. Target companies experiencing growth in home country and headcount expansion in Europe after the acquisition



Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "Following the acquisition, to what extent did your company experience the following outcomes?" (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.

158. While the industry evidence points to target growth, it does not necessarily imply more widespread access to the technology in the market. Where the technology becomes integrated into the acquirer's operations, it may no longer be offered independently. One founder interviewee explained that *"we lost access to our previous client base as we became an internal team."* In such cases, existing and potential customers may lose direct access to the product, even while the technology continues to be developed and used within the acquiring firm. However, reduced access to the target's product may also be accompanied by the development of alternatives by other firms. One interviewee suggested such a market response, as discussed in the following section.

159. The effect of acquisition on market access depends on how the acquirer deploys the technology. Integration may enable it to reach a wider user base through the acquirer's offering, while reducing the technology's availability to third parties.

160. Overall, the evidence suggests that acquisitions help start-ups to grow by accessing the acquirer's commercial network and resources. These findings are consistent with the role of complementary assets discussed in Section 2.1.1, while showing why organisational and strategic choices matter for their deployment, as in Section 2.1.2. Combining the parties' resources can support expansion, but the degree and form of integration influence which customers benefit from it.

161. The next section examines how these choices affect product development and innovation, including interview evidence on the development of alternative solutions by other firms.

3.3.3 Product development and innovation post-acquisition

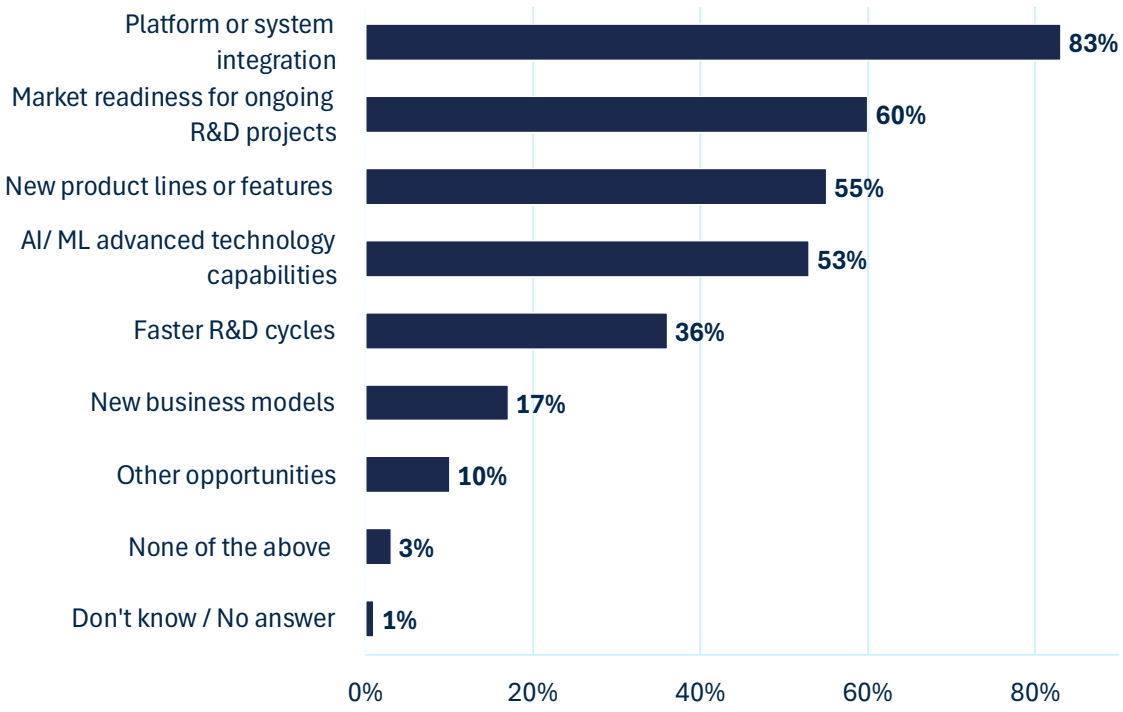
162. Most surveyed start-ups reported broader product scope and increased R&D investment after acquisition. Integration can also shift product development in line with the acquirer's priorities.

163. Access to additional technical expertise and complementary technologies may create opportunities to develop new products and accelerate the commercial use of technology. Integration into the acquirer's operations may also influence the direction of these activities by changing development priorities and the intended uses of the technology.

164. The survey indicates that acquisition can give start-ups access to new product and technology opportunities. More than 50% of the respondents identified at least one of the following: platform or system integration, new product lines or features, and advanced AI or machine learning capabilities. These findings suggest that combining the target's technology with the acquirer's capabilities can broaden the opportunities available to the product team.

165. The reported benefits also extended to existing research. Some 60% identified improved market readiness for ongoing R&D projects, and 36% reported access to faster R&D cycles. Acquisition may therefore support both the development of new products and the progression of existing research into commercial applications (see Figure 7). Only 3% of the respondents did not identify benefits from the acquisition for product development, R&D, technology capabilities, or new business opportunities.

Figure 7. New opportunities for the target company that would have not been feasible without the acquisition

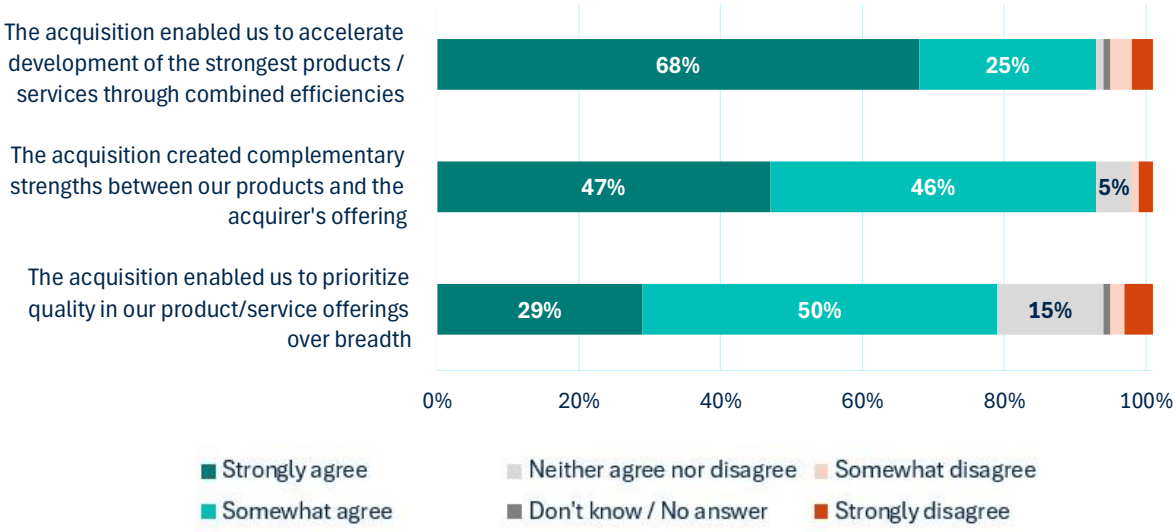


Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "Which, if any, of the following product or technology opportunities did the company gain access to after the acquisition that would not have been feasible independently?" (multiple responses). Full sample (n=105).

166. Besides, more than 90% of companies surveyed agree that the acquisition created complementarities between their products and the acquirer's offering, including 47% who strongly agreed. More than 90% also agreed that combined efficiencies accelerated the development of their strongest products or services, including 68% who strongly agreed (see Figure 8). As in previous sections, negative effects are extremely limited, with 3% to 6% of respondents disagreeing that the acquisition accelerated development, complementarity creation, or improvement of quality after acquisition.

Figure 8. Effects of acquisition on product and service offerings



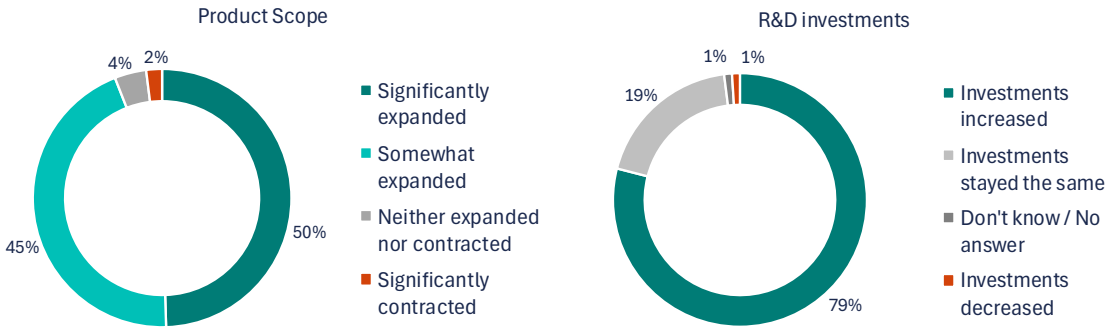
Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "To what extent do you agree or disagree with each of the following statements?" (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.

167. These reported benefits are consistent with the characteristics respondents identified as attracting their acquirers, including distinctive technologies, expertise, and commercial assets. The founder interviews illustrate how combining these capabilities can change the acquired team's role in development. One interviewee described gaining access to a broader range of activities and becoming involved earlier in product decisions: *"within Amazon's ecosystem, we gained access to a much larger scope of work, multiple product lines, future roadmap visibility, and the ability to influence product development from the earliest stages rather than being brought in as an external service provider."* Integration may therefore expand both the work available to the acquired team and its contribution to future products, consistent with the mechanisms discussed in Sections 2.1.2 and 2.2.2.

168. Alongside these opportunities, survey respondents reported changes in the resources devoted to development and the range of products they could bring to market. Some 95% reported an expansion in product scope, and 79% reported increased R&D investment. By contrast, only 2% reported a contraction in product scope and 1% reported a reduction in R&D investments (see Figure 9).

Figure 9. Impact of the acquisition on the target company's product scope and R&D investments



Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to questions "Overall, to what extent did the acquisition expand or constrain the scope of the product(s) your company could bring to the market?" and "Following the acquisition, did R&D investments in your company increase, decrease or stay the same?" (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.

169. Continued or increased investment also does not mean that development priorities remain unchanged. Where the target continues to serve external customers, development may focus on improving the product's functionality or extending its applications. Where the technology becomes integrated into the acquirer's operations, development may instead become more closely aligned with the acquirer's requirements. As one founder interviewee noted, "*the depth and sophistication of what we can do increased enormously… [however] the breadth of industries and clients we serve narrowed to one. We can no longer serve the broader market or diversify across different […] product categories.*" Another one echoed the same process, "*the acquisition focused us more. We had after the acquisition only one customer. So, we were more focused on its needs.*" The changes in customers served discussed in Section 3.3 may therefore coexist with continued or increased development of the underlying technology.

170. Those changes may also affect innovation outside the acquired firm. One founder interviewee described an industry initiative to develop an alternative after the acquired technology ceased serving external customers. The initiative was *"targeted to go after and solve the same problem that we* [the start-up] *solve"*. The interviewee considered that adoption by a large platform may have encouraged further innovation. This example illustrates that integration can coexist with the development of competing technologies, although it does not establish that the acquisition caused that development. Competition is dynamic and the target's technology is not necessarily the only way to solve a technical issue.

171. Overall, the evidence suggests that acquisition can support product development and innovation through access to complementary capabilities and financial resources, while also influencing the direction of these activities.

172. As noted earlier, while the economic literature identifies ambiguous effects of mergers on innovation incentives (see Section 2.1.1), the survey and interviews indicate a more positive effect, with respondents predominantly reporting improved market access, broader product scope and increased R&D investment. These findings reinforce the relevance of complementarities and

capabilities in supporting commercialisation and innovation (see Sections 2.1.1 and 2.1.2). Consistent with the empirical literature in Section 2.2.3, the industry evidence also does not suggest a general pattern of killer acquisitions but rather highlights that increased development activity can coexist with a redirection of innovation towards the acquirer's priorities (see Section 2.2.2).

173. The interview and survey findings nevertheless concern the target's reported activities, rather than changes in total R&D across the combined firms or innovation in the wider market. They do not establish whether the acquirer reduced investment elsewhere or whether the same development would have occurred without the transaction. These limitations matter when assessing the overall competitive effects of acquisition. The next section considers the target's realistic prospects in the absence of the transaction.

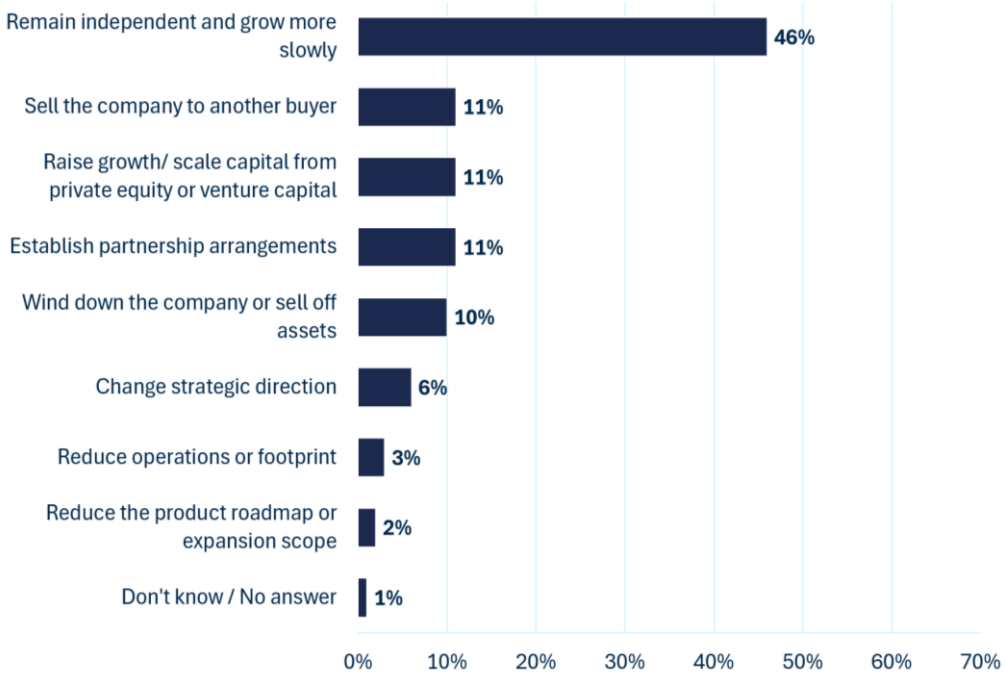
3.4 Counterfactual scenarios

Less than half of the founders surveyed expected continued independent, albeit slower, growth without acquisition, as start-ups faced funding constraints that could have limited expansion or threatened survival.

174. Assessing the effects of acquisition requires considering the counterfactual scenario, meaning what would most likely have happened to the start-up absent the acquisition. Continued independent growth is one possibility, but the alternatives may also include different financing arrangements or a sale to another buyer. As emphasised in Section 2.4, the realistic counterfactual depends on the firm's commercial prospects and its ability to secure the resources needed to develop and deploy its products.

175. Less than half of the survey respondents considered that their firm would have remained independent and continued growing, likely at a slower rate, without the acquisition. Other anticipated paths included a sale to another company (11%), raising capital from private equity or venture capital investors (11%), or entering into partnership agreements (11%). Some respondents envisaged a contraction or reorientation of the business: 10% identified selling assets or winding down the company and 5% reducing operations or expansion, while 6% anticipated a change in strategic direction (Figure 10).

Figure 10. Likely evolution of the target company without the acquisition



Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "What is the most likely path the company would have taken if it had not been acquired? Please choose the option that best reflects what you believe would have happened given the situation at that time" (single response). Full sample (n=105).

176. The interviews illustrate why remaining independent would not necessarily have meant following the same growth trajectory. One founder considered that further funding could probably have been secured, but on less favourable terms and with more limited expansion: "*realistically, we would have found it challenging to raise money but we probably would have scraped through and done it*". The anticipated outcome was *"much slower growth, probably constrained to the UK markets."* In this case, an independent path remained possible, but the resources available would have limited the pace and geographic reach of the development. One founder summarised that "*the reality is that the acquisition offered our team stability, resources, and the ability to work on cutting-edge products at a scale that would have taken many years to achieve independently — if ever.*"

177. This distinction connects the counterfactual assessment to the funding constraints discussed in Section 3.2. The availability of some form of financing does not mean that a firm could have secured sufficient funds for its planned expansion. Continued operation does not mean sustained growth. It is therefore necessary to assess the target's realistic prospects, and which alternative funding or partnerships would have supported its development.

178. Other founder interviewees questioned whether their businesses would have continued operating at all. One considered that the company might not have survived the COVID pandemic without acquisition, stating: *"I don't think we would exist today."* Another described a subsequent decline in venture capital funding in the company's sector, which cast doubt on the availability of financing for continued independent growth. These experiences highlight the potential relevance of external

shocks and changing funding conditions alongside the firm's underlying technology and commercial prospects.

179. Overall, the survey and founder interviews indicate that start-ups' likely prospects without acquisition differed substantially. Continued independence could have involved slower or more limited growth, while other possibilities included alternative financing, partnerships, another buyer or a contraction of activities. This diversity reinforces the literature's emphasis on a genuine case-by-case assessment, grounded in each target's commercial prospects, resource constraints and realistic alternatives to acquisition (see Section 2.4). The findings are also consistent with the literature presented in Section 2.1.3, showing that financial constraints can prevent viable projects from being fully developed. They suggest that acquisition may have enabled some firms to sustain or expand activities beyond what was feasible independently, although these retrospective assessments do not establish what would have actually occurred.

3.5 Influence of the prospect of acquisition

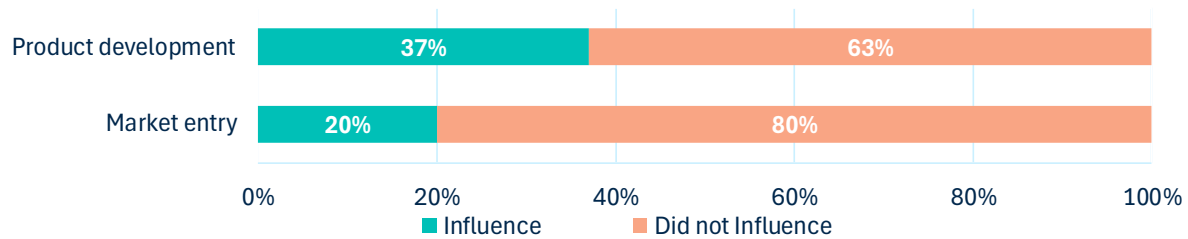
According to founders, acquisition prospects can influence early-stage product development for start-ups and, to a lesser extent, the decision to enter the market.

180. The economic literature on the influence of the prospect of acquisition on competition, developed in Section 2.2.2, is not fully consistent and conclusive but suggests that the prospect of acquisition may influence a start-up's decisions before any transaction takes place, such as the decision to enter a market, or subsequent choices about product development and innovation.

181. Although the scale of the phenomenon appears to be limited, the survey provides some support for a positive influence of the prospect of acquisition on market entry, product development and incentives to innovate.

182. Overall, 20% of respondents reported that the prospect of acquisition by a large market player influenced their decision to enter the market. The reported influence was more pronounced for product development, with 37% of respondents reporting that acquisition prospects had affected their strategy (Figure 11).

Figure 11. Influence of the prospect of being acquired by a large market player on the target company's product development and market entry strategies



Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to questions "Did the prospect of being acquired by a large market player influence your pre-acquisition product development strategy?" and "Did the prospect of being acquired by a large market player influence your decision to enter the market?" (single response). Full sample (n=105).

183. The following discussion first examines how acquisition prospects relate to market entry and access to finance. It then considers their influence on development priorities and the motivation to innovate.

3.5.1 Influence of exit prospects on market entry decision

While the prospect of an acquisition may influence the decision to enter the market, for some founders it became relevant when financing needs increased and investors sought an exit.

184. The finding that acquisition prospects influenced market entry for 20% of respondents is consistent with the "entry for buyout" mechanism discussed in Section 2.2.2. For these firms, the possibility of a later acquisition formed part of the environment in which the decision to enter was made, although this does not establish that an eventual sale was their primary objective.

185. One way acquisition prospects may influence entry is by making a new business easier to finance. Of the 21 individuals who reported that acquisition prospects had influenced their entry decision, 13 said that acquisition prospects made it easier to attract investment or obtain funding, while 10 reported increased incentives to enter the market. These responses suggest that acquisition prospects may influence entry through access to financing, as well as through the attractiveness of the potential exit itself.

186. The founder interviews illustrate why an eventual acquisition should not necessarily be interpreted as evidence of an initial exit plan. Some founders described entering the market to develop a solution or build a business they wished to continue operating. As one founder explained: *"We didn't have any grand exit plan because we just absolutely love what we're doing, and we wanted to continue doing it."* For such firms, acquisition could become relevant as the business developed, rather than motivating its creation.

187. External investment could change the importance attached to an eventual exit. One founder explained that *"as soon as you take on investors, you are bound to that. You know, you are bound to an exit of some sort and, you know, as a founder, you feel that pressure strongly."* This was also supported by another founder who had not used VC funding. He explained that "*had we taken VC money, there would have been pressure to either scale rapidly toward an IPO or position for acquisition.*" This suggests that financing and exit prospects can become closely linked during growth: investment supports continued development, while investors' expectations influence the options available to founders.

188. Increasing capital requirements could also make acquisition a means of pursuing the founder's original ambition. One founder interviewee explained that *"we started to see that the pockets were not deep enough"* and subsequently viewed acquisition as necessary *"for us to succeed in our dream"*. In this case, acquisition offered a way to continue the underlying project, which is also in line with the funding constraints discussed earlier in Section 3.2.

189. The evidence suggests that acquisition prospects can influence market entry from the outset or become more important later as financing needs and investor expectations evolve. Acquisition should therefore not necessarily be interpreted as the founder's initial objective: it may instead become a means of securing resources to pursue the business's original ambitions.

190. These findings are consistent with the entry for buyout mechanism discussed in Section 2.2.2.1, whereby the prospect of a profitable acquisition can increase expected returns and encourage entry and innovation. The survey suggests that this mechanism is relevant to some firms, including through improved access to funding, but does not establish that it applies generally or that acquisition was their primary motivation. The literature also identifies countervailing effects: anticipated absorption can discourage adoption and financing of entrants, while repeated acquisitions may entrench incumbents. The evidence collected here does not establish or rule out these wider effects.

3.5.2 Influence of acquisition prospects on start-up's product development and innovation

According to the respondents, the prospect of acquisitions had an influence on the start-up product development strategy. It encouraged faster innovation and the development of products that could be integrated with buyers' technologies, rather than discouraging the development of competing products.

191. Among the 39 respondents who reported an influence on product development strategy, most prioritised products or functionalities that complemented potential acquirers' offerings. Around half said they prioritised compatibility, integration, or interoperability with potential acquirers' products or services.

192. The reported influence also extended to the pace and commercial direction of development. Within the same group, the majority also indicated that potential acquisition reportedly accelerated product development, innovation, and redirected efforts towards customer needs or markets that were attractive to potential acquirers. Within this group, the reported influence therefore more commonly involved developing complementarities or accelerating innovation than avoiding direct competition. While these findings do not rule out the concern that acquisition prospects discourage the development of competing products in individual cases, they do not support treating this as a general pattern (see Section 2.2.2).

193. One founder interview illustrates this distinction. The founder initially approached the eventual acquirer as a potential customer and, when asked whether the business had deliberately avoided developing products that would threaten large firms, explained: *"I don't think we thought much about it."* The company's positioning instead reflected the demand it sought to serve, with competition primarily coming from other start-ups. This suggests that a complementary product offering need not result from a deliberate decision to avoid competing with an incumbent. It can be the result of an adjustment to prospective demand.

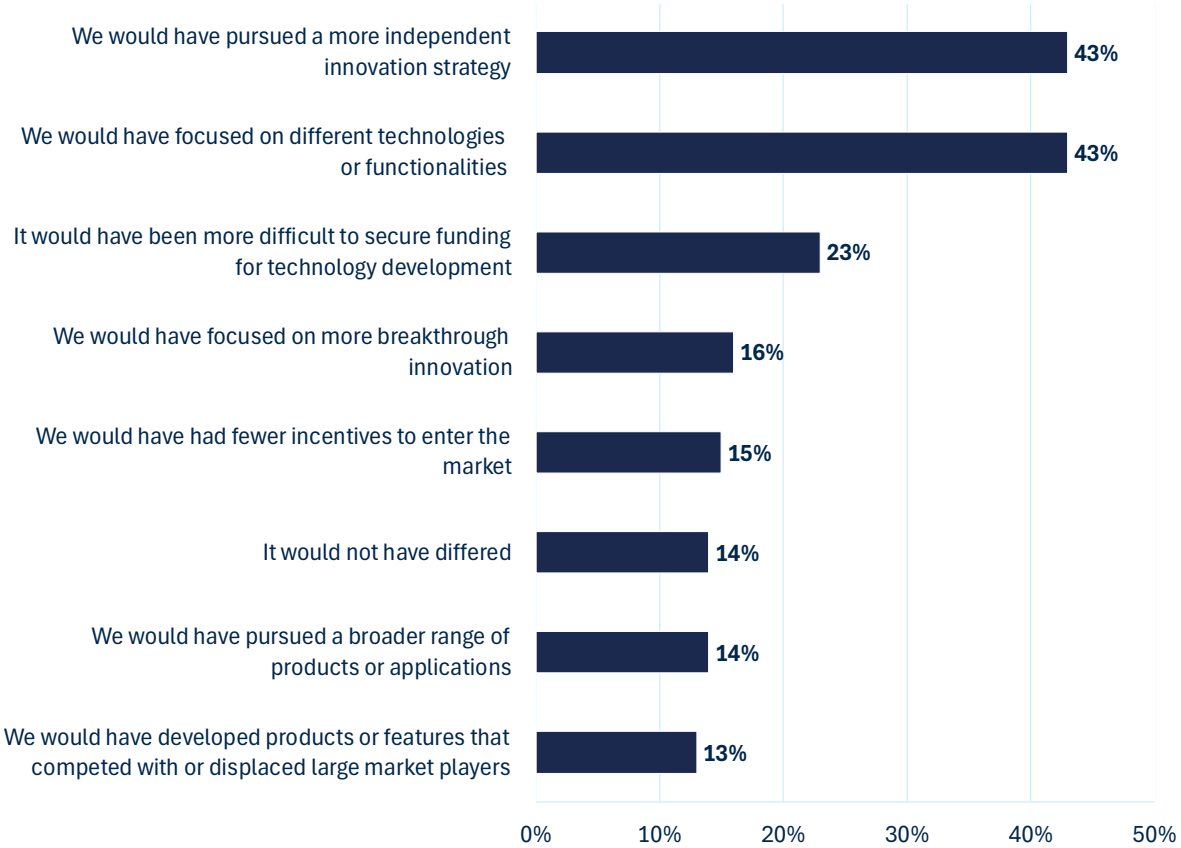
194. The full-sample responses provide an additional perspective by asking how development might have differed without the possibility of acquisition by a large market player.

195. Responses across the full survey sample provide further insight into how innovation priorities might have differed without the possibility of acquisition by a large market player. In that scenario, 43% of respondents said that they would have focused on different technologies or functionalities, and an equal share would have pursued a more independent innovation strategy. This suggests

that acquisition prospects can meaningfully influence the direction and positioning of innovative activity.

196. Notably, a larger share of respondents pointed to changes in technological focus and strategic orientation than to stronger competitive rivalry: only 13% said that they would have developed products or features that competed more directly with, or displaced, large market players (Figure 12). Other effects were also more frequently cited, including greater difficulty securing funding for technology development (23%), more breakthrough innovation (16%), fewer incentives to enter the market (15%), and a broader range of products or applications (14%). Overall, the evidence indicates that acquisition prospects affect both innovation incentives and innovation direction, with complementarities and strategic alignment appearing to play a more prominent role than the avoidance of direct competition.

Figure 12. Differences in innovation and product development strategy in the absence of the prospect of acquisition by a large market player



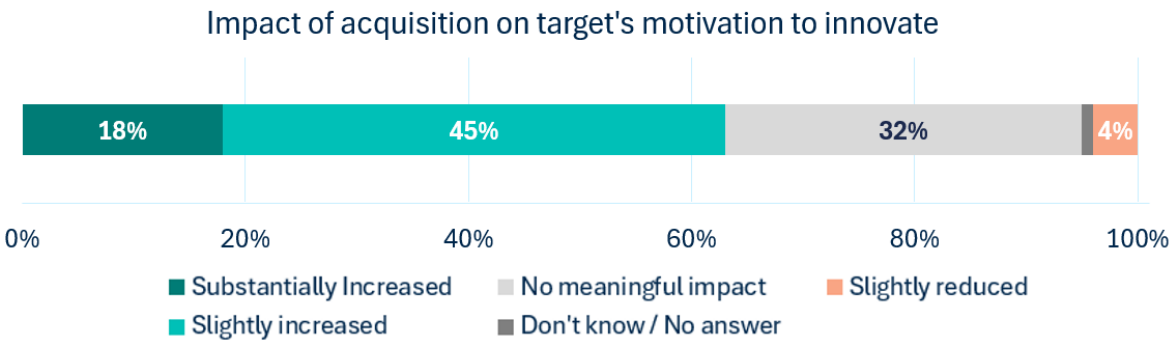
Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "In which of the following ways, if at all, would your innovation and product development strategy have differed if acquisition by a large market player had not been a possibility?" (multiple responses). Full sample (n=105).

197. Changes in development priorities also go with changes in motivation to innovate and the intensity of the effort. Across the full sample, 63% reported that the prospect of acquisition increased their motivation to innovate, including 18% who reported a substantial increase (Figure 13). Some 32% reported no meaningful impact, while 4% reported a reduction. These findings suggest that the

prospect of being acquired may strengthen start-ups' motivation to innovate, even where it also influences the direction of their product development.

Figure 13. Impact of the prospect of acquisition on the target company's motivation to innovate



Source: BRG analysis based on Ipsos data.
Note: Tech company founders' and senior leaders' responses to the question "Prior to your company's acquisition, to what extent, if at all, did the potential acquisition of your company affect your company's motivation to innovate?" (single response). Full sample (n=105).

198. Taken together, these findings suggest that acquisition prospects can influence both the direction of start-up innovation and founders' motivation to innovate. Respondents more commonly reported accelerating development and aligning products with potential buyers' offerings than avoiding direct competition. This is consistent with the literature in Section 2.2.2 showing that acquisition prospects can encourage innovation towards technologies that complement potential acquirers' existing products.

199. The literature also explains that acquisition prospects may divert effort from more disruptive technologies capable of generating independent competitive pressure (see Section 2.2.2). The survey provides only limited support for this concern: relatively few respondents reported avoiding competing products or indicated that they would have competed more directly with large firms absent acquisition prospects.

3.6 Start-up ecosystems and the regulatory environment

Industry accounts suggest that acquisitions can strengthen start-up ecosystems through knowledge sharing, reinvestment and new ventures, while highlighting the uncertainty, delays and operational pressures that regulatory reviews can create for start-ups.

200. Beyond their effects on the parties involved, acquisitions may influence the wider environment in which start-ups emerge, develop and obtain funding. The literature identifies channels through which acquisition opportunities can affect entrepreneurial incentives, knowledge diffusion and investment, while recognising that these effects depend on market conditions and acquisition policy (see Sections 2.2.2 and 2.2.3). The following subsections draw on the survey and interviews to examine two related dimensions: the contribution of acquisitions to wider start-up ecosystems, and founders' experiences of the regulatory environment governing these transactions.

3.6.1 Start-up ecosystems and role of acquisitions

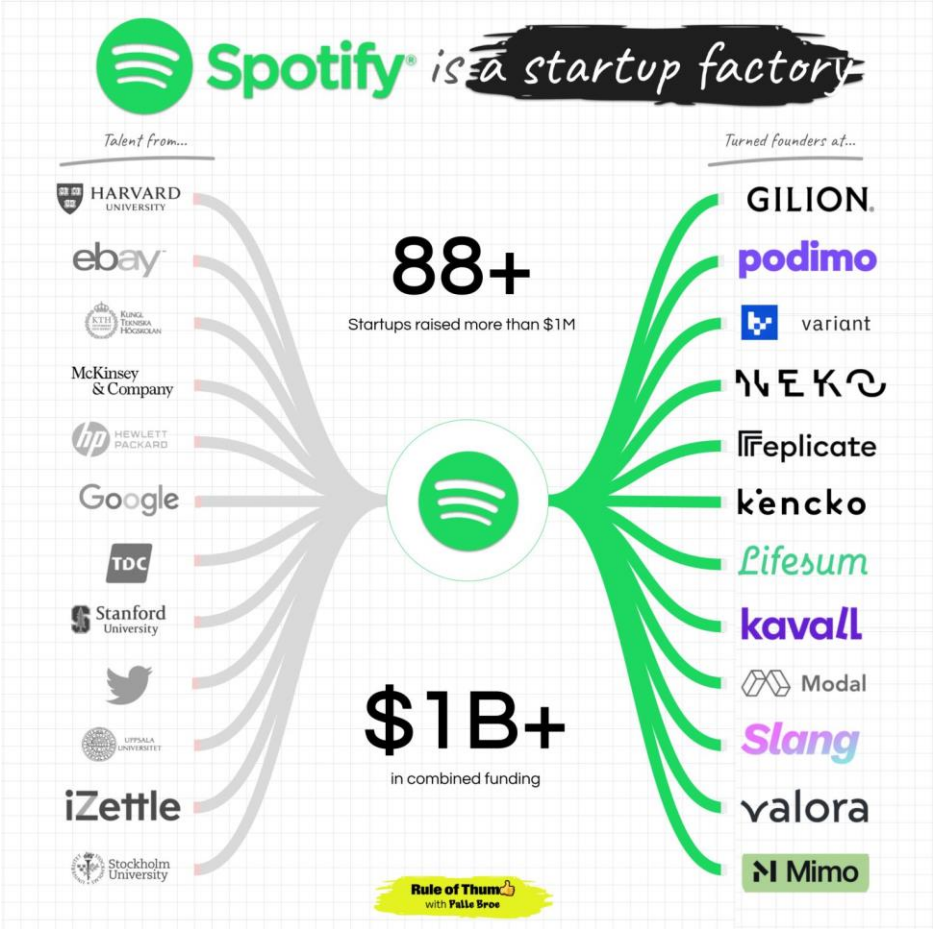
Acquisitions support the transfer of knowledge and capital beyond the acquired firm, with benefits for the local economic activity and the development of start-up ecosystems or clusters.

201. The effects of acquisition may spill over beyond the acquired business through the experience gained by its employees and the resources available to support subsequent ventures. In other words, acquisition may lead to technology transfers from the acquirers to the target and its local ecosystem. The survey and interviews identify several ways in which expertise and capital can circulate between firms, alongside reported benefits for local employment and commercial activity.

202. Across the founder interviews, one common topic brought up was the concept of the start-up ecosystems. These are the entrepreneurial environments in which the creation of start-ups occurs. They encompass elements such as "*talent availability*" and a "*shared knowledge base*", but, as explained by a founder, it can be more generally described as a "*flywheel*" in which "[a company] *created talent, talent created start-ups, start-ups attracted multinationals, multinationals attract more talent, talent creates more start-ups.*"

203. Spotify is an example of such a dynamic: data from Harmonic shows that former employees have created more than 88 start-ups, amounting to more than 1 billion USD in funding, as illustrated by Figure 14.

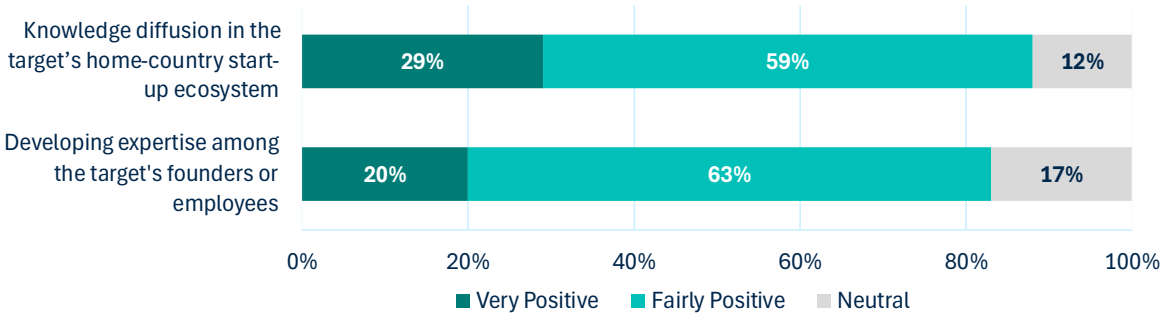
Figure 14. Spotify's impact on the start-up scene



Source: Palle Broe's LinkedIn post.[114]

204. The survey also sheds light on this dynamic. Respondents generally viewed acquisitions and exits as beneficial for entrepreneurial expertise and knowledge diffusion. Overall, 83% reported a positive impact on developing expertise among founders or employees, including 20% who considered the impact very positive. For knowledge diffusion across the start-up ecosystem in their country, 29% reported a very positive impact and 59% a fairly positive impact (Figure 15).

Figure 15. Impact of start-up acquisitions and exits on expertise development among company founders or employees



Source: BRG analysis based on Ipsos data.

[114] Original image can be found here.

Note: Tech company founders' and senior leaders' responses to the questions "What impact do start-up acquisitions and exits have on spreading knowledge across the start-up ecosystem in your country?" and "What impact do start-up acquisitions and exits have on developing expertise among founders or employees of your company?" (single response). Full sample (n=105).

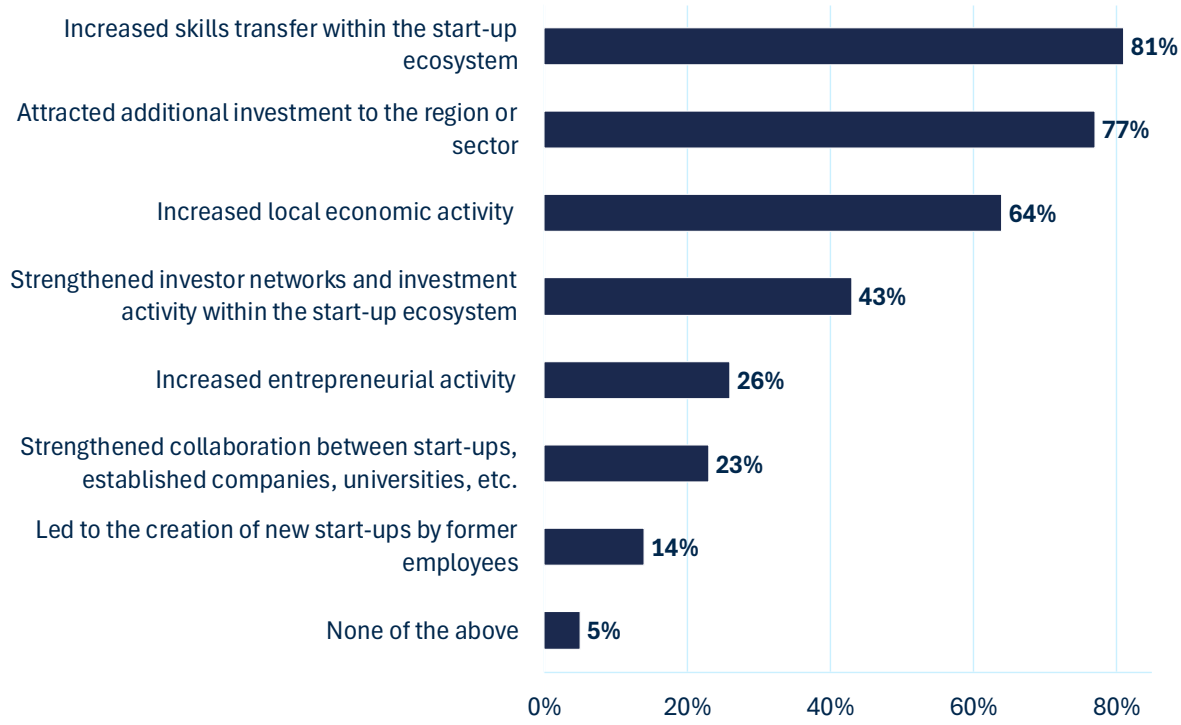
205. The founder interviews illustrate how experience gained after acquisition is invaluable for developing knowledge. One founder indicated that the experience of working within the acquirer provided the learning environment that helped the company understand how to scale: "*I think we've just learned what's required to operate at scale. I mean, Amazon's requirements are requirements of a big business that really is doing what we've wanted to do all along. You know, doing it for real, streaming live events that are really large, globally.*"

206. More generally, one founder described how the hands-on experience is essential for developing the required entrepreneurial expertise: "*from the talent development perspective, if you're part of the rocket ship, there's no better way to learn. So, when you see how to build a company, how to scale a company, you learn that experience to go and do that yourself. This is not an academic exercise, you have to be on the inside. You have to be hands on. You have to see it every day. And then you get that experience and the conviction and the confidence to be able to go and say, 'hey, I have this good idea, I'm going to do that now'.*"

207. Relatedly, operating previous businesses can also reveal future innovations. One founder explained that an operational difficulty in his previous start-up motivated the creation of the new company: "*I knew the domain. I knew there was a problem there*". Practical experience had helped the founder identify a market opportunity and develop a solution informed by existing commercial needs.

208. The wider benefits depend on how these skills and resources move beyond the original business. When asked about the effects of their own acquisition, 81% of survey respondents reported increased skills transfer within the start-up ecosystem, while 43% identified stronger investor networks and investment activity. Increased entrepreneurial activity was reported by 26%, and 14% identified the creation of new start-ups by former employees (Figure 16).

Figure 16. Positive impacts of the acquisition beyond the acquired company



Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "To the best of your knowledge, did the acquisition have any of the following positive impacts beyond your company?" (multiple responses). Full sample (n=105).

209. The founder interviews provide examples of these connections between successive ventures. One founder reported that former employees had established their own start-ups, some of which the founder subsequently supported through investment. Another interviewee described how people associated with an earlier successful technology company went on to establish businesses and become investors, including investors who financed the interviewee's own venture: "*you've got to have this value and wealth creation-kind of flywheel for the ecosystem to grow… you look at the early employees from, like, Skype – Jaan Tallinn is one of the most successful AI investors – they invested in us, for example. So, I think that's the flywheel that needs to happen for the ecosystem to grow.*" These experiences illustrate how the financial resources developed around one company can support activity elsewhere.

210. Survey respondents also identified effects on the wider region or sector. Additional investment was reported by 77%, while 64% identified increased local economic activity. The latter response covered employment creation, local spending, and support for local suppliers; it does not establish that each of these effects occurred in every case.

211. One founder interviewee illustrated how local employment and skills development can be connected. They described recruiting local apprentices and providing training through experienced employees of the acquirer, alongside access to skilled and comparatively well-paid roles, and further local spillovers. He indicated that "*the acquisition was transformative. The impact was big on Wales. Access to jobs, good training by Amazonians. There is not this sort of*

investment outside big cities (London, Milan, Paris). There are some start-ups starting already in Wales, we see more confidence for start-ups." The same interviewee reported that former employees had subsequently founded businesses or moved to other technology companies.

212. Taken together, the evidence suggests that acquisitions can form part of a wider entrepreneurial cycle rather than simply marking the end of a start-up's development. They often form part of a broader ecosystem dynamic in which entrepreneurial talent, managerial expertise, capital, and innovation enter a virtuous cycle. In this way, successful exits may reinforce the vitality of local entrepreneurial ecosystems while contributing to regional economic growth, technological development, and the creation of future innovative businesses. Ultimately, successful start-up ecosystems create conditions for wealth creation.

213. These experiences complement the literature on knowledge transfer and technological diffusion developed in Sections 2.1.2 and 2.2.3, while providing additional perspectives on entrepreneurial learning and local spillovers.

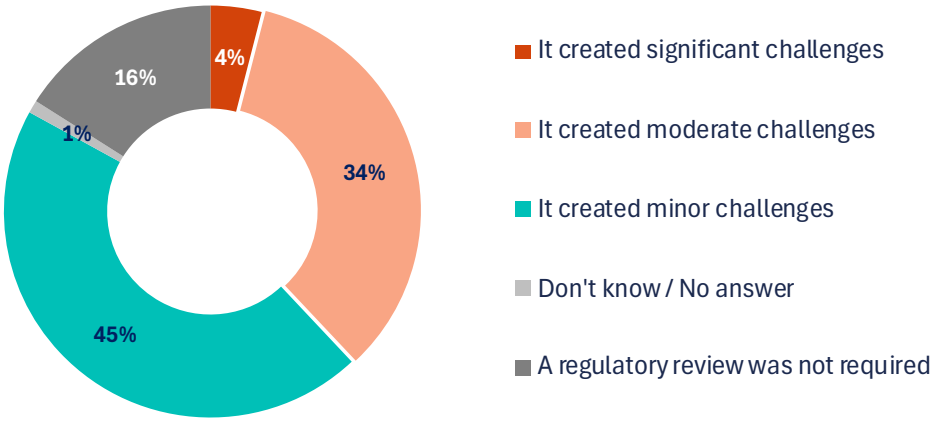
3.6.2 The regulatory environment for start-up acquisitions

Survey and interview evidence indicate that, in some cases, regulatory activity can overburden start-ups and impact them negatively.

214. While start-up acquisitions can create a virtuous cycle by fostering the entrepreneurial ecosystem in which founders reinvest capital, share know-how, and support the creation of new ventures, burdensome regulation may inhibit the development of such an environment.

215. The survey evidence indicates that regulatory review processes can create meaningful obstacles for start-ups prior to acquisition. While only 16% of respondents reported that no regulatory review was required, 83% experienced some degree of challenge arising from the review process. In particular, 38% of respondents indicated that regulatory review by an antitrust or competition authority created moderate to significant challenges for their company. A further 45% reported only minor challenges (Figure 17). These findings suggest that, even where reviews do not ultimately prevent a transaction, they can nevertheless impose material costs and uncertainty on start-ups during a critical stage of their development.

Figure 17. Challenges of regulation for start-ups



Source: BRG analysis based on Ipsos data.
Note: Tech company founders' and senior leaders' responses to the question "To what extent, if at all, did the regulatory review process (e.g., antitrust/competition authority review) create challenges for your company prior to the acquisition?" (single response). Full sample (n=105).

216. The experiences of interviewed founders reinforce these findings. Several founders highlighted the uncertainty and commercial disruption associated with regulatory reviews. One founder, when asked about concerns regarding so-called "killer acquisitions" and the potential marginalisation of smaller firms by large technology companies, explained: "*there were some concerns pre-acquisition about the true intentions* [of the acquirer], *but after acquisition I haven't thought about it. The way regulation works now is that it kills everything, not only the prospect of a big firm killing innovation.*" In particular, it was reemphasised that regulatory reviews can be especially damaging for young firms with limited financial resources and short operational runways: "*There were fears that the* [competition authority] *would kill the deal. The firm would have become a zombie as it cannot expand while it is reviewed. We prayed for the* [competition authority] *to not bring it in.*"

217. This concern is especially acute for start-ups, whose growth prospects, as previously described, often depend on access to financing and the ability to execute strategic plans in extremely short cycles without extended periods of uncertainty. Regulatory intervention, or the prospect thereof, may therefore have effects that extend beyond the transaction itself, potentially constraining the start-up's ability to operate and grow while a review is ongoing.

218. Interviewed founders also questioned whether heightened scrutiny of start-up acquisitions is proportionate given the size and commercial significance of many target firms. One founder noted: "*a regulatory framework needs to be very simple and very clear. I would focus more on big companies acquiring big companies not on the acquisition of start-ups. Start-ups are so small Amazon could have built the capabilities and they would have lost one year. So sometimes* [for start-ups] *it is just about the timing to enter the market.*"

219. These responses suggest that founders perceive regulatory reviews of start-up acquisitions as creating uncertainty, delay, and operational constraints, while questioning whether the benefits of intervention always outweigh the associated costs for small and rapidly evolving businesses. In general, it points to merger control having a chilling effect and, therefore, regulators should be

measured when screening which acquisitions may be problematic, as others may just be part of the business cycle.

220. The responses highlight founders' concerns about the uncertainty, delays and operational pressures associated with regulatory review. These accounts do not establish that intervention was unjustified or that merger control generally discourages entry and innovation. They however reinforce the literature's conclusion that acquisition policy should consider not only potential competitive harms, but also how restricting acquisition opportunities may affect start-ups' incentives to enter the market and innovate (see Section 2.2.2).

4 Conclusion

221. The economic literature and industry evidence together support a dynamic and balanced approach to assess start-up acquisitions. The literature identifies competing mechanisms through which acquisitions can affect investment, innovation and competition, without supporting a general presumption of harm or benefit. The quantitative survey and founder interviews provide a predominantly positive account of acquired firms' development, highlighting the practical importance of combining financial resources, complementary assets and organisational capabilities.

222. A central insight from the literature is that developing an innovative technology does not necessarily provide the means to commercialise it. Start-ups may lack the distribution networks, infrastructure and expertise needed to reach consumers and scale their products. The industry evidence illustrates this gap, and the role acquisition can play in addressing it: respondents reported improved market access and access to technical and operational support. These findings support the relevance of complementarities.

223. In Europe, these challenges are compounded by market fragmentation. The literature explains how differences in regulatory, administrative and commercial requirements increase expansion costs and limit the total accessible market for firms founded in Europe. Survey respondents and interviewees described corresponding difficulties in obtaining local market knowledge, establishing coverage and meeting national requirements. Their accounts suggest that an acquirer's networks and resources can help individual firms navigate these barriers, even if acquisition does not resolve the underlying fragmentation.

224. Commercial and technical capabilities must also be supported by financing. The literature shows that funding constraints can prevent viable projects from being developed, while a financially stronger acquirer can provide resources unavailable to the target independently. Founders' accounts of greater financial stability and support for continued development are consistent with this procompetitive channel. Their experiences also highlight the distinction between obtaining enough funding to remain operational and securing the resources needed for substantial expansion.

225. Whether these advantages translate into more innovation being brought to the market depends on the balance of effects identified by the literature. Innovation diversion can weaken incentives, while complementarities, technological spillovers and project consolidation can strengthen them. The survey points predominantly towards continued development: 95% of respondents reported broader product scope and 79% increased R&D investment. These outcomes are consistent with the fact that innovation rarely dropped among the firms surveyed. However, as the survey did not directly measure incentives or changes in total R&D across the combined firms, one cannot exclude the discontinuation of individual projects.

226. The direction of development matters alongside its intensity. As the literature recognises, increased innovation can coexist with closer alignment to an incumbent's priorities and a change in the technology's competitive role. The interviews illustrate this distinction: integration

sometimes reduced availability to external users while enabling further development and deployment within the acquirer. Improved outcomes for the target therefore do not alone establish benefits to competition. The assessment must also consider technological diffusion and the response of other market participants.

227. These effects can begin before a transaction takes place. The literature identifies acquisition opportunities as a potential incentive for entry and innovation, but also as a possible source of weaker independent competitive pressure. The survey provides some support for the entry for buyout effect, increased motivation to innovate and development towards complementary products. It offers only minimal support for deliberate avoidance of competing products, without establishing whether disruptive alternatives were forgone or how incumbents responded. The interviews also show that acquisition as an exit route may not be an initial objective: it can become important as financing needs and investor expectations evolve, requiring a liquidity event.

228. This changing trajectory reinforces the importance of a realistic counterfactual. The literature cautions against assuming either independent success or failure. The survey reveals a range of possible alternatives: continued growth, sale to another buyer, additional financing, partnerships, or contraction. These differences favour a case-by-case assessment of each target's capabilities, commercial prospects and access to resources.

229. The potential benefits also extend beyond the parties. The literature on knowledge transfer and technological diffusion provides a connection to the reported development of expertise, skills transfer, reinvestment and subsequent ventures. The survey and interviews add perspectives on these wider ecosystem or cluster effects, while stopping short of measuring acquisitions' overall contribution to regional growth or business creation.

230. Finally, the regulatory environment shapes the opportunities available to start-ups. The literature shows that acquisition policy can influence incentives to enter and innovate by changing the availability and value of an exit. The industry evidence adds a distinct perspective on the uncertainty, delays and operational pressures associated with regulatory review. These reported experiences do not mean that intervention was unjustified or directly test the theoretical effects of acquisition restrictions. They nevertheless highlight practical considerations for a proportionate review alongside the assessment of competitive harms.

231. The table below summarises the main connections between the literature and the industry evidence.

Table 1. Summary of the literature and industry evidence

TOPIC	LITERATURE	INDUSTRY EVIDENCE
Resources and capabilities	Acquisitions can combine complementary assets and alleviate financing constraints.	Respondents reported greater financial stability, market access and development resources.

TOPIC	LITERATURE	INDUSTRY EVIDENCE
EU fragmentation	Fragmentation increases expansion costs and limits scale.	Acquirers' networks and corporate resources helped firms navigate these barriers.
Innovation	Effects depend on incentives, capabilities and the direction of development.	Product scope and R&D generally increased, sometimes alongside closer alignment with the acquirer's priorities.
Acquisition prospects	Exit opportunities can encourage entry and innovation, but also weaken independent competition.	Some support exists for positive incentives, with limited evidence of deliberate avoidance of competing products.
Counterfactuals	Realistic alternatives must be assessed case by case.	The evidence indicates that equivalent continued independent expansion absent the merger should not be assumed.
Start-up ecosystems and regulation	Knowledge diffusion and acquisition policy can affect the wider entrepreneurial environment.	Respondents described ecosystem spillovers and pressures associated with regulatory review.

Source: BRG.

232. The survey and interviews therefore support the relevance of several positive mechanisms identified by the literature. Taken together, the literature and industry evidence favour a dynamic, balanced assessment that examines potential harms and benefits symmetrically, considering innovation incentives and direction, complementary capabilities and realistic alternatives to acquisition.

233. **In summary, the report draws four main conclusions: (i) the effects of start-up acquisitions are case-specific, and the evidence does not support a general presumption of harm: "killer acquisitions" appear confined to particular cases, although credible and cumulative threats warrant scrutiny; (ii) acquisitions can support innovation and scaling by combining complementary capabilities, financing and market access, consistent with the survey findings on product scope and R&D investment; (iii) Europe's fragmented capital markets and incomplete Single Market constrain start-ups' ability to scale independently, which warrant a realistic assessment of alternatives to acquisition essential; and (iv) merger review should evaluate each transaction on its facts, applying the same evidentiary standard to claimed benefits and potential harm.**

Appendix A Sample description of Ipsos survey

A.1 Survey approach and structure

A.1.1 This appendix describes the survey approach and the composition of the sample. This section summarises the methodology and other information relevant to interpret the main findings. Section A.2 presents the profile of the acquired companies, covering their technological specialisms, headquarters locations and geographical reach. Section A.3 describes the main features of the acquisition, including the transaction value, the type of acquirer and the acquisition date.

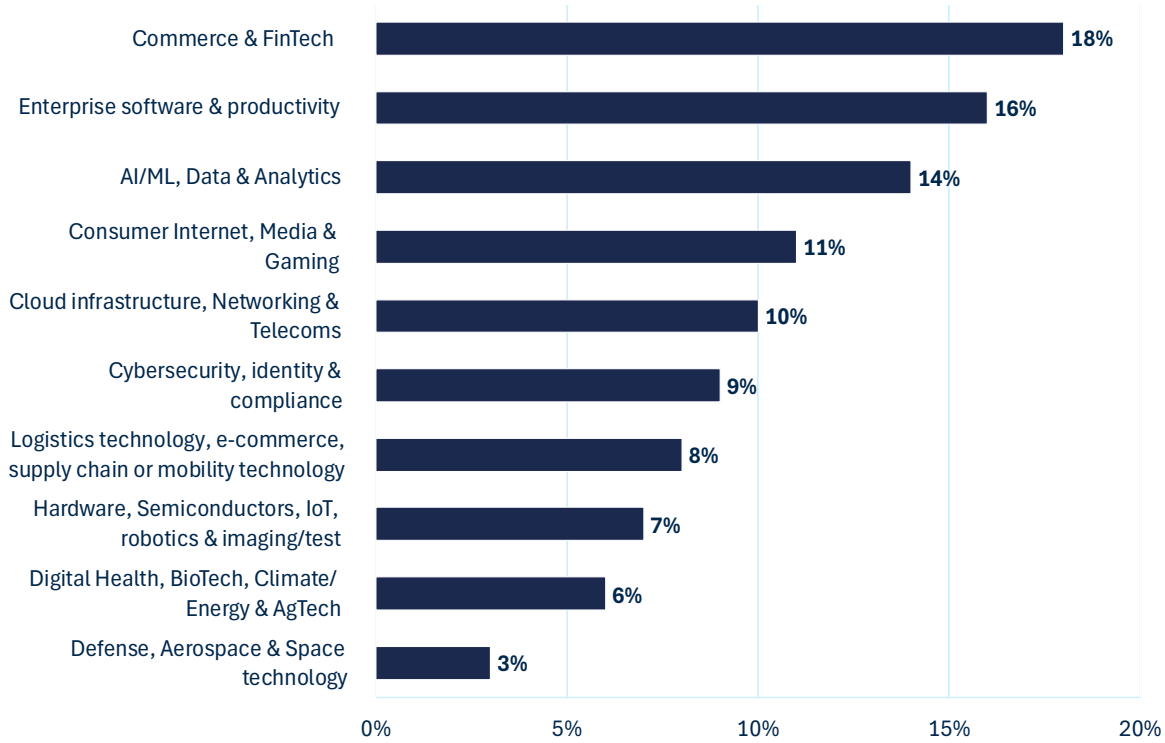
A.1.2 The study included 105 computer-assisted telephone interviews ("CATI") with technology company founders and senior leaders whose business had been acquired from UK, Ireland (UK and IR n=43), DACH (Germany, Austria, Switzerland) n=21, France n=10, Nordics (Sweden, Norway) n=11, CEE (Poland, Czech Republic) n=9 and Southern Europe (Italy, Spain, Portugal) n=11 Interviews took place between 17 August and 21 September 2026. Respondents were recruited through a B2B panel across a range of technology specialisms, deal values and geographical locations. Each interview lasted up to 30 minutes and included both quantitative and qualitative questions. No statistical weighting was applied, and the findings reflect only the perspectives of the surveyed founders and senior leaders whose companies had been acquired. They cannot be generalised to the broader population. Quotas based on country, deal size, and industry were used to ensure a blend in addition to the screening criteria and no post-hoc weights were used. In addition, it is important to note that respondents received incentives for their participation. For further details, please check the accompanying Ipsos report.[115]

A.2 Profile of the companies acquired

A.2.1 The sample covers a broad range of technology sectors, with no single one dominating. Figure A.1 shows the distribution of surveyed companies across technology fields. The three largest categories are Commerce & FinTech (18%), Enterprise Software & Productivity (16%), and AI/ML & Analytics (14%), which together account for just under half of respondents. Other areas represented include Internet, Media & Gaming (11%), Cloud Infrastructure & Networking (10%), and Cybersecurity, Identity & Compliance (9%). The sample also includes companies specialising in logistics and mobility technologies, hardware and semiconductors, and health and environmental technologies. Defense, Aerospace & Space Technology is the smallest category, accounting for 3% of respondents.

[115] The accompanying report can be found at: https://thinkbrg.com/insights/publications/the-impact-of-mergers-a-focus-on-digital-start-up-acquisitions-and-policy-implications-in-europe/

Figure A.1. Sample composition by technological specialism

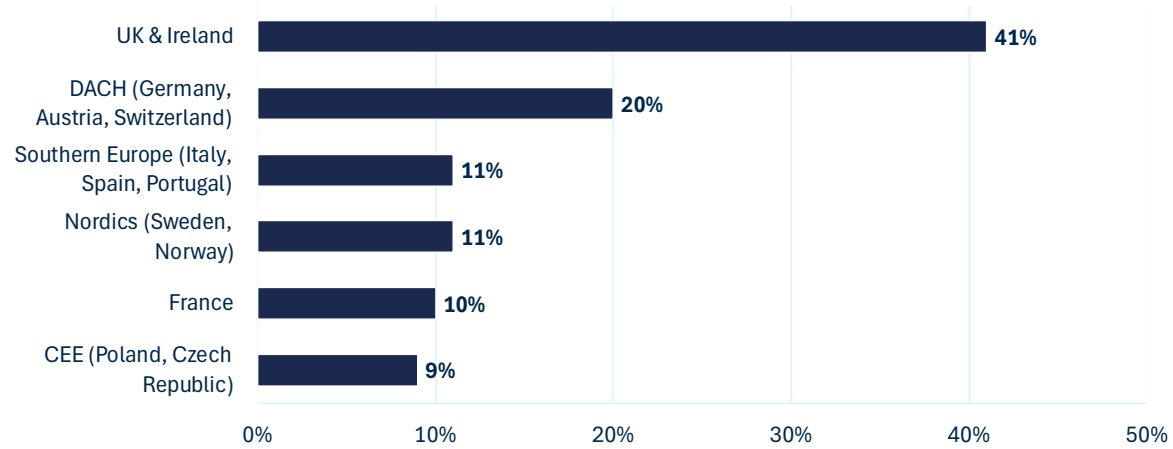


Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "Please select the industry most closely related to your company." (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.

234. At the time of acquisition, the companies' headquarters were located in several different European countries (Figure A.2). The UK and Ireland accounted for the largest proportion of the sample, with 41% of start-ups located in these countries, followed by the DACH region (Germany, Austria and Switzerland) with 20% of the companies. The remaining companies were evenly distributed across France, the Nordics, Central and Eastern Europe, and Southern Europe, with between 9% and 10% in each group. Thus, while the UK and Ireland formed the largest geographical group, the majority of surveyed companies were headquartered in mainland Europe (59%).

Figure A.2. Headquarters location of target companies prior to/during the acquisition

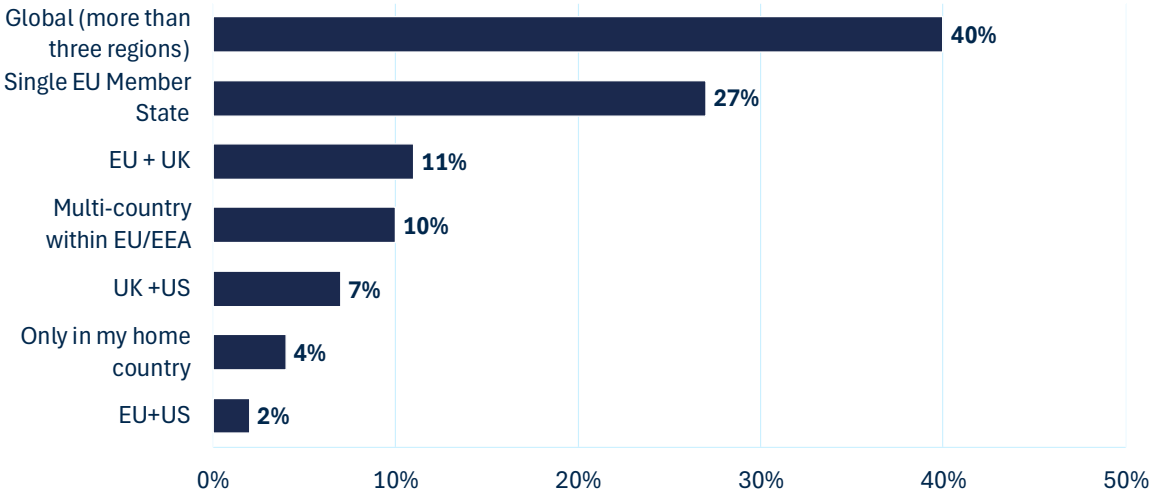


Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "Where were your company headquarters located prior to/during acquisition?" (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.

A.2.2 Headquarters location, however, presents only a partial picture of the geographical reach of the start-ups surveyed. Figure A.3 shows where their core operations were located prior to or during the acquisition. Although firms with global operations were the largest individual category (40%), most of the companies surveyed did not have a global footprint (60%). Moreover, the sample includes start-ups with a more geographically concentrated presence, with more than 30% operating within a single country. Only 10% of respondents reported that the acquired company was operating in multiple EU/EEA countries at the time of the acquisition.

Figure A.3. Targets' location of core operations prior to/during the acquisition



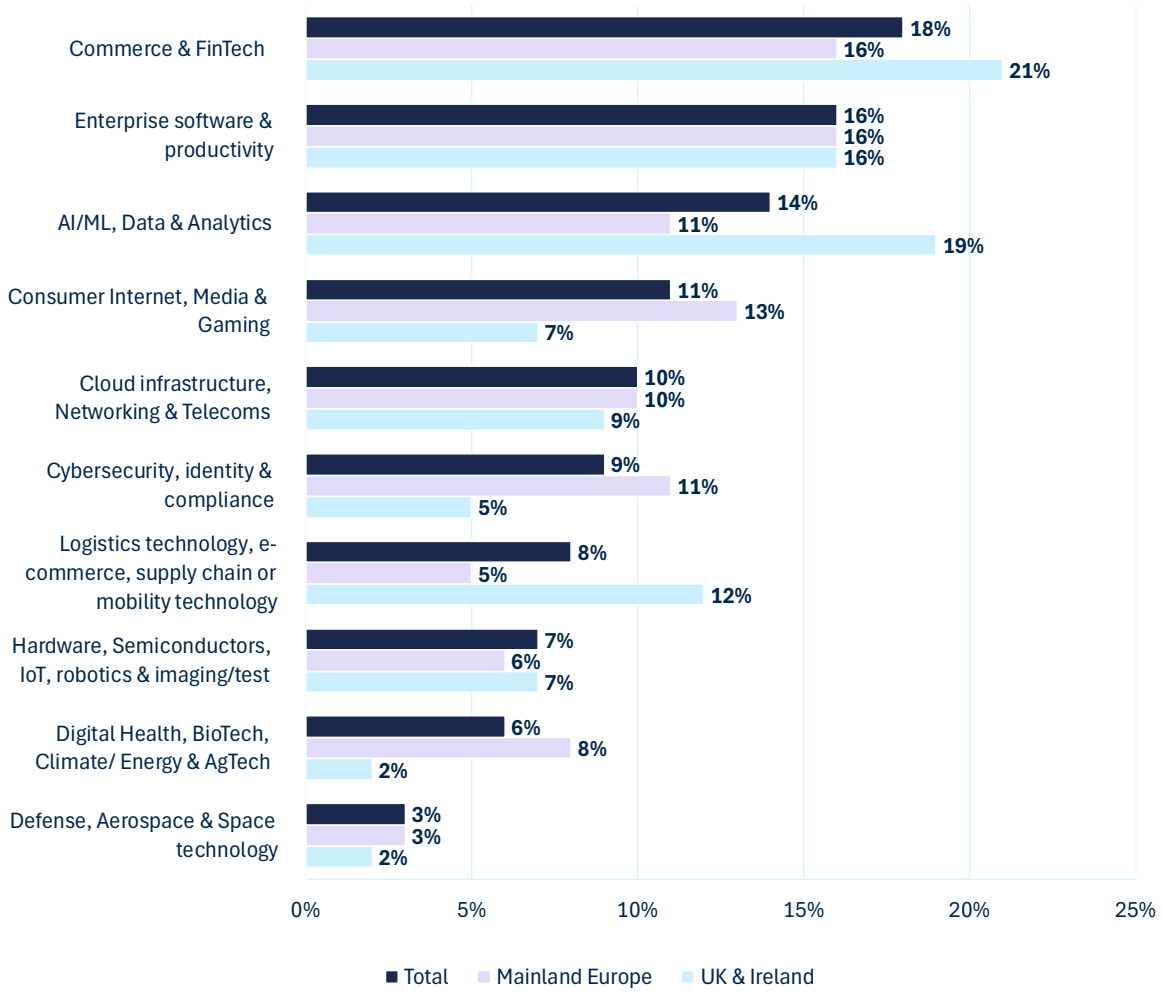
Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "Where were your company's core operations located prior to/ during acquisition?" (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.

A.2.3 The sample covers a broad range of technological fields in both the UK and Ireland and mainland Europe, with some variation in their relative shares (Figure A.4). While Commerce &

FinTech and AI/ML, Data & Analytics are more predominant in the UK and Ireland (21% and 19% respectively), they represent approximately one in five companies each, with the remaining firms distributed across other sectors. Firms operating in mainland Europe were more active than those in the UK and Ireland in Consumer Internet, Media & Gaming (13% versus 7%) and Cybersecurity, Identity & Compliance (11% versus 5%).

Figure A.4. Technological specialisms by geographical location



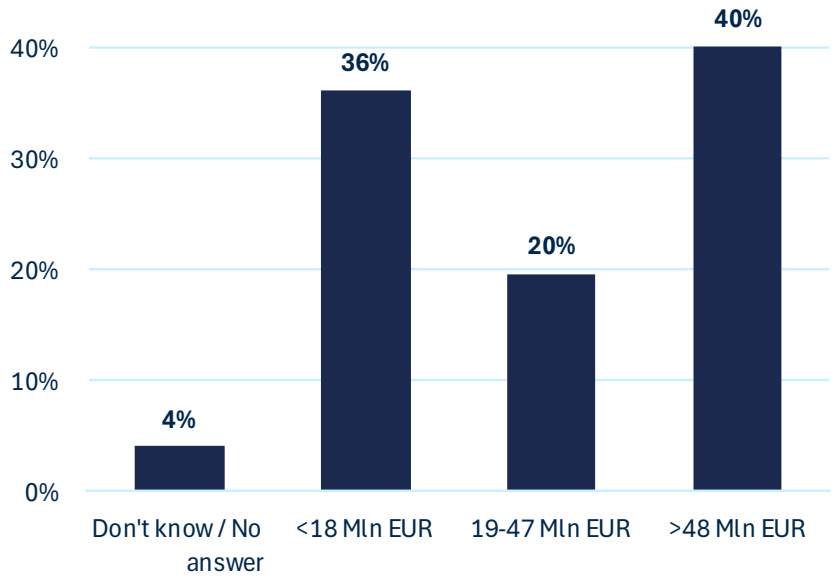
Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "Please select the industry most closely related to your company." (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.

A.3 Characteristics of the acquisitions

A.3.1 Among respondents who disclosed a value, 36% reported transactions below €18 million, 20% between €19 million and €47 million, and 40% above €48 million, or the GBP equivalent (Figure A.5). Four respondents declined to disclose this information.

Figure A.5. Sample composition by deal value

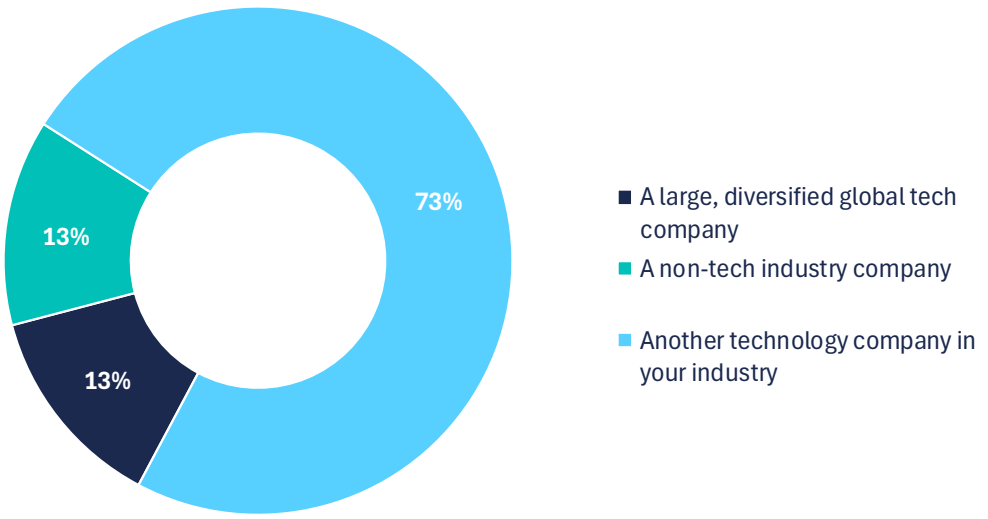


Source: BRG analysis based on Ipsos data.

1. *Note: Tech company founders' and senior leaders' responses to the question "What was the approximate value of your business at the time it was acquired?" Full sample (n=105). The "below €18 million" category combines two response brackets from the questionnaire: below €6 million (17%) and €7-18 million (19%). Their response brackets were below £5 million, £6-15 million, £16-40 million and £41 million or more. For consistency, all categories in the figure are labelled using the corresponding EUR-equivalent brackets, with the second and third GBP brackets combined. Exchange rates = 0.8572 GBP per EUR.*

A.3.2 Most companies in the sample (73%) were acquired by another technology company operating in the same industry. Large, diversified global technology companies and non-technology companies each accounted for 13% of acquisitions (Figure A.6).

Figure A.6. Type of acquirer

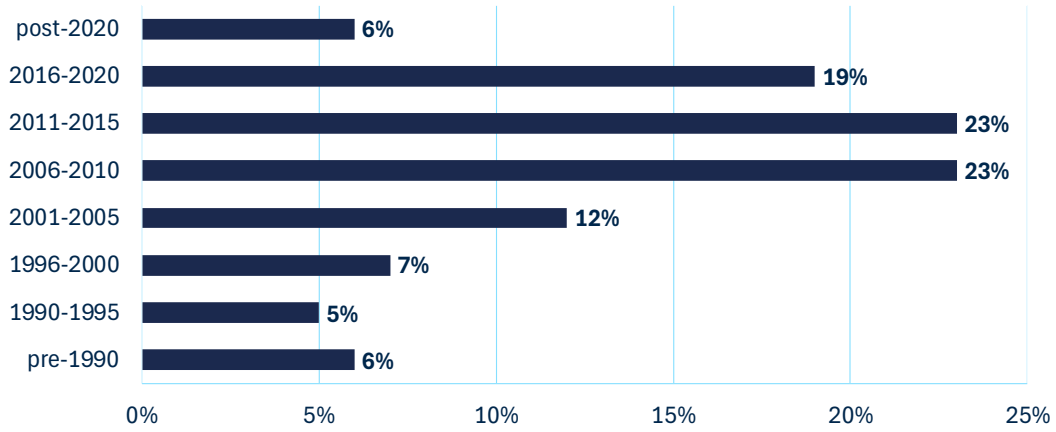


Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "Which of the following best describes the entity that acquired your company?" (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.

A.3.3 Figure A.7 shows when the acquisition took place. Notably, most of the transactions occurred during the period 2006-2020 (65%), while only 6% after 2020. This suggests that most respondents provided their perspective on the acquisition's effects several years later, offering a medium- to long-term view of its effects. This is particularly relevant for the competitive assessment of the transactions, as the survey captures factors that may take time to materialise. *Findings reflect founders' current recollections and post-hoc evaluations of past events.*

Figure A.7. Sample composition by year of acquisition



Source: BRG analysis based on Ipsos data.

Note: Tech company founders' and senior leaders' responses to the question "In what year was your company acquired?" (single response). Full sample (n=105). Percentages do not sum to 100% due to rounding.