Balancing Efficiency Gains and Market Power: Assessing When Competition Authorities Should Permit Acquisitions by Dominant Digital Platforms

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Abstract

This paper examines whether competition authorities should permit acquisitions by dominant digital platforms, using the Delivery Hero–The Chefz case in Saudi Arabia as its central case study. Drawing on multi-sided market theory and the General Authority for Competition's (GAC) enforcement record, it analyses how network effects, data advantages, and market concentration shape merger assessments. While the GAC's decision to block the transaction reflected legitimate structural concerns, outright prohibition was a disproportionate response that foreclosed credible efficiency gains and weakened long-term consumer welfare. An effects-based approach, supported by targeted behavioural and structural remedies, is advanced as the preferred regulatory framework. The analysis produces five implementable recommendations for reforming Saudi Arabia's digital merger control regime in a manner consistent with Vision 2030's investment objectives.

Keywords: *digital platforms, merger control, competition law, network effects, data concentration, Saudi Arabia, effects-based analysis, General Authority for Competition*

1. Introduction

The growing consolidation of digital markets has placed merger control at the centre of contemporary competition policy. Unlike traditional industries, digital platforms operate as multi-sided ecosystems with strong network effects, cumulative data advantages, and winner-takes-most competitive dynamics. These structural features make conventional antitrust analysis increasingly difficult to apply. As Katz and Shapiro (1985) established, network externalities create self-reinforcing market advantages that can rapidly foreclose rivals; that dynamic is significantly amplified in modern data-intensive platform environments.

Saudi Arabia's online food delivery sector illustrates these tensions sharply. With a Gross Merchandise Value of approximately USD 2.98 billion in 2024, projected to reach USD 3.5 billion in 2025 and to expand at a compound annual growth rate of 18 percent through 2030, the sector displays the hallmarks of a high-growth platform economy: concentrated incumbency, capital-intensive new entry, and intensifying regulatory scrutiny (Statista, 2024). For merger assessment purposes, the relevant market is online food delivery in Saudi Arabia, encompassing intermediation between consumers and restaurants via digital platforms. That market is further segmented between mass-market services, which compete primarily on price and delivery speed, and premium delivery services targeting affluent urban consumers through curated restaurant partnerships. In markets with this profile, merger control decisions carry particularly high stakes.

In 2021, Delivery Hero, a Berlin-based multinational operating HungerStation as its principal Saudi subsidiary, proposed the acquisition of The Chefz, a Riyadh-based platform specialising in premium food delivery. The General Authority for Competition (GAC) blocked the transaction, citing procedural non-

compliance and substantive concerns about market concentration. It subsequently granted conditional approval for an economically comparable acquisition of the same target by domestic incumbent Jahez. That divergence raises fundamental questions about the consistency, transparency, and proportionality of digital merger review in rapidly developing markets.

This paper asks: to what extent should competition authorities permit acquisitions by dominant digital platforms when efficiency gains may plausibly offset the risks of reduced competition? The central argument is that outright prohibition is a disproportionate response where efficiency gains are credible and competitive risks are addressable through targeted remedies. An effects-based approach, which evaluates the net welfare impact of a transaction rather than applying structural presumptions about market share or data accumulation, offers a more calibrated and legally defensible framework for regulators facing this challenge.

2. Background

2.1 The Importance of Competition Law Enforcement in Digital Markets

Digital markets present structural features that distinguish them from traditional markets and make competition law enforcement both more necessary and more complex. Platforms benefit from powerful direct and indirect network effects: the value of a service to users on one side grows as participation expands on the other. In food delivery, a larger consumer base attracts more restaurants, which draws in further consumers. Once established, this cycle is self-reinforcing and very difficult for rivals to disrupt. The phenomenon is closely related to market tipping, whereby a platform that achieves critical mass on both sides can rapidly foreclose competition, leaving users with fewer alternatives and reducing the price and quality pressures that drive platform performance (Rochet and Tirole, 2003).

Data accumulation deepens these advantages in asymmetric ways. Each transaction generates behavioural intelligence, including order histories, preference patterns, peak demand periods, and geographic distribution, that platforms use to refine pricing, optimise logistics, and personalise recommendations. These informational gains are cumulative and hard to replicate: a platform with millions of processed orders over several years possesses analytical depth that a new entrant cannot match in the short term regardless of capital. Left unregulated, such asymmetries entrench incumbency, raise structural barriers to entry, and progressively erode consumer choice (Crémer, de Montjoye, and Schweitzer, 2019).

Effective competition law enforcement is the principal institutional counterweight to these tendencies. By scrutinising mergers that could entrench dominance, mandating data access obligations, and prohibiting exclusionary conduct, authorities preserve the contestability that drives innovation and consumer welfare. This is supported by the empirical record: markets in which enforcement has been vigorous, including parts of the European Union following the Google Shopping and Android decisions, have generally displayed more dynamic entry conditions than those in which enforcement remained permissive. For Saudi consumers, the practical implications are clear. Competitive pressure translates into lower delivery fees, shorter delivery times, broader restaurant access, and continued investment in platform features.

2.2 The Role of Competition Authorities in Enforcing Competition Law in Digital Markets

Competition authorities are independent regulatory bodies with a statutory mandate to preserve fair competition, protect consumer welfare, and maintain market contestability. In digital contexts, this mandate includes monitoring platforms for exclusionary or exploitative conduct, reviewing mergers that could substantially lessen competition, and developing regulatory frameworks adapted to multi-sided platform economics. The Stigler Committee on Digital Platforms (2019) identified the development of specialised institutional capacity in digital market regulation as among the most urgent priorities for competition authorities globally.

In Saudi Arabia, the GAC operates under the Competition Law issued by Royal Decree No. M/75 on 6 March 2019, which replaced the earlier 2004 regime and entered full force on 24 September 2019. The law confers broad jurisdictional reach, extending to practices that originate outside the Kingdom but produce domestic anti-competitive effects. Article 7 establishes the pre-merger notification regime. Notification is required at least 90 days before completion where three cumulative financial thresholds are met: combined worldwide annual sales exceeding SAR 200 million; target worldwide annual sales exceeding SAR 40 million; and combined domestic sales exceeding SAR 40 million. The 2025 Merger Review Guidelines refined the application of these thresholds and explicitly recognised digital-market factors, including network effects, data concentration, and multi-sided market dynamics, as relevant to competitive assessment (GAC, 2025; Baker Botts, 2025).

The benefits of rigorous enforcement are well-established in theory and increasingly supported in practice. Sustained enforcement maintains competitive pricing, stimulates innovation, and reduces barriers for new entrants, as demonstrated by the competitive gains Keeta achieved in the Saudi food delivery market following the GAC's 2021 intervention. Nevertheless, digital market enforcement involves significant analytical challenges. Defining relevant markets is complex when platforms serve multiple sides simultaneously and cross-subsidise between them. Measuring dominance requires frameworks that go beyond conventional market share analysis to capture network effect intensity, data asset depth, and switching cost magnitude. The pace of technological change also frequently outstrips the pace of regulatory response. These tensions come into sharp focus in the Delivery Hero–The Chefz transaction (Whish and Bailey, 2021).

3. Case Study: The Delivery Hero–The Chefz Merger and Competition Enforcement in Saudi Arabia's Digital Food Delivery Market

3.1 Case Background and Digital Context

In 2021, Delivery Hero, a Berlin-based multinational with a dominant regional presence through subsidiaries including HungerStation, Talabat, and Carriage, pursued the acquisition of The Chefz, a Saudi-based platform focusing on premium restaurant delivery, through multiple attempts over the course of the year. The Chefz had built its competitive position on curated partnerships with high-end dining establishments and a concentrated base of affluent urban consumers, which generated above-average order values and strong repeat usage.

This transaction must be understood within the structural logic of multi-sided digital platform markets, where competitive advantage derives not only from price or scale but from data accumulation, network depth, and ecosystem integration. The strategic rationale was economically coherent. By absorbing The

Chefz's premium merchant relationships and high-value consumer data, Delivery Hero would have expanded vertically into an underserved market segment, enriched its cross-tier customer analytics, and realised operational efficiencies through shared logistics infrastructure. In aggregate, these gains had the potential to improve consumer outcomes, including shorter delivery windows, broader restaurant access, and more personalised recommendations, provided that competitive discipline was maintained.

Regulators and market participants nonetheless raised concerns that the transaction could accelerate market concentration and trigger market tipping dynamics. The combination of large-scale logistics infrastructure, extensive consumer datasets, and exclusive merchant relationships raised the possibility that the merged entity could achieve a position of structural dominance from which self-reinforcing network effects would permanently disadvantage rivals. While analytically grounded, these concerns had to be weighed against the counterfactual. The market's subsequent ability to absorb new entry, most visibly demonstrated by Keeta's rapid market penetration following the GAC's block, indicates that the tipping risk was real but not inevitable (KrASIA, 2024).

3.2 Investigation and Enforcement: The GAC's Analytical Framework

The GAC reviewed the proposed transaction under Article 7 of the Competition Law, which mandates pre-merger notification for transactions exceeding the prescribed financial thresholds. Its analytical framework moved well beyond traditional market share analysis, incorporating four principal theories of harm specific to digital ecosystems.

The first was market tipping: the risk that the merged entity could achieve a scale that rivals could not replicate in the medium term, creating structural entry barriers that would prove durable rather than transitional. The second was data concentration: integrating mass-market and premium consumer datasets would create predictive capabilities in pricing strategy, demand forecasting, and product recommendation that competitors without comparable data could not match. The third was exclusionary foreclosure: exclusive merchant contracts with premium restaurants could deny rivals access to high-value partnerships necessary to compete credibly in that segment. The fourth was structural entrenchment: the cumulative, mutually reinforcing effect of logistics scale, data depth, and network breadth on long-term market dominance. These concerns are compounded by the sector's significant barriers to entry, which include the capital requirements for building logistics infrastructure, the difficulty of replicating accumulated consumer and merchant data, the self-reinforcing character of network effects, and the brand loyalty that established platforms have cultivated among both diners and restaurant partners.

Each of these theories was analytically grounded and consistent with established digital competition scholarship (Rysman, 2009; Crémer et al., 2019). Regulators also noted the risk of a so-called killer acquisition, whereby a dominant platform acquires a nascent competitor not to integrate it but to neutralise a potential competitive threat, pre-empting innovation that might otherwise have challenged the incumbent's position. Crucially, proper merger assessment requires a counterfactual analysis: the competitive effects of the transaction must be evaluated by comparing the likely market outcome with the merger against the likely outcome without it. Their combined weight, however, must be assessed alongside a critical procedural limitation. Delivery Hero's failure to respond fully and promptly to the GAC's Requests for Information constrained the authority's ability to conduct a robust quantitative assessment of competitive effects. As a direct result, the GAC's analysis of potential efficiency gains, consumer welfare

improvements, and dynamic competitive responses remained incomplete. This procedural gap played a decisive role in shaping the outcome.

3.3 Regulatory Decision and Corrective Measures

In December 2021, the GAC formally rejected the proposed acquisition on two primary grounds. First, on procedural grounds: Delivery Hero's incomplete responses to Requests for Information limited the regulatory transparency necessary for a full competitive assessment. Second, on substantive grounds: the proposed integration of The Chefz into Delivery Hero's ecosystem was assessed as posing structural risks to market competition that outweighed the potential efficiencies (Nagy, Sakellariou-Witt, and Albakr, 2021).

The GAC subsequently granted conditional approval for Jahez, a comparatively smaller domestic participant, to acquire the same target. Jahez's more limited scale relative to Delivery Hero's multinational footprint, and its correspondingly lower risk of consolidating cross-border data assets and triggering structural dominance, likely informed the differential treatment. That approval carried behavioural remedies, including restrictions on exclusivity arrangements and limits on operational integration. The contrasting treatment of these economically comparable transactions, without transparent articulation of the basis for the differential outcome, generated substantial criticism from legal practitioners and the competition community regarding the consistency and predictability of the GAC's digital merger framework (Rooms, Macbeth, and Weerasinghe, 2024; Saleh et al., 2025).

From a competition policy perspective, the GAC's approach raised two connected concerns. First, it created regulatory unpredictability that may deter investment, a concern of particular relevance given Saudi Arabia's Vision 2030 objective of attracting foreign direct investment. Second, the GAC did not fully examine whether the Delivery Hero transaction could have been approved subject to targeted behavioural remedies, such as data firewalls, API interoperability obligations, and restrictions on exclusive merchant contracting, that could have preserved efficiency gains while addressing the identified competitive risks.

3.4 Findings and Lessons Learned

The GAC's intervention produced a verifiable short-term benefit. Market fragmentation was preserved, which facilitated new entry. Keeta captured approximately 10 percent of market share within months of its Saudi launch, and domestic challengers including Mrsool and ToYou maintained competitive positions (KrASIA, 2024). This demonstrates that preventing excessive concentration can open space for competitive entry in dynamic platform markets. Regulators must nonetheless distinguish between static competition, reflecting current market structure and pricing behaviour, and dynamic competition, encompassing future entry prospects, innovation incentives, and the pace of platform development.

Viewed from a wider analytical perspective, however, the prohibition also foreclosed credible efficiency gains, including optimised logistics and delivery routing, improved demand forecasting through integrated data systems, and enhanced service quality in the premium segment. The case illustrates a central principle in contemporary digital competition policy: not all increases in market power are harmful. In platform markets, scale frequently supports rather than undermines efficiency and innovation. A prohibition that prevents welfare-enhancing consolidation can impose costs on consumers that are as significant as those

arising from anti-competitive entrenchment. Moreover, consumer harm in modern competition analysis extends beyond price effects: it encompasses degradation in service quality, reduced innovation in platform features, and diminished choice among differentiated providers.

A more proportionate regulatory response would have been conditional approval, paired with strict behavioural remedies and robust ongoing monitoring. This would have preserved competition while enabling the efficiency gains that integration would have unlocked. The lesson for regulators is not that platform mergers should be presumptively permitted, but that the analytical framework must be capable of distinguishing transactions that genuinely risk anti-competitive entrenchment from those that, with appropriate conditions, can enhance consumer welfare. The Delivery Hero–The Chefz case demonstrates both the necessity and the limits of an enforcement paradigm built on structural presumptions alone.

4. Conclusion and Recommendations

The Delivery Hero–The Chefz case illustrates both the necessity and the limits of competition enforcement in digital platform markets. The GAC was justified in scrutinising the transaction rigorously, insisting on procedural compliance, and treating seriously the structural risks arising from the potential consolidation of data assets and network effects in an already concentrated market. Its intervention demonstrably preserved competitive conditions that subsequently facilitated new entry and prevented premature market tipping by a dominant incumbent.

Outright prohibition was nonetheless, in the specific circumstances of this case, a disproportionate response. The market's demonstrated capacity to absorb new entry, including Keeta's rapid capture of approximately 10 percent market share, suggests that the tipping risk was real but not inevitable. Where competitive risk is uncertain and efficiency gains are credible, the effects-based approach provides the analytically superior framework: one that weighs the net welfare impact of a transaction rather than applying structural presumptions about market share or data accumulation (Crémer et al., 2019). The binary logic of prohibition versus unconditional approval is insufficient for the complex economics of digital platform mergers. Competition policy must navigate between the twin errors of under-permitting welfare-enhancing consolidation and under-deterring anti-competitive entrenchment. Targeted conditional approval is typically the more precise instrument for that navigation.

The following five recommendations are advanced to reform Saudi Arabia's digital merger control regime. Each is designed to be practically implementable, with explicit attention to implementation strategy, potential obstacles, and the tools required for effective execution.

Recommendation 1: Codify Platform-Specific Gatekeeper Designation Thresholds

The GAC should codify platform-specific gatekeeper thresholds that trigger enhanced merger scrutiny, drawing on the model established by the EU Digital Markets Act. These thresholds should be grounded in multi-sided market metrics, including the share of national digital food orders processed, the volume and granularity of user and merchant data held, and quantified network effect intensity, rather than the revenue-based criteria of Article 7 alone. Platforms meeting these thresholds should face a rebuttable presumption against acquiring nascent competitors or specialist niche platforms. The burden would shift to acquirers to demonstrate, through objective evidence, that the transaction would generate verifiable efficiency gains not

achievable through less restrictive means. Implementation requires amendment to the Merger Review Guidelines and investment in econometric modelling capacity. The principal obstacle — incumbent resistance on the ground that such thresholds stifle investment incentives — is mitigated by the fact that mathematically defined, transparent thresholds provide the regulatory predictability that foreign investors require under Vision 2030.

Recommendation 2: Formally Adopt an Effects-Based Analytical Framework

The GAC should codify an effects-based approach to digital merger review within revised Merger Review Guidelines. This framework should require the authority to identify specific theories of harm arising from the proposed transaction; assess counterfactual competitive conditions in the absence of the merger; evaluate efficiency claims against objective and verifiable evidence; and determine whether the net welfare impact, accounting for both competitive risks and efficiency benefits, is positive or negative for consumers. Structural presumptions, including market share thresholds, should be precluded from serving as self-sufficient grounds for prohibition in the absence of evidence of likely anti-competitive effects. The existing Competition Law provides sufficient statutory basis for this reform; amendment of the Merger Review Guidelines can be achieved by executive action without parliamentary legislation, making implementation comparatively straightforward.

Recommendation 3: Develop and Publish a Graduated Remedy Toolkit

The GAC should develop and publish a graduated toolkit of remedies applicable to digital platform transactions. The toolkit should specify the conditions under which behavioural remedies are preferred over structural divestitures or outright prohibition. Relevant behavioural tools include data firewalls requiring strict informational separation between merged entities' data assets; API interoperability mandates enabling real-time data portability to competing platforms; algorithmic transparency requirements permitting third-party audit of pricing and recommendation systems; and restrictions on exclusive merchant contracting. The guiding principle is proportionality: the least restrictive remedy that adequately addresses identified competition risks should be applied. Prohibition should be reserved for transactions where competitive harm is both severe and irreversible, and where no less restrictive remedy would suffice. The burden of establishing those conditions should rest with the authority.

Recommendation 4: Invest in Institutional Capacity and Enhance Transparency

The GAC should invest materially in its technical and economic capacity to assess digital platform mergers. Specific measures should include recruiting specialist economists with expertise in platform economics and data asset valuation; hiring technologists capable of auditing algorithmic systems and assessing data integration plans; developing internal econometric modelling capabilities to assess network effects and counterfactual market conditions; and establishing ongoing market intelligence functions in key digital sectors. To enhance regulatory predictability and to support Vision 2030's foreign direct investment objectives, the GAC should publish detailed, publicly accessible reasoned decisions in all significant digital platform merger cases. Where transactions involving domestic and foreign acquirers receive different treatment, the basis for that differential must be explicitly articulated against the published analytical framework. This is the most direct remedy for the regulatory credibility concerns raised by the Delivery Hero–Jahez divergence (Nagy et al., 2021; Rooms et al., 2024).

Recommendation 5: Mandate Independent Compliance Monitoring

Where the GAC grants conditional approval subject to behavioural remedies, it should require the merged entity to fund and support an independent, GAC-appointed technical trustee responsible for auditing compliance with all behavioural conditions on a biannual basis. The trustee should have unfettered access to the merged entity's operational data, algorithmic systems, pricing models, and commercial agreements with merchant partners. Findings should be reported directly to the GAC and summarised in a public annual compliance statement. This mechanism substantially reduces the monitoring burden on the GAC's own resources while ensuring that behavioural conditions retain deterrent force. The risk of regulatory capture — whereby a trustee funded by the entity it monitors may develop sympathetic incentives over time — is mitigated by requiring selection through a competitive public process, approval by the GAC, and replacement at the GAC's discretion without the merged entity's consent.

Together, these five recommendations constitute a coherent reform agenda. They would equip the GAC to assess digital platform mergers with the rigour, proportionality, and predictability that the Saudi economy and Vision 2030 require. The objective of competition policy in digital markets is not to prevent consolidation, but to ensure that consolidation enhances rather than undermines consumer welfare. A transparent, effects-based merger control regime, supported by graduated remedies and strong institutional capacity, is the most reliable means of achieving that objective.

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6. Appendix

Table A1: Saudi Arabia Online Food Delivery Market — Estimated Market Shares (2024)

Platform	Estimated Market Share (2024)	Parent / Ownership
Jahez	approx. 32%	Domestic (Saudi Arabia)
HungerStation	approx. 35%	Delivery Hero SE (Germany)
Keeta	approx. 10%	Meituan (China)
Mrsool	approx. 8–10%	Domestic (Saudi Arabia)
Talabat	approx. 7–8%	Delivery Hero SE (Germany)
Others (incl. ToYou, Ninja, DailyMealz, The Chefz pre-2022)	Remainder	Various

Source: Statista Market Insights (2024). Note: Market share estimates are approximate and based on registered online orders.

Table A2: GAC Mandatory Merger Notification Thresholds (2025 Merger Review Guidelines, Art. 7)

Financial Threshold	Required Value
Combined worldwide annual sales of all parties	> SAR 200 million
Target's worldwide annual sales	> SAR 40 million
Combined domestic (Saudi Arabia) annual sales	> SAR 40 million
Pre-completion notification period	Minimum 90 days

Source: GAC 2025 Merger Review Guidelines; Competition Law of the Kingdom of Saudi Arabia, Royal Decree No. M/75 (2019).