



The effects of acquisitions on price and quality: Evidence from the Finnish public procurement market for physiotherapy

Sara Kuhmonen

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Summary

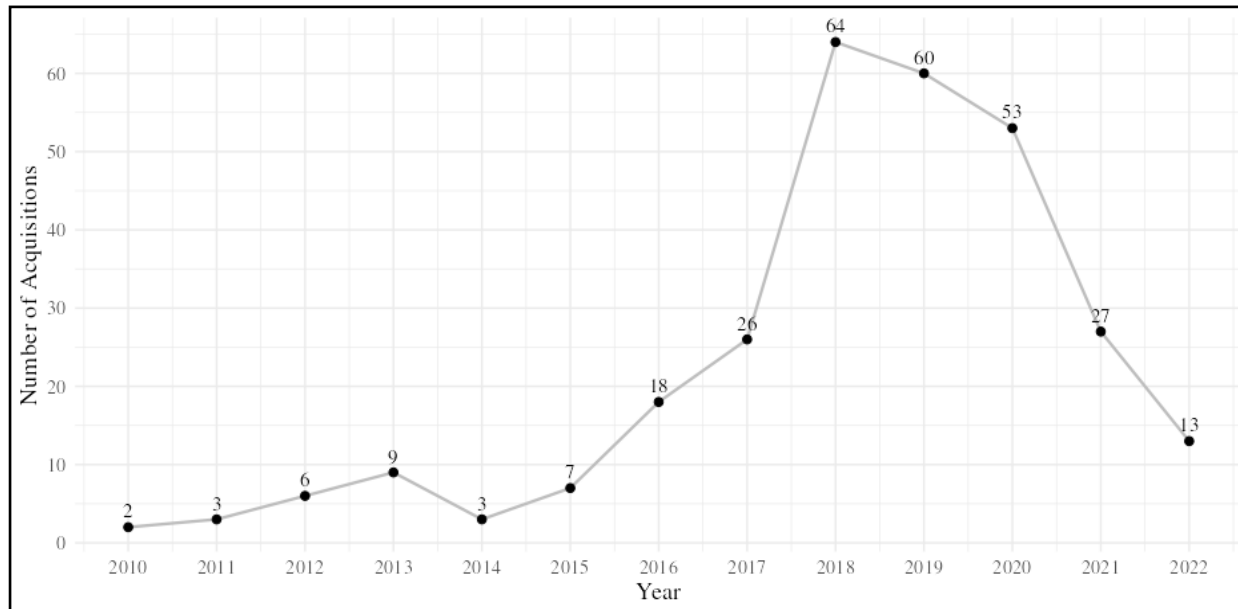
- Research question
 - What are the effects of acquisitions on price and quality in the public procurement market for physiotherapy?
- Data
 - Repeated competitive bidding scoring auctions for physiotherapy service combined with detailed information on acquisitions between physiotherapy providers
- Method
 - Event study (Callaway & Sant'Anna)
- Results
 - Acquisitions had an effect on procurement prices but no significant effect was detected on service quality

Institutional Setting

- Kela is the largest single purchaser of physiotherapy services in Finland
 - Kela's service is intended for disabled individuals and accounts for ~21% of the total market
- Providers are selected in competitive biddings typically every four years
 - Providers are evaluated and ranked based on their quality and price
 - Contract period typically begins at the beginning of the year following the procurement
 - The offered price and quality will come into effect at the start of the contract period
 - Most bidders attend subsequent procurements

Data - Acquisitions

- The Finnish physiotherapy market has become increasingly consolidated into chains as a result of acquisitions
- The empirical model is designed to evaluate the impact of a single treatment event per unit
- Only the first acquisition per provider is counted (n = 291)
- Subsequent acquisitions by the same provider are excluded
- Any bids submitted by these providers after their second acquisition are excluded



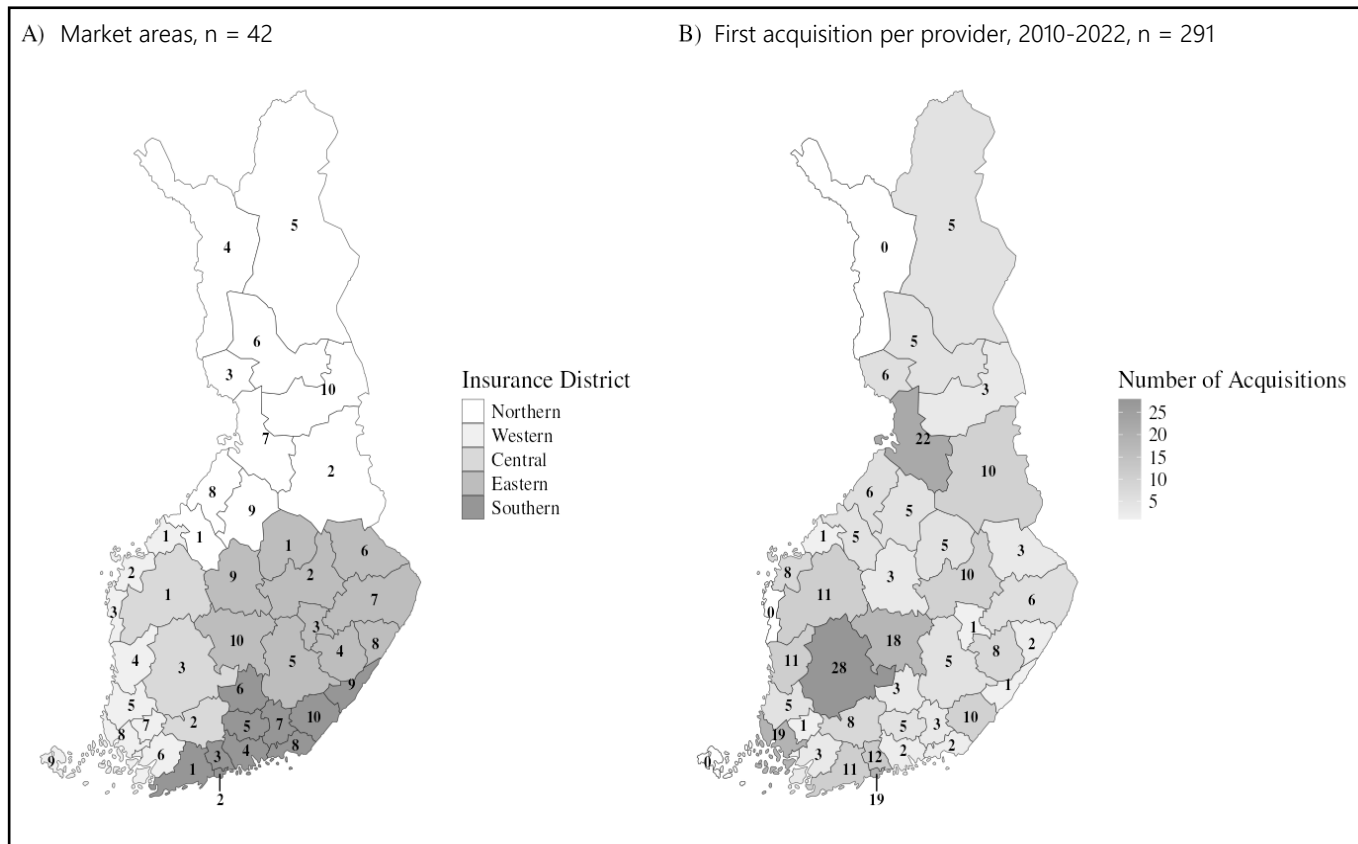
Data - Procurements

- Six consecutive procurement rounds
- 2018 procurement reform
- 2019 renewed procurements
 - Organized in two insurance districts after successful complaints in the Market Court
- Final data consists of 291 acquisitions and 4,055 bids from 1,805 providers

Procurement year	Contract period	Procurement	Number of bids in the final data
2006	1.1.2007–31.12.2010	Basic procurements for all insurance districts	1,380
2010	1.1.2011–31.12.2014	Basic	1,102
2014	1.1.2015–31.12.2018	Basic	819
2018	1.1.2019–31.12.2022	Basic (procurement reform)	371
2019	2.3.2020–31.12.2022	Renewed procurements for two insurance districts	145
2022	1.1.2023–31.12.2026	Basic	238

Market areas

- Procurement auctions are organised by groups of municipalities (market areas)

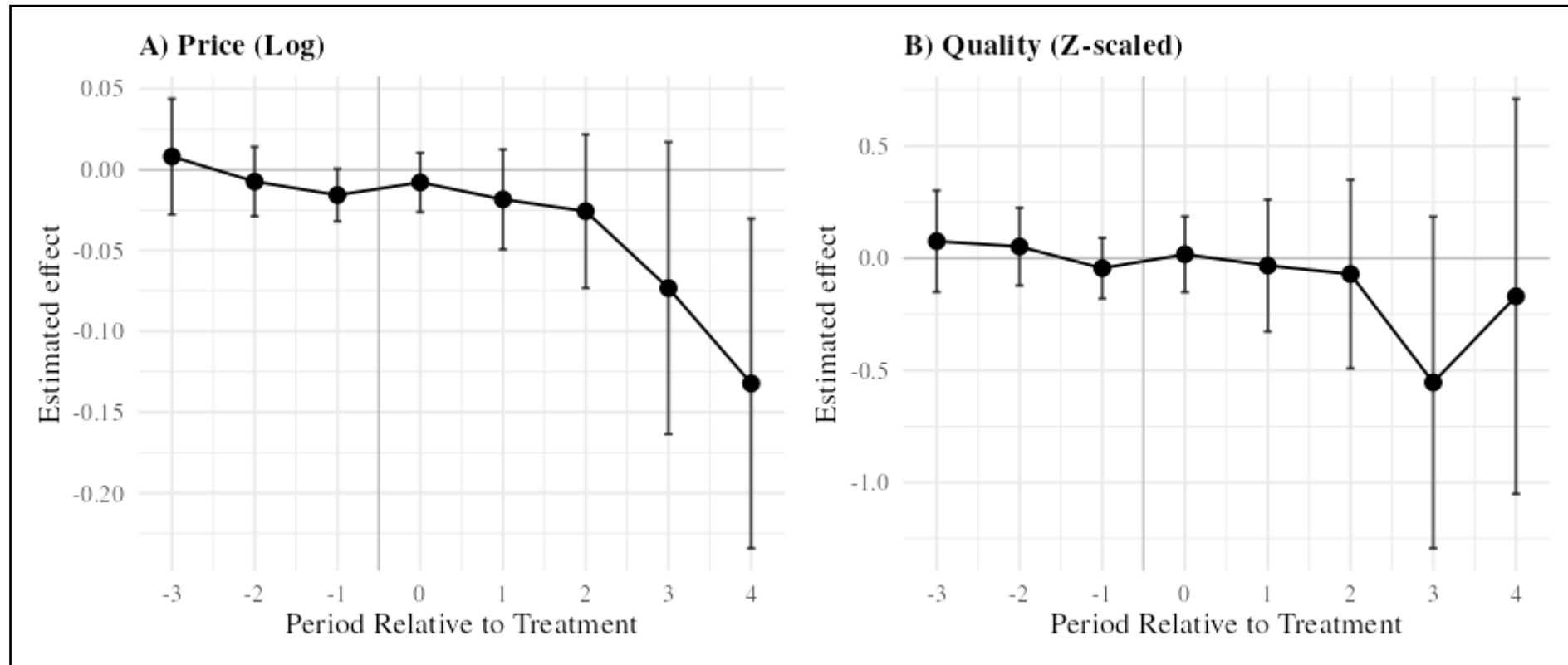


Method

- Event-study design in which units are treated at different points in time
- Aim is to compare acquired and not-yet-acquired firms before and after acquisition
- Key assumption: units in the control group are not affected by the treatment
 - Acquisitions may have spillover effects on non-acquired providers operating in the same market area → excluding from the control sample all providers that are located in the same market area as any treated provider
- Outcomes
 - Price (log, adjusted for inflation)
 - Quality (scaled)

Results

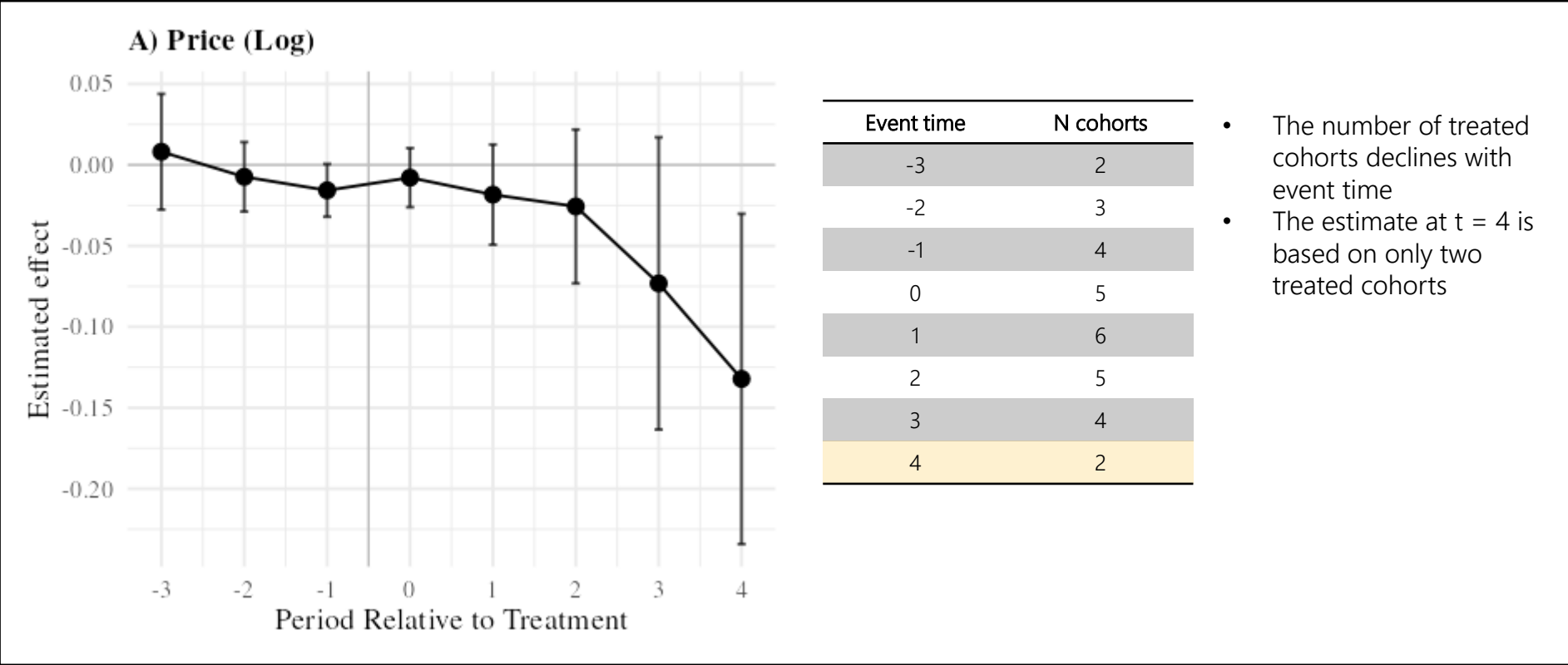
Estimated dynamic treatment effect on price and quality



ATT = -0.052 *

ATT = -0.162

Results



$ATT = -0.052 *$

Conclusions

- Studies show that acquisitions increase prices in consumer markets
- Public procurement market: the lower the price, the better the chance of being contracted
- The finding is consistent with literature highlighting efficiency gains from mergers and acquisitions (economies of scale)
- Long-term effects remain uncertain: while early acquisitions may enhance efficiency, continued consolidation could eventually reduce competition enough to increase prices

Thank you!

sara.kuhmonen@kela.fi

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