Bargaining Power in Manufacturer-Retailer Relationships
by Haucaup/Heimeshoff/Klein/Rickert/Wey

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Research question

- To empirically measure the division of bargaining power in P-R relations
- To attribute bargaining power to product- and market characteristics
- Use the coffee market in this empirical investigation
Results

- The division of bargaining power between producers and retailers in the coffee market differs (indication?)
- Innovation increases power on the producer side, but the strength of this effect varies
- One-stop shopping increases power on the retailing side
- The retailer’s private label assortment increases buyer power
- The division of bargaining power shifts over time
General comments

- Highly relevant and interesting topic: What are the key elements that determine bargaining power
- Empirical studies are most welcome in this literature
- The paper uses an interesting data set and produces potentially interesting results
Specific comments and suggestions

- I would like to see an outline of the theoretical suggestions for the division of bargaining power in vertical relations.

- Key determinants of bargaining power is
  - The notion of "outside options": What can a party achieve when a negotiation breaks down.
  - In a successful negotiation each party should at least receive his outside option and at most his incremental contribution to the bilateral maximal "cake".
  - Exactly how much a party will get of this share, depends on what is captured by the parameter $\lambda$ (skills, patience etc.), which is what you aim to estimate.

- I think it would be worthwhile (even necessary) to be more explicit on how innovations, one-stop shopping, PLs, etc. fit into such a framework.
  - Do these factors influence the aggregate "cake" (and how?), the outside options (and how?) or $\lambda$ (and how?)?
Contracts and observability

- A major issue: How do we think that negotiations take place?
- If parties bargain over secret non-linear contracts, there is no way you can estimate $\lambda$
- The big question then is: In the coffee market, do you think that parties bargain over linear observable tariffs?
- You need to really fight for this assumption, which is not the case in the current version.
- The BIG question is relegated to a footnote (8) in the paper.
- In my experience contracts in the grocery market are highly non-linear (rebates, fixed payments, joint marketing fees)
Other issues

- You need to rewrite the abstract. It is unprecise and unclear.
- The effects of PL: PL increases buyer power.
  - In some sense this contradicts what you would expect from theory.
  - If a retailer introduces a competing PL, the national brand producer should focus on his loyal customers and try to increase his price.
  - I think this is verified by some empirical studies. When PLs are introduced, the price of NBs increase.
  - Similar effects are found in the pharmaceutical industry: Introduction of generics increase prices of expired patented drugs.
  - This highlights the need for a rigid theoretical foundation.
  - It might be that it is the threat of PL introduction that is important, and not the actual PL share, i.e. it is the option that increases buyer power.