Buyer Power and Product Selection in Interlocking Relationships: Discussion

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CRESSE Conference

July 02, 2023

Summary

- This paper develops of model of vertical relations with endogenous product selection.
- What are the key drivers behind retailers' product selection, when upstream firms pay slotting fees for their product to be selected?
- **Set-up**: two upstream firms, two downstream firms.
- **Timing**: 1. Product selection, 2. Contract negotiation, 3. Price competition.
- **Key Assumptions** "Nash-in-Nash" bargaining, two-part tariffs and bilateral efficiency.

Summary - Key Results

Table: Retailers' Product selection absent slot restriction

	Soft Retail Substitution	Fierce Retail Substitution
High Buyer Power	IR	IR and PE
Low Buyer Power	IR	IR

Table: Retailers' Product selection with slot restriction (simplified)

	Soft Retail Substitution	Fierce Retail Substitution
High Buyer Power	IR	IR
Intermediate Buyer Power	AS	IR
Low Buyer Power	PE	IR

Summary - Policy implications

- **Effect of slotting fees** – when buyer power and retail competition are low, slotting fees hurt consumer surplus.
- **Buying groups** – when they are formed, buying groups reduce product variety and generally hurt consumer surplus (unless they eliminate a PE equilibrium).
- **Downstream mergers** – when retailers merge and buyer power is low, the merged entity opts for slot restriction. In the linear case, the merger always hurts consumer surplus.

Discussion

- **Theoretical contribution** – Asymmetric equilibrium in a symmetric set-up
- **Policy contribution** – Another take on repositioning
- **Vertical contracting** – The influence of two-part tariff and secret contracts
- **Bargaining process** – The exogeneity of bargaining power
- **Research avenues** – Exploration of other market structures