BUYER POWER AND INTRABRAND COORDINATION

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Abstract

We analyse the competitive effects of various contractual provisions in a situation where rival retailers make offers to a common manufacturer. In contrast to Marx and Shaffer (2007), who find that a strong retailer can use slotting allowances (that is, upfront payments from manufacturers) to exclude its weaker rival, we show that foreclosure is no longer inevitable once retailers' offers can be contingent on the relationship being exclusive or not. There then exist equilibria that sustain the industry monopoly outcome; moreover, as long as retailers can use non-linear tariffs, such equilibria exist irrespectively of whether slotting allowances are allowed or banned. Non-contingent contracts, on the other hand, necessarily lead to exclusion, with or without slotting allowances. A ban on slotting allowances may therefore prove ineffective, while a ban on exclusive dealing options in supply contracts leads to foreclosure. (JEL: L14, L42)