Vertical Integration and Foreclosure in Multilateral Relations

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Abstract

We develop a model of multilateral relations between upstream manufacturers that produce differentiated goods and downstream retailers that sell these goods on to consumers. Contract offers and acceptance decisions are private information to the contracting parties. We show that vertical integration between a manufacturer and a retailer leads to foreclosure of rival manufacturers from access to the integrated retailer, which is at the detriment of consumers. Moreover, we show that firms have an incentive to vertically integrate.

JEL Classification: L13, L42, D43.

Keywords: vertical relations, vertical merger, foreclosure, bilateral contracting.