

Competition Between Mail and Electronic
Substitutes in the Financial Sector:
A Hotelling Approach

by De Donder, Cremer, Dudley & Rodriguez

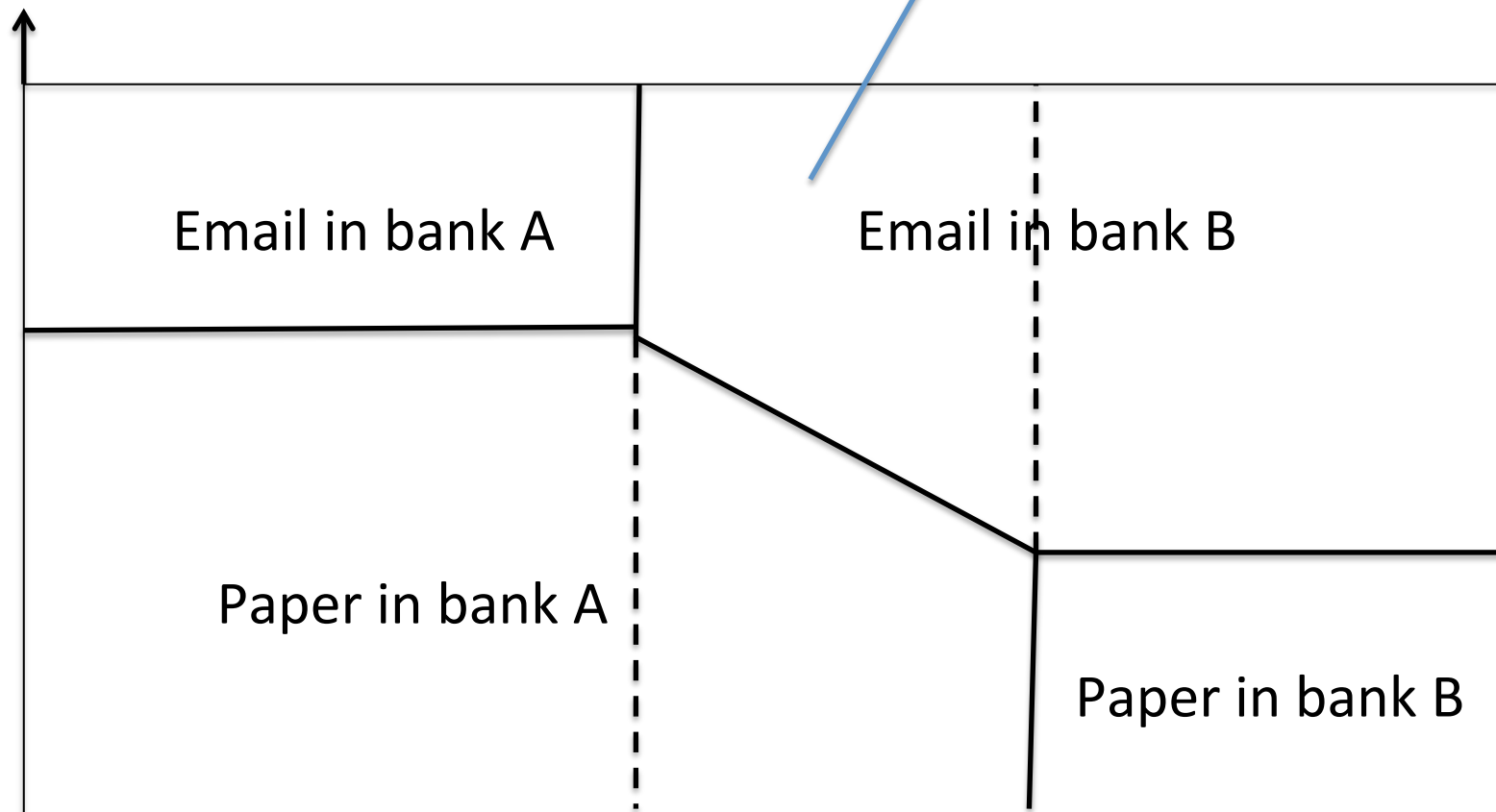
Comments by A. GAUTIER

Summary

- Objectives of the paper
 1. Micro-foundations for the demand of mail by bank consumers
 2. Equilibrium prices in the banking market

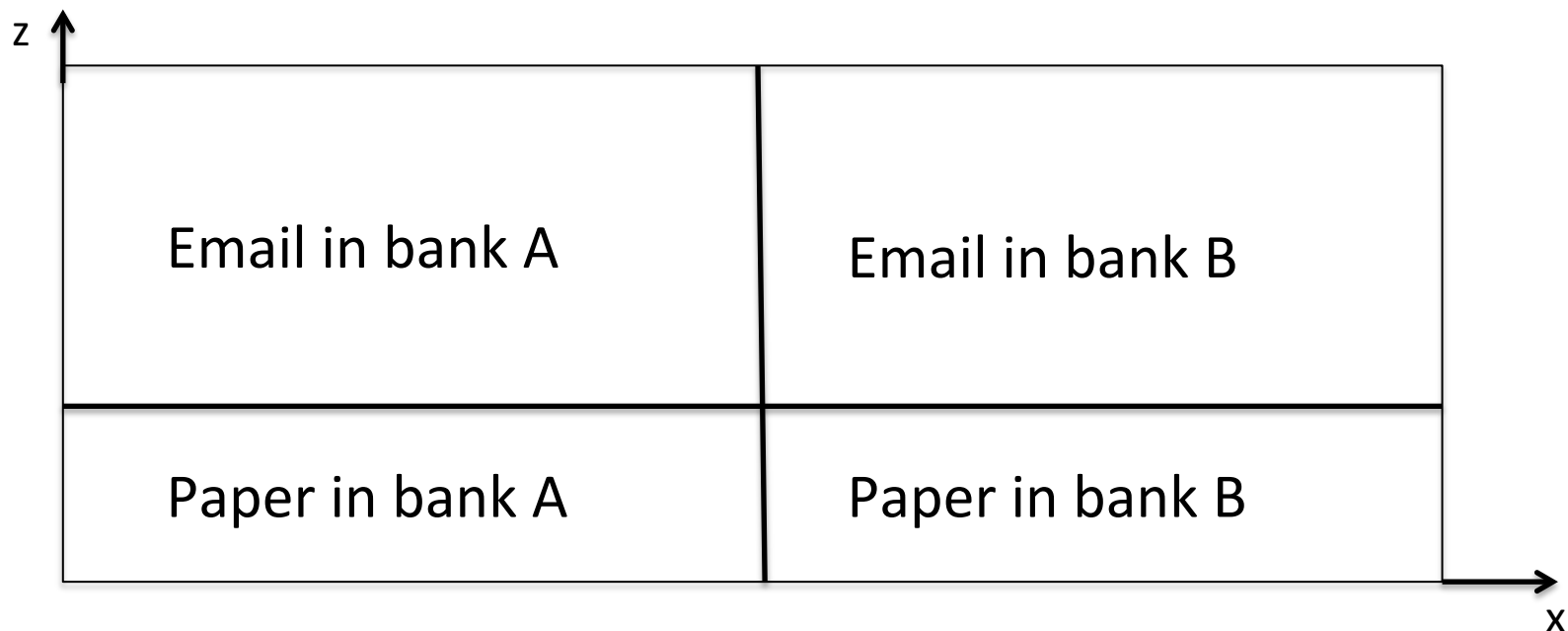
Demand

Consumers located in the intermediate region make a transaction-medium dependent choice



Equilibrium

- At the symmetric equilibrium
 - Price = cost $c_i + t$
 - Preferences for transactional medium play no role
- Demands:



Discussion

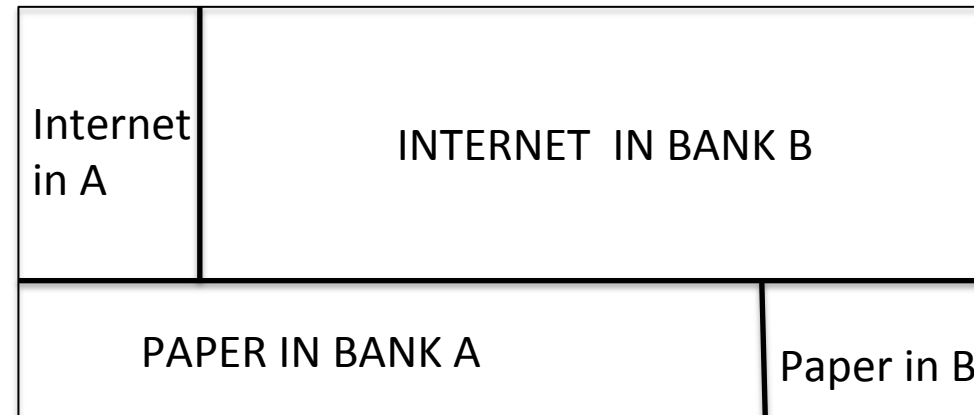
- In the banking sector, different types of bank compete
 - Traditional banks with ‘brick and mortar’ network
 - ‘Entrants’ with virtual network
 - Different cost structure
- The symmetric assumption captures competition between ‘traditional’ banks
 - Preference for bank plays a role, costs are fully passed through consumers

Discussion

- Interesting questions in asymmetric environment
 - Cost pass-through
 - Product positioning

Product positioning

Differentiation
by Transaction



Differentiation
by Location

