

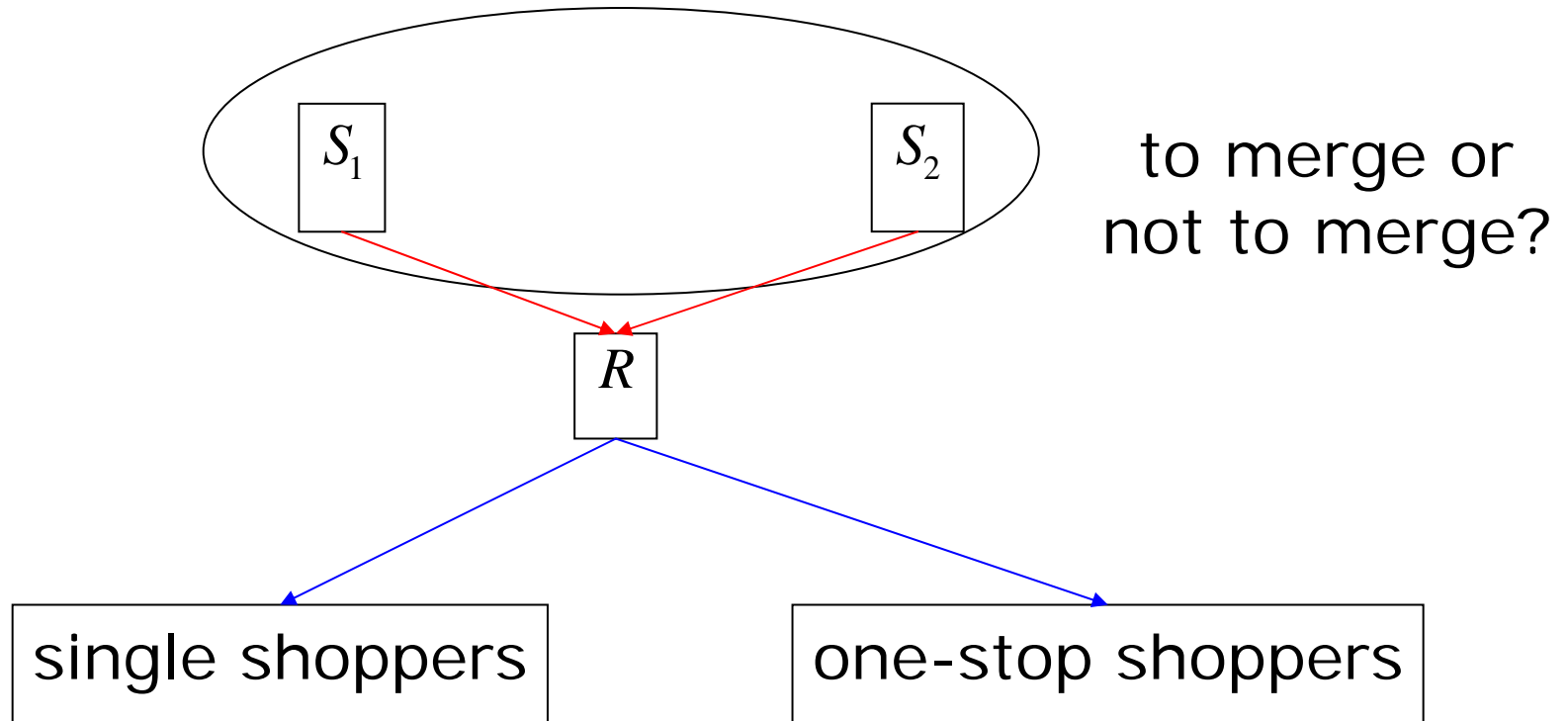
Claude Crampes' comments on

**“One-stop shopping behavior
and upstream merger
incentives”**

by

V. von Schlippenbach and C. Wey

the model



Main drivers for (vertical or horizontal) integration:

* cost sub-additivity

$$C(q_a, q_b) < C(0, q_b) + C(q_a, 0)$$

* margin internalization

$$\max_{q_a, q_b} \Pi_a(q_a, q_b) + \Pi_b(q_a, q_b) > \max_{q_a} \Pi_a(q_a, q_b) + \max_{q_b} \Pi_b(q_a, q_b)$$

* utility super-additivity

$$U(q_a, q_b) > U(0, q_b) + U(q_a, 0)$$

Examples of utility super-additivity

transportation economics
bundling

Q1: How different is the one-shop approach?
Any stylized fact motivation to justify the model?

About single shoppers

There is one category of single shoppers with $1 - \lambda$ people. No hint on how they are allocated among the two goods.

Q2: How come the demand to seller i in equation (4) does not depend on p_j ?

About one-stop shoppers

There is one category of one-stop shoppers with λ people. According to (2), they can also buy only one good. Apparently, the retailer cannot separate one-stop shoppers who buy only one good and single shoppers: they have the same demand functions (4) and (8).

Q3: Why are they still distinct in the profit function (10)? And why the “one-stop shopper who buys only one good” is not considered in the suppliers’ (or supplier’s) profit (11) or (12).

About one-stop shoppers (continued)

Bottom of page 6: "... one-stop shopping induces positive demand externalities".

Q4: Are cost savings demand externalities?
(I would rather speak of "economies of scope" or say that t is a "sunk cost").

Downstream prices

Equation (13) is right in fixing the retail price of good i as a function of its upstream price exclusively.

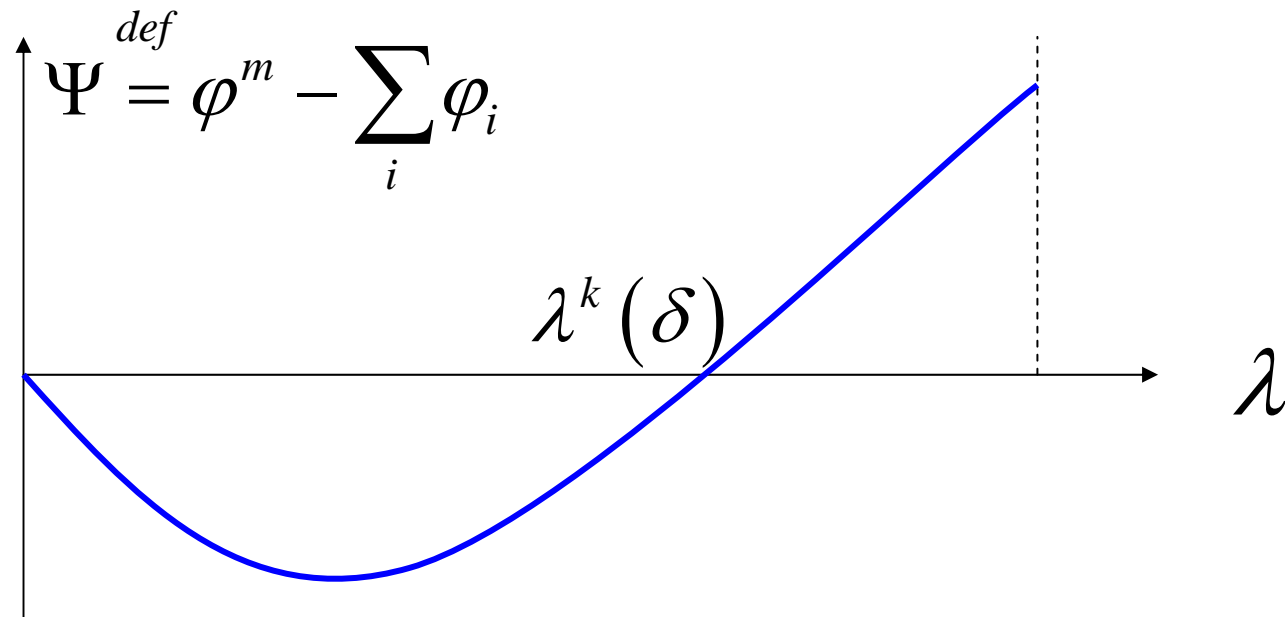
Q5: What is the intuition for the absence of the upstream price of the other good as well as λ . Does it result from the functional form (4), independent from p_j ?

Upstream price bargaining

When suppliers are not merged, the Nash bargaining function (14) is apparently based on the hypothesis that the two negotiation rounds cannot simultaneously fail.

Q6: How do we know that $\hat{\pi}_j^*$ is not 0? How would it change the results if it were?

merger incentives



Q7: $\lambda^k(\delta)$ is increasing (top of page 11); the larger the retailer's bargaining power, the smaller the incentive to merge. What is the intuition?