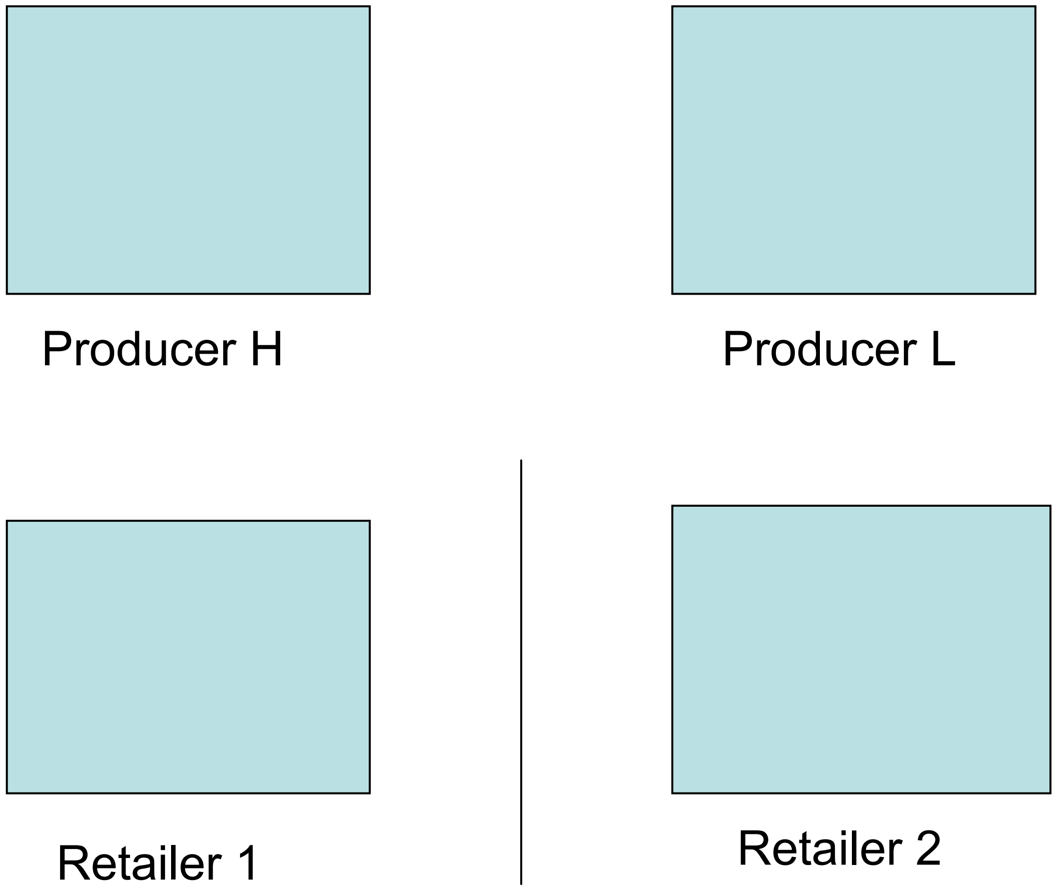
Buyer Power through Producers' Differentiation

Claire Chambolle and Sofia B. Villas-Boas

Discussion by Doh-Shin Jeon
(UPF, TSE)


Producer H
Producer L
Retailer 1
Retailer 2

A Simplified Model

- Shelf space constraint: Each retailer can display only one product
- A unit demand model: the surplus that a retailer obtains from one unit of good from producer H (L) is 1 (l) where $0<l<1$
- Full bargaining power of retailers (i.e. $\alpha=1$): simultaneous take-it-or-leave-it offer
- The cost of producing the first unit (the second unit) is zero (c) with $0 \le c<1$

Timing

1. Each retailer simultaneously announces which producer to deal with
2. Each retailer simultaneously makes a take-it-or-leave-it offer to its chosen producer

Single-retailer-single-producer

- The retailer extracts the whole surplus from the producer by obtaining the good at zero price

Two-retailers-single-producer

- Assume that the producer is H
- The unique equilibrium is that each retailer offers a price equal to c: each retailer considers that it occupies the marginal unit and pays for the marginal cost

Choice of producer

- Suppose that retailer 1 chose producer H
- Retailer 2's profit from choosing producer H: 1-c
- Retailer 2´s profit from choosing producer L: l
- Retailer 2 chooses producer L iff l>1-c

Social welfare

- Social welfare when both retailers buy from producer H: 2-c
- Social welfare when one buys from producer H and the other from producer L: 1+l
- One retailer buying from producer L is socially optimal iff l>1-c
- No distortion in terms of social welfare
- The result suggests that considerting more general contract offers would not change the result

Comments

- Analysis: well executed
- Intuition: needs to be explained better
- The result that a buyer may buy from a producer producing lower quality is not surprising
- Needs to focus more on the divergence between social incentive and private incentive:

- How important is the divergence?
- Can we get the same insight in a simpler model or does the result depend much on the parameter of barganing power?