Discussion on "Downstream Competition, Exclusive Dealing and Upstream Collusion" by Marie-Laure Allain, Claire Chambolle and Clemence Christin

Markus Reisinger
University of Munich

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Structure of the Discussion

- Short recap of the paper: main assumptions and results
- Some comments and suggestions

Short Overview of the Model

- Two wholesalers; two retailers
  $\Rightarrow$ four products; inter - and intra-brand competition

- Infinitely repeated game

Stage Game

- Producers offer exclusive dealing contracts

- Given the contracts producers offer linear wholesale prices
  $\Rightarrow$ double marginalization

- Competition of retailers

Important Assumptions

- Exclusive dealing contracts are secret in the first stage but become observable before the second stage is played out

- After rejection of an exclusive dealing offer, a retailer cannot sell the good anymore
  $\Rightarrow$ No possibility of discrimination between exclusive and non-exclusive dealing retailers.

Results

No Exclusive Dealing

Deviation can be either

- to exclude the rival completely (if upstream competition is fierce)
- to set prices such that he only sells through one retailer (if upstream competition is intermediary)
- to set prices such that both retailers still sell his goods (if upstream competition is soft)

$\delta^{\star}$ is non-monotonic in the degree of inter-brand competition

Exclusive Dealing

Deviation can be either to sign an exclusive dealing contract with one retailer or with none.

Comparison

Collusion can be harder to sustain with exclusive dealing. This is the case when inter-brand competition is fierce.

Reason: When inter-brand competition is fierce, Nash profit is larger with exclusive dealing
$\Rightarrow$ Punishment is softer
$\Rightarrow \delta^{ED} > \delta^{IR}$

Comments

- Interesting results

- Several critical assumptions

Comments

- Linear wholesale prices involve double marginalization
  Main effect depends on that
  $\Rightarrow$ Would the result still hold if two-part tariffs were allowed?

- No renegotiation once a retailer rejected the contract
  Allowing for this may change the incentives to offer exclusive dealing contracts and therefore may also change the critical discount factors

Comments

- Special structure of information
  Exclusive dealing contracts are first secret, then they become observable; tariffs are always observable
  It seems that in reality the reverse is true: Wholesale prices of rivals are not easy to observe, while exclusive dealing is
  How would the results change if these assumption would be different?

- Minor point: Is it possible to give a more formal characterization of the deviation strategies? So far, this is only done verbally in the lemma.