Extended Abstract: Bargaining Power in Manufacturer-Retailer Relationships

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Recent developments in the retail sectors, in particular changes in technology (such as the introduction of scanner data), the liberalization of the retail market and the dispersion of private label products have led to the prevailing opinion among economists and competition authorities that bargaining power have shifted from manufacturers to retailers (Wey 2011). This view is an often used argument in political discussions in general, as well as in decisions of competition authorities (e.g. in the decision of the Bundeskartellamt regarding Trinkgut/EDEKA from 30.6.2008, B2-333/07). However, arguments are mostly based on simple indicators, such as firm size and market shares, which may lead to an overevaluation of buyer power. One can easily imagine strategies beyond considerations of size and shares. For instance, smaller suppliers pursuing strategies to be indispensable to retailers and thereby strengthen their own bargaining positions (Heimeshoff & Klein 2013). Furthermore, when there is a high degree of supplier power, improved bargaining positions of retailers may be good for social welfare in a sense that retailers act as a countervailing part to powerful suppliers. In general, literature lacks a sound economic analysis of an empirically measurable definition of bargaining power, as well as empirically proven determinants of buyer power.[2]

The aim of this study is to empirically measure the degree of bargaining power in vertical relations of both, retailers and manufacturers. Of special interest is to underline the importance of product- and market characteristics for bargaining power and to derive determinants, which facilitate bargaining power. Based on these information, the effect on consumer welfare and on other suppliers can be analyzed. Using information of a household panel for several product categories (coffee, diapers) we estimate a random coefficient random utility discrete choice model (Petric & Train 2012) to obtain consumer substitution patterns and retailer resp. manufacturer margins (Bonnet & Dubois 2010). Using the estimates of our structural model, which is estimated including real transaction prices, we can obtain

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[2] Exceptions are Bonnet und Dubois (2010), Draganska et al. (2008).

the price cost margins of retailers and manufacturers, which are used to calculate the distribution of total rents (see Bonnet & Dubois 2010, Draganska et al. 2008).

Our preliminary results indicate that it is a priori not clear whether bargaining power is concentrated by either retailer or manufacturer side, but that there seem to be different constellations in different years and markets.

Literature

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