

Treatment of Buyer Power*

Roman Inderst

University of Frankfurt (IMFS)

LSE

* *details in:*

Inderst/Shaffer & Inderst/Mazzarotto in ABA HBs

Doyle/Inderst (ECLR 06), Dobson/Inderst (ECLR 07)

Inderst/Wey WuW

... plus academic papers → <http://personal.lse.ac.uk/inderst/>

The Framework of Analysis

- Monopsonistic / “Market Interface” perspective
→ BP exercised through withholding demand
- Bargaining perspective
→ BP targeted at individual discount

Measures of Buyer Power

- “Raw size” should not matter itself, but may enhance buyer’s outside option (sophistication, switching etc.)
- BP through affecting supplier’s outside option
 - Controlling (potential) market: Gatekeeping
 - Economic dependency

Measures of Buyer Power (cont.)

- Careful: More generally, total inflicted loss should matter

OECD (1998): “... *E.g. Retailer A has buyer power over Supplier B if a decision to delist B’s product could cause A’s profit to decline by 0.1 per cent and B’s to decline by 10 percent.*”

- Threshold for market/buyer power?
 - Can not be guided by presumption of clear link between BP and harm

Consequences of BP / Potential Harm

- Short-run impact on own retail prices
→ Pass-through? (Competition, contracts, etc.)
- Effect on competing buyers?
 - Exit / “Spiral”?
 - “Waterbed effect”? Or “Me too” effect?

Implications for the Upstream Market

- Consolidation.
- Reduction in incentives to invest/innovate (Hold-up)
But:
 - Large/dominant buyers may mitigate underlying contractual problems.
 - For more “incremental investments” it is also incremental profits and not absolute profits that are decisive.

Buyer Power as Merger Defence

- So far focused more on potential harm
- Procurement “efficiencies” ?
→ Contracts/Pass-through? Specific? Harm?
- Countervailing Power
→ Broad “Shield”? Coalescing Power?

“Open/Interesting Issues” ?

Focus: Grocery industry

- “Vertical competition” (Steiner)
- “Triple Play”: Retailers as
 - Customers
 - Sellers (shelf space)
 - Competitors (PLs)

Notes on the Treatment of Buyer Power in Antitrust*

Roman Inderst

University of Frankfurt (IMFS)

LSE

* *details in:*

Inderst/Shaffer & Inderst/Mazzarotto in ABA HBs

Doyle/Inderst (ECLR 06), Dobson/Inderst (ECLR 07)

Inderst/Wey WuW

... plus academic papers → <http://personal.lse.ac.uk/inderst/>