Some Notes on Rebates

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For some of the material referred to on these slides see:
http://www.wiwi.uni-frankfurt.de/profs/inderst/Competition_Policy/competion_Policy.htm

(Loyalty) Rebates

- LRs take many forms
  - discounts/rebates may be incremental or non-incremental;
  - triggered by quantity threshold, share threshold, or both;
  - and may be triggered by purchase of multiple goods or confined to a single good
- Essential feature: Payment (on the margin) depends on overall level of activity of the buyer.

  → Link can be across (i) products, (ii) quantities, (iii) shares

  → E.g., (i) bundled disc., (ii) all-unit disc., (iii) market-share disc.

Focus

- No “unconditional rebates”
  - Means „constant unit price“ & price discrimination?
  - Extant literature largely useless (as counterfactual) (cf. Inderst/Valletti 2007; Inderst 07)
- Focus on Foreclosure
  - Large “anti-Chicago” literature → But of little use! → 100% exclusion is key! No distinction between contract types!
  - Main (perceived) message? → (Inefficient) foreclosure can arise “in certain game forms”?

(1) Contracts: „All-unit Discount“

- Price discrimination and efficient channel management as legitimate reasons?
  - In principle, yes (Kolay et al. 04).
  - But: Less convincing if much uncertainty and little control over final sales volume.
- Price discrimination: Analogy to tying?
  - There „lumpiness“ better justification for neg. incremental price?
  - (!) Why not first-degree PD?
- Drawback besides possible foreclosure → Dampens (long-term) competition (Endog. switching costs)

(2) Contracts: Market-Share Discounts

- Legitimate Business Rationale ?
  - „Rent Shifting“ (without DWL) (Marx/Shaffer 04)
  - Induces „non-contractible demand-enhacing services“. Less distortive than exclusive dealing. (Mills 04)

- But also further harm? (besides partial foreclosure)
  - As „facilitating practice“ to dampen downstream competition (Inderst/Shaffer 07)

Market Characteristics

- Starting point: Even a negative incremental price around the threshold should not put an equally efficient rival at a disadvantage

- Obstacles of rival → Leading to (partial) exclusion
  – Capacity constraints → Negative incremental price „bites“
  – Analoguous: Single vs. multiple markets
  – Financial constraints and costly customer acquisition („lock-in“) (Shaffer/Ordover 06)

  → Corollary: No (partial) exclusion if negative incremental prices forbidden

Summary (1): „On the *one* hand....“

- Effects-based vs. form-based?
  → LRs are neither *„the good“* nor *„the bad“*, generally
- But possibly *„the ugly“* (if used by dominant firm)?
  - All-unit discounts (“Discontinuity”).
    → In particular, spanning multiple markets/products
  - Market-share discounts
  - In particular, both as individualized discounts
    → No price-discrimination justification!

Summary (2): „On the *other* hand....“

- Chicago critique: „Nobody willing to pay for inefficient foreclosure“
- Has particular weight if
  - long-term co-existence of dominant firm and smaller rivals;
  - low fraction of long-term locked-in buyers;
  - no financial and capacity constraints.

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