

# MICRO FOUNDATIONS, MARKET POWER AND UNFAIR TRADING PRACTICES - HOW OUR ASSUMPTIONS DETERMINE WHAT WE SEE

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# CONFESSIONS OF A POLITICAL SCIENTIST

- Political science **is** the study of power and how it is applied in order to shape distribution.
- Harold Laswell:

*Politics: Who Gets What, When, and How (1936).*

He also wrote:

*Psychopathology and Politics,*

(which indicates that his relevance as an analyst is not diminishing).

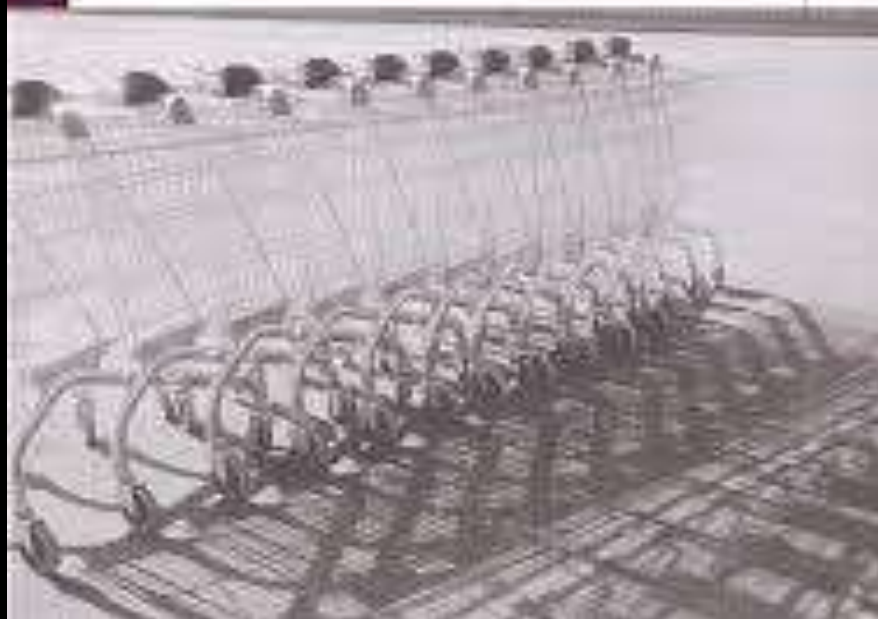
# AFTER SERVING ON A PUBLIC COMMISSION

- That looked into power in the food retail (value)chain
- Two questions arose
  - 1) The extent of dubious and unfair trading practices
  - 2) Why the downright hostility (to us)and the deep reluctance to do anything about it on the part of competition authorities

**NOU** Norges offentlige utredninger 2015:4

## Mat, makt og avmakt

– om styrkeforholdene i verdikjeden for mat



# WHAT WE SAW

- Unreasonable threats to de-list
- “Slotting” fees (to have a place on a shelf)
- Unilaterally determined changes to agreed terms and conditions
- Demands for retrospective discounts or payments
- Enforced contributions to promotional costs
- Unfair policies concerning returned goods
- Demanding access to future product plans
- Copy cat products without legal consequences
- A brutal fight over transport/distribution
- Take-overs with back stories
- A culture of fear

# THE BLINDNESS AND THE ANGER

- Neo-classical habits of mind.
  - Overplaying degree of unitary, rational, utility maximizing action
  - Sees competition as a natural state
  - Thinking in terms of markets for given categories
  - Logic and theory more important than facts on the ground
    - (better to be precisely wrong than approximately right)
  - No real interest in processes – its all about outcomes (Comparative statics)
  - Power equals pricing power

# ADAIR TURNER ON FINANCIAL REGULATION

*What the dominant conventional wisdom of policymakers therefore reflected was not a belief that the market economy was actually at an Arrow-Debreu nirvana—but the belief that the only legitimate interventions were those that sought to identify and correct the very specific market imperfections preventing the attainment of that nirvana.*

# MORE FROM TURNER

*Complex human institutions—such as those which together form the policymaking and regulatory system—are difficult to manage without guiding philosophies—and guiding philosophies are most compelling when they provide clear answers.*



# SOURCES OF MARKET POWER – FIRST CUT

- Gatekeeping – the threat to de-list
- Or partial punishments – delaying introduction of new products
- Strategic shelf placement
- Use of own brands – strategically placed, priced and packaged

# UNDER WHAT ASSUMPTIONS DO THESE SOURCES ACTUALLY WORK?

- It all boils down to how you model consumer behaviour

# HUMAN DECISION MAKING – TWO SYSTEMS

## Autopilot

- Not controlled
- No noticeable effort
- Fast
- Associative
- Not self-aware
- Skills
- Multitasking

## Conscious choice

- Controlled
- Takes effort
- Slow
- Deductive
- Self aware
- We use decision rules
- Process one thing at the time

# TWO MODELS OF CONSUMER BEHAVIOUR

## Time constrained affluence

- Impulsive shopping
- Path of least resistance
- Shelf placement is important
- One stop shop
- Convenience is paramount

## The professional housewife

- Disciplined and planned
- Finds what she is looking for
- Willing to visit more than one shop
- Willing to travel

# THREE FACES OF POWER (AFTER LUKES 1974)

## General model

- Power over outcomes
- Agenda-setting power
- Ideational power

## Applied to retail

- Gatekeeping power
- Choice architecture
- Power of brands

# GATEKEEPER POWER

- Threats of delisting reflect this lever
- Supported by:
  - Habit-driven loyal customers
    - Time constraints and path of least resistance
  - The cost structure of suppliers
    - Many need several customers in order to gain economies of scale
- Can we speak of a two-way market where goods are bought and market access is sold (Berasategi 2014)?

# IDEATIONAL POWER IN RETAIL

- Best example is the strong brand
- Only weapon available in order to defend against gate-keeper power?
- But is there as much as one brand that enjoys the kind of relationship with consumers which some cars and fashion brands do?
  - Where consumption is linked to your identity?
- Interesting anecdote from the Norwegian market, REMA 1000 and their “best friends strategy”

# CHOICE ARCHITECTURE AS A SOURCE OF POWER

- Its relevance boosted by the importance of the automatic system.
  - It kicks in when we make decisions on the spur of the moment
- Vis a vis the customer this power is wielded by both supermarkets and their suppliers
  - Suppliers: Packaging (six pack anyone?), selective product information, design
  - Supermarkets: Layout and shelf- and general store placement.



# CONCLUSIONS:

- The gate keeping and choice architecture power of the supermarkets trump the ideational power of the suppliers.
- This creates the opportunity to engage in dubious and unfair trading practices.
- If real life customers were more similar to the neo-classical consumer they would punish retailers that abuse the de-listing lever.

# THE FUTURE?

- The mechanisms and dynamics I have sketched are probably self-reinforcing.
- Moving more and more towards integrated value chains with the supermarket groups as the hub – no hub is too weak a metaphor, with supermarkets as the control centres?