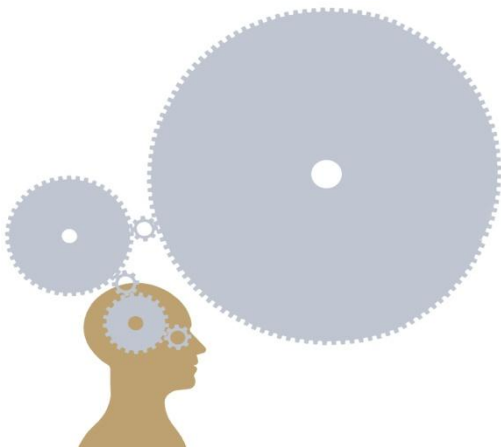


# Buyer Power and Retail Competition

Oxford Conference on Buyer Power  
in Competition Law

Matthew Johnson, Senior Consultant

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## Alternative approaches to assessing buyer power

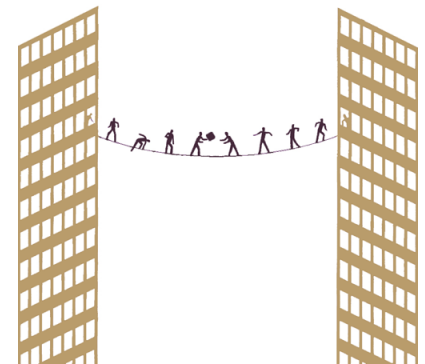
- important to differentiate between buyer market power and buyer bargaining power

<b>Monopsony power</b>	<p>analogous to monopoly power</p> <p>single price received by all suppliers—no individual negotiations</p> <p>powerful buyer (or group) reduces demand in order to achieve a lower price</p>	<b>Buyer bargaining power</b>	<p>negotiated outcome (sharing a 'pie')</p> <p>outcome affected by buyer and seller's 'outside options'</p> <p>no need to reduce demand in order to achieve lower price</p>
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- in the context of retail buyer power, the bargaining framework is relevant

## In theory, retailer buyer power can be a force for good...

- countervailing retailer buyer power can constrain producer market power
  - Cott/Macaw (2006)—soft drinks merger
  - Heinz/HP (2006)
- increased producer efficiency
- benefits passed to consumers as a result of competition at the retail level



## ...but not always

- buyer power has been considered harmful in previous European retail merger cases
  - Rewe/Meinl (1996), Kesko/Tuko (1999), Carrefour/Promodes (2000)
- waterbed effects can (in theory) harm competition at the retail level and lead to higher prices for consumers
  - short-run versus long-run models (Inderst and Valetti, 2009)
  - outcome depends on model assumptions
- strategic over-buying (Salop, 2005)
  - analogous to predatory pricing

# Evidence from the UK Competition Commission (CC)

- CC considered a waterbed model as part of the 2008 grocery market inquiry
  - theoretical model submitted by Association of Convenience Stores (ACS)
  - CC questioned key assumptions (no competition between large retailers, no market growth from lower prices)
- CC did, however, conclude that buyer power harmed supplier investment and innovation
  - Groceries Supply Code of Practice (GSCOP) to improve protection for suppliers
  - supermarkets adjudicator

# Conclusions

- current economic theory and available evidence do not provide any broad consensus on retailer buyer power
- retailer buyer power, coupled with fierce retail competition, can provide benefits to consumers
- harmful retailer buyer power is a concern where:
  - retail competition is weak
  - there are specific concerns (eg, impact on supplier investment)
- case-by-case approach required



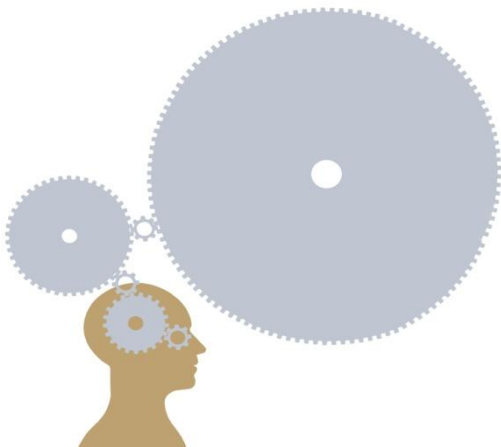
[www.oxera.com](http://www.oxera.com)

Contact:

Matthew Johnson

+44 (0) 1865 253 000

[matthew.johnson@oxera.com](mailto:matthew.johnson@oxera.com)



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