



Oxford Symposium: Trends in retail competition

Pricing, innovation and buyer power

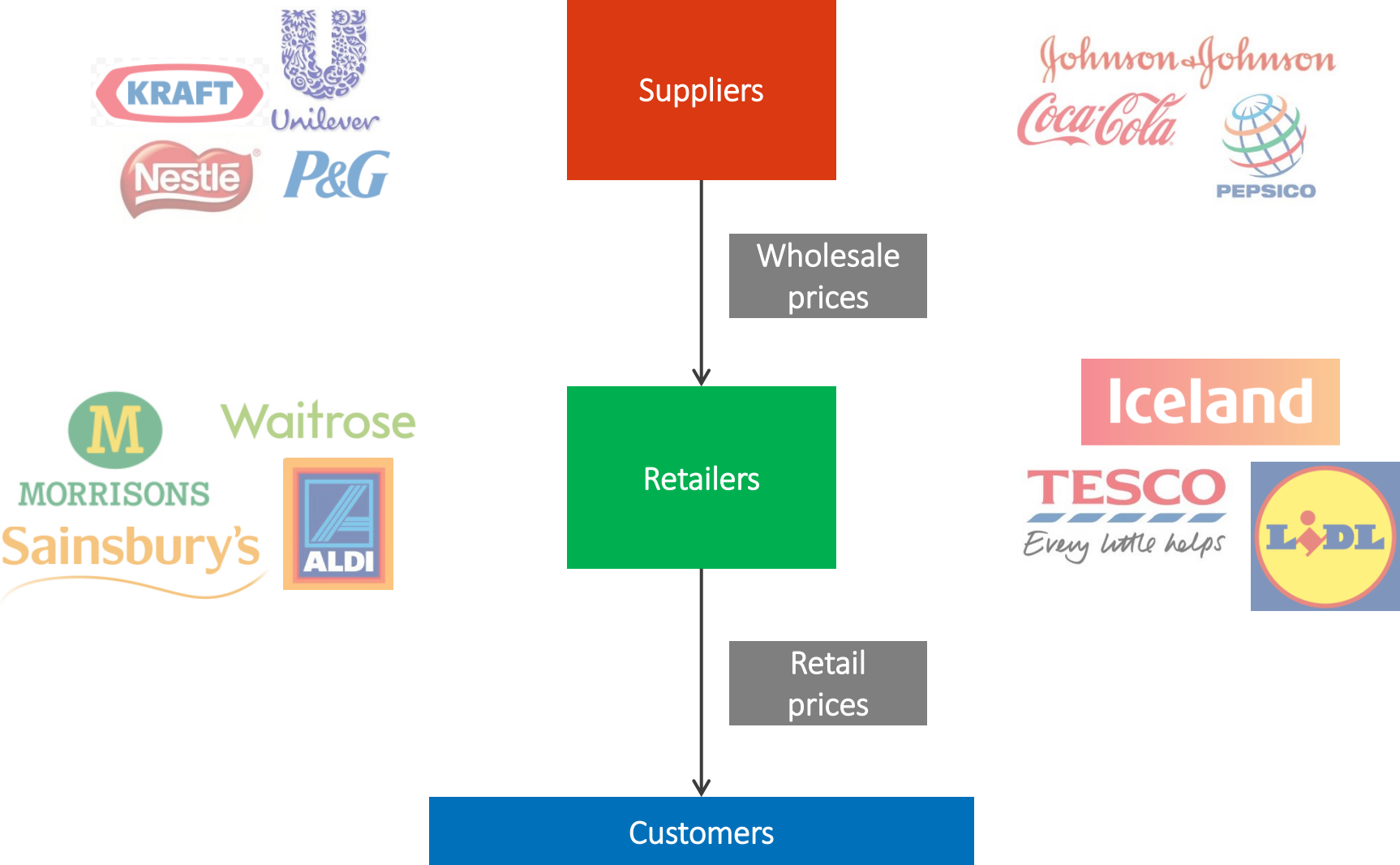
An Economist's Perspective

09 June 2017

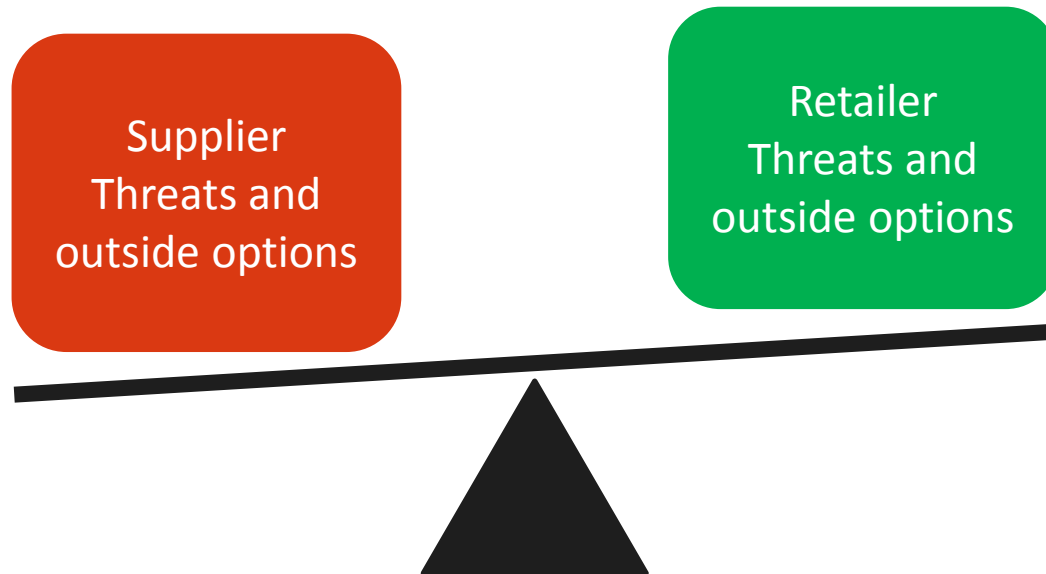
Kadu Prasad



SETUP - THE MARKET



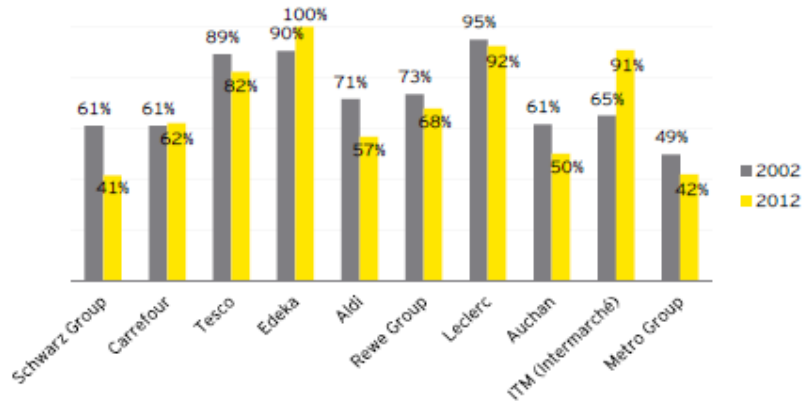
WHOLESALE PRICES



- Ability to switch to rivals
- Market structure
- Ability to vertically integrate
- Scope of the portfolio
- Scale of operations

CHANGE IN MARKET STRUCTURE

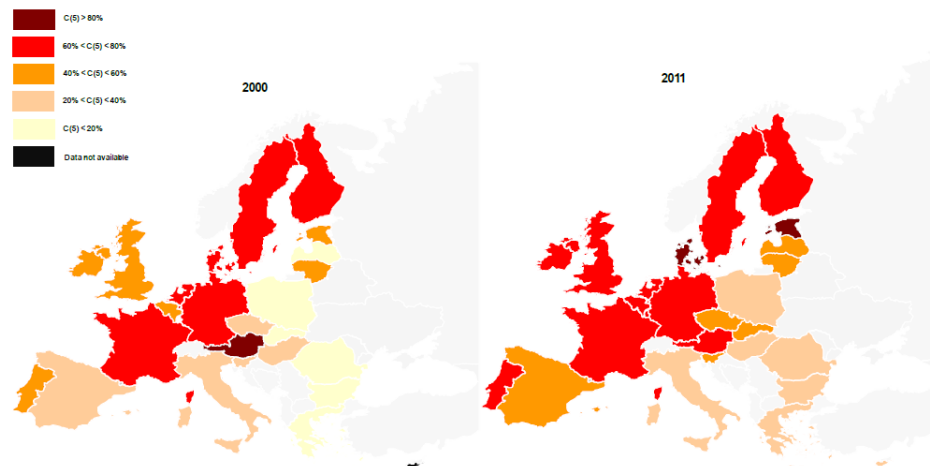
Figure 5: Domestic share of EU grocery sales for top ten retail groups



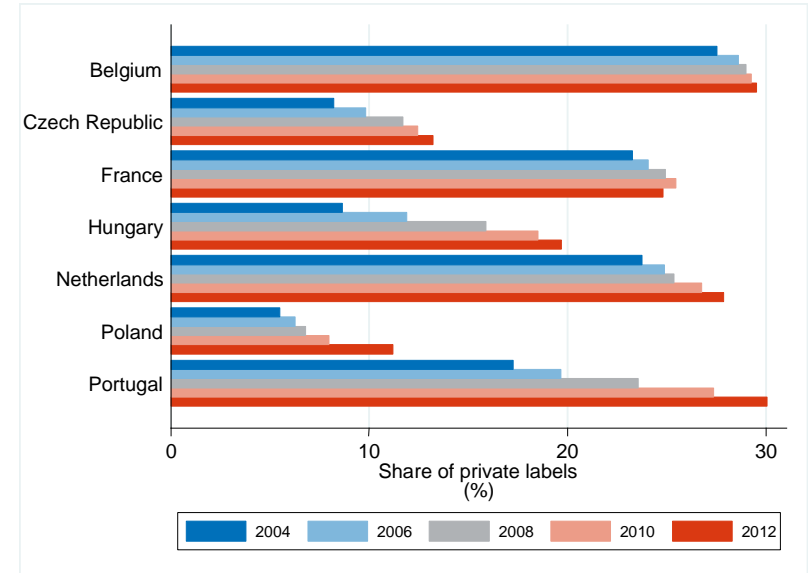
Increase in retail expansion

Increase in retail concentration

Figure 4: Evolution of the combined market shares of the top 5 retailers C(5) per MS (2000 - 2011)



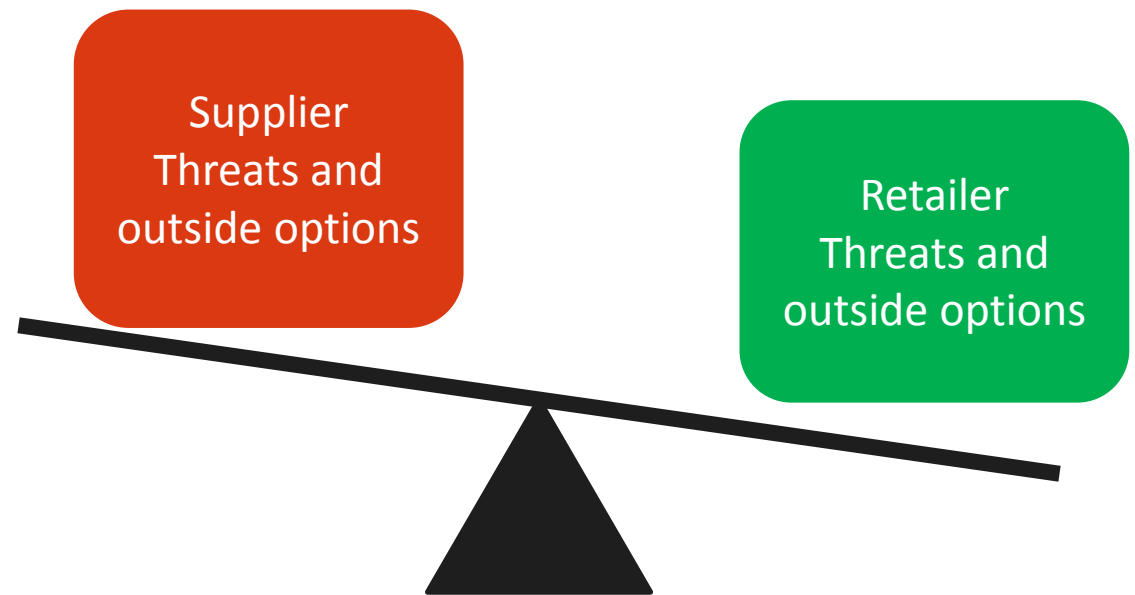
Source: Planet Retail



Increase in private labels

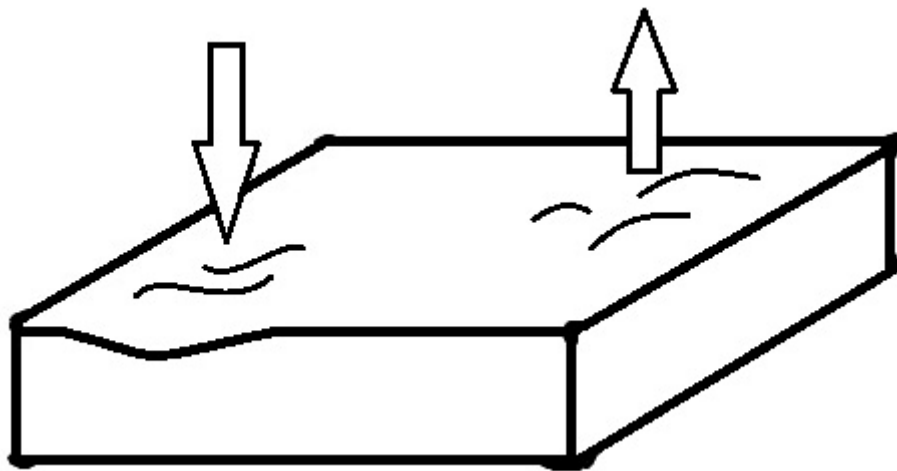
IMPACT OF CHANGE IN MARKET STRUCTURE: PRICES (I)

- Effect of an increase in retail expansion
- Effect of an increase in retail concentration
- Effect of an increase in the market share of private labels

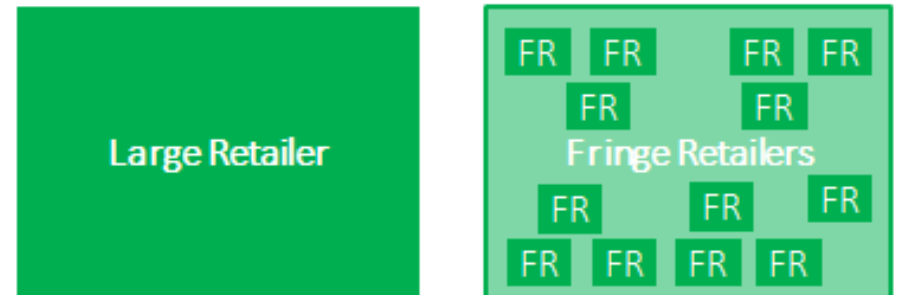
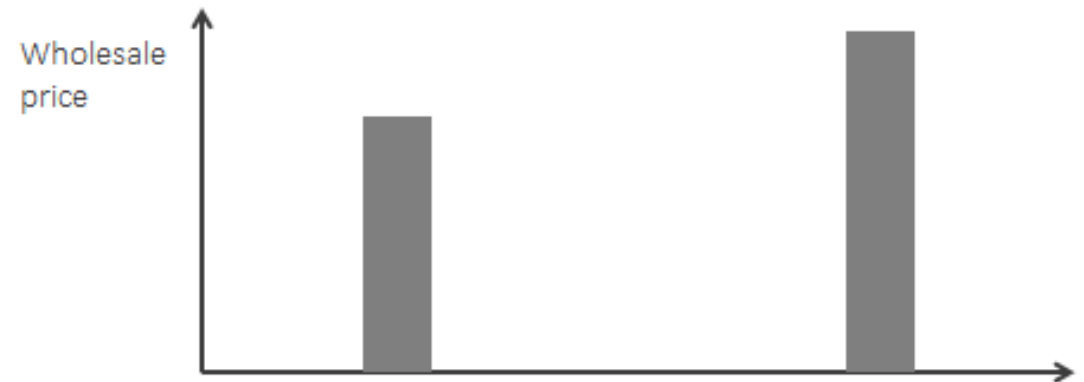


Wholesale prices to large retailers are likely to reduce

IMPACT OF CHANGE IN MARKET STRUCTURE: PRICES (II)



Waterbed effect



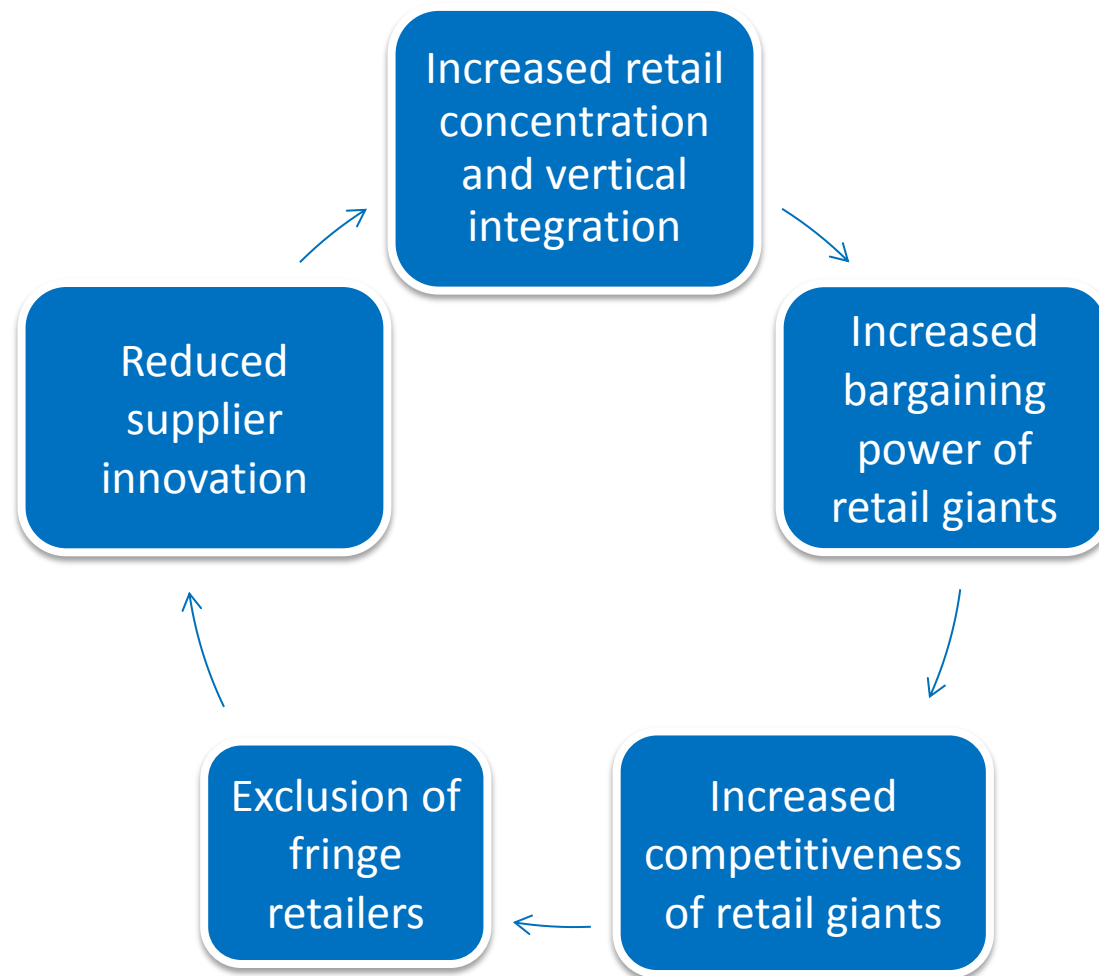
Increased wholesale prices for fringe retailers

IMPACT OF CHANGE IN MARKET STRUCTURE: INNOVATION

- Reduction in upstream profits \Rightarrow supplier incentive and ability to invest is reduced.
 - Reduced cash flows
 - Lower appropriability
- Retailer incentive and ability to invest is increased.
- Innovation more effective competition strategy for the suppliers
 - Vertical differentiation
 - Portfolio management

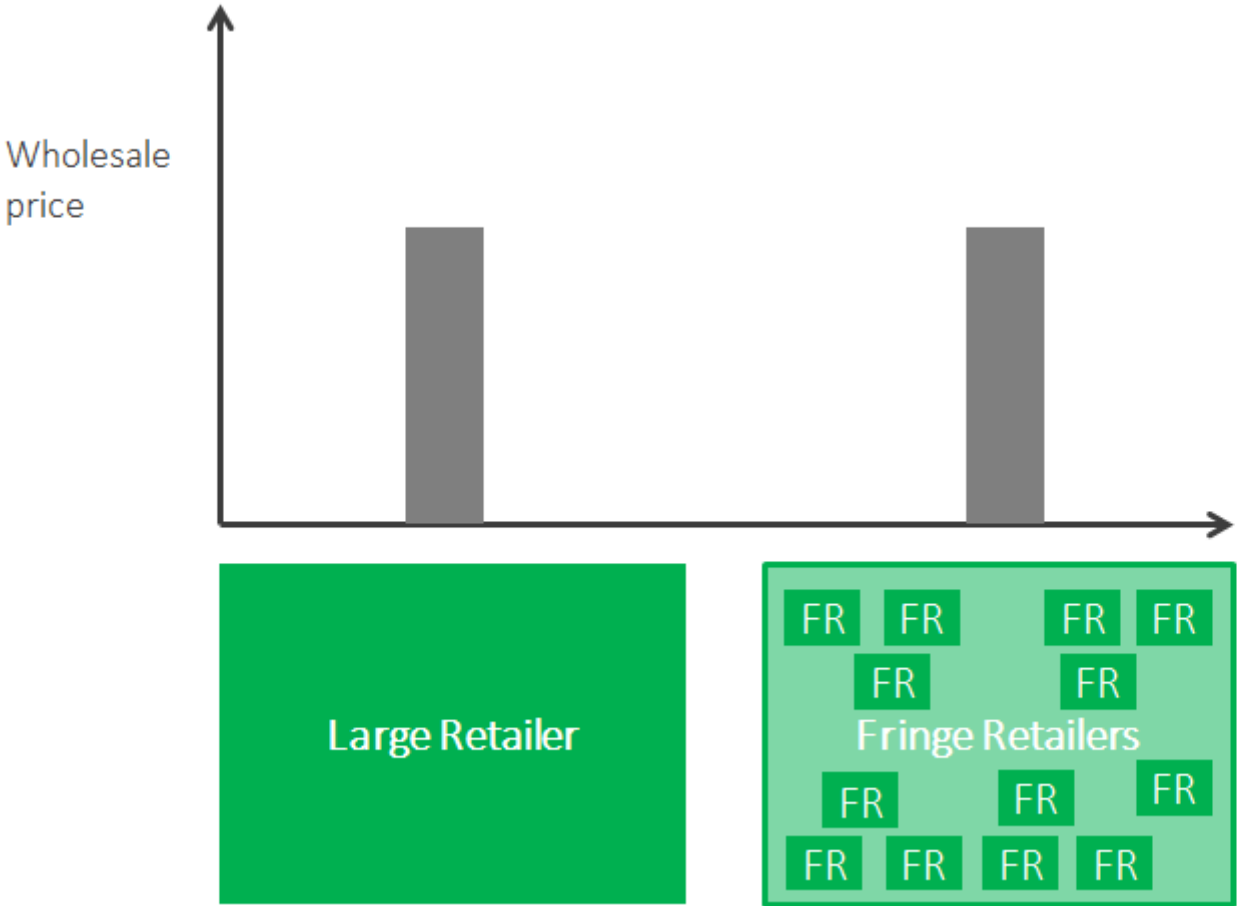
Supplier innovations likely to reduce, retailer innovations may not increase

IMPACT OF CHANGE IN MARKET STRUCTURE – VICIOUS CIRCLE



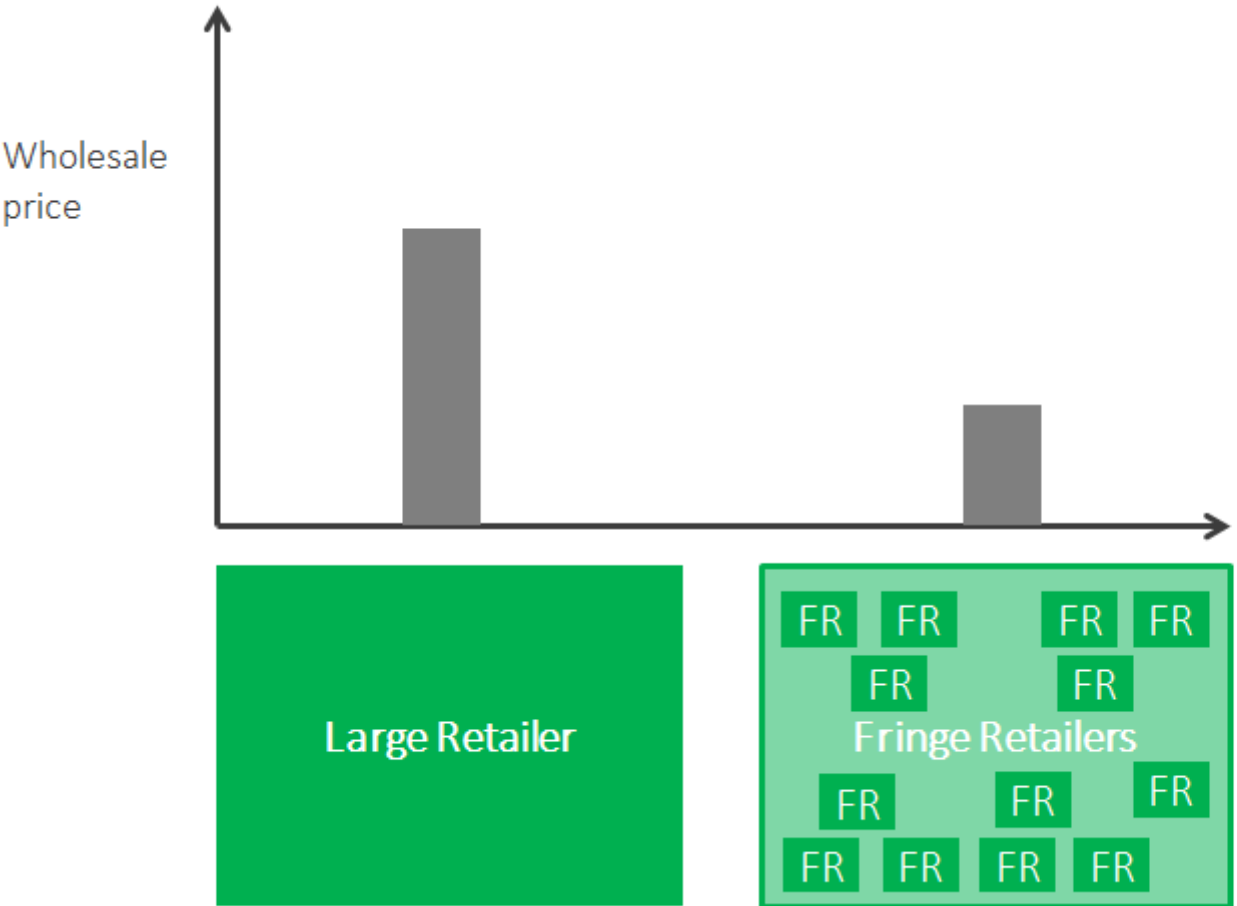
SUPPLIER STRATEGIES (I)

Do not disadvantage fringe retailers



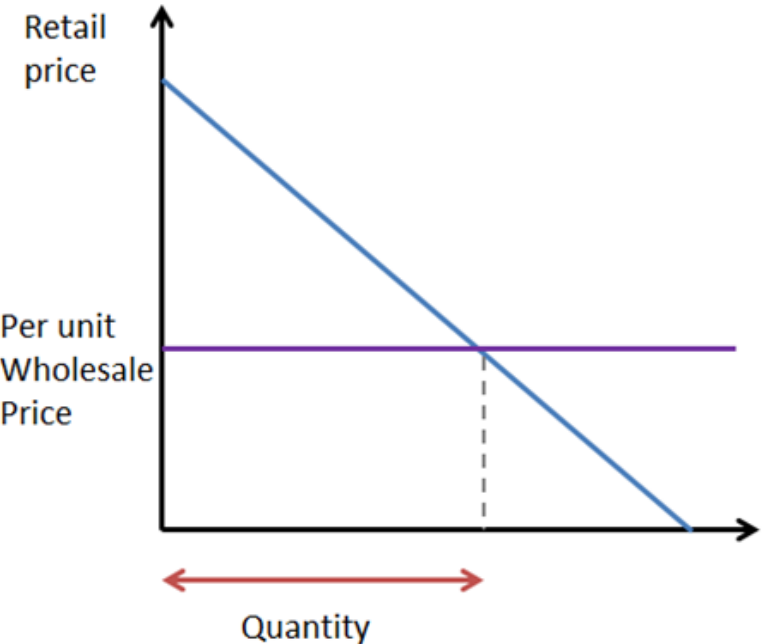
SUPPLIER STRATEGIES (II)

Create an advantage for fringe retailers

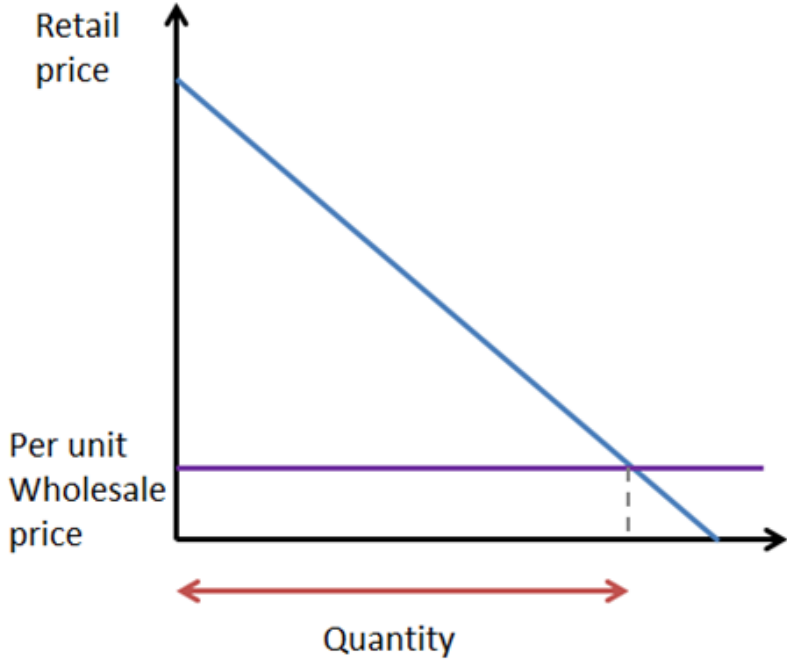


SUPPLIER STRATEGIES (III)

Non-linear pricing for fringe retailers



Linear pricing
(Per unit wholesale price only)



Non-linear pricing
(Franchise fee + per unit wholesale price)

THANK YOU!



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