

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).

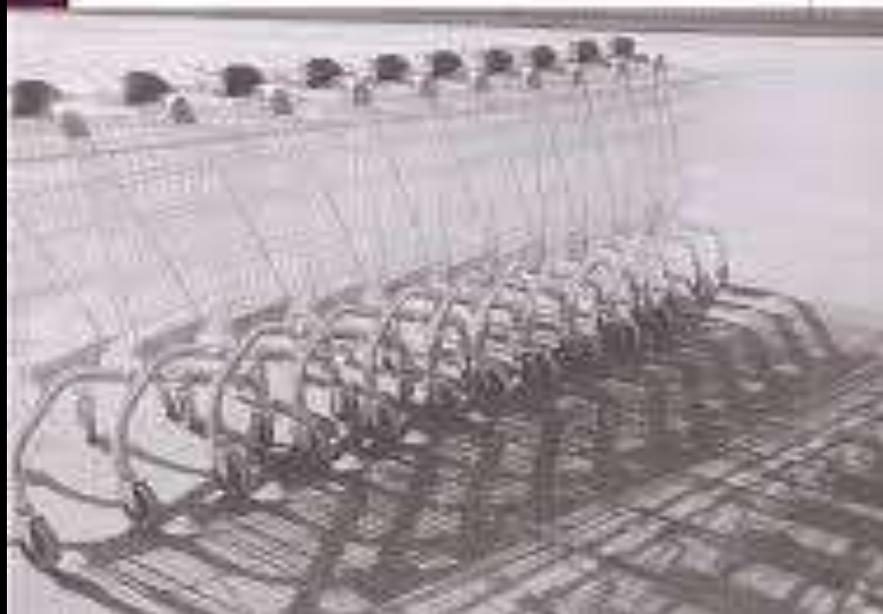
AFTER SERVING ON A PUBLIC COMMISSION

- 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?