Buyer Power and Retail Competition

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Alternative approaches to assessing buyer power

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

- 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

- 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
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