Oxford Symposium: Trends in retail competition

Pricing, innovation and buyer power

*An Economist’s Perspective*

09 June 2017

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SETUP - THE MARKET

Suppliers

Wholesale prices

Retailers

Retail prices

Customers
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

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 ⇒ 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
IMPATH OF CHANGE IN MARKET STRUCTURE – VICIOUS CIRCLE

- Increased retail concentration and vertical integration
  - Reduced supplier innovation
  - Increased bargaining power of retail giants
  - Exclusion of fringe retailers
    - Increased competitiveness of retail giants
SUPPLIER STRATEGIES (I)

Do not disadvantage fringe retailers

Wholesale price

Large Retailer

Fringe Retailers
SUPPLIER STRATEGIES (II)

Create an advantage for fringe retailers

Wholesale price

Large Retailer

Fringe Retailers

FR FR FR FR FR
FR FR FR FR
FR FR FR FR
FR FR FR FR
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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