

Bargaining Power in the Distribution Channel

Draganska, M., Klapper, D. and Villas-Boas, S.
(2010), A Larger Slice or a Larger Pie? An
Empirical Investigation of Bargaining Power
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Motivation

- Power in the channel subject of much discussion in the marketing literature
- Very little evidence that manufacturers are suffering despite the rise in retailer power
- Complex negotiations between manufacturers and retailers have posed challenges to researchers

How do we think about power?

- What is the size of the pie?
 - Pricing power vis-à-vis consumers
- What slice of the pie goes to manufacturers and retailers?
 - What do the parties have at stake (bargaining position)?
 - How “good” are the parties at negotiating (bargaining power)?

Contribution to the literature

- Derive a theoretically consistent and empirically tractable bargaining model of channel interactions
- Extend recent theoretical literature on bargaining to empirically rich and realistic setting, most notably incorporating consumer heterogeneity
- Measure bargaining position and bargaining power of channel participants
- Relate bargaining power to exogenous manufacturer and retailer characteristics

Modeling approach

- Estimate random coefficients logit demand model to obtain substitution patterns
- Solve Bertrand Nash supply-side model to get retailer margins as a function of the demand substitution patterns
- Bilateral bargaining between multiple manufacturers and multiple retailers yields manufacturer margins as a function of retailer margins and bargaining power parameter

Data sources and variables

- Weekly information on sales, prices, promotions
 - Ground coffee category, Germany, 2000-2001 (MADAKOM)
 - 7 major national brands, 6 major retail chains
- Monthly brand-level advertising expenditures (AC Nielsen)
- Raw coffee cost (NYSE)
- Manufacturer and retailer characteristics (MADAKOM data)

Key findings

- Bargaining power is specific to a manufacturer-retailer pair and distinct from brand/store equity.
- Firm size, store brands and service level are important determinants of channel profits and bargaining power.
- Channel profitability is not a zero-sum game
- Decrease in bargaining power does not necessarily mean a decrease in profits.