“The welfare effects of brand portfolio strategies in the soft drink industry: A structural bargaining approach with limited data”

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Abstract:

In bilateral oligopolies, firms act strategically leading to complex vertical relationships in many industries. Using a homescan dataset on soft drink purchases, we develop different models of negotiation depending on the information structure between manufacturers and retailers as well as whether manufacturers separately or jointly negotiate their brands within their portfolio. For each scenario, bargaining power, margins, and profits of firms are estimated. Then, to select among the models, we use a Nash equilibrium concept and infer the equilibrium that is closest to the data generating process. Our results suggest that join negotiations of the brand portfolio are used for two of the four manufacturers in the soft drink industry. We then determine the division of surplus in the French soft drink industry and found that retailers earn more profits than manufacturers from soft drink sales. Finally, Simulating the ban of the join negotiations over the whole brand portfolio, we recover the effect on prices and then on consumer welfare of such practices. (Very preliminary results will be presented…)