

Impacts of Buyer Power on Competition in Distribution Market

— On Large-Scale Retailer —

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This article examines three issues of concern raised by increasing buyer power; the abuse of dominant bargaining position, the “Waterbed Effect,” and the generation of selling power based on increasing buyer power. Even though there have been no cases in which a chain reaction of these three harmful effects was documented, it cannot be concluded that there is no possibility of this chain reaction occurring due to increasing buyer power. One example of increasing buyer power appears in cases of merger and acquisition (M&A). In Europe, some M&A cases involving two retailers have been investigated from the aspect of both buyer and seller side’s market power. In Japan in the near future, it will be necessary to take into consideration buyer power in the process of merger investigation to eliminate concerns over these harmful effects of buyer power.

Three issues of concern are as follows. First, in reference to Figure 1, the abuse of dominant bargaining position based on buyer power is a direct harmful effect from a dominant buyer (for example, a large-scale retailer, a locally high-shared retailer, or a joint-purchase group for the purpose of joint selling) to suppliers such as unjustifiable price cut request and so on (Effect①).

Second, the “Waterbed Effect” is an indirect effect caused by buyer power (Effect ②). The effect is defined as that a dominant buyer can purchase goods with a cheap price using the leverage of its buyer power, while other buyers suffer from price increases with which suppliers have to compensate for the loss on sales to the dominant buyer. Therefore, “Waterbed Effect” has a

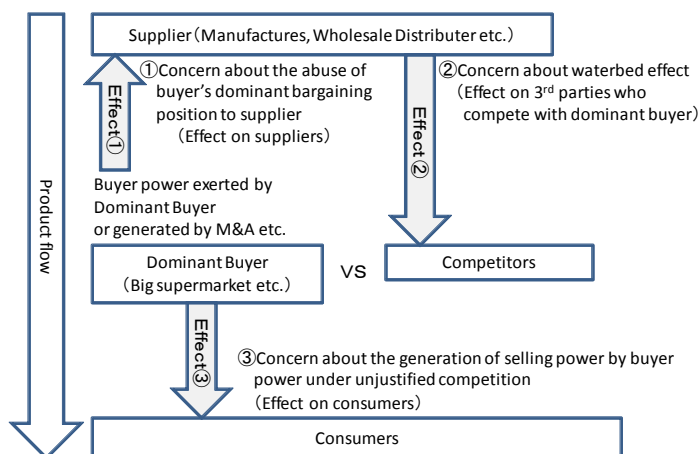


Figure.1 Three issues of concern

negative third party effect on the other buyers who compete with the dominant buyer.

Third, the generation of selling power of a dominant buyer is an issue of concern caused by buyer power in the context of under unjustified competition and brings about a medium and long term negative effect on consumers (Effect③).

In order to eliminate these concerns, we need to address the critical questions of what important point should be considered and how it should be judged in the process of merger investigation involved with increasing buyer power. First of all, whether or not power balance can be maintained between suppliers and the buyer with merger plan should be considered. In cases where suppliers, such as manufacturers and wholesale distributors, have selling power, if the retail market is a competitive market, the buyer power of a dominant retailer brings about a positive effect on social welfare as a countervailing power against suppliers. However, if the retail market is not a competitive market, the buyer power of a dominant retailer does not bring about a positive effect on social welfare due to the generation of selling power on a retailer's side through its buyer power. Therefore, it should be carefully considered in specific and concrete details whether or not increasing buyer power can generate selling power after the approval of buyer's merger. Thus, it is very important to judge in a comprehensive manner the pro-competitive effect of countervailing power and the anticompetitive effect of buyer power. If the latter effect is anticipated to be relatively strong as in regions where market competition is judged to be likely to become less intensive after the approval of the merger, we need to consider all solutions, such as a measure to sell merging buyer's shops in a region, in order to maintain competition in each retail market.