

MARKETING COLLOQUIA

2014 – 2015

Øystein Daljord

Stanford University

Thursday, November 6, 2014

Where: 741 JMHH

When: 3:00 PM to 4:20 PM

COMMITMENT, VERTICAL RESTRAINTS, AND DYNAMIC PRICING OF DURABLE GOODS

ABSTRACT: Resale Price Maintenance is a vertical contract in which a manufacturer sets the retail price. Traditional motivations for RPM are that it can avoid double marginalization and provide incentives for complementary service provision. This paper explores a new and complementary role for Resale Price Maintenance (RPM) as part of a price skimming strategy. RPM fixes the price path in dynamic markets. I argue that fixing the price path can improve upon price skimming strategies by providing commitment to future prices. Using a legislation change that deemed RPM illegal as a natural experiment, the effect of RPM as a commitment device is analyzed empirically in two steps. First, using detailed and comprehensive retail sales data from the Norwegian book market, I show that in the absence of RPM, price skimming falters. Prices fall earlier over the lifecycle, and demand shifts from consumers buying early at high prices to later at lower prices. I then turn to quantify the dynamic effects of RPM. A distinction is made between two effects of RPM: it both eliminates price competition between retailers and coordinates prices over time. To separate out the price discrimination effect, I estimate a dynamic demand model and evaluate the returns to counterfactual vertical contracts in a dynamic oligopoly equilibrium model at the estimated parameters.