

The Competitive Consequences of Delegating Pricing Decisions to a Category Captain in the Presence of Retail Competition

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What is a Category Captain?

Product category:

Products grouped together by a common theme e.g., soft drinks.

Category management:

Used by retailers to manage brands as one whole business unit (Nielson, 1992).

Category captainship

A retailer may delegate the task of category management to a manufacturer – **the category captain (CC)**

The captain may be responsible for making recommendations about: assortment, pricing, shelving allocations (Desrochers et al., 2003).



Research Questions

1. What is the impact of the **delegation of pricing** to a category captain on all parties in the category?
2. Under what conditions does the implementation of category captainship result in **competitive exclusion**?
3. How does the **presence of retail competition** impact the result of the analysis that has been done in the literature?
4. Is it possible for category captainship to **benefit all parties**? If so, under what conditions is this true?

See closely related literature: Wang (2003), Kurtulus and Toktay (2011)

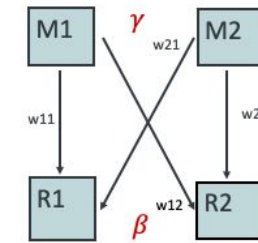
Methodology

Game theoretical technique

- Profit maximisation assumption
- Model CC as an alliance i.e., vertical integration
- Pricing delegation
- 2 manufacturers x 2 retailers

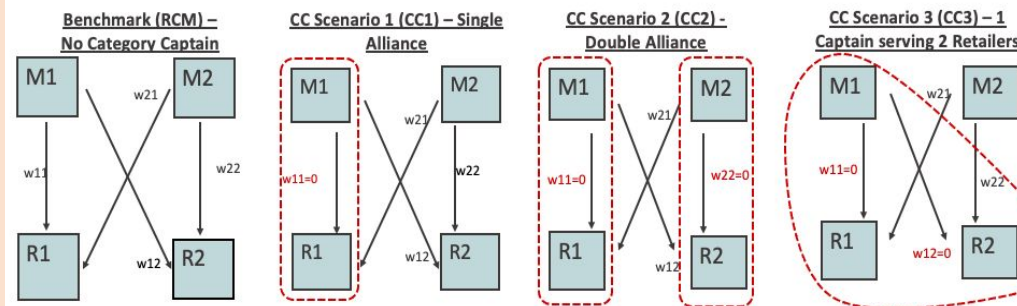
Linear demand function:

Models inter brand (γ) competition and intra brand (β) competition



$$q_{ih}(p_{ih}, p_{ik}, p_{jh}, p_{jk}; \beta, \gamma) = \frac{1 - \beta - p_{ih} + \beta p_{ik} - \gamma + \beta \gamma + \gamma p_{jh} - \beta \gamma p_{jk}}{(1 - \beta^2)(1 - \gamma^2)}$$

4 scenarios are considered to determine which of the CC scenarios occur in equilibrium based on a profit comparison for each firm involved.



Findings & Equilibrium Outcomes

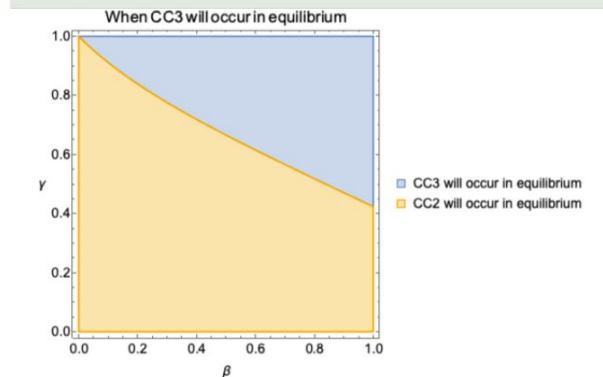
CC3 occurs in equilibrium under sufficiently high β & γ

Retail prices increase + outsider manufacturers profits decrease

CC2 occurs in equilibrium for sufficiently low β & γ

Retail prices decrease + joint profits of the two alliances increase

CC1 does not occur



Implications

Consumer welfare: Retail prices may increase

Competition policy: Partial exclusion is a possibility – there will be losers

Retailers & manufacturers in industry: Provides clarification for CC implementation

Research: Argument for implementation of retail competition in models

Reference List:

Desrochers, Debra M., Gregory T. Gundlach, and Albert A. Foer (2003a). "Analysis of Antitrust Challenges to Category Captain Arrangements". In: Journal of Public Policy and Marketing 22.2, pp. 201–215. issn: 15477207. doi: 10.1509/jppm.22.2.201.17635.

Kurtulus, Mümin and L. Beril Toktay (2011). "Category captainship vs. retailer category management under limited retail shelf space". In: Production and Operations Management 20.1, pp. 47–56. issn: 10591478. doi: 10.1111/j.1937-5956.2010.01141.x.

Nielson (1992). Category Management: positioning your organisation to win. American Marketing Association NTC Business Books.

Wang, Yusong, Jagmohan S. Raju, and Sanjay K. Dhar (2003). "The Choice and

Potential Antitrust Problems:

Despite the **potential benefits** (increased efficiency, lower retail prices, more organized category for consumers), there are possible antitrust implications: **collusion or competitive exclusion**. The focus of this research is on whether competitive exclusion occurs as a consequence of category captainship. In this case, a category captain with sufficient market power could use its role and influence over the retailer in order to exclude other rival manufacturers in the category.