

Equal pricing strategy for manufacturer encroachment with an outside firm

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Abstract

With the rise of the Internet and big data, manufacturers expand direct sales channels, reducing entry costs. They face pricing decisions and may adopt an equal pricing strategy, aligning prices with traditional channels to optimize sales and logistics efficiency. In this study, we consider a vertically related market with three firms. In the downstream market, a retailer buys products from a manufacturer at wholesale price. The retailer hires an outside firm to package the purchased products at packaging price, which is then sold to the consumer at retail price. We show that the manufacturer always encroaches on the downstream market. It uses equal pricing if the products are highly differentiated and the marginal cost of the direct channel is at the intermediary level. When the manufacturer has an incentive to encroach the downstream market with equal pricing, while increasing consumer surplus, reduces the profits of retailers and outside firms. Ultimately, it makes social welfare decrease.

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