

Direct Marketing in Duopolistic Wholesale Market

Tomomichi Mizuno*

Graduate School of Economics, Kobe University

2-1 Rokkodai-cho, Nada-ku, Kobe-City, Hyogo 657-8501, Japan.

E-mail: 042d206e@stu.kobe-u.ac.jp

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Abstract

Many manufacturers sell their products directly to consumers, using catalogues, the internet, or their own stores. This paper studies a manufacturer's choice whether to sell directly in the presence of a rival manufacturer that has the same choice. We consider a game where manufacturers decide whether to set up sites (e.g., websites or physical stores) where consumers can buy their products directly. Regardless of the choices, manufacturers also choose the amount to sell to retailers. Retailers and the manufacturers that has a direct-sales site then choose the amount to sell to consumers. Direct sales require non-negative marginal costs. We show that there exist more than 7 retailers, no manufacturer sells directly, even if direct sales requires no additional cost. If there are less than 7 retailers and the marginal cost of direct sales is moderate, one manufacturer specializes to direct sales, even though direct sales are more costly.

JEL classification numbers: L13, L20

Key words: direct marketing; supplier encroachment; successive oligopoly; Cournot competition

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