

# Supplier Encroachment May Reduce Consumer Welfare: Upstream Firm's Opportunism and Multichannel Distribution<sup>‡</sup>

Cong Pan<sup>‡</sup>

*Graduate School of Economics, Osaka University*

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## Abstract

We revisit supplier encroachment under the framework of a two-part tariff contract. Early literature largely concludes that an upstream manufacturer offering a two-part tariff contract never sells directly to the resale market because it can always extract the downstream retailer's entire surplus through the fixed fee. However, in our study, when a monopoly manufacturer supplies competing retailers and contract outcomes are observable only to the contracting partners, the manufacturer with a two-part tariff contract encroaches upon the resale market and enhances profits. We further show that this encroachment aggravates double marginalization and reduces consumer welfare.

**Keywords:** channels of distribution; encroachment; two-part tariff contract; supplier opportunism

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<sup>‡</sup>Address: 1-7 Machikaneyama, Toyonaka, Osaka 560-0043, Japan. E-mail: pge042pc@student.econ.osaka-u.ac.jp