

# Firms' strategic delegation with heterogeneous consumers\*

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## Abstract

We study firms' strategic delegation decisions when facing consumers with heterogeneous willingness to pay in a Cournot game. We consider a market comprising two consumer groups, with either a high or low willingness to pay. In this market, we first consider the case of symmetric marginal costs between firms and show that either or both firms' owners may strategically abandon the delegation option to avoid price collapse and to supply only consumers with high willingness to pay. We find three types of delegation decisions with either/both/no firm delegating in equilibrium, contingent on not only firms' internal cost structures, but also on the external market configuration such as consumers' heterogeneity. In the case of firms' asymmetric marginal costs, we find that the more efficient firm's owner is more likely to give up delegation in equilibrium. Therefore, the less efficient firm's owner is more likely to achieve a higher profit through an unilaterally delegation, comparing with the more efficient firm' owner.

**Keywords:** Strategic delegation, Consumer heterogeneity, Cournot competition, Asymmetric cost

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