

Restrictions of Online Sales of Asics Running Shoes

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Structure of the Presentation

- Asics's selective distribution system
- The main trade-off in the perspective of the academic literature
- Application to the clauses of the distribution system

Critical clauses in the selective distribution system

Recap

- Prohibition on the support of price comparison engines through setting up application specific interfaces
- Prohibition of sales via online market places
- Prohibition of allowing a third party to use Asics brand names in any form on the third party's website

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Anti-competitive effect

- Prohibition reduces the searchability of distributors' online stores
- ⇒ Reduction of competition between distributors;
Higher retail prices
- **Question:**
Is this necessarily in the interest of Asics?
(higher prices → lower demand)

Anti-competitive effect

- Without frictions in the wholesale market, Asics can control retail prices (at least partly) through wholesale contracts (price recommendations, two-part tariffs, etc.)

⇒ No need to reduce retail competition

(wholesale prices can be set sufficiently high)

- Potential problems for Asics:
 - Contracts are secret (i.e., not observable to rival retailers)
Opportunism problem (Rey and Tirole, 2007)
 - Uncertainty of final-consumer demand
(Motta and Hansen, 2012)

⇒ Manufacturer benefits from reduced retail competition

Anti-competitive effect

Support for the argument of the Federal Cartel Office

- **Question remains:**

How is this influenced by the competition from Nike and Adidas?

- Decision is a bit scarce on this

Pro-competitive effect

- Restricting competition ensures quality and service investment by retailers
 - ⇒ Intra-brand competition does not allow retailers to recoup their investment
(advice, show-room, service, investment in brand image)
- Consumers inform themselves on retailer's providing services
- Then, they buy from a retailer with lower price who does not provide the service (free-riding problem)
(Mathewson and Winter, 1987; Bernheim and Whinston, 1998)
- **Question:**
Why is this particularly relevant for sport shoes?

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Which Effect Dominates?

Focus on price search engines and online market places

- *Question:*

Are the two effects outlined above potentially different for the two forms of online platforms?

- Consider final-consumer market:

- Consumer are heterogeneous with respect to preference for quality and time costs of using a price search engine
- Visitors of a price search engine mainly care about the price (low time costs and/or low preference for quality)
- Visitors can inform themselves before online and offline and then go to the price search engine

⇒ **Free-riding** retailers will be active on price search engines

Which Effect Dominates?

- Online market place allows for product presentation, information, comparison of price and non-price instruments
- Consumers with high time costs or preference for quality will buy directly at an online market place

Comparison between the two forms

- Both platforms lead to increased intra-brand competition and lower prices
(Brown and Goolsbee, 2002)
- **However**, detrimental effect of lower quality and service investment should be considerably larger for price search engines
- **In addition, spillover effects:**
If offers are available on price search engines, consumers will be more inclined to go there, which makes free-riding more profitable.
- **Conclusion:**
Free-riding arguments of Asics justified for price search engines but less so for online market places

Prohibition of the Use of Brand Names

- To me, this does also not destroy service or quality investment dramatically
- Should have a similar effect as the one pointed out for online market places

Conclusion

- Discussion gives a more nuanced picture of the different clauses of Asics's distribution system
- Online market place and usage of brand name:
Support of the view of the FCO
Damaging effect of restricting price competition outweighs increase in service investment
- Price search engine:
Result is likely to be different
- Conclusion:
Different clauses of the distribution system should be treated differently
Partial unlawfulness of the distribution system