

Discussion of Justin P. Johnson's "MFN Clauses and

Summary of Results

- Agency model leads to higher prices in the first period and lower prices in the second period relative to wholesale model
 - Depends on retailer lock-in created by first period choice: retailers have incentive to “subsidize” first period prices, suppliers do not
 - In the wholesale model, retailers do not fully pass through first period price cuts: consumer welfare is higher under the agency model
- The

Comments on MFN clauses in Agency Model

- MFN clauses have typically been viewed as a way to soften competition and raise prices
 - Solve time inconsistency or dynamic issues faced by the monopolist seller; not applicable here, no effect of MFNs in wholesale model
 - May not always constrain downstream retail competition
- MFNs change the retailer competitive dynamics but with no ultimate effect on retail prices
 - Result depends in part on the symmetry of the retailers; different levels of market power for retailers might impose a cost for implementing MFNs
 - Alternative/additional substitute product formats introduce other incentives

Comments on Retailer/Platform Entry from MFNs

- Retailer/Platform entry raises consumer surplus through added variety (Hotelling model)
- The presence or introduction of MFNs can spur entry by providing higher retailer profits
- MFNs also can help spur entry
 - By restricting retail pricing, it also can resolve uncertainty over revenue sharing between the supplier and the retailers
 - Ex ante beliefs about incumbent behavior restricted by MFNs
- The use of MFNs to resolve uncertainty at each level (consumer, retailer, and supplier) is intuitive with interesting extensions

Thoughts on Further Potential Extensions

- Consumers with access to multiple retailers/platforms
 - Effects from weakening lock-in effects?
 - Vertical integration of suppliers and selected retailers/platforms? Does that affect the preferred contracts? Pricing of retailer/platform access?
- With multiple retailers/platforms, MFNs might have further implications:
 - Reducing consumer search costs
 - Effects from purchasing from non-preferred retailer/platform
 - Incentives to buy multiple platforms to “bargain hunt”
 - Simplify retailer pricing problem and avoid constant “real time pricing” updates

Wrap-up

- Topical and relevant question
- MFNs take on an interesting role in the agency model leading to interesting results
- High relevance for antitrust analysis and brings attention to important trade-offs in examining these contracts