

Exclusive Territories and Efficiency: Evidence from the brewing industry

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Summary

Research Question

What are the effects of the use of **wholesale exclusive territories** in the brewing industry?

Industry

Brewing industry in the U.S. (2001 - 2004)

- ▶ Indiana repealed a ban on exclusive territories

Mechanisms

Wholesale exclusive territories might...

- ▶ Reduce competition and facilitate collusion ($\uparrow P$ and $\downarrow Q$)
- ▶ Reduce free-riding in wholesaler service, improve product quality and boost demand ($\uparrow P$ and $\uparrow Q$)

Empirical strategy: diff-in-diff (1 of 2)

Quasi-experimental setup

- ▶ **Treatment:** Repeal a ban on exclusive territories.
 - ▶ AB announced they will enforce ET upon repeal.
- ▶ **Treatment group:** Indiana.
- ▶ **Control group:** 44 other markets.
- ▶ **Before and after:** Not a clear point in time.
 - ▶ Ban Repeal announcement (June 1, 2001)
 - ▶ Ban Repeal (January 1, 2002)
 - ▶ Appeals ruled out (October 25, 2002)

Data

- ▶ Store-week-brand level prices and sales data.
- ▶ Data from the period 2001 - 2004.
- ▶ Focus on the three main brands: AB, Coors and Miller.

Empirical strategy: diff-in-diff (2 of 2)

Main Specification

$$\ln(Y_{bsjt}) = \beta_1 \times I(announced_{jt}) + \beta_2 \times I(postban_{jt}) + \beta_3 \times I(postruling_{jt}) \\ + \mathbf{X}'_{bsjt}\gamma + \lambda_s + \theta_t + \alpha_b + \varepsilon_{bsjt}$$

- ▶ **Controls:** Store size, Indianapolis 500 dummy, brand fixed effects, store f.e., time f.e.
- ▶ Std. Err. clustered by market and month. Correction for inference with one treated cluster.
- ▶ **Robustness:** separate brands, aggregate products across brands, trend differences in Indiana.
- ▶ **Main Results**
 - ▶ Weak evidence for price increase.
 - ▶ Significant evidence for quantity increase after the Court ruling.

Comments (1 of 2)

Interesting work

- ▶ Very simple and transparent setup, explained clearly and concisely.
- ▶ Very relevant topic for competition policy! Not many empirical papers studying exclusive territories, and no general consensus about them.

Some Comments

Some more institutional details

- ▶ Why was ET prohibited in Indiana? Why are normally ET mandatory in the U.S.?
- ▶ Pre-2001 data? The revision of Rule 28 was looming since 1996.

Foreclosure?

- ▶ How did smaller brands evolve in their prices and market shares over time?
- ▶ A risk of ET could be foreclosure of smaller manufacturers.

Comments (2 of 2)

Some More Comments

Differentiated products?

- ▶ Beer is a differentiated product.
- ▶ Why not including other characteristics as calories, alcohol, etc.?

Demand estimation?

- ▶ It would reduce the need to argue where does $\uparrow P$ come from.
- ▶ E.g. Spec (4) “weak evidence” for price decrease after ban repeal.