Measuring the Benefits and Costs of Intermediation in Vertical Relations

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Abstract

We empirically investigate the welfare implications of intermediaries in oligopolistic markets, where intermediaries offer additional services to differentiate their products from the ones of the manufacturers. Our identification strategy exploits the unique circumstance that, in the outdoors advertising industry, there are two distribution channels: consumers can purchase the product either directly from manufacturers, or with the intermediation of retailers. Using product-level data for the whole industry, we estimate a differentiated products' equilibrium model that includes: consumers who have preferences that are specific to each distribution channel and engage in costly search on the demand side; and two layers of activity (where manufacturers and intermediaries bargain over wholesale prices) with two distribution channels (where the two distribution channels compete *a la* Bertrand) on the supply side. The estimated model is used to simulate counterfactual scenarios, where intermediaries do not offer additional services. These counterfactuals are used to quantify the welfare effects of intermediaries.

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