Minimum Resale Price Maintenance
as a Device for Product Differentiation

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Abstract

We analyze the incentive and profitability of the use of minimum resale price maintenance (RPM) when two manufacturers compete in price with each other and sell through multiple retailers. Each retailer deals with both manufacturers and decides whether to provide potential customers with a pre-sale service which allows them to learn better about the valuation of the product. We show that the manufacturers can increases their profits by imposing the minimum RPM since it enables the provision of pre-sale services which virtually differentiate the products from the view point of consumers. Furthermore, we study the effects of information transferability between the products on the market prices and the retailer’s decision on information provision.

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