

(3) Alternatively, the advertising manufacturer could demand a *royalty payment* based on the dealer's total revenues or unit sales across all brands. In many respects, this form of multiproduct pricing is like a cooperative advertising agreement.

(4) Another way a manufacturer can respond to the problem of within-store brand switching is by imposing *exclusive dealerships*. However, single-brand retailers might suffer diminished sales.

Second, opportunistic behaviour presents a particular problem when one side of the manufacturer-dealer relationship makes expenditures on assets that have value only in that relationship. Once the relationship-specific costs have been sunk by one party (the manufacturer), the other party (the retailer) may reopen bargaining over the term of the contract. The manufacturer is somewhat locked into the relationship. One way to increase the value of maintaining the relationship to both sides is to have the dealer offered as a hostage. In some instances, some vertical restraint provisions of the manufacturer-dealer contract can serve to create a hostage situation.

(1) One means of creating a hostage, for example, is to have a low wholesale price coupled with a large *franchise fee*. The right to the low wholesale price becomes a relationship-specific asset owned by the dealer.

(2) Dealer reputation may be another candidate for a relationship-specific asset. A multi-brand dealer may be able to develop a reputation as a good dealer per se. Consequently, an *exclusive dealing* arrangement may lead to the dealer's reputation becoming a relationship-specific asset.

(3) Another way to deal with opportunistic recontracting is to limit the threats that the dealer can make. A *requirement contract*, for instance, eliminates the buyer's ability to take his business to another manufacturer.

### *Stylized Scenario: Scope for Collusion Among Manufacturers*

The manufacturers could among themselves agree on such price and non-price clauses in contracts with their distributors that reduce interbrand competition at the retail level. The manufacturers would collectively gain from successful collusion.

(1) Under *exclusive dealing* arrangements, consumers who want to comparison shop are forced to visit several stores. The higher costs of comparison shopping tend to discourage consumers from undertaking this search activity, limiting the extent of interbrand competition