



Slotting Allowances

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Definition

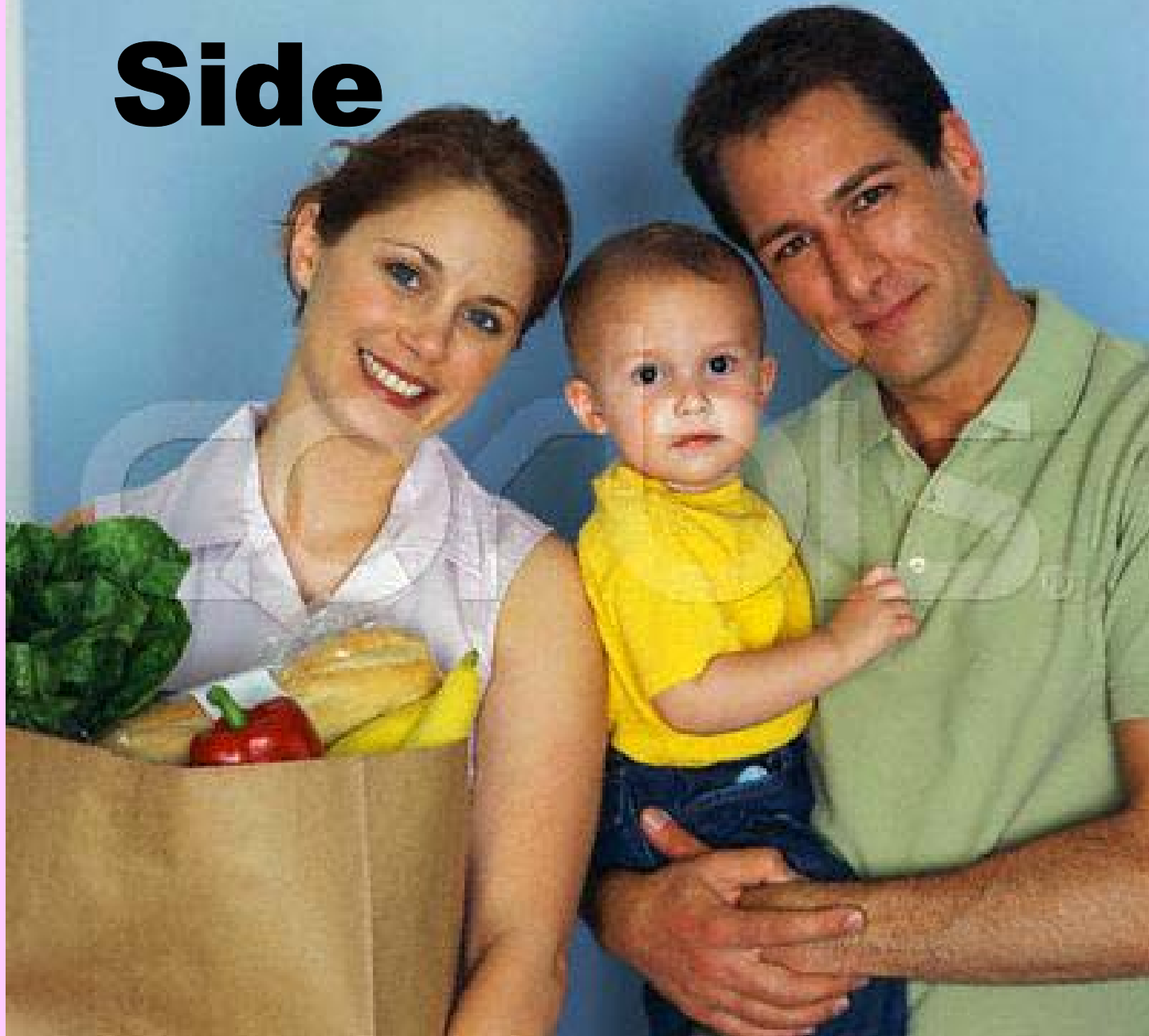


Payments made by a manufacturer to a retailer in exchange for stocking the manufacturer's product on the retailer's shelves.





Consumer's Side




Positive vs. Negative Impacts

- Increase in range of products
- Decreased prices
- More information/convenience
- Reduction in the range of products
 - Less innovations
- Increased prices
 - Slotting allowances



Small/New Manufacturer Side

- Excluding rivals with large up-front costs
- “Anti-competitive” behavior by large manufacturers
- Reduce innovation
- sources of equity capital: difficult

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- *Tortilla example: a small tortilla manufacturer claimed that a dominant supplier had paid to have the smaller firm's product placed in a disadvantageous shelf location, eventually taking all the shelf except for “three feet in the corner”*

Retailer Side

- Compensates for the real costs and **risks** of taking on unproven new products
- Firms unable to raise capital *because* they don't have worthwhile investments
- “putting its money where its mouth is”
- There simply isn't enough room for everyone

**80% failure
rate of new
products!!!**

Large Manufacturers

- **Expensive, but they are better positioned to pay**
- **Often don't have to pay because their products are known to be successful**
- **Exercising market power**
- **Other related fees: Pay-to-stay/Renewal /Pay to keep competitors off shelves**
- **There is no apparent shortage in consumer choice**
- **Means of communication for manufacturer and retailer**



Two Schools of Thought

• Efficiency :

- Allocates risk more equitably
- Helps retailers allocate shelf space
- Shelf space only for valuable products
- *Lower* prices

• Market Power:

- Enables retailers to exercise market power
- Undermines trading relationships
- Price discrimination/ predation
- Foreclosure of competitive opportunities
- *Higher* prices

FTC Findings



- Slotting allowances not inherently unlawful
- Searching for anticompetitive behavior that is harmful to *consumers*
- Protects competition NOT competitive firms
- Must review facts and circumstances on a case-by-case basis
- Need for empirical studies for effect on prices

The Legal Aspect



- Sherman Act & FTC Act

An agreement among competing retailers on the level of slotting allowances they will require, or on how their shelf space will be allocated among various suppliers.

An agreement among competing manufacturers to pay slotting allowances as a means of “locking up” store shelves and excluding rivals might be attacked as a conspiracy to monopolize

The Legal Aspect

- Section 7 of the Clayton Act

The issue has been “whether slotting allowances locked up available shelf space, making it difficult for potential competitors to enter the market.”

