Abstract

In this paper, we use product-specific wholesale and retail prices to study bargaining power. We focus on two outcomes of bargaining between coffee manufacturers and supermarkets in Chile: (1) the share of total profits that each player earns, and (2) the risk exposure to cost shocks that each player bears. We find that Nestlé, which accounts for almost 80 percent of the market, obtains 70 percent of the total profits. Surprisingly, small manufacturers obtain between 30 and 50 percent. Our estimates suggest that a low degree of consumer substitutability can o.set market size in terms of bargaining power. In terms of risk exposure, we find that most cost shocks are absorbed by upstream manufacturers, and that small manufacturers bear more risk than larger players. Supermarkets' pricing strategies also appear to play a role in the risk-sharing outcomes.