BRAND ACQUISITION UNDER PRODUCT DIFFERENTIATION

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Abstract

This paper discusses brand buying between rival firms in a Cournot duopoly with horizontal and vertical product differentiation. The firms produce products of different qualities (high and low), and incur different costs(high and low) per unit of output produced. It is shown that a firm that produces the higher quality product buys the brand of the firm that produces the lower quality product if the quality difference (net of cost) and the horizontal differentiation between the two products are relatively low.In other words, it is depicted that brand buying exercise for a firm that buys the good of other firm is always profitable when it produces the good acquired at its own marginal cost given the goods are close substitutes and there are only two firms in the market. However, profits are positive but lower when the good that is acquired is produced at a marginal cost incurred for producing the higher quality product.

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