

Title: Slotting Contracts and Consumer Welfare

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### Abstract

Slotting contracts involve manufacturer payments to retailers for shelf space. Slotting contracts are an important part of the competitive process in many retail product markets. While slotting contracts have been the subject of congressional hearings, agency investigations, antitrust litigation, and scholarly debate, there is surprisingly very little empirical evidence measuring their actual competitive consequences. In this article, I analyze sales at military commissaries, U.S. government operated supermarkets, before and after a natural experiment in which commissaries ceased to accept slotting payments. This natural experiment provides a rare opportunity to observe directly the crucial policy question: Would a prohibition on slotting contracts increase consumer welfare? This analysis measures the impact of slotting on prices, output, and product variety at both the product and category levels. The results are inconsistent with anticompetitive theories of slotting contracts. Slotting contracts are primarily associated with brand-shifting of sales within a product category, but not increases in category level prices or a reduction in category output or variety. To the extent that slotting contract revenue is passed on to consumers in competitive retail markets, an assumption generally warranted in the grocery retail industry, the results here imply that slotting contract competition is likely to benefit consumers.