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Title: Preferences for Contractual Forms in Competing Supply Chains

Abstract: The supply chain coordinating and contracting literature has been focusing on how to design contracts to align individual interests of supply chain members. A well-established implication from this literature is that the upstream supplier should prefer more complex contracts that can coordinate the supply chain, whereas less efficient wholesale price only contracts should be eliminated by market force. From the downstream retailer's perspective, the wholesale price contract can possibly leave more surplus than coordinating contracts by which essentially suppliers are able to abstract all surplus. In this paper, we attempt to address the following theoretical question: under what conditions can the supplier and the retailer share the same preference for contractual forms? We answer this question in a competing supply chain setting, and focus on the preferences for contractual forms of the upstream and downstream parties of supply chains. We find that both sides may prefer the same quantity discount contract, and thus no conflict of interests arise in contracting situation. More interestingly, we find both may also prefer the wholesale price contract, a result that has not been suggested by existing studies in the literature.

Joint work with Yaozhong Wu