

BRAND BUYING AND PRODUCT MIX: ROLE OF PRODUCT DIFFERENTIATION

SRI VIDYA RAMADAS

*A project report submitted
in partial fulfillment of the requirement for the award of the degree of*

**MASTER OF ARTS
IN
GENERAL ECONOMICS**



May 2025

**MADRAS SCHOOL OF ECONOMICS
CHENNAI-600025**

ABSTRACT

We study in this thesis the possibility of brand buying and the dynamics of product mix across firms. Drawing on anecdotal evidence of brand acquisitions, where one firm purchases a specific brand from another, we develop a theoretical model to analyze the conditions under which such acquisitions are feasible. In our paper, we construct a model with 3 firms which compete in quantities in the presence of horizontal and vertical product differentiation. Firm A has a high quality (H) product. Firm B is a multiproduct firm which holds two quality (L,L) products. Firm C has a high quality (H) product. The initial product mix of the industry is (H,LL,H). Initially we try to analyse when it is optimal for firm A (firm B) to buy (sell) the low quality product brand. We find that brand buying happens only when the quality difference is moderately high. The product mix of the industry becomes (HL,L,H). We also analyse if further brand buying is possible, i.e, if it is optimal for firm C (firm A) to buy (sell) the high quality product brand. We find that it is possible only if the quality difference is very high. The product mix of the industry becomes (L,L,HH). As an extension, we also analyse the possibility of brand buying when firm compete in prices and find that brand buying is always possible.