

Pricing Coordination in Supply Chains through Revenue Sharing Contracts

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Abstract

In a decentralized supply chain, local decision-makers at different echelons of the supply chain usually pursue their own maximizing-profits. However, a decision that is locally optimal could be globally inefficient. Through the revenue sharing mechanism, this paper proposes a supply-chain contract model to coordinate the pricing decision in a multi-echelon supply chain with a deterministic price-sensitive demand. We identify the conditions under which the contract can achieve channel coordination as well as improve the profits of all the supply chain members, and also present how to modify the contract parameters so as to more evenly share the profit along the chain.

Keywords: Decentralized Supply Chain, Revenue Sharing Contract, Pricing Coordination.