Chapter 3

THE ENVIRONMENT OF MARKETING CHANNELS

Teaching Notes

This chapter focuses on the economic, competitive, sociocultural, technological and legal environments that channel managers must continuously examine and understand in the making of channel decisions. Key terms and the concepts of the chapter involve understanding of particulars from other disciplines such as economics or legal issues in marketing.

Prior to the introduction of this chapter, it might be prudent to spend some time reviewing both economic terminology and concepts and specific laws covering marketing. The chapter does a good job in explaining how each of the major federal laws pertains to marketing channels but additional resources or review might be appropriate.

Chapter Objectives

This chapter defines the different and various elements of a channel manager's *external environment*: the economic, competitive, sociocultural, technological and legal constraints imposed upon channel members and channel decisions. In addition, the chapter covers in depth specific cultural differences that affect channel distribution across countries and the major federal laws involved in channel decisions.

Learning objectives

1) Understand the impact of environment in a marketing channel context.
2) Awareness of the major economic forces affecting marketing channels.
3) Recognize that even "normal" economic conditions require marketing channel management attention.
4) Be cognizant of how international or global competitive environments affect marketing channels.
5) Be able to delineate the major types of competition in the context of marketing channel management and strategy.
6) Appreciate the major sociocultural developments as they occur and with respect to the implications for marketing channels.
7) Be alert to the rapid changes in technology and how such changes impact marketing channels.
8) Gain an understanding of the basic anti-trust laws and how they apply to marketing channels.
9) Be familiar with the key legal issues relating to marketing channels.

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Chapter Topics

1) The Marketing Channel and the Environment
2) The Economic Environment
3) The Competitive Environment
4) The Sociocultural Environment
5) The Technological Environment
6) The Internet and Electronic Marketing Channels
7) The Legal Environment

Chapter Outline

The Marketing Channel and the Environment

Key term and definition

- Environment: The environment consists of all the external uncontrollable factors within which marketing channels exist.

The five environments outlined in this chapter are:

1. Economic environment
2. Competitive environment
3. Sociocultural environment
4. Technological environment
5. Legal environment

Each of these segments will be discussed in depth throughout the chapter. Note that this listing does not attempt to *rank* or *imply* any order of importance.

Channel managers must take into account how the environment affects their nonmember participants. Channel managers must analyze the *impact of environment not only on their own firms and ultimate target markets but also on all of the participants in the marketing channel.*

Figure 3.1 illustrates how all of these environments affect all channel members, participants, and non-participants as well.

The Economic Environment

The economy is the most obvious and persuasive category of environmental variable because it affects every business and individual. In the channel management context, economic factors are critical determinants of channel member behavior and performance.

A) Recession

This occurs when there are two consecutive quarters of a decline in the Gross Domestic Product (GDP).

All members of the marketing channel may feel the effects of recession in the form of substantial reductions in sales volume and profitability.

The textbook gives an example of how channel members were affected by the recession of 2007-2008 and how the EVERSAVE.com responded in early 2008.

The key point to illustrate with the students is that this is a good example of how difficult times yield greater price sensitivity among consumers. However, this may provide opportunities for companies offering bargains, organizations such as EVERSAVE.com.

B) Inflation

Table 3.1 shows the inflation rate in the United States from 1990 to present.

Students should be familiar with the concept of inflation from economic or financial courses.

The reaction of channel members to inflation is often a determination of the reaction of consumers or other final users to inflation. Unfortunately, these reactions are not easy to predict.

From the perspective of the channel manager, such changes in consumer buying behavior should be viewed in the context of *how* they might affect channel member behavior and what the implications might be for channel strategy.

Reducing the inventory burden on channel members through streamlined product offerings, faster order processing times and deliveries, higher inventory turnover strategy or stronger promotional support *may have to be incorporated* into channel strategy in times of high inflation rates.

C) Deflation

Deflation, static prices, or even a very low rate of price increase can create serious channel management difficulties. It becomes anything but easy to increase prices when inflation is low and virtually impossible in times of falling prices. Each channel member is highly sensitive to price increases during these times and manufacturers may have a hard time passing on cost increases to other channel members.

D) Other Economic Issues

The Federal Budget Deficit, National Debt, Trade Deficit and the relationship of the U.S. dollar to foreign currencies affects all channel members.
When the U.S. dollar is strong against foreign currencies, U.S. products can become *less competitive* oversees thus making it more difficult for U.S. firms to sell their products to foreign consumers.

High interest rates can be a problem even when the inflation rate is moderate and the economy is not in a recession. This is particularly true of the *real interest rate*, which is the nominal rate of interest minus the inflation rate.

The Competitive Environment

A) Types of Competition

There are four types of competition and we will examine each.

1. Horizontal competition
2. Intertype competition
3. Vertical competition
4. Channel system competition

Figure 3.2 illustrates the four types of competition facing channel managers.

1. **Horizontal Competition**

Horizontal competition is defined as competition between firms of the same type. Examples include automobile manufacturer versus another automobile manufacturer. This is the most common form of competition and is generally referred to as simply "competition".

2. Intertype Competition

This is competition between different types of firms at the same channel level. Examples include off-price retailers versus department store retailers.

Another type of intertype competition has come from the dot-com online retailers. Internet-based E-Commerce turned out to be much less of a significant form of intertype competition that originally thought.

3. **Vertical Competition**

This refers to competition between channel members at different levels in the channel such as retailer versus wholesaler or wholesaler versus manufacturer. Examples include competition between national brands and private brands. This vertical competition can escalate to vertical conflict as one channel member attempts to directly impede another channel member's attempt to achieve their objectives.

4. **Channel System Competition**

This refers to complete channels competing with other complete channels. In order for channels to compete as complete units, they must be organized as cohesive organizations. Such channels have been referred to as *vertical marketing systems* and are classified into three types:

- Corporate
- Contractual
- Administered

a) In corporate system competition, production and marketing facilities are owned by the same company. Examples include Firestone Tire & Rubber Company and Sherwin-Williams Company.

b) In contractual channel competition, independent channel members – producers or manufacturers, wholesalers, and retailers are linked by contractual agreements. Examples include: I.G.A. (Independent Grocers Alliance) in food and Drug Guild in pharmacies for example.

c) Administered channel systems result from strong domination by one of the channel members (usually a manufacturer) over others. This dominant position is a function of the leverage that the dominant channel member can achieve based on a monopoly of supply, special expertise, strong consumer acceptance of its products or other factors. Examples include: Scott® lawn products and Ethan Allen® in furniture.

As these vertical marketing systems take a larger and larger share of the total distribution system, the extent of channel system competition is expected to grow.

From the preceding discussion, we can see that channel managers face a rather complex competitive environment. Not only do they have to think in terms of broad global perspective of competition, they also need to worry about horizontal, vertical, and channel systems competition.

Competitive Structure and Channel Management

In designing the marketing channel, the channel manager needs to determine which kinds of distributors and/or dealers can provide the *most* efficient and effective distribution of the firm's products.

Scrambled merchandising, which describes the selling of products through nontraditional outlets, has drastically changed the competitive landscape. For example, the selling of automobile products in supermarkets or over the Internet is an example of scrambled merchandising.

This changing competitive environment also means that producers and manufacturers face a far more complex management task because they are dealing with more and different types of channel members.

The Sociocultural Environment

Marketing patterns are influenced by the sociocultural environment within which they exist. Indeed, some channel analysts argue that this is a major force affecting channel structure.

In essence, then, the channel manager must be sensitive to the sociocultural environment of the marketing channel when the channel extends into foreign cultures.

Figure 3.3 illustrates the marketing channel structure for developing countries and Japan.

A good group research project here might be to ask the students to develop a similar chart for countries that they are familiar with or have visited.

A) Globalization

This term is used to describe the interconnectedness and interdependencies of countries and people around the world. In a business rather than a political context, globalization typically focuses on the vast and complex trade flows among countries and the international supply chains that make huge flows of products and services across national boundaries possible. Further, globalization refers to the greatly increasing number of people who travel internationally. According to the United Nations World Tourism Organization (UNWTO), this number will exceed 1.5 billion annually by 2020.

B) Consumer Mobility and Connectedness

This concept refers to the degree of mobility that people experience for business and personal pursuits while remaining in touch with colleagues, friends, and family. Indeed, buying products and services while literally running around has become a common expectation for consumers armed with laptops and smart phones all over the world. This phenomenon, which in recent years has generally been referred to as “mobile commerce” or simply m-commerce. Channel managers will need to include m-commerce channels in their channel mixes because highly mobile and connected consumers expect to have such channels available to them.

C) Social Networking

The term, "social networking" refers to interaction in networks comprised of individuals or organizations that are linked together based on some type of common interest, such as friendship, beliefs, or professional pursuits. Though social networks and social networking have existed for a long time, what is new is the introduction in recent years of the Internet-based World Wide Web. The Web has enabled social networks and participants in such networks to increase exponentially so that literally millions of people can interact with each other via social networking sites. In a business context, social networking has enabled millions of consumers to share information and opinions about products, services and firms. From a marketing channels perspective, social networking has not only empowered consumers to make much more informed decisions about the products they buy, the services they use and the firms they deal with through virtually limitless information sharing, but it has also enabled them to make better channel choices and made them more demanding about the channels they choose.

D) The Green Movement
This is a term that has often been used to refer to a focus on preserving the environment and human health. The philosophical roots of the Green Movement go back to the nineteenth century, but as we pass beyond the first decade of the twenty-first century, the issues associated with the Green Movement provide tremendous opportunities as well as challenges to channel managers to be full participants in developing and managing marketing channels that will support the aspirations of the movement.

The Technological Environment

Technology is the most continuously and rapidly changing aspect of the environment. The channel manager has to sort out those developments that are relevant to his or her own firm and then determine how these changes are likely to affect the channel participants.

The Internet and Electronic Marketing Channels

The Internet provides a highly efficient means for gaining access to, organizing, and sharing virtually unlimited amounts of information.

Although the Internet was conceived primarily as an information exchange mechanism, it has now become an established “electronic marketing channel”.

Online B2C (business to consumers) reached $53 billion in 2001.

A) Electronic Data Interchange

Key Term and Definition

- Electronic data interchange (EDI): Refers to the linking together of channel member information systems to provide real-time responses to communications between channel members.

EDI technology enhances distribution efficiency resulting in substantial benefits to all channel members and consumers through more accurate and timely production schedules, order processing, and inventory carrying costs.

B) Scanners, Computerized Inventory Management and Portable Computers

Electronic scanners can be used to replenish inventory electronically without having to rely on manually produced purchase orders.

A computer generated order can list items falling below minimum inventory levels and transmit the replenishment order directly to the producers and/or manufacturer.

Computerized inventory systems based on data received from point-of-sale terminals created a revolution in inventory management and control at the retail level and provided timely and valuable information for making better merchandising decisions.

Thus, the new technology is something of a mixed blessing for manufacturers. Quicker response by retailers and wholesalers to fast-selling products can allow the manufacturer more time to plan ahead to increase production. On the other hand, faster responses by channel members to slow sellers can mean a sudden halt in orders.

C) The Digital Revolution and Smartphones

Digital revolution is the term commonly used to describe the rapid expansion of the influence of digital devices. This huge transformation, that has taken place over the past three decades, saw a transformation from analog and mechanical technology to digital technology. The most obvious and widespread manifestation of the digital revolution has been reflected in the massive growth of personal computing, the Internet, cell phone usage and, more recently, the downloading of digital media such as music and movies. The potential for channel managers to use this technology is almost unlimited. Consider, for example, the potential of smartphones that have made the m-commerce channel possible.

D) RFID

This acronym stands for *radio frequency identification*. This technology uses a device called an RFID tag attached to a person or object, such as a product, that enables that person or product to be identified and tracked using radio waves. By implanting RFID chips or tags in or on a product, detailed information, including price, basic characteristics, date of manufacture, origin, and current location, can be recorded. RFID has the potential not only to dramatically enhance the effectiveness and efficiency of

inventory control and supply chain but one day it may lead to the elimination of checkout lines in retail stores.

E) Cloud Computing

Cloud computing is an Internet-based technology that enables businesses and organizations to utilize highly sophisticated computer applications without having to have their own hardware, software, office computing space and staff. Instead, by being part of the network, or "cloud," the user can access the computing capabilities needed on demand from a third- party provider via the Internet. From a marketing channels perspective, the capabilities provided by cloud computing mean that virtually any firm in the marketing channel regardless of size will find it feasible and cost effective to obtain the computing capabilities and expertise needed to develop and support whatever channel management applications they need, whether that involves managing distributor relationships, coordinating multiple channels or tracking products in the supply chain.

The Legal Environment

A) Legislation Affecting Marketing Channels

Five pieces of legislation underlie most of the major channel management legal issues.

These are:

1. Sherman Antitrust Act
2. Clayton Act
3. Federal Trade Commission Act
4. Robinson-Patman Act
5. Celler-Kefauver Act

B) Legal Issues in Channel Management

What should be kept in our minds as we proceed through the discussion of legal issues is the *potential for conflict* that exists between the objectives of an individual firm's channel management strategies and the interests of society.

1. Dual Distribution
Key Term and Definition

- Dual distribution: Refers to the practice whereby a producer or manufacturer uses two or more different channel structures for distributing the same product to his target market. The selling of the same or similar products under different brand names for distribution through two or more channels is also a form of dual distribution.

Dual distribution, which in recent years is increasingly being referred to as multi-channel distribution, is not illegal per se under federal antitrust laws.

Antitrust controversies have emerged when a firm distributes through its own vertically integrated channel in competition with independent channel members at the wholesale or retail levels. Such distribution practices are common in the marketing of petroleum products, tires, shoes, paints, and drugs.

2. Exclusive Dealing
Key Term and Definition

- Exclusive dealing: Occurs when a supplier requires its channel members to sell only its products or at least to refrain from selling products from directly competitive suppliers.

With an exclusive dealing arrangement, the supplier gains a substantial degree of market protection from competitive products in the market areas covered by its channel members.

Exclusive dealing arrangements are in violation of the antitrust provisions of the Clayton Act if their effect is to *substantially* lessen competition or foster monopolies.

The substantiality test is based upon three conditions:

a. Whether the exclusive arrangement excludes competitive products from a substantial share of the market

b. Whether the dollar amount involved is substantial

c. Whether the dispute is between large suppliers and a smaller distributor or deal where the supplier's disparate economic power can be inherently coercive.

3. Full-Line Forcing
Key Term and Definition

- Full-line forcing: Occurs when a supplier requires channel members to carry a broad group of its products (the full line) in order to sell any particular products in the supplier's line.

It does represent, up to a point, a legitimate effort by the manufacturer to see that a broad range of its products is carried by channel members and to discourage "cherry picking" by channel members of only the "hottest" items in the manufacturer's product line.

Antitrust issues emerge when full-line forcing occurs to such an extent that it prevents other suppliers from selling competitive lines through channel members who are "loaded up" with the products of the supplier practicing full-line forcing.

4. Price Discrimination
Key Term and Definition

- Price discrimination: Refers to the practice whereby a supplier, either directly or indirectly, sells at different prices to the same class of channel members to the extent that such price differentials tend to lessen competition. Price discrimination is covered specifically under the Robinson-Patman Act.

Accurate generalizations about whether specific channel pricing policies and practices constitute discrimination are difficult to make.

5. Price Maintenance
Key Term and Definition

- Price maintenance: Refers to a supplier's attempt to control the prices charged by its channel members for the supplier's products.

Thus, the supplier dictates the prices charged by channel members to the consumer.

Such vertical price fixing agreements were typically referred to as "fair trade laws" and most fair trade laws are no longer legal in many states. However, the practice has by no means disappeared.

Manufacturers still try to influence prices charged by channel members for a variety of reasons: to protect the image of their products, reduce the likelihood of price wars and to provide channel members with sufficient margins to enable the channel members to provide adequate pre- and post- sale service.

6. Refusal to Deal
Key Term and Definition

- Refusal to deal: Suppliers may select whomever they want as channel members and *refuse to deal with* whomever they want. Thus, there are no legal barriers to sellers using their own criteria and judgment in the selection of channel members.

Refusal to deal cannot be used to coercively cut off channel members who will not conform to policies stipulated by the seller that may be illegal or in restraint of trade.

7. Resale Restriction
Key Term and Definition

- Resale restrictions: Refer to a manufacturer's attempt to stipulate to whom channel members may resell the manufacturer's products and in what specific geographical market areas (or territories) they may be sold.

Such restrictions can be very advantageous to both the manufacturer and the channel members. The capacity to stipulate to whom products may be resold enables the manufacturer to retain and reserve certain *house accounts* (customers to whom the manufacturer sells directly) by prohibiting channel members from selling to these customers. Moreover, it enables the manufacturer to control the kinds of outlets from which final customers for its products will buy. In addition, the manufacturer can maintain a high degree of control over the distribution of its products.

From the channel members' standpoint, the territorial restrictions minimize *intrabrand competition* (competition between distributors selling the same branded product of a particular manufacturer) because each channel member is in effect given a "protected" geographical market area in which to sell.

The Supreme Court has ruled that restrictions can have "redeeming virtues" by promoting intrabrand competition. The court also ruled that such resale restrictions are not necessarily anti-competitive if competition is viewed in a broader perspective.

The legality of resale restrictions is still up in the air.

8. Tying Agreements
Key Term and Definition

- Tying agreements: Agreements whereby a supplier sells a product to a channel member on condition that the channel member also purchase another product, or at least agrees not to purchase that product from any other supplier.

Here the chapter cites the recent case against Microsoft's® Internet Explorer browser. This would be a good example to start a classroom discussion on the pros and cons of the case, as students should be familiar with the discussion/ case from news organizations. The key-learning concept here is that the supplier is in the position to virtually dictate the terms of sale to channel members.

9. Vertical Integration
Key Term and Definition

- Vertical integration: Occurs when a firm owns and operates organizations at other levels of the distribution channel (for example, a manufacturer owning and operating its own wholesaling facilities and retail stores).

Vertical integration can occur as a result of growth and evolution of the firm. The firm desires to gain scales of economies and a high degree of control over its products.

Under the Celler-Kefauver amendment to the Sherman Act, such vertical integration is subject to antitrust actions if the acquisitions or mergers tend to substantially lessen competition or foster monopoly.

Answers to Review Questions

1. In the case of the channels variable, the channel manager must be concerned not only with environmental impacts on his/her own firm and target markets but on his/her channel members and facilitating agencies as well. This means that the analysis of environmental impacts on channel strategy may be more complex than for the product, price, and promotion variables. See Figure 3.1 in the text.

2. In the context of channel strategy, the effects of environmental factors must be evaluated not only in terms of how they might affect the manufacturer and its final customers but also in terms of their effects on *all* members, and participants in the marketing channel. Thus, in this sense, the channel manager has a "lot more to think about."

The channel member also must recognize that there are consequential regional variances in the environment. State and local laws are an obvious example. Significant differences in the competitive situation and sociocultural factors also are common. And, of course, regional variances in economic conditions are frequent. Failure to recognize these regional variances with intermediaries is just as disastrous as forgetting them with final consumers.

3. During recessionary periods, consumer spending, especially for discretionary items, slows. Consequently, as derived demand diminishes, industrial buying also will slow. With decreased spending in these two markets, intermediaries may experience substantial reductions in sales volume and profitability. Intermediaries become increasingly concerned about inventory levels, recognizing that poor inventory turnover can be disastrous. Manufacturers should develop contingency plans that stand ready for implementation at the onset of an economic slowdown. Those plans may include increased pull promotion to maintain final user demand and low interest rate financing for intermediaries to reduce the cost of holding inventory.

   In inflationary times, consumer spending becomes less predictable. If inflation is expected to worsen, current period spending may increase. If the start of a recession is anticipated, spending may slow. Intermediaries likely will respond to inflation by becoming cautious about both the types of products and the amount of inventory they carry, lest price increases cause consumers to cut back on their purchases. In addition, the cost of doing business will increase for all channel members. Intermediaries likely will decrease promotional expenditures and inventory levels. In severe cases, there may be layoffs of sales and customer service personnel. Manufacturers again should have contingency plans prepared for inflationary conditions. These plans may include a shift in product mix focus to lower priced products to offset intermediaries' temptation to buy competitors' lower priced goods.

   In a deflationary period, prices actually decline across a broad spectrum of products and services. From a channel management standpoint, the problem becomes one of trying to pass cost induced price increases through the channel. Even in a deflationary period, manufacturers, wholesalers, and retailers may still face built in cost pressures such as from previously negotiated labor contracts. In the face of deflation, it becomes practically impossible to pass such price increases through the channel. Hence, channel members must "eat" the increased costs themselves.

   The channel manager should be aware that other countries' economies may be countercyclical to the U.S. These other countries can present opportunities for distribution just when economic conditions in the U.S. are unfavorable.

4. The economy, especially looking on a global level, is so dynamic that it is impossible to define what "normal" economic conditions might be. Nonetheless, there are omnipresent economic issues including interest rates (especially the real interest rate), monetary exchange rates, household income, stock prices, bond rates, commodity prices and GDP. The list of relevant economic variables is long and those of greatest

import will vary by market. Channel managers need to recognize how their market segments respond to changes in their economic variables, especially in their purchase behavior and risk tolerance.

5. *Horizontal competition* is between channel members of the same type and at the same level in the marketing channel. General Mills and Kellogg are two manufacturers in horizontal competition. Walmart and Kmart are retailers in horizontal competition.

   Intertype competition is between different types of firms at the same level in the channel. A merchant wholesaler versus a manufacturer's rep is an example of intertype competition at the wholesale level. An Ace hardware store is in intertype competition with a local specialty paint store. Scrambled merchandise increases intertype competition.

   Vertical competition is between channel members at *different* levels in the channel. A manufacturer which used both independent retail stores and its own telesales operation to reach the same customers is in vertical competition with its intermediaries. Supermarkets that carry house brand canned vegetables are in competition with Del Monte.

   System competition is between complete channel systems (producer/manufacturer and intermediaries). McDonald's, the corporation and its franchisees, versus Burger King, that corporation and its franchisees, is system competition.

   Because competition can come from all of these types and can develop insidiously, it is important for channel managers to be alert to competitive developments in all four spheres of competition.

6. Marketing channels are governed by who buys, what they buy and how they buy it. Simply, product must move through the channel in such a way that final customers can buy as they want. To do this, marketing channels must be designed and managed with the customers' buying practices in mind. Different countries have markedly different channel structures because of sociocultural differences. As the demographics, lifestyles and values of nations differ, so will their channel structures.

   As people's lifestyles change, those changes are reflected in their buying habits. Marketers in general, and channel managers in particular, must watch demographic and psychographic data and trends to understand how to design and manage their channels.

   Who does the shopping, for example, is changing in the U.S. According to *Progressive Grocer* magazine, in 1993, 19% of the men surveyed said they were the primary grocery shopper. This compares with 14% in 1988. Single men shop more often (99 times a year) than single women (80 times a year) according to Information Resources Inc. Supermarkets must recognize the change in their customer base and adjust their product assortment, services and merchandising accordingly. (See Suien

L. Hwang, “From Choices to Checkout, the Genders Behave Very Differently in Supermarkets,” *The Wall Street Journal* [March 22, 1994]: BI, BIO.)

7. The environment of external, uncontrollable factors that we characterize as, *environmental forces*, consists of economic, competitive, sociocultural, technological, and legal influences. While these five categories remain constant, the manifestation of each can change at any time, requiring business and channel managers to regularly reassess their business models and strategies. Thus, as one or more of these macro forces shifts, businesses may need to adjust their marketing and channel mixes.

   For example, the Internet and the digital revolution has have an enormous impact on channel mixes and has enabled the creation of online marketing and ecommerce. Secondly, competitive influences are a constant challenge for any firm that require frequent adjustments of channel strategy to maintain their competitive advantage in the market place. Finally, sociocultural factors such as social networking, and mobility and connectedness have altered the way people interact and shop. Thus the only real environmental constant is change itself.

8. Some technological changes may be slow and evolutionary, while others may be sudden and dramatic. To increase the odds of being in a position to take advantage of technological changes and, conversely, to decrease the odds of being left behind by technological developments that may affect channel strategy, channel managers must be alert to technological changes.

   To stay informed about technological changes, channel managers can become active members of trade associations and habitual readers of trade publications. Technological advances, and their applications, usually are well reported by both.

9. Electronic scanners, high tech point of sale systems, computerized inventory management systems, EDI, robotics, and ultra-wideband wireless technology deliver the power of information to channel members. *Real time* market transactions can guide production schedules and inventory replenishment. *Local* market information can be used by intermediaries to plan product assortment, pricing and merchandising. *Accurate, detailed and timely* information can be used for profitability analysis.

   The downside of this technology is that it may well create a “channel underclass” of members who do not or cannot access and utilize the technology to manage their businesses. Such firms will be at a definite information disadvantage.

   An additional consideration is the customer relationship ramifications of the technology. Some intermediaries have complained that EDI, while efficient, has removed the human element from channel member interaction. One intermediary stated that rather than seeing his supplier at least monthly, he now sees him only twice a year. Personal interactions now are computer interactions.

10. The Sherman Act is based on the philosophy that competition promotes public welfare while monopoly detracts from public welfare. Thus, with few exceptions, business structures and practices that enhance competition are “good” while those that tend to reduce competition are “bad.”

11. The Sherman Act Prohibits contracts or combinations that restrain interstate or foreign commerce.

    The Clayton Act strengthens the Sherman Act by specifically forbidding such practices as price discrimination, tying clauses, exclusive dealing, intercorporate stockholding, and interlocking corporate directories among competing firms if these practices tend to substantially lessen competition.

    The Federal Trade Commission Act established the FTC, a federal agency with powers to investigate unfair competitive practices and to issue injunctions against firms that engage in unfair competitive practices.

    The Robinson-Patman Act prohibited a number of forms of price discrimination that tended to substantially lessen competition but that were inadequately covered by the Clayton Act: for example, discriminating in price or terms of sale for goods of like grade and quality, unearned brokerage fees, and promotional allowances and services.

    The Celler-Kefauver Act prohibited vertical acquisitions and mergers that tend to substantially lessen competition.

12. Exclusive dealing, full-line forcing, and tying agreements all work to tie the buyer more closely to the seller engaging in one or more of these practices. This could make it more difficult for other sellers to do business with this particular buyer. If the practices become extreme, they may virtually exclude other sellers from dealing with the buyer, and, hence, the effect might be to substantially lessen competition for the buyer’s business.

13. In general, attempts by the seller to exercise control over the buyer through price maintenance, refusal to deal, or resale restrictions cannot be based on threats or coercion and cannot force the buyer to uphold illegal arrangements or to engage in illegal practices stipulated by the seller.

    Anne Bingaman’s statement, “Henceforth the Antitrust Division will treat vertical price fixing as per se illegal,” is an excellent introduction to the “politics” of antitrust law enforcement.

14. In dual distribution, if the manufacturer’s own outlets are given preferential treatment over independent outlets through which the manufacturer also sells its products, the effect may be to *undercut* the ability of the independent outlets to compete successfully. If the effects of such undercutting threaten the survival of the

independent and hence tend to substantially lessen competition, the dual distribution arrangement may be in violation of the Sherman and Clayton Acts.

Price discrimination practiced by the seller may result in certain buyers receiving more favorable treatment than other buyers may. The Robinson-Patman Act specifically prohibits such discrimination if it tends to substantially lessen competition.

Vertical integration through acquisitions and mergers can substantially lessen competition when it occurs in a highly concentrated industry because the merger may eliminate an important source of supply to independent firms or significantly reduce the opportunity for competing firms to reach the market.

Commentaries on Issues for Discussion

1. The essential idea here is to illustrate and promote discussion on how environmental impacts can be perceived differently by the manufacturer and its channel members. James Johnson, the V.P of marketing for the home insulation manufacturer, sees the run-up in energy prices as offering a great opportunity to increase home insulation sales to the DIY market. The typical home center retailer, however, is likely to see potential danger in the higher energy prices because this can put a damper on consumer spending and even result in a recession. Many retailers have had bitter experiences being caught during such periods with excess inventory that cannot be sold and is costly to finance.

   You might want to ask the students to talk about possible channel strategies the manufacturer might pursue to help allay the retailers' fears by reducing their risk. While Johnson and Allan are not yet dealing with an actual recession, they are dealing with intermediaries' anticipation of one. Actual or anticipated, Johnson and Allan need to ease intermediaries' fears of excess inventory, and reduced sales and profits.

   Possible programs to do this include:
   - increased pull promotion
   - special trade promotions
   - low interest rate financing

   The economic cycle has repeating periods of recession; it is only a matter of time until the next one. Manufacturers know this and should have contingency plans prepared so they can be implemented quickly to help intermediaries handle recessionary periods.

2. As a recessionary period unfolds, consumer spending for such durable goods usually slows down, sometimes drastically. Perhaps even worse is the uncertainty of demand which makes managing inventory more difficult. In his article, "What is the Right

Supply Chain for Your Product," Marshall Fisher argues that one means of addressing stock outs and overstocks is to acknowledge the uncertainty then manage it. However, much depends on the nature of the product being sold and whether efficiency or market responsiveness is the first priority. For what Fisher calls *functional product*s with greater stability of demand, even in times of recession, the demand of the products is more predictable and inventory management less ambiguous. However, many durables tend to be less predictable and market mediation costs can wipe out meager profits if inventory is not managed well. To cope with this issue, Fisher argues that for such products, a more responsive supply chain needs to be devised, one that can quickly adapt to shifts in demand as caused by economic recessions. By recognizing that demand for their products is relatively volatile, retailers can make changes that will lessen demand uncertainty and risk. For example, having arrangements with suppliers to replenish inventory quickly to avoid stock outs to reduce inventory costs.

All members of the marketing channel feel the effects of recession because sales volume levels and profitability fall significantly during hard times. Changes in consumer shopping behavior brought on by the recession also have a significant impact on virtually all participants in marketing channels. Manufacturers, distributors and retailers cannot ignore the growing ranks of Internet-savvy consumers. These consumer are searching for the best possible prices on products and services especially during periods of economic decline or sluggishness.

3. This issue is designed to elicit a response both in terms of the channel member's participation in the marketing mix, and the economic factors, as well as the legal challenges new forms of distribution face in the future. A point to make here is that *behavioral constraints* may limit the impact of high technology on marketing channels.

   Students' answers will vary as to their opinion of whether or not consumers will respond to this new technology, so allow time in the class period for discussion.

   Student answers will vary but the key components should address the following:

   a. The technological challenges inherent in this endeavor – will technology overcome and surpass current delivery systems to the satisfaction of the consumer?

   b. Economic factors such as price, and availability of the new radio broadcasting technology – will it be affordable to a majority of consumers?

   c. Legally, how will this new technology be received by channel members (the radio stations)? Is this an attempt at a "refusal to deal", a "resale restriction", a "tying agreement" or "vertical integration" by another form of technology?

   Here students must fully be able to understand these terms and relate them to this concept.

4. The point to stress with the students answering this question is haw Hhgregg is positioned in the market to compete with the likes of Best Buy or Walmart. Hhgregg has the reputation of attacking the market with superior customer service and competitive pricing. As a specialty retailer of consumer electronics and home appliances, Hhgregg is attempting to satisfy value minded consumers. The question is whether it can sufficiently differentiate itself among consumers with benefits such as better prices, selection, and broad hours of operations. This horizontal competition is common when firms like Best Buy move up the wheel of retailing with higher prices. This provides an opportunity for stores like Hhgregg to attract thrift minded customers.

   However, underneath this description of the competitive environment, lies the real competitive dynamic – *consumer choice in the marketplace.* In actuality, this factor ultimately determines which businesses die and which survive and prosper. The giant retailers reaped the benefits of consumer free choice. If significant numbers of consumers, for a variety of reasons, shop at Hhgregg, then it may well give big box retailers such as Best Buy a run for their money.

5. From a marketing channels perspective, social networking has empowered consumers to make much more informed decisions about the products they buy, the services they use and the firms they deal with through virtually limitless information sharing. However, it has also enabled them to make better channel choices and made them more demanding about the channels they utilize.

   It might be interesting to ask students to explain how social networking enables them to share their experiences about channel choices with their friends. What are their best and worst experiences? Emphasize to the students that their good and bad experiences associated with channel choices are quickly spread through the network quickly impacting channel members success. Moreover, because so much of the social networking that takes place is peer-to-peer (consumer-to-consumer), the credibility of the information received is higher than information shared business-to-consumer via social networking.

   Just as social networking capability has empowered consumers to make more informed channel choices and fostered more demanding consumers, it has also equipped businesses at all levels of the channel with the capability to target potential customers that they could not have reached before and indeed may not have known about.

6. This question usually brings out various opinions as to the viability of e-readers for multiple uses. While many students will hesitate to predict the complete demise of print media, most acknowledge a fondness for e-books because of their convenience. Digital media, of which e-books is one example, continue to grow importance in our society as we become more adept at managing large volumes of information. Since distribution of e-books is instantaneous, it offers a benefit that print media cannot deliver. However, not many are ready to predict the demise of books just yet.

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7. A version of price maintenance is a key legal issue here. “Babies R Us” appears to be using its enormous power in the marketing channel to conspire with five toy manufactures to fix prices. They probably did so for a variety of reasons, such as to protect the image of their products, reduce the likelihood of price wars and provide channel members with sufficient profit margins to enable them to offer adequate pre- and post-sale service.

   The suit, if upheld, would dramatically limit the abilities of manufactures and retailers to manage it pricing strategy. However, until the courts rule, the potential for damages creates an atmosphere of uncertainty that may hinder channel relations in the future. From the consumer perspective, it would appear to forced consumers to pay more than a free market arrangement would have expected.

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