Special Merchandising Contexts-2

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Chargebacks

- A practice used by retailers in which they deduct money from the amount they owe a vendor.
- Two Reasons:
  - merchandise isn't selling
  - vendor mistakes
- Can be a profit center
  - one senior executive at a large department store chain was told to collect $50 million on chargebacks

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Slotting Allowances

- Fees paid by a vendor for space in a retail store.
- Currently aren't legal.
- Retailers argue that they are a reasonable method for ensuring that their valuable space is used efficiently.
- Manufacturers view them as extortion.
- $9 billion or 16% of all new product introduction costs in grocery industry.

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Slotting Allowances

- Harvard School of Economics
  - Give big suppliers competitive advantage over small suppliers
  - Drive small suppliers out of business, then raise prices
  - Anti-competitive – adverse effect of social welfare
- Chicago School of Economics – Free Market
  - Improves market efficiency
  - Resolve information asymmetry

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Buybacks

- Used to get products into retail stores.
- Two scenarios:
  - Retailer allows a vendor to create space for its goods by "buying back" a competitors inventory and removing it from a retailer's system.
  - Retailer forces a vendor to buyback slow-moving merchandise.

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Counterfeit Merchandise

- Goods made and sold without the permission of the owner of a trademark, a copyright, or a patented invention that is legally protected in the country where it is marketed.
- Major problem is counterfeiting intellectual property.

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What to do About Counterfeiters

- Trademark,copyright, and/or patent products in the countries in which they're sold.
- US government is engaged in bilateral and multicultural negotiations and education to limit counterfeiting. (WTO)
- Take steps to protect yourself.

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Gray-Market and Diverted Merchandise

- **Gray- Market Merchandise** possesses a valid U.S. registered trademark and is made by a foreign manufacturer but is imported into the United States without permission of the U.S. trademark owner.
- Not Counterfeit.
- Is legal.
- **Diverted Merchandise** is similar to gray-market merchandise except there need not be distribution across international boundaries.

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Gray-market and Diverted Merchandise: Taking Sides

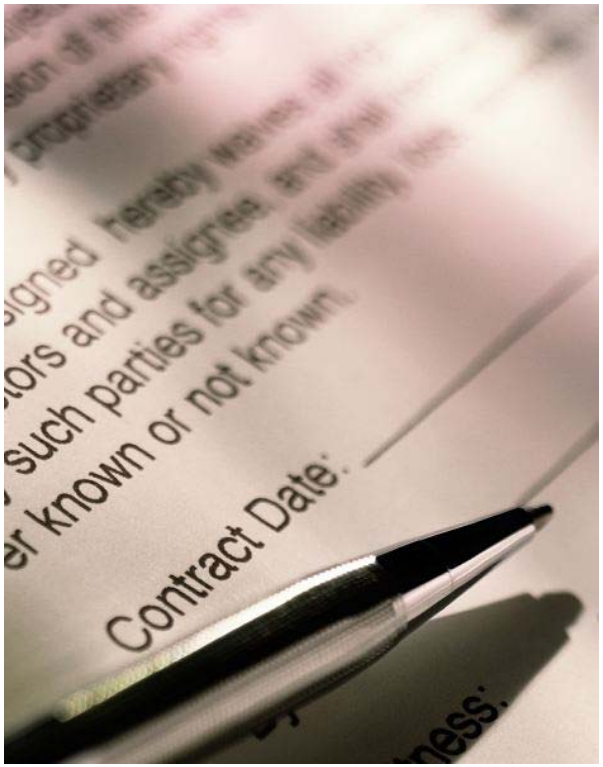
- Discount stores argue customers benefit because it lowers prices.
- Traditional retailers claim important service after sale will be unavailable
- May hurt the trademark's image.

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Avoiding the Gray-Market Problem

- Require customers to sign a contract stipulating that they will not engage in gray marketing.
- Produce different versions of products for different markets.

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Exclusive Territories

- Granted to retailers so no other retailer in the territory can sell a particular brand.
- Benefits vendors by assuring them that “quality” retailers represent their products.
- Assure retailers adequate supply.
- Grants retailers a monopoly.
- Illegal when they restrict competition.

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Exclusive Dealing Agreements

- Occur when a manufacturer or wholesaler restricts a retailer into carrying only its products and nothing from competing vendors.
- Illegal when they restrict competition.

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Tying Contracts

- An agreement that requires the retailer to take a product it doesn't necessarily desire to ensure that it can buy a product it does desire.
- Illegal when they lessen competition.
- Ok to protect goodwill and quality reputation of vendor.

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Ethical Issues

- Should a retailer sell merchandise that it suspect was made using child labor?
- Should a retailer advertise its prices are the lowest available in the market even though some items are not?
- Should a retail buyer accept an expensive gift from a vendor?
- Should retail salespeople to use a high-pressure sales approach when they know the product is the best for the customer's needs?
- Should a retailer give preference to minorities when making promotion decisions?
- Should a retailer treat some customers better than other customers?

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Guidelines

1. Would I be embarrassed if a customer found out about this behavior?
2. Would my supervisor disapprove of this behavior?
3. Would most co-workers feel that this behavior is unusual?
4. Am I about to do this because I think I can get away with it?
5. Would I be upset if a company did this to me?
6. Would my family or friends think less of me if I told them about engaging in this activity?
7. Am I concerned about the possible consequences of this behavior?
8. Would I be upset if this behavior or activity were publicized in a newspaper article?
9. Would society be worse off if everyone engaged in this behavior or activity?

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Thank You

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