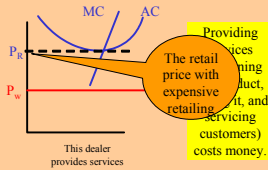


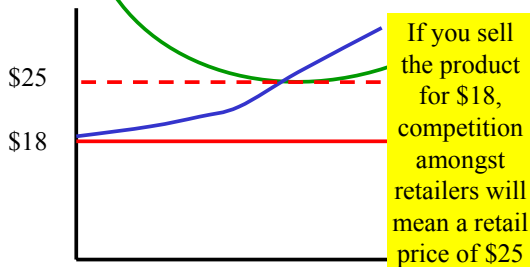
Special Selling



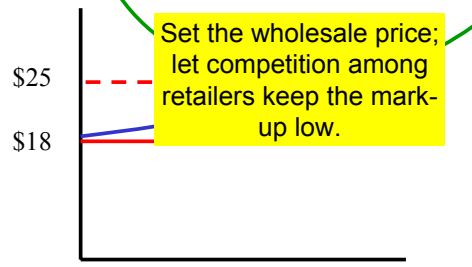
The Better Mousetrap

- You have built a better mousetrap.
- Rather than wait for the world to beat a path to your door, you will take the product to the world via retailers.

The Basics of Retailing



The Basics of Retailing



Resale Price Maintenance

- Sometimes the manufacturer imposes **resale price maintenance (RPM)**, setting a minimum retail price for the product.

Resale Price Maintenance

- Sometimes the manufacturer imposes **resale price maintenance (RPM)**, setting a minimum retail price for the product.
- While Wal-Mart does not like RPM, it serves a useful purpose.

The Role of Special Selling

- You have the problem of providing advertising for your product.

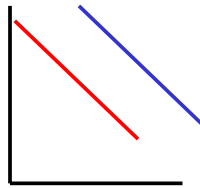
The Role of Special Selling

- You have the problem of providing advertising for your product.



Shifting the Demand Curve

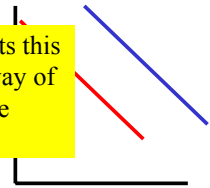
- You have the problem of providing advertising for your product.
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Shifting the Demand Curve

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For many products this is the cheapest way of providing the advertising.

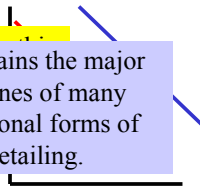


Shifting the Demand Curve

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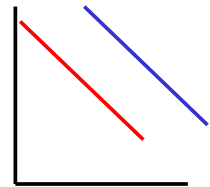
For many products this is the cheapest way of providing the advertising.

It explains the major declines of many traditional forms of retailing.



But How?

- Expensive retailing and mass marketing shift the demand curve.
- If mass marketing is cheaper, push your product via Wal-Mart.



Free Riders

- In other cases, a free rider problem can emerge.

Free Riders

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- Suppose you have a demand curve that depends on dealer efforts.

Free Riders

- In other cases, a free rider problem can emerge.
- Suppose you have a demand curve that depends on dealer efforts.
- Be careful to avoid free riders; that is, having the product sold at a high service store and then sold for a lower price at a no-service store.

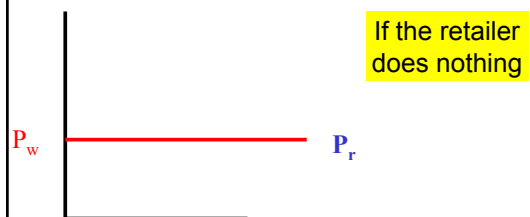
The Dilemma

- You do not control dealers, but allows anyone to retail and to set marketing strategy.

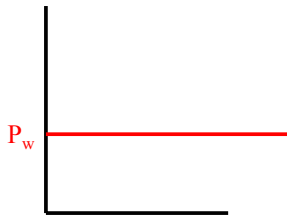
The Dilemma

- You do not control dealers, but allows anyone to retail and to set marketing strategy.
- They have two choices
 - A Service Rich Strategy
 - A Service Lean Strategy

The Retailer's MC Curve

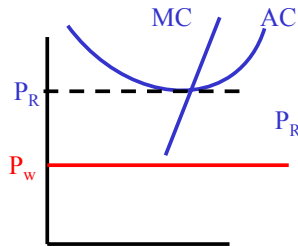


The Retailer's MC Curve



If the retailer does nothing, obviously he must do something and that costs money.

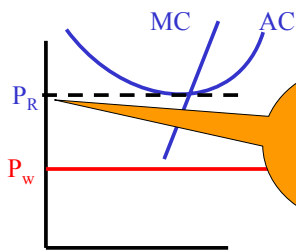
If Services are Provided



Providing services (explaining the product, selling it, and servicing customers) costs money.

This dealer provides services

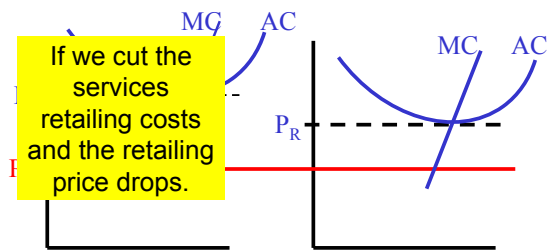
Many Retail Services



The retail price with expensive retailing (explaining product, selling it, and servicing customers) costs money.

This dealer provides services

Selling Strategies



If we cut the services retailing costs and the retailing price drops.

This dealer provides services

This dealer does not

The Consumer's Choice

- When both types of dealers are in operation, smart consumers will
 - Go to the high price, high service, dealer for product information,
 - Go to the low price, low service dealer, for purchase.
- They will get a free ride.

The Retailer's Choice

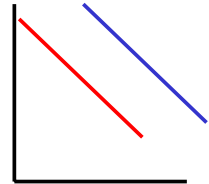
		Retailer 2	
		Service-Lean	Service-Rich
Retailer 1	Service-Lean	$\pi_2 = \$0$	$\pi_2 = -\$50$
	Service-Rich	$\pi_1 = \$0$	$\pi_1 = \$100$
		$\pi_2 = \$100$ $\pi_1 = -\$50$	$\pi_2 = \$0$ $\pi_1 = \$0$

The Retailer's Choice

		Retailer 2	
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The Conclusion

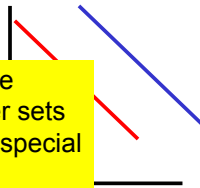
- Service rich retailers get driven out
- The manufacturer finds himself on the “wrong” demand curve.



The Conclusion

- Service rich retailers get driven out
- The manufacturer finds himself on the “wrong” demand curve.

Ergo, the manufacturer sets RPM to force special selling



Wal-Mart

- Wal-Mart would prefer for manufacturers to rely on mass advertising.
- It cannot compete under RPM.

Warning

- Which is best? It depends.
- All we have shown is why RPM may pay off.

End

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