Exclusive Franchising

In exclusive franchise arrangements, the producer limits the competition an individual dealer faces from other outlets distributing the manufacturer's line. Many franchises rely on the manufacturer's self interest in not authorizing more outlets than would be consistent with good marketing and profit maximization over time. In general, in structuring their relationship the manufacturer/franchisor can choose from a range of price and non-price vertical or horizontal practices. In one arrangement, each dealer buys the product according to a two-part tariff.[7] For the dealer, exclusivity is attractive because, by lessening competition, it permits wider price-wholesale cost margins than could be sustained under an unrestricted access policy.

Exclusive Dealing

The practice of exclusive dealing obliges a seller to carry products of a specific manufacturer and not others. Exclusive dealing is an effort to make the seller economically dependent on the promotion of the manufacturer's product. Exclusive dealing is often employed in conjunction with exclusive franchising; for example, a Midas franchise is supposed to sells only Midas-brand exhaust systems and brakes. Alternatively, the dealer may be allowed to carry the products of several manufacturers who are not direct competitors with one another (e.g., a grocery store might be restricted to selling only one brand of light bulb, but still be allowed to sell hundreds of other products).

Exclusive Territory or Geographic Market Restrictions

Under an exclusive territory, a single distributor is the only one who obtains the rights from a manufacturer to serve consumers in a specific geographic region. This geographical exclusivity may be enforced by limiting the geographic location of authorized dealers, while allowing a dealer to serve any customer who comes into the store. Alternatively, the manufacturer may explicitly forbid a retailer from serving customers who are located in the territory assigned to another dealer.

---

[7] As explained below, under a two-part tariff, one part of the overall cost is a fixed franchise fee and the other part depends on how many inputs the franchisee buys from the franchisor.