

(3) Another way to restrict the number of dealers is to assign a limited number of *exclusive territories*. The imposition of exclusive territories also can be used to raise individual dealer profit and increase the number of dealers that the downstream market can support.¹⁷

(4) When consumers value dealer variety, a manufacturer would have incentives to implement a *RPM* (such as a resale price floor) in order to increase the number of dealers by preserving their price-cost margin.¹⁸

(5) Still another way of dealer selection is to define the style of the dealer's marketing (i.e., size of shop, types of additional products and services which must be offered and so on). This may be more than preserving brand reputation. It may be designed to ensure that the manufacturer's product (or group of products) is presented to the market in a certain way, for instance, as part of a one-stop shopping approach or as part of a marketing strategy that emphasizes depth of inventory or location of outlet.

Stylized Scenario: Dealers Forming Cartels

Competing retailers may pressure a manufacturer to impose competition reducing vertical restraints. As an example, consider the case of a group of retailers that purchases an intermediate good at the competitive price: the wholesale price (*WP*) equal to marginal cost (*MC*). These retailers compete on the final price and charge the final price equal to *MC*. They make zero economic profit.¹⁹

(1) Suppose now that they come up with the clever idea of creating a trademark. They set up an institution to certify that the product meets some arbitrary standards.

(2) In turn, this certification institution "imposes" a *RPM* or *exclusive territories* on the retailer cartel of the trademark holders.

In both cases, the creation of a phony upstream institution allows the retailers to make profits by reducing competition.

¹⁷ L.E. Preston, "Restrictive Distribution Arrangements: Economic Analysis and Public Policy Standards", *Law and Contemporary Problems*, (30) 1965: 506-29, cited in M.L. Katz, 1989, *op. cit.*

¹⁸ J.R. Gould and L.E. Preston, "Resale Price Maintenance and Retail Outlets", *Economica*, (32) 1965: 302-12.

¹⁹ Jean Tirole, *The Theory of Industrial Organization*, Cambridge, MA.: 1988, pp. 184-5.