Therefore, a key vertical restraint issue is the ability of the legal system to understand how shifts in the allocation of functions over time should be analyzed.

- *A functional approach to the distribution system*

Distribution decisions, which lie at the heart of all vertical relationships, involve an allocation of the functions between various players in the distribution chain. In moving the goods in the vertical chain from one to the next point and finally to the consumers, many functions are performed. A partial list of such functions would include: the sourcing of raw materials, components, technology and other inputs; manufacturing, packaging and transporting the good; product promotion through advertisements and so on; holding of inventories; arranging store displays; training the distribution/sales staff; the organizing of pre-sale information events; after-sales services, such as repairs and the stocking of spare parts; and so on.

In a well functioning distribution network, goods and services are efficiently delivered to their destination. The main issues that a distribution system must address are:

- Which player (e.g., the manufacturer, the wholesaler or retailer) is best able to perform the function?
- How clearly can the obligation to perform a desired function (or to refrain from performing a function) be expressed?
- What is the point at which the cost of allocating the function to one level or another justifies a shift in allocation—up to and including the point at which the manufacturer determines that costs (including costs created by legal risk) are so great that it is more efficient to assume the function itself?

In vertical relationships, the manufacturer and wholesalers or retailers (generally referred to as distributors) enter into private agreements; some are formal contracts, while others are informal agreements. In these vertical contracts, parties can restrain each other's behaviour in the market by agreeing on which functions to perform and which not to. Many of these contracts reflect agreements on price and non-price decisions of the distributors.

- *Instruments-objectives approach to vertical restraints*

The principal (i.e., the manufacturer) would juggle instruments of specific vertical practices, such as RPM, tied sale or exclusive dealing, to obtain some desirable level of