Price maintenance is required in order to cover previous (sunk) costs incurred by the retailer in building up its reputation.

The very existence of a retail distribution system for a product implies that retailers provide some value-added through retail services, otherwise the product could be sold by mail order. The problem is that some services offered by retailers are subject to free-riding unless RPM is introduced. Where services include providing information to the consumer about the product being sold, some retailers may choose to discount on prices and attract consumers who have been informed at other outlets. It is much easier to enforce a contract against cutting price than enforcing service standards. In other words, contracting on price is an indirect means of ensuring service.

Some authors such as Scherer[34] and Comanor[35] have criticized this efficiency defence of vertical restraints, while others have argued that the use of RPM as a means of competing through enhanced service is much more general than free-riding.[36] For the manufacturer, monitoring of RPM is less costly than monitoring retail sales effort, shelf space, competent retailer advice and so on. If the indirect effect of increased product availability and service more than offsets the negative direct impact of a price increase, a manufacturer will profit from establishing a price floor in the form of RPM.

Finally, there is the overall question: why should a transfer of monopoly power of setting RPM to suppliers be desirable on economic welfare grounds? Alternatively, why is it not preferable, from the consumer's point of view, to encourage more competition at the retail level by prohibiting RPM and all other types of vertical restraints?

In general, economic analysis indicates that the consumers are unaffected by the presence or absence of vertical restraints.[37] Rey and Tirole have attempted to cast doubt on

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[34] F.M. Scherer, "The Economics of Vertical Restraints", *Antitrust Law Journal*, vol. 52 (3), 1983.

[35] William S. Comanor, "Vertical Price Fixing and Market Restrictions and the New Antitrust Policy", *Harvard Law Review*, vol. 98, March 1985: 990-8.

[36] A sufficient condition for the incentive to impose RPM is that consumers who are more careful shoppers (sensitive to price differences across retailers) must be less influenced on average by product promotion services. See G. Frank Mathewson and Ralph A. Winter, "An Economic Theory of Vertical Restraints", *Rand Journal of Economics*, (15) 1984: 27-38.

[37] In models of certainty about market conditions and ignoring better quality or information effects of RPM, the absence or presence of vertical restraints affects only the distribution of profits between the manufacturer and the retailer. Also, in a number of models overall economic surplus increases when vertical restraints are present.