

The Efficient Consumer Response Philosophy and Business Ethics

What Can Customers Expect from the Products they Buy?

Reliability

Customers expect a product to be reliable and to function the way it was purported to function in advertising and in personal selling. Retailers should, for example, be careful that the children's toys they carry do not appear to be bigger and more sophisticated in TV advertising than they really are.

Reasonable service life

Customers expect the product to have reasonable service life. For instance, they expect Maytag washing machines to last a long time after seeing the TV campaign showing the bored repairer with nothing to do.

Repair and maintenance

Customers expect to be able to have their product repaired and maintained. Curtis Mathes, for example, offers a 6-year warranty on TV sets purchased through its exclusive dealer network.

Safety

Customers expect products to be safe. Products known to be dangerous or defective are, of course, avoided by any prudent retailer. But what about selling cigarettes, liquor, or pornographic magazines? Some would argue that all these products can be harmful to individuals and to society. Clearly, scientific evidence shows that the use of alcoholic beverages can be a health hazard. The data on the effects of pornography is mixed. Yet some retailers, such as 7-Eleven Stores, continue to sell cigarettes and beer, but refuse to carry soft-porn magazines like *Playboy* in some markets.

Customer, Peer, and Work-Related Unethical Practices

Customer-related unethical practices

- Charging full price for a sale item.
- Deliberately giving incorrect change.
- Not telling the whole truth about a product.
- Giving customers markdowns on items that the customers themselves had damaged.

Peer-related unethical practices

- Being pressured not to report employee theft.
- Being pressured by friends or relatives to let them use employee discounts.

Work-related unethical practices

- Cheating on employees' time cards.
- Giving an inexperienced employee an unfair workload.

Ethical Issues that Affect Retailers

Buying merchandise: concerns buyers who purchase merchandise from vendors to be sold in a retail store and includes:

- **Slotting allowances:** fees paid by manufacturers for space on the shelf of a retail store.
- **Commercial bribes:** gifts offered to entice buyers to purchase merchandise from a certain vendor.

Selling merchandise: concerns store employees who sell merchandise to customers in a retail store and includes:

- **Merchandise quality:** concerns customer expectations of products and services sold by retailers.

- **Push money:** incentives for retail salespeople to "push" or promote a particular product.

- **Customer, peer, and work-related practices:** the behavior of retail employees in direct contact with customers, fellow employees, friends, family; and retail company practices or the job itself.

General retail management: practices that affect a retailer's general policies, including:

- **Conflict of interest:** occurs when a retail decision maker's personal interest influences—or has the potential to influence—professional decisions.

- **Disclosure of confidential information:** occurs when a retail employee gives sensitive business information to unauthorized employees or to persons outside of the company.

- **Use of company assets:** the unauthorized diversion of a retailer's property, funds, or personnel for purposes

- **Switching and terminating jobs:** employee changing from one retail company to another; or a retailer enticing a competitor's employee to leave and join the retailer's firm.

Benetton Is Accused of Dubious Tactics by Some Store Owners

Karle Falkenberg wanted to run her own boutique. She didn't have any business experience, but she says a representative for Benetton, the trendy Italian apparel chain, told her that she had something more important: Young and vivacious, she had "the Benetton spirit."

Falkenberg subsequently entered into a hand-shake deal—but not a written contract—with the Benetton representative. In December 1984, at a Madison, Alabama, mall, Falkenberg began selling the brightly colored knitwear that has made Benetton S.P.A. one of modern retailing's biggest success stories. Benetton is a family company that started as a sweater maker in 1965 and now claims about 4,500 stores worldwide.

But Falkenberg's dream of running her own business soon turned into a nightmare. She became en-meshed in a messy dispute with Benetton's U.S. subsidiary over bills totaling \$1.2 million. She complained that although her store was in the Deep South, much of her first shipment of merchandise was heavy wool sweaters. Benetton repeatedly sent damaged merchandise and refused to take anything back, Frankenberg says, and in 1986 it shipped \$80,000 worth of clothing she didn't order. Falkenberg charged that Benetton representative Gilberto Casagrande pressured her into opening three more stores nearby, saying that otherwise he would find someone to open competing outlets in those locations. She claimed that none of her five stores ever turned a profit.

Small-business people who own dozens of Benetton outlets accuse the company of questionable marketing tactics. At least four civil lawsuits allege that the company or its representatives engaged in, among other things, fraud, extortion, and various financial misrepresentations. Some suits charge that Benetton is violating laws designed to protect small businesses from abuses by franchisers and that it, in fact, is run as a franchise operation but has failed to meet registration and disclosure requirements.

However, Benetton S.P.A. says, "For the few dissatisfied shop owners, there are 4,500 shop owners who run successful businesses and who Benetton is very proud to work with." Moreover, the Federal Trade Commission, which enforces federal franchise regulations, and regulators in states with their own statutes say they haven't received any complaints about Benetton.

Source: Adapted from Teri Agins, "Benetton Is Accused of Dubious Tactics by Some Store Owners," The Wall Street Journal, October 24, 1988, pp. A1, A6. Reprinted by permission of The Wall Street Journal, © 1988 Dow Jones & Company, Inc. All rights reserved worldwide.

Legal Issues that Affect the Buying of Merchandise

- **Vertical price fixing:** agreements to fix prices between parties at different levels of the same marketing channel; also called resale price maintenance.
- **Price discrimination:** selling the same product to two or more retailers at different prices.
- **Exclusive territories:** a vendor's right to grant exclusive geographical territories to retailers.
- **Exclusive dealing agreements:** a manufacturer or wholesaler restricts a retailer into carrying only the vendor's products and nothing from competing vendors.

Legal Issues that Affect the Buying of Merchandise

- **Tying contracts:** a vendor and retailer agreement that requires the retailer to take a product it does not necessarily desire to ensure it can buy a product it does desire.
- **Refusals to deal:** the rights of either a vendor or a retailer to deal with a specific company, except when there is evidence of anticompetitive conduct.
- **Group boycotts:** concerted refusals by a group of retailers or vendors to deal with a particular business.
- **Dual distribution:** a manufacturer or wholesaler competes directly with its retailers.

Legal Issues that Affect the Buying of Merchandise

- **Counterfeit merchandise:** products bearing registered trademarks that are manufactured without the trade mark owner.
- **Gray merchandise:** products with a valid registered trademark that are made by a foreign manufacturer for distribution to another country but are imported to the United States without the permission of the trademark owner.
- **Cooperative (co-op) advertising allowances:** a vendor agrees to pay all or part of a retailer's promotion.

Legal Issues that Affect Dealings with the Customer

- **Horizontal price fixing:** agreements between retailers who are in direct competition with each other.
- **Predatory pricing:** a retailer establishes merchandise prices at a level calculated to drive competition from the marketplace.
- **Deceptive advertising:** a retailer's advertisements contain false statements or misrepresent the characteristics of a product or service.
- **Price comparisons:** a retailer compares the price of merchandise offered for sale with the higher "regular" price or a manufacturer's list price.

Legal Issues that Affect Dealings with the Customer

- **Bait-and-switch:** a retailer lures customers into its store by advertising a product at lower than usual prices, then induces the customers to switch to a higher priced model.
- **Warranties:** written or implied assurances by a manufacturer or retailer that a product or service is of a certain standard of quality and performance and specifying the conditions under which the product or service will be replaced or repaired if found to be defective.
- **Credit:** a retailer's service that allows customers to buy or borrow a product or service in return for the promise to make a future payment.
- **Torts:** retail situations in which one party disturbs another's legally created rights.

Legal Issues that Affect General Management

Legal issues in general management

- Concerned with issues that determine general policy for the company.

Labor relations

- Involves the rights and restrictions concerned with the employees of the company.

Zoning

- Regulation of the construction and use of buildings in certain areas of a municipality.

Merger, acquisition, and LBO

- Financial strategies by which companies obtain control of other companies.

The American Marketing Association's Code of Ethics

Members of the American Marketing Association (AMA) are committed to ethical professional conduct. They have joined together in subscribing to this Code of Ethics embracing the following topics:

The American Marketing Association's Code of Ethics

Responsibilities of the Marketer

Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations and actions function to identify, serve and satisfy all relevant publics: consumers, organizations and society. Marketers' professional conduct must be guided by:

1. The basic rule of professional ethics: not knowingly to do harm;
2. The adherence to all applicable laws and regulations;
3. The accurate representation of their education, training and experience; and
4. The active support, practice and promotion of this Code of Ethics.

The American Marketing Association's Code of Ethics

Honesty and Fairness

Marketers shall uphold and advance the integrity, honor and dignity of the marketing profession by:

1. Being honest in serving consumers, clients, employees, suppliers, distributors and the public;
2. Not knowingly participating in conflict of interest without prior notice to all parties involved; and
3. Establishing equitable fee schedules including the payment or receipt of usual, customary) and/or legal compensation for marketing exchanges.

The American Marketing Association's Code of Ethics

Rights and Duties of Parties

Participants in the marketing exchange process should be able to expect that:

1. Products and services offered are safe and fit for their intended uses;
2. Communications about offered products and services are not deceptive;
3. All parties intend to discharge their obligations, financial and otherwise, in good faith; and
4. 4. Appropriate internal methods exist for equi-table adjustment and/or redress of grievances concerning purchases.

The American Marketing Association's Code of Ethics

It is understood that the above would include, *but is not limited to*, the following responsibilities of the marketer:

In the Area of Product Development Management:

Disclosure of all substantial risks associated with product or service usage

Identification of any product component substitution that might materially change the product or impact on the buyer's purchase decision

Identification of extra cost added features

The American Marketing Association's Code of Ethics

In the area of promotions:

Avoidance of false and misleading advertising

Rejection of high pressure manipulations, or misleading sales tactics

Avoidance of sales promotions that use deception or manipulation

In the Area of Distribution:

Not manipulating the availability of a product for purpose of exploitation

Not using coercion in the marketing channel

Not exerting undue influence over the resellers' choice to handle a product

The American Marketing Association's Code of Ethics

In the Area of Pricing:

Not engaging in price fixing

Not practicing predatory pricing

Disclosing the full price associated with any purchase

In the Area of Marketing Research:

Prohibiting selling or fund raising under the guise of conducting research

Maintaining research integrity by avoiding misrepresentation and omission of pertinent research data

Treating outside clients and suppliers fairly

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Organizational Relationships

Marketers should be aware of how their behavior may influence or impact on the behavior of others in organizational relationships. They should not encourage or apply coercion to obtain unethical behavior in their relationships with others, such as employees, suppliers or customers.

1. Apply confidentiality and anonymity in professional relationships with regard to privileged information.
2. Meet their obligations and responsibilities in con-tracts and mutual agreements in a timely manner.

The American Marketing Association's Code of Ethics

3. Avoid taking the work of others, in whole, or in part, and representing this work as their own or directly benefiting from it without compensation or consent of the originator or owner.
4. Avoid manipulation to take advantage of situations to maximize personal welfare in a way that unfairly deprives or damages the organization or others.

Any AMA members found to be in violation of any provision of this Code of Ethics may have his or her Association membership suspended or revoked.

Business Conduct Guidelines for IBM and P&G

IBM

- Do not make misrepresentations to anyone you deal with.
- Do not use IBM's size unfairly to intimidate or threaten.
- Treat all buyers and sellers equitably.
- Do not engage in reciprocal dealing.
- Do not disparage competitors.
- Do not prematurely disclose an unannounced offering.

Business Conduct Guidelines for IBM and P&G

IBM

- Do no further selling after competitor has the firm order.
- Keep contact with the competition minimal.
- Do not illegally use confidential information.
- Do not steal or obtain information by willful deceit.
- Do not violate patents or copyrights.
- Do not give or accept bribes, gifts, or entertainment that might be seen as creating an obligation.

Business Conduct Guidelines for IBM and P&G

P & G

- To provide customers with superior benefits.
- To listen and respond to customer opinions.
- To ensure products are safe for intended use and anticipate accidental misuse.
- To strive for fair and open business relationships with suppliers and retailers.
- To help business partners improve performance.
- To reject illegal or deceptive activities anywhere in the world.
- To safeguard the environment.

Business Conduct Guidelines for IBM and P&G

P & G

- To encourage employees to participate in community activities.
- To be a good neighbor in communities in which business is done.
- To provide employees a safe work place.
- To show concern for the well-being of all employees.
- To create opportunities for employee achievement, creativity, and personal reward.
- To provide a fair annual return to the owners.
- To build for the future to maintain growth.