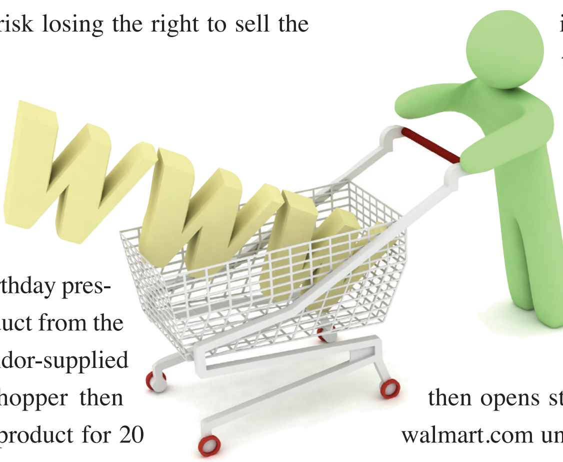
MAPP: Minimum Advertised Pricing Policies

Evening the Playing Field Between Brick-and-Mortar and Online Retailers

by Ronald Solomon, CEO, MAPP Trap

If you're in the manufacturing/retail world, then you know all about Minimum Advertised Pricing Policies, aka "MAPP." The standard rationale is that in order to better protect their brands from price erosion, and their brick-and-mortar stores from "free-riding" Internet sellers and dwindling profit margins, manufacturers are creating policies that state the lowest price at which their products may be advertised. Retailers may still sell the product for whatever price they want; they just cannot publish the price if it's lower than the MAPP. If they do advertise it for a lower price (and get caught), they risk losing the right to sell the manufacturer's products.

The most common scenario used to justify MAPP is the one that describes the uneven playing field created by the proliferation of online sellers. The story goes something like this: Mr. Shopper enters a local specialty store looking for a birthday present. He learns about an amazing new product from the friendly and educated sales staff, the vendor-supplied signage, and the in-store demo. Mr. Shopper then whips out his smartphone and finds the product for 20 percent less on Amazon. Mrs. Brick-and-Mortar can't compete with the online price and loses the customer. She then calls Mr. Manufacturer to complain. Mr. Manufacturer loses an account and scratches his head, saying "What can I do? I don't know how the online seller got my product." Or, in some cases, he says, "That's capitalism! As long as I get my wholesale price, they can sell it for whatever they please."



Well, it seems that Mrs. Brick-and-Mortar has become tired of complaining and takes a new approach. Mrs. Brick-and-Mortar enters a booth at American International Toy Fair and learns about a product from Mr. Manufacturer's friendly and educated sales team, catalog, and tradeshow signage. Mrs. Brick-and-Mortar asks about MSRP, minimum order quantity, and wholesale price, then whips out her smartphone and goes to Amazon where, lo and behold, she finds 107 third-party merchants listing the product at 20 percent below MSRP. Mrs. Brick-and-Mortar tells Mr. Manufacturer that she wants a 20 percent discount in order to effectively compete with online pricing. Mr. Manufacturer refuses, saying he doesn't have the margins.

But wait, there's more. Other scenarios are coming out the virtual woodwork. Here are some of them:

1 Mr. Manufacturer artificially inflates his MSRP to be 20 percent above keystone in the hopes that the online discounting will keep the resulting price more in-line with his MAPP.

2 Ms. Online Retailer agrees to MAPP and buys from Mr. Manufacturer under one name, but then opens stores on Amazon, eBay, Rakuten, sears.com, and walmart.com under different names. She reveals no contact information on her online stores and violates MAPP without any fear of being caught.

3 Mr. Manufacturer decides that because Ms. Online Retailer has asked him to drop-ship and he's adapted his company's logistics abilities to do so, he's going to open his own online store (using a different name). He already has the shipping supplies, the workflow, and the "know how," and when it comes to margins, nobody can possibly beat him.

4 Mr. Manufacturer selects a small group of online retailers and, in

spite of the risk of alienating other loyal customers, tells this group that they are the only ones authorized to sell his products online.

There are no winners in any of these scenarios. Business needs predictability and rules and without them everyone loses. The Internet has shaken the wholesale/retail model to its core and nobody seems to know what the new rules are. Specialty brick-and-mortar stores lose because they truly can't compete with the deep discounts consumers find online. Manufacturers lose because the unfettered, hyper-discounting of their specialty brands makes them commodities. Finally, consumers lose because local brick-and-mortar stores can't afford to offer new and innovative products. Not to mention, the inability to make a decent margin brings less innovation to the marketplace and causes manufacturers to compromise the quality of their goods in an effort to reduce costs and maintain profitability.

MAPP may not be a perfect solution, but it is a very good start. It protects everyone in the loop by creating a baseline on which to stand. It respects everyone's right to make a respectable margin, which is, after all, the goal of business. These principles were clearly recognized by the court in the Leegin Creative Leather Products, Inc. v. PSKS, Inc., 551 U.S. 877 (2007) case, wherein the Supreme Court overruled a century-old precedent and held that minimum resale price maintenance (RPM) is not technically illegal under Section 1 of the Sherman Act and should instead be subject to the antitrust rule of reason (which requires a case-by-case analysis). Here are some guiding principles to follow regarding MAPP:

1 MAPP pertains to advertising only. A MAP Policy should expressly state that the policy in no way limits a retailer's right to set its own practices. There should be provisions that allow Internet retailers to communicate an actual sales price in a different way—such as "call or email for pricing" or "add to cart to see price."

2 It is not an agreement. MAP Polices should expressly state that they are unilateral and do not constitute an agreement. Questions may come up when brick-and-mortar retailers encourage or support the adoption of an iMAP (Internet) policy, but manufacturers should resist the temptation to implement any policies in response to complaints from retailers about competitors.

MAPP Trap

Powered by MerchantDNA™

3 Be clear. A MAP Policy should be user-friendly and easy to understand. Expectations and consequences should be well-defined. It should include a Frequently Asked Questions guide to clarify how the policy works.

4 Creating and monitoring a Minimum Advertised Pricing Policy allows a manufacturer to maintain its brand integrity and online distribution. The manufacturer should immediately let all of its retailers know the policy was implemented and make sure to let violators know they've been identified. Adhering to the MAPP is a way for all retailers to feel confident that the manufacturer has their back, and allows them to maintain healthy margins while continuing to sell high-quality, innovative products. Not only will taking these steps help the industry as a whole, it will cut down on the number of these types of scenarios. ●

Ronald Solomon is the CEO of MAPP Trap, a proprietary search engine created and administrated by The Creditors Network. The service automatically monitors more than 100,000 online sellers to find advertised price violations. It then "traps" the links to those violations and identifies the eMerchants so the manufacturer knows who to contact for policy enforcement. While many companies attempt to do the searching on their own, it's a huge time commitment that incurs unbalanced labor costs, and it's largely inefficient in comparison to a system that can perform millions of searches in seconds.

For more information on MAPP Trap or The Creditors Network visit www.creditorsnetwork.com or call (303) 670-5111.