

Ethical and Legal Aspects of Marketing

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1. Explain the difference between ethical and legal responsibility.

Legal responsibility involves complying with the laws that govern the 'four Ps'. These legal responsibilities usually contain or are based on ethical values. On the other hand ethical responsibility involves abiding by moral principles and virtuous acts. However, legal responsibilities could be unethical and similarly, ethical issues may not be required by legal standards. Businesses must be able to distinguish both responsibilities and decide wisely. Illegal and unethical behaviour can act to drive customers away.

2. Discuss TWO issues faced by manufacturers in making their products more environmentally friendly.

The first major issue would be financial costs. Environmentally friendly products could increase costs as the business would have to undertake research and development as well as raising capital to change processes in the production. However, through the development of environmentally friendly products, the benefits in reducing social costs could outweigh financial costs, which would provide overall positive benefits to the business environment.

The second major issue is legal requirements. The business could be subject to changes in environmental law which requires compliance of the business. However, the business should also ensure that legal requirements are also ethical. For example, the law might only require a very minimum level of pollution level which is inadequate and therefore, by ethical standards, the business should aim to reduce the pollution level further.

3. Examine why 'sugging' is considered unethical business practice.

Sugging is the marketing practice of selling under the guise of research. It is unethical because the research motive is misleading to the consumers. The seller is also in the position where they obtain insights into the consumers' personal preferences through the research which gives them an unfair advantage in bargaining. Despite the fact that it is unethical, it is not an illegal practice.

4. A car salesman advertises a used car as practically new and tells potential buyers it has 'never had a scratch on it'. However, the salesman knows that the car has, in fact, been in an accident and required significant body work. Explain how this salesman is acting unethically or unlawfully.

This salesman has acted both unethically and unlawfully in particular, breach of sections from the Trade Practices Act 1974. Firstly, it is an example of deceptive and misleading advertising which involves the use of untrue statements when selling the products, i.e. in this case the used car is advertised as practically new. Secondly, it breaches the implied condition of the sale of the product. Implied conditions state that the product must be of merchantable quality and fit for its purpose. The car does not exhibit the characteristics of its advertised condition and is overpriced, which breaches both conditions.

5. Later that same day, having sold a new Toyota Camry to a teenager for \$20,000, the salesman sees a well-dressed gentleman looking at the same car. The salesman informs the gentleman that the price of the car is \$22,000, not negotiable.

Justify whether the salesman has acted unethically or unlawfully

This practice is an example of price discrimination which breaches a section of the Trade Practices Act 1974. This involves charging two different prices (discriminate) between two or more businesses or consumers for the same or identical products. The salesman shows this through selling the new Toyota Camry at two different prices (\$20,000 for teenagers and \$22,000 for well dressed gentlemen). Therefore, the salesman's practice is both unethical and unlawful.

6. Imagine that the used car in question 4 is bought by a young couple that day. On the way home the car breaks down, suffering from severe engine trouble. Examine how the car is in breach of any implied conditions and what action the car salesman must take.

Implied conditions state that any product sold should be in merchantable quality and fit for its purpose. As the car was advertised and sold as a 'brand new car', it would not suit any of these criteria as it is neither in reasonable condition, nor exhibits any characteristics of the advertised car. Furthermore, the car salesman should have a warranty policy employed to cover the defect. However, due to the deliberate misleading nature of the salesman's advertising, it is doubtful that it will have the ideal warranty policy. Instead, the car salesman should undertake actions to correct its advertising policy and cover the loss of the young couple.

7. Discuss why retail price maintenance is illegal if it merely ensures that all consumers are paying the same price for the good.

Resale price maintenance is illegal because consumers are paying the same price by forcing the seller to adopt the price, and this is unethical from the seller's perspective. Sellers should have the freedom to choose how they are going to price their products through various pricing methods such as market, competition or cost-based method. By forcing sellers to fix the price of the products, consumers lose the possibility of cheaper prices and sellers lose the possibility of capturing greater market share. It is not in the interest of the government and is made illegal. On the other hand, resale price maintenance does allow greater degree of equality between firms and consumers in the market. It also prevents uncertainties in the market which could potentially increase investment prospects. Suppliers often suggest a RRP (Recommended Retail Price) to sellers as the closest mean to resale price maintenance which abides by the law as it gives sellers the option to price their products.