Example of case study on texaco inc vs. hasbrouck

Business, Company

Question 1

This was a case that was argued on 5th December in the year 1989 and decided on 14th June in the year 1990. The origin of the case dates as back as between the years 1972 and 1981 whereby Texaco (petitioner) sold gasoline to independent retail companies at its RTW prices but gave additional discounts to Dompier and Gull which saw the two companies gaining a competitive edge other retailers. The retailers suffered a very severe decline and consequently filed a suit against Texaco in 1976 for violating the provisions of the Robinson-Patman’s Amendments on to the Clayton Act which prohibits discriminative pricing between different purchasers of similar commodity. The twelve retailers were thus rewarded with actual damages by the jury. This case was thus a petition by Texaco against the ruling by the jury. Texaco came back to justify its actions on the basis of “ functional discounts” , whereby a given purchaser may be rewarded more discount depending on the role that the purchaser or the distributor plays in the distribution line. Nonetheless, Texaco did not succeed in the petition as the jury again ruled in the favor of the respondent.

Question 2

The USA antitrust laws seek to capture various anti competitive behaviors or practices that are deemed not favorable to healthy and ethical competition in business. The antitrust laws thus seems to be driving businesses towards the direction of anti competitive behavior . It addresses practices such as discriminative pricing whereby two or more purchasers of the same product from a similar seller are supposed to be offered similar pricing and discounts

(Clayton antitrust act). As this act provides, discriminative pricing gives some parties a competitive advantage of the other leading to a possible evolution of monopoly in any field of commerce.

The antitrust laws also offer guidelines and procedures that direct formation of mergers and acquisitions. These laws provide for a pre-merger notification whereby the merging firms or parties are supposed to inform the authorities prior to entering into a merger so that the effects of this merger on the competition can be addressed. When two strong parties or firms merge into one, they can easily gain monopoly and that way disadvantaging the weaker players in the business.

Sherman antitrust act also prohibits contracts between parties in control of commerce among several foreign nations or states. This act thus prevents big players in commerce from combining or joining efforts as it would lead to unfair competition. Section two of this act also prohibits monopoly at a personal level whereby individuals conspiring to form a monopoly are considered guilty of felony and acting in an antitrust manner that may disadvantage other individual within a given area of commerce or business practice.

Question 3

Before ruling out the unfairness in competition within an industry, it is empirical to consider factors such as market structure. Market structure takes in aspects such as market imperfections, market definition and the degree of completion within an industry. Market definition as an aspect of market structure takes into account the geographical domain of business, firm or product. Market definition seeks to address the market command that a given product or firm enjoys. The level of preference of products by the public is the basic criteria of establishing the competitive status of a product or a firm in the market. Market imperfections on the other hand are flaws within the market in terms of quality, pricing as well as production. The degree of competition between firms within an industry can be easily accessed from the pricing and marketing activities of the fire. In cut throat competition we expect firms to engage in intense price wars and marketing strategies as they try to outdo each other.

CR4, CR8 and HHI ratios play a paramount role in establishing industry concentration and consequently the level and status of competition. Using these ratios and the abovementioned market aspects one can easily be able to judge the level and characteristics of competition within an industry. If from analysis there shows to be unfair competition, then, various legal steps may come into play to arrest the situation so as to ensure fair competition.

Question 4

One of the main arguments of the responders was that the defendant, Texaco had conducted its business in manner that was uncompetitive. The conduct itself was that it had granted significant discounts to Dompier and Gull distributers. The fact that the Texaco had enacted price discriminations against the respondents by giving discounts to the distributers is in itself an anticompetitive price strategy. Through the price discrimination between the commodity purchasers, the competition between these purchasers was essentially injured. In legal terms, the effect of such discrimination of price is that it “ injures competition with the individual who knowingly receives or grants the benefit of such kind of discrimination or with customers of the two” This is against the Robinson –Patman Amendment of the Clayton Act that forbids such discriminatory actions.

This was in fact the only anticompetitive strategy that the respondents accused Texaco of. There is no evidence of any Non-Price Strategy being used by the company.

Question 5

The actions of Texaco definitely had an effect on the rival firms in the industry. First of all, the two main beneficiaries of its conduct were Dompier and Gull distributers. The fact that they got their supplies at discounted prices meant that the stations that they supplied experienced increased sales volumes. This inadvertently made their profits go up significantly and hence their overall performance. On the other hand, the respondents sales plummeted. Texaco’s conduct was therefore favorable to one set of distributor’s and unfavorable to another set; in this case the respondents who took Texaco to court.

Question 6

The initial legal action in this case was actually taken against the defendant, the Texaco Company. This action was the awarding of damages to the responders by the jury who argued that Texaco had indeed violated the Robinson- Patman Amendments to the Clayton Act that forbids price discrimination that can in the long term injure industry competition.

Question 7

Attempts by Texaco to overrule this verdict in the district Court were rejected. Texaco had tried to argue that the discounts it gave were actually functional discounts that are often granted to purchasers whose role in the product's distributive system is higher than that of fellow purchasers. The defendant also claimed that the discounts only reflected the services performed for the supplier by the purchaser and had no adverse effects on competition. The Texaco also tried to bring forward an argument that the damages were too excessive according to the law. These arguments were however rejected by the District Court. Texaco appealed further and the case eventually culminated in the Supreme Court where after a session of hearings the court ruled that Texaco had indeed been involved in price discrimination and the previous decision was affirmed.

Question 8

In this case, the SCP was used to categorize the market structure using two particular parameters: number of competitors and product standardization. A third parameter, barriers to exit and entry was not applicable. As seen previously, Texaco, had a relatively high market power that was probably created by sparse competition from other firms or even product heterogeneity. It is this market power that made Texaco to execute some of the anticompetitive pricing decisions that it was accused of executing. Therefore, the conduct of Texaco was influenced by its market structure. The main beneficiaries of this conduct were the two distributors, Dompier and Gull who received massive discounts.

Talking about the two beneficiaries, they can also be used to trace the SCP model. The fact that the two main distributors of Texaco's product were granted pricing discounts gave them an undue competitive advantage over their rivals. Their market structure was affected in that they attained more market power. This prompted them to embark on new business conducts that consequently led to their growth in performance, specifically Dompier. The SCP model stipulates that markets become more naturally competitive when there is relatively large number of competing firms. The decision of Texaco to extend huge discounts to Dompier and Gull clearly crushed this virtue since there was no way that the other distributors could compete with the two firms. What essentially happened is that the two firms were given unregulated monopoly over the other firms. As stipulated by the SCP, this led to the creation of an inefficient market structure due to the absence of competition from the lower firms.

It is indeed such business conducts that warrants the formulation of antitrust policy like the Robinson –Patman Amendment of the Clayton Act to protect the small industry players from unjust and unfair actions.

References

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