video shops, and vending machines, a strategy the rivals have already undertaken in Europe.

Five national brands—Haagen-Dazs, Nestle, Ben & Jerry's, Breyer's, and Dreyer's—are developing new products and flavors, focusing on single-serving products that carry profit margins 15 to 25 percent higher than the tubs of ice cream in supermarkets. The higher profit margins can open new distribution outlets. Although traditional freezer space is very costly, Unilever, Nestle, and Dreyer's have been pushing for logo-covered freezer cabinets in stores, given the higher profit margins.

Under the FTC settlement, Nestle will be allowed to keep Dreyer's distribution network that delivers ice cream directly to more than 85 percent of U.S. grocers. Unilever must use middlemen to deliver most of its Good Humor and Breyer's products. Nestle can expand from Dreyer's supermarket base to cinemas and gas stations with little extra cost. The supermarket ties may also help Nestle enter grocers' competitive prepared-foods section, so that consumers can easily purchase ice cream along with their deli and hot foods. Nestle agreed to sell a number of Dreyer's secondary brands as part of the FTC approval. However, Nestle-Dreyer's will be able to sign more licensing agreements with the wider distribution network, and the combined company will be able to turn more of Nestle's candies into Dreyer's ice cream.

a. Describe how the ice cream industry fits the oligopoly model.
b. How does the government influence oligopolistic behavior?
c. Do oligopolists always compete on the basis of price? Explain.

4. The following describes the toothpaste market in fall 2003:[24]

In Fall 2003, Procter & Gamble Co. [P&G] launched an $80 million marketing campaign to promote a new Crest Product, Whitening Expressions. P&G is trying to regain market share from Colgate-Palmolive Co. While Crest had success with its battery-operated toothbrushes and Whitestrips, the at-home tooth-whitening kits, it trailed Colgate in the toothpaste market with a 23 versus a 27 percent market share. Colgate achieved the highest market share in 1998 when it introduced its Total toothpaste that promised to fight gum disease and whiten teeth. This battle has pushed other competitors out of the market. Unilever recently gave up its toothpaste business, selling its Close-Up and Mentadent brands.

Colgate is also introducing new products including different children's toothpastes and a new Total—Colgate Total Advanced Fresh Toothpaste. Both companies face the challenge of trying to get consumers to buy more of a product they use regularly already. They are focusing on characteristics such as beauty and taste. P&G is using celebrity chef, Emeril Lagasse, to promote Whitening Expressions. In focus groups, it also put microchips into toothbrushes and found that consumers brushed 20 percent longer with Whitening Expressions than with regular Crest. Research also showed that two new flavors, citrus and cinnamon, appealed to the Hispanic and African-American communities where Crest had lagged behind Colgate.

Describe the strategies used by these oligopolists to fight the toothpaste wars. How does this behavior draw on the discussion of consumer demand and behavior in Chapter 3?

5. The following describes the relationship between two major shipping companies hauling liquid chemicals:[25]

Documents indicate that two shipping companies, Stolt-Nielsen SA and Odfjell ASA, colluded to divide up the market for transporting liquid chemicals across the sea. The companies discussed which shipping business each would bid for, route by route, even exchanging information on bid prices. Stolt officials also developed tables showing the

[24] Sarah Ellison, "Crest Spices Up Toothpaste War with New Tastes," *Wall Street Journal*, September 15, 2003.

[25] James Bandler, "Seagoing Chemical Haulers May Have Colluded on Rates," *Wall Street Journal*, February 20, 2003.

increase in revenues from cooperation compared to all-out competition. The companies are unknown to most consumers, but they carry the chemicals that are used to make a variety of everyday products.

Carriers are allowed to cooperate in certain ways. They may pool their capacity if they both carry chemicals for a given producer on the same route. They may form joint ventures to bid for a piece of business. However, cooperation to divide markets or set prices would fall outside these areas.

The alleged collusion was in response to the Southeast Asian financial crisis of 1997 that depressed the volume of shipping and a glut of new ships that decreased freight rates. Chemical company mergers also increased the producers' bargaining power, particularly the merger between Dow Chemical and Union Carbide in 2001. Each of the shipping companies had important pieces of business with each of the chemical companies that were merging. After the merger, either Stolt or Odfjell could be

dislodged and price wars could bre
Documents indicate that officials o
shipping companies held talks on d
pie, reviewing contracts around the
lane by trade lane. Documents also
the cooperation would keep freigh
25 percent higher than otherwise. S
compared the economic costs of "g
with cooperation. On certain trade
might benefit from individual actio
rates overall would result if the co
abandoned.

Journals of company officials indic
April, 2001, both companies were t
price wars if the agreements could
maintained. The journals are also f
notations such as "no written agre
"no paper." Memos included the ph
be seen as doing something togeth

Explain how the discussion of
ior in this chapter relates to this s
pany case.

On the Web

For updated information on the *Wall Street Journal* article at the beginning of the chapter, as well as other relevant links and information, visit the book's Web site at **www.prenhall.com/farnham**.