

## CONSUMER LAW AND CHALLENGING BUSINESS ENVIRONMENT

**Dr. Saad Saeed Althiabi (Ph.D)**

Faculty of Law, University of Jeddah, Jeddah, Saudi Arabia

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**ABSTRACT:** *Consumer Law defines the parameter that helps to protect the consumers from unfair practices of sellers. In this regards, the law attempts to protect the consumers from unfair pricing and delivery of low quality products. Every country has a governing body the helps to protect the public by actively monitoring and evaluating the sellers' activities. However, during the transition of saving the consumers, the law creates challenges for the businesses. It is evident from the research and its findings that consumer law affects a business in conflicting ways. A business needs to reform its operational practices as well as the pricing structure to ensure delivering superior quality products for an economical as well as competitive price. Adhering to consumer law practices, however, increases the costs of the business that creates multiple challenges in successful execution of the company's strategic implications. Moreover, consumer law puts certain restrictions on business activities that adversely affect the business's ability to market its products effectively.*

**KEYWORDS:** Consumer Law, Gross Margin, Marginal Productivity, Profitability, Consumer Protection, Fair Trade Act, Price Equality, Marketing Restrictions

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## INTRODUCTION

Consumer law is a set number of rules that is governed by the government or federal agencies in order to protect the interest of the consumers. It can be defined as the guidelines and ethical as well as moral duties a seller needs to adhere to in selling their products to the customers. The consumer law intends to protect customers from various unethical conducts by sellers (Sternlight and Jensen, 2004). The reason is that growing competition among the businesses and the rise of globalization that gave opportunities to businesses to compete in foreign lands increased the overall competition on a global scale. This not only made businesses become more competitive in terms of operational efficacy but also increased the need to reduce prices in order to compete in the market.

Price of a commodity is its most influential driving force that encourages the consumers to buy the product due to cost economy. It is a well-understood concept in today's world where economy of the countries put people under a tight monetary situation. Thus, people tend to make the most cost-effective choices in order to increase the value of their incomes (Micklitz, Reisch, and Hagen, 2011). The suppliers in the economy have sound understanding of consumer behavior and thus tend to compete by lowering prices to increase the volume of business. However, reducing the prices means the business needs to manage its costs of production, cost of employees, and the cost of delivering the product in the market, which for small businesses can be a challenge.

Furthermore, the business face challenges due to the various consumer law policies that a business needs to abide to in order to maintain their business operations in the economy (Leung, 2012). This paper tends to determine the challenges posed by the consumer law and the ways it affects a business practice. The paper uses secondary research method to identify the issues

and challenges businesses face today due to the increasing trend and obligations by the consumer law (Micklitz, Reisch, and Hagen, 2011). The theme of the paper is to assess the impact on business practices and the cost implications as well as time investment required by a business to meet the growing inclination towards consumer law (Albors-Llorens, 2014). The paper would enable people to identify the challenges in business operations and the difficulties entrepreneurs face due to mandatory abidance to consumer law practices.

## **RESEARCH MATERIALS AND METHODS**

In order to make the report authentic as well as reliable, a study of various scholarly articles is conducted to obtain insight of the problems being faced by various organizations around the world (Sternlight and Jensen, 2004). Furthermore, the peer-reviewed articles would shed light on the current practices in organizations and the ways they mitigate the challenges faced due to consumer law. The articles are a good source of learning as they are researched by individuals with in-depth knowledge of the field conducting various analyses before drawing a conclusion.

### **Reasons for the Chosen Research Method**

The advantage of using secondary data develops an understanding from various aspects and angles to create a basis of the problem. The reason is that different laws would affect the functionality of a business in different manners. Understanding how the law affects a business would vary from region to region (Sternlight and Jensen, 2004). For example, consumer law that requires a business to employ sufficient number of employees in order to facilitate the quality of products by placing constant supervision and quality control checks would have a greater affect on the business operations in countries that have high labor costs involved (Micklitz, Reisch, and Hagen, 2011). The European countries have high legal requirements in terms of paying and compensating the employees.

Therefore, the impact of a strict consumer law that requires to hire excessive staff to overview the quality of manufacturing process would affect the profitability of the business. However, in countries that have low labor costs implications such as China, or other Asian countries that have excessive labor force and lower wage rate would have little affect from a law that requires to hire excessive staff (Adams and Nehme, 2011). Furthermore, the law that requires companies to maintain a certain gross margin over the products would affect the businesses differently.

In organizations that have an efficient manufacturing system, the business would be able to reduce the operational costs by increasing the production level. This would not only ensure that the organization manages its costs but also ensures the productivity of the business is at its peak. Hence, by increasing the marginal productivity of employees, a business is able to increase yields per employee and lower the costs incurred per employee (Leung, 2012). However, in organizations that have poor measures to ensure operational efficacy and have little control over the productivity of the employees, the business would tend to manage its losses by placing a higher gross margin on the products to increase the income (Aggarwal, 2004). In such a scenario, the law that binds them to a certain percentage of gross margins would affect the profitability of the organization that would create challenges in sustaining the business over a long-term period (Aggarwal, 2004).

## **Research Findings**

During the research in trying to find out the likely affects of consumer law on businesses, it is noticed that changing consumer laws, especially regarding the digital content is likely to cause several challenges for businesses that would affect their performance and image (Sternlight and Jensen, 2004). The findings relate to various scenarios that restrict the advertising campaigns of an organization. Furthermore, the new consumer law causes an imbalance of power distribution between the buyers and the sellers, with buyers have greater privileges and authority than sellers.

The imbalance in the power distribution and creating awareness about it would increase the number of conflicts between the buyers and the sellers. The buyers would certainly exercise their powers in order to gain a benefit from the sellers. According to the research findings, there are several implications for a business; some of them are as follows:

## **Advertisements**

The change in the consumer law affects the advertising practices of the organizations these days. There are several implications that would affect the functionality as well as advertising capacity of the business (Ishak and Zabil, 2012). The rules that create challenges for businesses are broadly the nature of advertisements and the information offered by them.

Earlier, the businesses relied on advertising as a method of increasing the interest of the customers, drawing them towards buying the product. This not only helped the business to attract customers but also build a strong brand image (Caroll and Buchholtz, 2014). The methods used during advertisements were based on highlighting the strong points and the strengths of the products and presenting with a creative art that would link the product to a certain character or theme.

This has been the most common form of advertisement that helps a business to increase its customer database. Moreover, businesses are able to increase the effectiveness and positioning of the product in the market due to advertisements (Albors-Llorens, 2014). The advertisement industry offers organizations to involve celebrities as well as other noteworthy people with the products, making them brand ambassadors as well as using them during advertisements to increase the number of customers (Caroll and Buchholtz, 2014). This is achieved as people who follow celebrities and other important people tend to adapt to their styles and preferences.

However, the new act tends to protect the interest of the customer by making it a policy to represent the original and true option without engaging in excessive media content and branding techniques (Ishak and Zabil, 2012). This however, would affect the business in several ways. The business is likely to incur the cost of advertising but gain no benefit. Similarly, not involving celebrities would further affect the business activities, as the fans that tend to represent their superstars would have limited interest in the product.

## **Fair Trading Act**

The fair trading act is a legislative implication that refrain the sellers from giving out misleading information. The sellers need to provide the customers with clear and concise information about the product as well as the ingredients. Moreover, the sellers need to offer the customers with accurate expectations from the product (Caroll and Buchholtz, 2014). The reason behind this implication is that sellers often make false commitments in order to increase

the sales of a product that evidently causes a loss to the consumer that intends to use the product in order to gain a certain benefit. However, when the commitments prove to be false, it leads to loss of money for the customers (Weissbrodt, 2003).

The legal implication that requires the sellers to present accurate information and the utility benefit of the product is to ensure the customers get value for money and obtain the expected benefit from the product. Sellers that fail to abide by the law and replicate business practices that causes unfair practices towards the customers is punishable by financial penalties as well as loss of operating licenses (Weissbrodt, 2003). Therefore, the business needs to ensure that they communicate the benefits of the product in a appropriate manner that benefits the users from the utility of the product. This means that the businesses need to conduct effective analysis of the product and conduct various tests in order to ensure the efficiency of the product in benefitting the people. However, this can cause the business to engage in certain tests and verification process to validate the benefits of the product. This can result in increase costs for the business to prove the validity of the product.

### **Price Caps**

The consumer law places price caps on certain goods and products that increase the challenges for an organization. According to the findings, the consumer law attempts to protect the customers that fall prey to unrealistically high prices for a product (Weissbrodt, 2003). This mostly happens when suppliers have little or no competition in a region and tend to exploit the users by charging abnormally high prices to increase the profits. The reason that suppliers are able to do this is because there are few suppliers of the product and the demand of the commodity is high.

Therefore, the suppliers take advantage of the situation by increasing the prices to earn greater amount of profits knowing that the consumers will purchase the product despite the prices, as the demand for the product is high (Sternlight and Jensen, 2004). The reason that consumer law attempts to protect the consumers in the market is to ensure they receive value for money at an appropriate price. Therefore, the fair trade act supports the interest of the buyers in the market by placing certain caps on the margin of profit a business can earn on a product.

This is done by placing a certain percentage as an upper limit that the suppliers cannot exceed and need to provide justification as well as take approvals for charging higher prices. The businesses that intend to increase the prices higher than the prescribed margin need to justify to the government the reason behind the intended increase (Aggarwal, 2004). This means that businesses that are already charging a higher price have two options. The business needs to reduce the prices by complying with the law prescribed by the government or justify the reasons behind maintaining the prices.

The governing body has every right to reject applications by the company in case the justification is not valid (Aggarwal, 2004). This means that firms need to provide with rational decision and reasons behind the increase in the prices such as higher employee costs, higher cost of delivering the product, or high cost of product manufacturing. However, this means a business needs to conduct feasibility study on the market and provide the authorities with factual figures in order to justify the increased prices (Aggarwal, 2004).

Moreover, organizations that are unable to provide a valid justification face the risks of lowering the prices and reducing their profits as well as facing certain penalties by the law. This affects the business in various ways (Sternlight and Jensen, 2004). A business that earns

higher profits and is forced to reduce its prices would directly affect the profitability of the business (Archer, Marshall, Weir, and Wardle, 2014). This means that the organization would resort to other means in order to increase its profit. The business may engage in activities that would reduce the cost of employees by terminating employment contracts or overburdening the employees to increase productivity.

## **Discussion**

Consumer law intends to protect the interest of the customers by increasing the strictness as well as vigilance over businesses that operate in the market. The consumer law tends to protect the people from unfair business practices that deliver them products for higher prices or for lower quality than committed (Archer, Marshall, Weir, and Wardle, 2014). There are various legislative implications designed in order to offer the consumers transparency as well as value for money and increase their satisfaction. However, during the process, the governing bodies and authorities cause multiple challenges for an organization by defining the processes involved in order to ensure the effectiveness of product delivery that increases the cost as well as reduces the profit margins for a business (Albors-Llorens, 2014).

## **Challenges for Business Entities**

The businesses need to justify various business practices as well as offer the consumers with a superior quality product for cheaper prices. The business bound by the legal framework face difficulties in improving the business practices, as they are unable to increase their profits as well as maintain certain quality of products that are delivered in the market (Archer, Marshall, Weir, and Wardle, 2014). In general, consumer law increases the challenges for a business that needs adherence to certain policies and procedures in order to ensure sustainability of the business. Moreover, these companies face challenges in maintaining their costs as well as the rising cost of operations while ensuring to increase the quality of the products.

## **Digital Media Restrictions**

The legislative framework restricting the use of digital media as well as other forms of advertisements that convey misleading messages affect the branding and imaging of the business. Firms need to ensure the advertisements are to the point without misleading concepts that adversely affects their marketing strategy (Archer, Marshall, Weir, and Wardle, 2014). The businesses use advertisements as a tool to attract and increase the interest of the customers in the product. However, with placing restrictions on the mode as well as the content of the advertisements, the business is unable to create an effective message that affects the strategies of the business to attract and gain a bigger market share (Albors-Llorens, 2014).

## **Price Regulation Act**

The price caps increase the challenges for a business entity, as it needs to manage its costs in a highly effective manner. An organization that has high cost implication due to in-effectiveness of labor as well as operational efficacies would incur high costs and would evidently need to increase the prices to makeup the for excess costs incurred (Albors-Llorens, 2014). However, under the influence of a consumer law that implicates a price cap on the products sold by the organization, the business needs to ensure it manages its costs in an effective manner to retain its profits as well as ensure the sustainability of the company in the long-term.



This means that the business would need to indulge in effective training and motivational programs to increase the efficiency, productivity, as well as the commitment of the employees in order to maintain a sustainable posture in the market (Weissbrodt, 2003). Furthermore, this means that a business that needs to engage in training and development to increase the efficiency of the employees in order to gain a competitive advantage would require investing time and money (Archer, Marshall, Weir, and Wardle, 2014). For businesses that have large accumulated funds and have huge amounts of revenues as well as higher stakes in the market, the business would opt for training programs with haste. However, in companies with small capital funding as well as lower revenues, this would create a huge challenge.

### **Quality Control**

Consumer law that enforces the organizations to ensure a healthy and hazardless manufacturing environment would have little impact on the companies is operating in the service industry. The reason is that companies that operate in service sector focus on delivering service-oriented products to the people (Archer, Marshall, Weir, and Wardle, 2014). This means that these organizations have little to do with manufacturing and producing a product. The product delivered to the end user is in a form on intangible good. A good example would be the customer service agencies and the call centers that offer people with various services such as product information, product requirements, etc.

However, for companies operating in the manufacturing industry, the implication of a consumer law that requires them to maintain a hygienic manufacturing environment would have a strong impact on the operations of the business. The companies would need to acquire a health inspector to evaluate the effectiveness of the organization in terms of maintaining a healthy atmosphere that is suitable to produce the required products (Archer, Marshall, Weir, and Wardle, 2014). Moreover, the business would need to abide to the modification and changes requisition by the health inspector to obtain a clearance from the government agency and continue to operate in the industry. Failure to adhere and implicate the requisition can possibly result in cancellation of trading license as well as impose financial penalties on the business (Sternlight and Jensen, 2004). The biggest threat for such companies is to lose their operating license that certainly results in the closure of the business. Therefore, these organizations have little option but to ascertain the requisitions are met.

However, this means that these organizations have to deal with a variety of challenges in order to ensure the business meets the sustainability criteria for the long-term. The business would need to hire and train the workforce that understands the key terminologies and the importance of maintaining a hygienic manufacturing atmosphere (Archer, Marshall, Weir, and Wardle, 2014). Similarly, the organization would need to make certain changes in the manufacturing department that would require additional equipment, a standard operating procedure (SOP) to operate the equipment, a system that needs adherence in the manufacturing process, etc.

Moreover, these companies would need to bring changes in the organizational culture that supports and promotes hygiene in the manufacturing segments. However, this can possibly lead to resistance to change in the organization that can certainly delay or increase the costs of the business (Sternlight and Jensen, 2004). The organization would need to indulge in practices to reduce or mitigate the risks of resistance to change by using various motivational strategies and techniques in order to drive the people and make them accept the changing business environment. This also means the business would need to offer the employees with sufficient

monetary benefits in order to increase their commitment and acceptance towards the change vision.

## **RECOMMENDATIONS**

The businesses these days have little scope and option to evade the strictness of consumer law implications. Organizations have no option but to adhere to the policies in order to operate the business in an effective manner (Paterson, 2013). This means that organizations have no control over the policies implemented by the governing authorities and it is in their best interest to adhere to the defined criterions in order to evade financial penalties and legislative challenges. The business needs to ensure best practices in following as well as complying with the requisites defined by the ministerial authorities and embody the laws in routine business operational practices.

Adhering to the local laws on consumer protection, fair trade act, price equality, and marketing restrictions would only ensure the longevity of the business without legal bindings and penalties that would allow the business to operate in a smooth as well as effective manner for a long-term (Paterson, 2013). There are various reasons for adhering to the consumer law policies. The government designed the consumer law keeping in mind the interest of the customers. Moreover, the law influences the organization to offer the people with fair trading options and value for money.

However, there are certain benefits of the consumer law policies as well. The business would be able to manage their operational costs as well as implement a strategy that maximizes the working capacity of the employees in order to increase its competitive advantage (Richards, 2014). Moreover, the business would have a defined target, therefore, the business would be able to formulate techniques and tactics in order to achieve the efficiency required to make the business profitable while adhering to the laws (Weissbrodt, 2003). Furthermore, organizations that follow fair practices and adhere to the consumer law would be able to increase the reputation as well as the image of the business while gaining the trust of the customers that would allow the company to retain as well as regain the business from existing customers. Some of the recommendations are as follows:

### **Effective Planning**

The business has a certain objective that is defined by the consumer law. This means that the business has sufficient time to plan and implement the necessary changes in order to fulfill the criteria by engaging in activities that allow the business to be fair towards the customers (Richards, 2014). Moreover, having a target means the business can strategize the implementation plan in terms of time-management, deployment of resources, as well as controlling the resources.

### **Training and Development**

The business need to engage in effective training and development programs to increase the skills of the employees (Richards, 2014). This would allow the business to enhance the performance capabilities of the employees and reduce the cost of production by enabling higher production per employee.

## CONCLUSION

Conclusively, it is easy to determine that consumer law intends to protect the interest of the consumers by placing certain restrictions and regulating business practices to offer the customers higher value for money, transparency in delivering the goods, as well as increased utility. However, imposing the consumer law on business create a series of challenges for the entrepreneurs as it increases their cost of production in the short-term while lowering the profit margins. Moreover, consumer law benefits the consumers by imposing strict rules and regulations on business entities that need to adhere to the policies at all costs. Failure to abide by the laws can result in financial as well as legal penalties. The businesses need to reform their operational strategies as well as business practices in order to maintain competitive edge in the market. Moreover, the businesses need to engage in various training and development programs to increase the efficacy of the employees and increase the marginal productivity of the organization to reduce as well as manage the costs of production.

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