

POWER AND SATISFACTION IN THE RETAILER-PRODUCER RELATIONSHIP

Corina PELĂU

Academy of Economic Studies Bucharest

Abstract. *The conversion of production-provider markets in customer-demand markets brings a change of power and influence in the distribution channel from producers to retailers as the direct contact to the final consumer. In this article there will be analyzed the influence of power and satisfaction on the success and the behavior of the members of the distribution channel. The first analyzed problem is whether a shift of power from producers to retailer has taken place. The second important thing is the satisfaction of the retailers with their producers, factors which influence this satisfaction and the impact of the retailer's satisfaction on the success of producers. As a conclusion it will be analyzed, if there is connection between power and satisfaction and if there are any effects on the members of the distribution channel and their success.*

Key words: *Relationship marketing, satisfaction, power, retailers.*

1. Introduction

For the producers the role of the retailer grew since the 70's, from a simple distributor to a partner (Zentes, Janz, Morschett, 2005, p. 5.). Due to the transformation of production markets to customer demand markets, the role of retailers in the relationship between the industry/ the producers and its final consumers gained importance. New technological developments, such as scanner or computerized customer loyalty programs allow retailers to obtain more and more information about the customers, their needs, habits and preferences (Zentes, Janz, Morschett, 2005, p. 5). So retailers know their customers and have a greater influence on them as producers do, for they are in direct contact with the final consumers.

The first thing which is analyzed in this article is whether a shift of power has taken place from producers to retailers. This is important because the most powerful member in the distribution channel is the „boss” and has also the decision power. In this article there are presented several studies which bring arguments for the shift of power and arguments against. Anyway, in the distribution channel the retailers are closer to the final consumers as producers. Actually retailers are somehow some sort of customers for the producers, who have to be convinced to sell and to promote the products from the producers. A closer analysis shows that retailers have the power to decide which products will be sold in the store, where are they placed, will they be promoted or recommended to the final customer, what price the products will have and so on. Producers have to negotiate all these elements so that their products should get a good image in the view of the final customer.

Another question which is asked in this article is whether satisfaction in the distribution channel increases the negotiation power of the producers to the retailers. Do retailers really sell better the products of the producers with which they are more satisfied? On one hand it is presented the importance of the customer satisfaction for a company, because as mentioned before retailers are some sort of customers for the producers. It is interesting to analyze if in a retailer-producer relation satisfaction is more

than an instrument of customer loyalty. There are presented several studies which present the factors which influence the retailer's satisfaction, and also the effects of satisfaction for the relation between retailers and producers and their success. As a conclusion a simplified model is presented, which incorporates the results of several studies presented in this article.

2. Was there a shift of power from producers to retailers? Studies regarding this shift of power

One of the main competition forces according to the five-forces model from Porter is the negotiation power of the customers. Powerful customers have the possibility to establish the cooperation terms as they wish and therefore set terms and conditions which are favorable for them (Porter, 1999). The question which has been frequently asked in the professional literature in recent years, is whether retailers gained more power over the producers. This question is relevant because it can be assumed that the one, who has more power, has also the biggest profit margin. Ailawadi, Borin and Farris quote Porter, who defines this situation as follows: „The relative power of the retailing and manufacturing stages determines the distribution of rents between stages” (Ailawadi, Borin, Farris, 1995, pp. 211-248). In a similar way Wilemon states that the player with more power has the possibility to change the behavior of others in his favor (Ailawadi, Borin, Farris, 1995, pp. 211-248).

Despite the theoretical arguments for the transition of power from producers to retailers, there is no certain empirical evidence that a power shift has taken place (Bloom, Perry, 2001, pp. 379-396). A problem which empirical studies have is the question of how can be power measured and which is the most suitable measure unit. As mentioned before a potential measurement unit for power can be the „rate of return” or the profit. But power also includes a behavioral component which should be also considered in the measurement of power (Ailawadi, Borin, Farris, 1995, pp. 211-248).

One of Ailawadi, Borin and Farris study carried out among 909 producers and 274 retailers from the United States shows that in fact there was no change of power from producers to retailers, but only an intensification of competition among retailers (Ailawadi, Borin, Farris, 1995, pp. 211-248). In this study the Economic Value Added (EVA) and Market Value Added (MVA) from producers and retailers was compared between 1982-1992. It was noted that even if a power exchange should have taken place, this can not be observed in the analysis of the turnover and profit of producers and retailers. However it was noted, that some retailers gained importance and others have lost. Consequently the structure of power has changed only on a retailer level and can be characterised by an intensification of competition (Ailawadi, Borin, Farris, 1995, pp. 211-248). Additionally, Ailawadi observes in a different analysis, that retailers and producers have common promotion activities such as common advertising campaigns or sampling activities, etc (Ailawadi, 2001, pp. 299-318).

Bloom and Perry proved in their study on the example of Wal-Mart a similar result (Bloom, Perry, 2001, pp. 379-396). The question that arises is whether the producers are only dependent and subordinated to Wal-Mart or if they also benefit from

the high sales volume from Wal-Mart. The study by Bloom and Perry analyzed the success of producers based on the profits and they come to no clear result. On one hand, the producers, who are suppliers of Wal-Mart, have better financial results than producers, who are not suppliers of Wal-Mart. Furthermore, the producers are willing to make compromises so that they can benefit from the big market share of Wal-Mart (Bloom, Perry, 2001, pp. 379-396).

Even if from a financial point of view in the mentioned studies it wasn't possible to prove that a change of power has taken place, Tomczak and Gussek indicate many behavioral aspects which suggest the growing power of retailers on producers (Tomczak, Gussek, 1992, pp. 783-806). The retailers are the one, who decide whether a product comes in a store, they decide in which type of store a product will be distributed and they also determine the consulting activities for the marketing of several products from the producers. Actually, producers do not only do active marketing campaigns for the consumers, but also reactive campaigns in order to fulfill the requirements of retailers (Tomczak, Gussek, 1992, pg. 783-806). This shows that retailers influence the activity of the producers and consequently show more power over producers.

It has been shown that the answer to the question if a shift of power from producers to retailers has taken place, more complex is than a „yes” or a „no” answer (Bloom, Perry, 2001, pp. 379-396). On one hand this potential change of power can not be proved in several studies on the basis of financial results, on the other hand the practice shows that there was a change of behaviour in the relationship between producers and retailers which indicates the increase of power of the retailers. Besides this the producers as providers in a business-to-business (B2B) field have to take in consideration the desires and preferences of their customers, which are the retailers. The only question which has to be asked is where the limit between satisfaction, preferences or desires and the exercise of power.

3. Satisfaction in a distribution channel and its importance for the success of the channel members

In recent years, the importance of customer satisfaction increased, because of its great influence on the success of a company. In this chapter there will be analyzed the satisfaction of the retailer with its producers and the influence of this satisfaction on the success of the producers. More precisely the factors which influence the satisfaction will be presented and the effects of the satisfaction on the relations in the distribution channel.

3.1. The importance of satisfaction in the distribution channel

Customer satisfaction is becoming more and more a key strategic element of a company with a growing influence on its economic success (Bruhn, 2001, p. 151). A high level of customer satisfaction creates customer loyalty. Customer loyalty brings for a company more security, more growth, more income, higher profitability and consequently more success (Diller, 1996, pp. 81-94). In addition to this the focus in companies is set on the creation of long term relationship in comparison to simple

transactions and individualized business relationships instead of anonymous markets (Diller, 1995b, p. 3.).

It is hardly to imagine a business-to-business transaction, without the existence of a business relationship. Business relationships are characterized by a greater individualization, selection, interaction and integration of the partners (Diller, 1995a, pp. 442-447). The relationship between retailers and producers is a business-to-business relationship in which the retailer is the customer and the producer is the supplier. For this reason, retailer satisfaction is a certain kind of customer satisfaction in business-to-business marketing. The difference between the final customer and the retailer satisfaction is the number of the decision makers. The final customer satisfaction depends only on the persons who are involved in the purchase of a product and is often very emotional. In opposition to this the retailer satisfaction depends on the satisfaction of the team involved in the purchasing process. For this reason, the retailer satisfaction is more rational.

Customer satisfaction is generally a very complex psychological comparison concept which analyses the perceived experience of a customer after the use of a product in comparison to the expectations, desires or individual standards (Homburg, Werner, 1998, p. 57). If the target is reached or exceeded, it is satisfaction. On the contrary it is dissatisfaction. A model which explains the formation of satisfaction or dissatisfaction is the confirmation/disconfirmations paradigm. As previously mentioned, if the perceived performance is higher than the expected performance, there is a positive disconfirmation. If the perceived and expected performance, are equal, there is a confirmation. The worst situation is if the expected performance is lower than the perceived one and then there is a negative disconfirmation, which creates dissatisfaction (Homburg, Stock, 2003, pp. 19-47). Despite this relative simple description, the process of measuring customer satisfaction is a very complicated task and complex process (Oliver, 1997, p. 1).

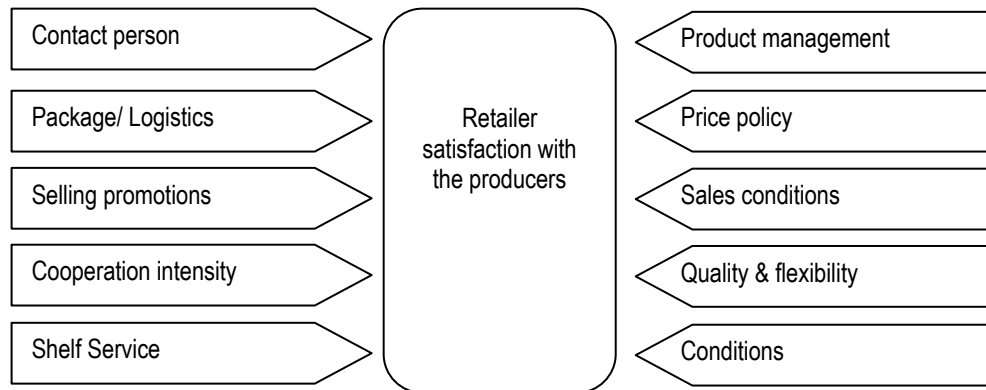
3.2. Factors which influence the satisfaction of the retailers with the producers

The wishes, desires and preferences of its current and potential customers are nowadays the heart of the activities of management and marketing (Schellhase, Hardock, Ohlwein, 2000, pp. 106-121). In order to secure the long-term success of a company, it is important to have satisfied customers. For this reason, customer satisfaction measurement gained more importance both in the specialized literature and in practice. Although satisfaction is a very important issue both for producers and retailers, in practice there are more studies about the satisfaction of the final consumers (Schellhase, Hardock, Ohlwein, 2000, pp. 106-121). In this sense the satisfaction between the members of the distribution channel has been neglected.

The key question in the satisfaction measurement is about the factors which influence the satisfaction of the channel members. In a survey of Schellhase, Hardock, Ohlwein in the period from January to March 1995, several large retail companies (Edeka, Metro, Rewe, Spar, Tengelmann and others) were analyzed and there were

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identified ten factors which influence the satisfaction of the retailers with their producers (Schellhase, Hardock, Ohlwein, 2000, pp. 106-121). These factors are listed in Fig. 1.



Source: Adapted after: Schellhase, Hardock, Ohlwein, 2000, pg. 106-121.

Figure 1. Factors which influence the retailer satisfaction

According to this study the main factor which influences the retailer satisfaction is the contact person with its skills and its product and market knowledge. This was stated by 24.1% of the respondents. With a percentage of 11.8%, the packaging and logistics are the second important factor which influences the retailer satisfaction. It can be observed that rapid and reliable reaction of the producers is valued by the retailers. The next important factor is the organization of the sales promotions with 8.3%. Very important at this factor is the good plan and the organization of sales promotions which lead to higher sales volumes. On the fourth place, with 6.3% is the cooperation. Retailers appreciate the smooth course of the process, which can be assured by good cooperations. Other factors are the shelf service, product management, pricing and contracting, marketing conditions, quality and flexibility of services and conditions (Schellhase, Hardock, Ohlwein, 2000, pp. 106-121).

Satisfaction in the retailer-producer relationships can be of two types: economic and social satisfaction (Geyskens; Steenkamp, 2000, pp. 11-32 and Geyskens; Steenkamp; Kumar, 1999, pp. 223-238). The economic satisfaction refers to the positive reaction of a distribution channel member to the positive economic output of the relationship, such as sales and profit (Geyskens; Steenkamp; Kumar, 1999, pp. 223-238). The social satisfaction is the positive emotional reaction of a distribution channel member to a non-economic social aspect of his relationship as for instance the smooth and nice interaction with his partner (Geyskens; Steenkamp; Kumar, 1999, pp. 223-238). A study by Geyskens, Steenkamp and Kumar has shown that despite the fact that the economic satisfaction and social satisfaction are very different, there is still a connection between these two elements. For instance the economic satisfaction reduces the conflict between the partners, which increases the social satisfaction (Geyskens; Steenkamp; Kumar, 1999, pp. 223-238).



Source: Adapted after: Geyskens; Steenkamp, 2000, pg. 11-32.

Figure 2. Types of satisfaction in retailer-producers relationships

In order to measure the value and the relation between economic and social satisfaction in distribution channels, after a careful analysis of the literature and expert interviews Geyskens and Steenkamp determined 24 items for the measurement of economic satisfaction and 22 items for the measurement of social satisfaction (Geyskens; Steenkamp, 2000, pg. 11-32). This structure of the items should prevent the critics according to which economic and social factors have different proportions in most surveys. The results of the study by Geyskens and Steenkamp shows that these two types of satisfaction have an effect on different elements of the relationship. As an example the economic satisfaction influences loyalty in a positive way. The expression of complaints is more influenced by the social satisfaction and less from the economic satisfaction (Geyskens; Steenkamp, 2000, pp. 11-32).

Another study by Andaleeb examines how dependence and trust influence the satisfaction in a distribution channel (Andaleeb, 1996, pp. 77-93). It is based on the hypothesis that, the more trust in a relationship exists, the higher is the satisfaction of the buyer in this relationship - in this case, the retailer. In order to prove this hypothesis, several scenarios have been developed with the purpose to influence the trust and dependence in a distribution channel. These scenarios were applied on 72 sales and purchasing managers. The results of the analysis showed that there is not necessarily a connection between trust and satisfaction. But it proved that a higher dependence determines a higher satisfaction (Andaleeb, 1996, pp. 77-93).

Skinner, Gassenheimer and Kelley have found out in a study that satisfaction can be influenced by the cooperation willingness of the partners (Skinner, Gassenheimer, Kelley, 1992, pp. 174-266). This study was conducted via e-mail in the farm and energy equipment industry. The result shows that mutual dependence increases the cooperation between retailers and producers, which decreases the conflicts between them. Both collaborations as well as lower conflicts lead to higher satisfaction (Skinner, Gassenheimer, Kelley, 1992, pp. 174-266).

3.3. The consequences of power and retailer satisfaction on their relation to the producers and the success of the members of the distribution channel

Satisfaction influences success, power, dependence and trust in a distribution channel. It is often assumed that dependence is the opposite of power, because if a company is dependent on another company, it has absolutely no effect on the behavior of the other company and consequently it can not exercise power on it. In the following there are presented several studies, which analyze these elements and their importance in the distribution channels. In a study which analyzes the factors which influences the success of a distribution channel, Spriggs noted that satisfaction is one of these factors (Spriggs, 1994, pp. 327-343). The result of this study shows that the success of the distribution channel is very complex and that there is a large number of influence factors, including the satisfaction (Spriggs, 1994, pp. 327-343).

In the literature, the question was asked whether a relationship exists between satisfaction and the willingness to change to another partner. According to Dwyer, Schurr, Sejo satisfaction reduces the willingness to change to another partner in the channel (Dwyer; Schurr; Sejo, 1987, pp. 11-27 and Ping, 2003, pp. 237-248). On the other hand, satisfaction can be determined by the comparison to other competitors. So, the possibility to switch to other providers, lowers the satisfaction. Consequently there is a mutual interaction between satisfaction and the ability to switch to alternative partners. Ping also notes that there is a bi-directional relationship between satisfaction and the willingness to change. He examines this on the example of hardware retailers (Ping, 2003, pp. 237-248). In another study about the relation between satisfaction and willingness to change, Ping pointed out that dissatisfaction in the relation between retailer and producer can lead to the abortion of this relationship (Ping, 2003, pp. 237-248).

Several authors pointed out the importance of satisfaction in a business relation for its existence. Crosby, Evans and Cowles suggest that only by quality, a relationship can be started and kept. So the quality of a relationship becomes a necessary but not sufficient condition for the existence of a business relationship. According to Crosby, Evans and Cowles quality in a relationship can be defined through satisfaction and trust (Crosby, Evans, Cowles, 1990, pp. 68-81).

In a laboratory test, Dwyer finds out that the satisfaction of employees in the marketing channels increase the cooperation possibility of the partners. He also acknowledges the fact that in order to have an influence on the decisions of others, you should show cooperation. So there is a recognizable connection between power and cooperation (Dwyer, 1987, pp. 45-65).

The positive effects of satisfaction in sales channels see Hunt and Nevin in a better moral of the satisfied participants. Nevin and Hunt also consider that a better moral increases the cooperation willingness and reduces the probability of contract termination (Hunt, Nevin, 1974, pp. 186-193). This result is also sustained by Schul, Little and Pride, who confirmed that by qualitative relationships and better moral in distribution channels arises, the willingness to carry out common activities increases and both members can benefit from this (Schul, Little, Pride, 1985, pp. 9-38). In addition to this Lusch shows in

his study that satisfaction in distribution channels reduce conflicts between partners and eliminate disfunctionalities (Lusch, 1976, pp. 382-390).

In practice the satisfaction of the retailers with their producers may also influence their behavior towards these. So retailers who are satisfied with their producers might recommend more the products of these producers. With the help of these measures, consumers are directed to certain products, which they are more willing to buy.

4. The relation between power, satisfaction and success in a distribution channel

As all these studies show it can be concluded that the relationship between retailers and producers is a very complex one. There are many factors which influence this relationship, which has a contribution to the success of both partners. Among these factors are the power, especially the increasing power of the retailers over the producers, satisfaction, and also dependence, loyalty, trust, cooperation and so on. A simplified model of the relation between these elements can be seen in fig. 3.

The starting point of this article was the increasing power of the retailers over the producers. As many studies have shown, there is actually a mutual interest in the increasing power of the retailers. On one hand the producer's behavior and their decision making is influenced by the powerful retailers. On the other hand producers benefit from the big market share of the powerful retailers. So there is a bi-directional interest in this development.

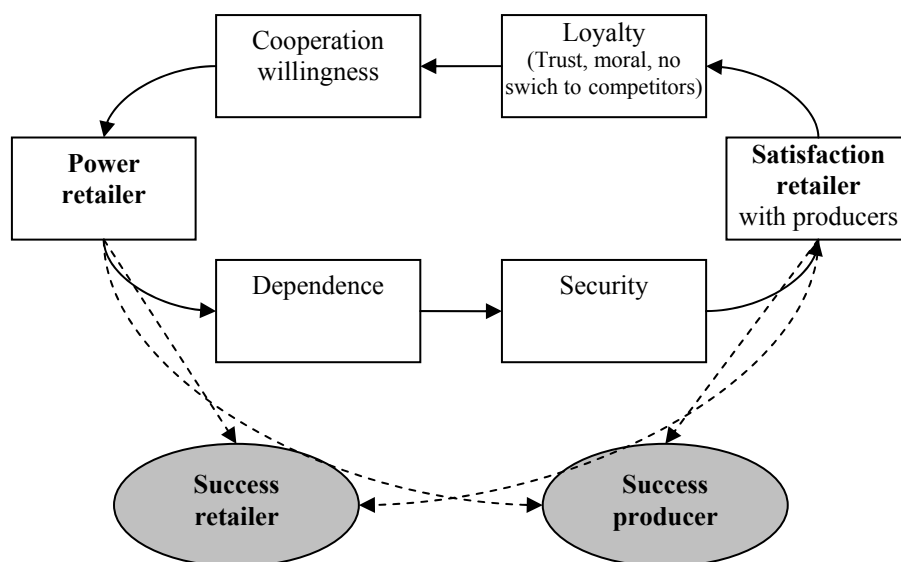


Figure 3. Power, satisfaction and success in the relation between retailers and producers

The second element analyzed in this article is the satisfaction of the retailers with their producers and the effect of an increased satisfaction over the financial success of the producers. On one hand some studies show that actually the power of the retailers increases their satisfaction. On the other hand the satisfaction of the retailers have a positive influence on the cooperation willingness of the partners, which will allow the producers to negotiate good conditions and terms despite the power of the retailers. So the question which has to be asked is whether satisfaction diminishes the exercise of power of the retailers? Moreover better conditions and terms represent a better result for the producers.

Consequently after an analysis of all factors it can be stated that between power and satisfaction there is a mutual relation. On one hand the increasing power of the retailers create a dependence of their producers, which give retailers a certain security, which increases their satisfaction with the retailers. On the other hand producers aim by the increase of satisfaction, the creation of a certain loyalty from the retailers – characterized by trust, moral, no switch – which allows them to negotiate better conditions. So somehow it can be stated that by satisfaction retailers get softer in the exercise of their power.

Regarding the success of the members of the distribution channels, it is clear that retailers increase their success by getting favorable conditions because of their power, described by Porter as a competitive advantage. For the producers, the above mentioned studies showed that although producers have to accept the power of the retailers, they also benefit from their big market shares and big sales value. So the question is if their relation with the big retailers a “pact with the devil” is. Despite the increased income of the producers which supply big retailers, another aspect which has to be analyzed is who has the highest profit margin? Are these the retailers or the producers? So the power relation between retailers and producers can be considered a win-win situation, but in which one part wins more than the other.

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