Create trust in manufacturer-retailer relationships

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Manufacturers and retailers are currently engaged in a titanic struggle, each jockeying for a portion of retail power. Historically, manufacturers have held the power as a result of their size, but increasingly, the latter are turning the tables. Because of the rise of mass formats such as category killers and superstores, corner stores and specialty stores, as well as horizontal buying alliances, the role of the retailer has become more pronounced.

Consequently, the largest retailers today are much bigger than the manufacturers they deal with. The sales of the top six U.S. food retailers exceed those of all European food manufacturers with the exception of Nestle and Unilever. This shift in power has manufacturers worried as retailers learn to exploit their newfound power for price and service concessions.

While powerful forms are cut, and often do, exploit their advantage to create fear among their channel counterparts, most retailers have no database to address the following questions.

"If it is the best way for powerful manufacturers and retailers to manage relationships, is it not true that such relations are more effective than simply wielding one's power?"

"What policies and procedures ensure trust in manufacturer-retailer relationships?"

"Exporting one's power to exert service conditions on one's own has been a test of a firm's position of power change."

The benefits of trust:

While exploiting one's power may be advantageous in the short run, it needs to be self-defeating in the long run. Exploiting one's power to extract unfair concessions can come back to haunt a firm of power position change. For instance, when briskers, a supermarket chain in Switzerland, was founded, the large brick-and-mortar manufacturers refused to supply it because of the new concept of small, independent, and price-conscious supermarkets.

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"More importantly, manufacturers and retailers are increasingly recognizing the importance of working together to provide the greatest value to the customer and at the lowest delivered cost."

Current industry experts believe that seamless partnerships among manufacturers and retailers are essential to the development of efficient systems such as "Just-in-Time" (JIT), "Electronic Data Interchange" (EDI) and "Electronic Commerce Request" (ECR).

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In the US, they have the potential to save $30 billion in costs each year out of the supermarket industry's $600 billion retail sales.

The benefits of trust:

While the power to dominate one's power is often seen as a means to achieve or develop alternative sources of supply, it is true that such relations are more effective than simply wielding one's power. Retailers should show that the average retailer, with high trust in the manufacturer-generates 80% more sales for the manufacturer than the average retailer with low trust in the same manufacturer.

"Creating trust in manufacturer-retailer relationships:

To develop trust, parties, especially the more powerful party in a relationship, must treat the other fairly. Faireness encompasses two distinct types of justice: distributive justice occurs when resources are shared, and procedural justice occurs when procedures are fair. In this context, Marks and Spencer, the British retailer, is a primary example worth analyzing in some detail.

While some firms used their power to manipulate their own outcomes, others realize they have a responsibility for their partners' profitability.

"Trust demands distributional justice. Distributive justice refers to a party's perceptions of the fairness of earnings and resources that transcend their relationships and are beyond the scope of what can be put forward."

"Faireness and directness refer to the extent to which the parties' beliefs are consistent with each other's expectations."

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"Discretion and policies are more likely to be accepted by partners whom the law or operation have allowed to negotiate with the autonomy of the channel policies and decisions.

"But, in the long run, it is not the size or the number of partners that matters, but the quality of the relationship."

Thus, the ability to negotiate and analyze relationships makes M&S feel that their challenge or appeal M&S decisions and will not be as likely to accept uncalled policies.