

Create trust, not fear, in manufacturer-retailer relationships

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VIEWPOINT

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Manufacturers and retailers are currently engaged in a classic power struggle, each jockeying for a position of relative power. Historically manufacturers have held the power vis-à-vis their retailers, but increasingly, the latter are turning the tables. Because of the rise of mega formats such as category killers and superstores, mergers and acquisitions, as well as horizontal buying alliances, the retailing sector has become more concentrated. Consequently, the largest retailers today are much bigger than the manufacturers they deal with.

This shift in power has manufacturers worried as retailers learn to exploit their new found power for price and service concessions. While exploiting one's power may be advantageous in the short run, it tends to be self-defeating in the long run.

Creating trust in manufacturer retailer relationships

Trust demands procedural fairness. Procedural justice refers to "due process" or the fairness of a party's procedures and policies vis-à-vis its vulnerable partners. Procedurally trust systems are build on the following six principles:

1. **Bilateral communication**, the willingness of the powerful party to engage in two-way communication with its partners. British retailer Marks and Spencer encourages their suppliers to be proactive and frank in pointing out M&S weaknesses.
 2. **Impartiality**, the consistency of the company's channel policies across all channel partners. While it is impossible to treat every channel partner identically, it is important to give partners equitable opportunities. When M&S have multiple manufacturers supplying for a single product category, they attempt to ensure that everyone gets a fair share of the business.
 3. **Refutability**, the extend to which the partner can appeal the party's channel policies and decisions. Manufacturers who supply M&S feel that they can challenge or appeal M&S decisions and will not be forced to accept unwanted policies.
 4. **Explanation**, the degree to which the party provides its partners with a coherent rationale for its channel decisions and policies. M&S personnel make joint visits with the manufacturer to M&S stores to help explain how the manufacturer's merchandise is being presented and sold.
 5. **Familiarity**, the party's familiarity with the local conditions under which the channel partners operate. Before they enter into a relationship with a new manufacturer, M&S will make a number of visits to the manufacturer's plants.
 6. **Courtesy**, being polite and respectful, as good inter-personal chemistry underlies most successful manufacturer-retailer relationships. In response, companies are changing the way they assign personnel to various accounts.
- It is only through trust rather than fear that significant system cost reductions and/or joint sales increases are possible.

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