Create trust, not fear, in manufacturer-retailer relationships

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Manufacturers and retailers are currently engaged in a classic power struggle, each trying 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 superstores such as category killers and supermarkets, retailers and superstores, as well as horizontal buying alliances, the market power has become more concentrated. Consequently, the larger retailers act much bigger than the manufacturers they deal with. This is the case in Europe, where food retailers exceed those of all Europe at fast food manufacturers with the examples of Nestlé and Unilever.

This shift in power has manufacturers worried as retailers learn to explain their own power for price and service concessions.

While powerful firms can, and often do, exploit their advantage to create fear among their channel counterparts, over the past decade we have commercialized a database to address the following questions:

1. Is the best way for powerful manufacturers and retailers to manage relationships as a co-creating stake with such relationships more effective than simply wielding "the power"?
2. "What policies and procedures help based trust in manufacturer-retailer relationships?"

The Benefit of Trust

While exploiting one's power may be advantageous in the short run, it tends to self-destruct in the long run. Exploiting one's power to extract unfair concessions can come back to haunt a firm if power patterns change. For instance, when Migros, a supermarket chain in Switzerland, was bound, the large branded manufacturers refused to supply it because of the fear of squaring their traditional own and private brands. Unable to obtain branded products, Migros was forced to adopt an exclusively private label assortment. Today it is the largest seller in Switzerland, with private labels accounting for more than 80% of sales. Consequently, many private brands find themselves shut out from Migros stores.

More important, manufacturers and retailers are increasingly recognizing the importance of working together to provide the customer at the lowest possible cost. Generally, industry experts believe that sustainable partnerships between manufacturers and retailers would help accelerate the deployment of sophisticated systems such as "Just In Time" (JIT), "Electronic Data Interchange" (EDI), "Effective Consumer Response" (ECR). In the US they have the potential to save 30 billion dollars in annual costs out of the supermarket industry by eliminating sophisticated inventories, duplicated functions, and various middlemen. The corresponding figure for Europe is 33 billion dollars. However, pricing in advanced systems does not automatically match these savings. To achieve them, retailers must resort to such measures as consolidation and monitoring costs (such as independent and purchasing agents) that can be eliminated.

Retailers who exist as manufacturers are less likely to seek or develop alternative sources of supply and are more committed to the relationships. In other words, trust breeds loyalty. Studies show that the average retailer with high trust in the manufacturer generates 70% 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, retailers, especially the most powerful party in a relationship, must act each other fairly. From the example of two different types of justice—democratic justice for the simple fairness of resources received—and procedural justice for fairness of process. In the former, Marks & Spencer, the British retailer, it is a prime example work analyzing in some detail.

Trust demands distributable justice. Distributive justice refers to a party's perceptions of the fairness of outcomes and resources that it receives from the relationship and to its partner. It refers to "pay sharing" or the division of benefits and burdens between partners. While some forms are no more than negotiations over resources, others may grant them a responsibility for their partner's profitability. Marks & Spencer believe that manufacturers, especially in the Far East, are often kept to get M&S business that they accept prices which are we're to make future investments. Since Marks & Spencer long-term relationships with their suppliers, this is a sub-optimal business practice for the M&S perspective and they discourage it.

Comparing channel options appropriately by allowing firms a fair return can have large long-term components which are not always immediately apparent. For example, compared to Oldsmobile, Ford can consistently get higher customer satisfaction ratings even though they are built at the same plant. When Buick pays to subtract 15 dollars an hour extra warranty work than Oldsmobile, and have the dealer mean a customer makes a big difference in consumer satisfaction. A scenario goes to an Oldsmobile dealer with a potential, the dealer might say, "all I do is to", while a Buick dealer will fix the problem.

Trust demands procedural fairness.

Procedural justice refers to "due process" or the fairness of a party's procedures and policies with which to be accountable. Procedural trust systems are built on the following 5 principles:

1. Rational communication, the willingness of the powerful party to engage in two-way communication with its partners. Marks & Spencer encourage their suppliers to practice and to being its position with M&S's feedback. They are managing on an equal basis, rather than being the executive to manage it successfully. Marks & Spencer get other features that are not in the long-term consideration of the business and use the supplier to keep on the line. It is a symbolic gesture that helps them sell a lot with M&S's employees.

2. Importantly, the consistency of the manufacturer's channel policies across all channel partners. While it is impossible to keep every channel partner identical, it is expensive and can lead to potential opportunities. When M&S has multiple manufacturers supplying a single product category, they attempt to ensure that everyone gets a fair share of the business. They do not necessarily expect, the business is contained to the same group of business. Any major departures only take place over a period of years so...