

# Food Retailing: Power Issues and Possible Impacts on Suppliers

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In recent years major changes that affect the relationship between seafood suppliers and retail buyers have taken place. Seafood marketing also has distinctive characteristics that are unique to this industry. The seafood industry and its marketing channels therefore makes a good arena to see the practical workings of power-dependency relationships. There has been very limited empirical research on power-dependency relationships between seafood suppliers and buyers. This work aims towards gaining a deeper understanding of this phenomenon. The results show that there are many reasons for the relative and often absolute increase in influence of retailers within supply chain or channel relationships – for instance, increasing levels of concentration and increased centralization of purchasing. The trend is that large grocery retailers have become more powerful. Suppliers of foods have become aware of the potential extent of this power and also that these changes have several significant impacts on them.

In all food distribution, the trend internationally is that retailers have increased their power relative to manufacturers over the past years (eg. Foord *et al.*, 1992). Buzzel *et al.* (1990) claim that one of the most significant phenomena in retailing in recent years has been the shift in power from manufacturers to the trade – the dominant players have become the big retail chains. Fulop (1988) explains that the historical shift in market power from manufacturers to large-scale retailers has enabled the latter to exercise their enhanced buying power in order to extract advertising allowances and discounts from manufacturers. Increased buying power has also reduced the retailers' dependence on the manufacturers (Aschenbaum and Mitchel, 1987). The claimed growth in trade power has been attributed to a higher concentration of retail buying power, buyers with access to scanner information, and more frequent sales promotions (Farris and Ailawadi, 1992; Schiller and Zellner, 1992).

Retailers, referred to as dominant buyers in recent years, appear to have some common characteristics (Rosenbloom and Mollenkopf, 1993):

- 1) They tend to be large-scale retail organizations,
- 2) they enjoy substantial channel power,
- 3) they act as buying agents for their customers rather than selling agents for suppliers,
- 4) they tend to operate on the low price/low margin model, and
- 5) they operate in saturated markets and fight for market shares.

The concentration among retailers has given the trade the ability to force allowances and other concessions from manufacturers/ suppliers. Such a powerful position in the marketing channel also enables retailers to be "gatekeepers" into consumer markets.

The Norwegian seafood industry consists of autonomous, but mutually dependent companies linked together in a vertical channel: catchers/farmers, processors, exporters/wholesalers, retailers and caterers. Norwegian suppliers of seafood products to the retail trade are mainly small, individual manufacturing or exporting companies. On the other side the retail trade, both domestic and international, is highly concentrated, many of them buy seafood products through centralised buying offices on behalf of many retail outlets. This limits the number of potential buyers of seafood products.

The shift in bargaining power towards retailers puts pressure on suppliers: they have to accept various demands from their customers (retailers), for instance discounts/price terms, stability/continuity/timing, quality and service level, new product

development, and volume requirements. Some of these requirements are difficult to meet, due to unique characteristics of the seafood industry: supply variations and product perishability (short shelf life of fresh seafood products). The seafood industry is characterised by uncertainty (due to variability in supply of raw materials), and this situation may lead to usage of many different supply sources by the retailers. The majority of Norwegian seafood products are also characterised by lack of differentiation from competing products. It is therefore difficult for a supplier to get a powerful position in the buyer-seller relationship. Based upon this introduction, it can be argued that one of the most important factors in the relationship between the Norwegian seafood industry and its marketing channels, is the actual power-dependence relationship between the supplier and the buyer. Therefore the Norwegian seafood industry makes a good area to see the practical workings of the relationships.

### *Towards a Theoretical Basis*

Attention is increasingly devoted to the analysis of distribution channel structure and behaviour. Different approaches offer alternative concepts for explaining the dynamics in marketing channels. *Power*<sup>1)</sup> is a key construct in the study of human behaviour (channel behaviour included), and by learning to manage with power, channel members will be better able to achieve the goals of the distribution channel as well as their own goals. This is supported by Pfeffer (1992a, 1992b) who claims that managers cannot be effective without understanding and using the bases of organisational power and influence. To classify power, Bates and Harvey (1986, p. 304) identify three types of actions: "*Power behavior.....consists of..... (1) the giving of orders, directions, instructions, commands or directives; (2) the deliberate application of recognized punishments and penalties, withdrawal of legitimate privileges and rewards, or the application of recognized rewards and privileges to gain conformity to norms or directives and (3) the stating of new rules, norms, role definitions, procedures, schedules, and so on which are binding upon the other.*"

Two conditions must prevail if the power is to be real in consequence (Bates and Harvey, *op. cit.*): *First*, an individual has power if members of the group in which this behaviour is performed recognise his/her right to engage in this kind of behaviour and is defined as legitimate. *Second*, they have the power if, even though no such right to this kind of behaviour exists, they can engage in such behaviour and others have no alternative but to accept and conform to their desires. As mentioned earlier, increasing attention is devoted to analysis of marketing channel structure and behaviour. This literature on buyer-seller relationships also offers several different conceptualisations and explanations on the matter of power in marketing channels. Among the theories/ frameworks providing valuable insights to distribution channel dynamics are: 1) The *Political Economy* framework (Stern and Reve, 1980; Arndt, 1981, 1983) offers a dyadic approach to channel behaviour that integrates both economic and socio-political factors. Power is treated as a resource sought, and power is a focal dimension of the social system. 2) In the *Interaction Approach* (Håkansson, 1982) the focus is on the interaction and the mutual participation in the transaction between the buyer and seller (dyadic approach) – *how* the parties interact. Power is seen as a dimension of the interaction atmosphere. 3) The *Network Approach* (Johanson and Mattsson, 1987; Mattsson, 1985; Thorelli, 1986) views power as linked to position within the network, and network position provides a location of power from which to influence the network.

The different frameworks represent different perspectives on the interaction/exchange relationships between buyers and sellers in a marketing channel. A large amount of research, both in conceptual and/or empirical settings, has been carried out on each of the perspectives/frameworks mentioned above. However, there is a lack of effort to try to apply these theories specifically to seafood industry settings. In the next paragraphs, characteristics of the Norwegian seafood industry and its marketing channels – and also some previous research on seafood distribution – are presented. The value of the frameworks mentioned is evalu-

ated for their ability to explain phenomena in a seafood marketing setting.

### *Characteristics of the Norwegian Seafood Industry and its Marketing Channels*

The Norwegian seafood processing industry consists of approximately 400 plants. These processing plants are spread along the coast of Norway, with the largest concentration of processors in the western and northern parts of the country. Typical for the processing plants is the location close to points of landing of saltwater fish and to fish farmers (aquaculture products). These locations are however, far from the main markets for Norwegian seafood. Distribution of chilled products from these remote locations is not an easy task, due to the problem of *product perishability* and short shelf life that the industry faces. Distribution of chilled products is also costly. Distribution of frozen seafood to destinations outside Norway is not a problem. The reasons for this are lower distribution costs, the products have long storage life, and delivery logistics are flexible.

The fish processing industry makes an important contribution to the Norwegian economy. In 1993 there were approximately 11.000 people employed in the sector (Nilsen and Steinholt, 1994). The majority (90-95%) of the Norwegian seafood products are exported to markets in Europe (EU is by far the most important market) and overseas.

In July 1995 there were 522 registered companies exporting seafood products from Norway. The value of the Norwegian seafood export has increased steadily over the past years: approximately £1.7 billion in 1993 and more than £2 billion in 1994 (Eksportutvalget for Fisk, 1994). The aver-

age export price of most seafood products decreased in the period. The increase in value is mainly caused by increased quantities exported.

The processing industry is characterised by heterogeneity, with large vertical integrated concerns, and also a large number of small processing plants. Seafood processors in Norway are supplied with raw materials (ground fish, pelagic fish, shellfish) from domestic catches, and from imports. The majority of seafood landings are from the domestic fleet. Some imported raw fish is also bought by Norwegian processors to make up deficits, especially when particular species are unavailable locally. Also farmed salmon are supplied to processors. The largest volumes are primary processed (gutted, iced and packed) for fresh distribution and sale, or for further processing abroad. A lesser, but increasing, part of the farmed salmon is further processed in Norway, for instance filleted, smoked, marinated, or highly processed such as controlled atmosphere packs (CAP) and frozen retail packs. The seafood industry is characterised by variations in the supply of raw materials, due to stock variations, weather conditions, fishing effort, and governmental regulations (Prochaska, 1984). These phenomena produce *uncertainty* and unstable market conditions, especially for fresh seafood products.

The above presentation reflects some fundamental problems that suppliers and buyers of seafood have to deal with. First, product perishability has notable implications for distribution of fresh products. Secondly, uncertainty in the supply of wild-caught fish creates unstable market conditions. Finally, there is mutual dependence between autonomous participants in the processing- and distribution network.

### *Distribution Network and Supplier-Buyer Relationships*

Most distribution channels in the seafood industry are either producer-to-exporter/wholesaler-to-retailer channels, or producer-to-retailer channels (including structures with retailer- or producer-owned wholesale operations). The distribution channels are typically of an indirect nature. In some cases, for instance domestic distribution of seafood, processors may sell directly to retailers or caterers. Seafood products for foreign markets are distributed through a more indirect channel. The nature of such distribution channels (indirect) can be a hindrance regarding close buyer-seller relationships. At the same time, participants at all levels in the seafood industry – from catching/fish farming, via processing, to exports and retail sales – are autonomous actors, but are mutually dependent upon each other. There is sequential interdependence (Thompson, 1967) in this production- and distribution channel: One part cannot do its job until others have done theirs. The outputs of one organisation become inputs for another. Interdependence with other channel participants lies in the availability of resources and the demand for them. Such interdependence can create problems of unpredictability or uncertainty for the organisation. Each party in the processing and distribution network is responsible for their own business, but not for the business of other network participants. These circumstances give rise to uncertainty, and in such conditions *opportunism* – "self-interest seeking with guile" (Williamson, 1975, p. 26) – has a favourable climate. Participants at one level in the production- and distribution network can take steps that promote themselves, but these actions can harm the chances of other network participants reaching their goals.

There is a clear connection between mutual dependence, power and the need for adaptation and co-ordination. One way for organisations facing uncertainty to cope with this problem, is to restructure their exchange relationships by increasing co-ordination. But increasing the mutual control over each other's activities in order to control the problem of uncertainty regarding outcomes, is likely to increase interdependency with respect to behaviour.

Co-ordination (eg. in a buyer-seller relationship) must not subvert the competitive goals of the individual partners to that relationship. As stated by Cunningham and Culligan (1988, p. 514): "*the orientation of relationships, the dominant direction of influence and the definition of the "rules" of the relationship will be determined by the distribution of power dimensions between the partners.*"

### *Previous Research on Seafood Distribution Channels*

The amount of empirical research has been carried out, focussing on buyer-seller relationships in seafood industry contexts is limited. In distribution networks in the food industry, the balance of power is perceived to lie with the retail buyers (Davies, 1990; Brookes, 1995; Foord *et al.*, 1992; Buzzel *et al.*, 1990; Fulop, 1988; Aschenbaum and Mitchel, 1987; Hogarth-Scott and Parkinson, 1993; Olver and Farris, 1989; Rosenbloom and Mollenkopf, 1993). Consequently the benefits of the relationship in terms of attainment of individual competitive goals, are perceived to accrue predominantly to the same buyers. The growing exercise of power by retailers is a common issue of concern to food manufacturers as well as other suppliers (Brookes, 1995).

### *Buyer-Seller Relationships*

The next section outlines the buying patterns of seafood by retail companies. Because of the complexity of buying, merchandising, and marketing in retail chains, centralised structures are common. Generally, retail chains purchase centrally through their own purchasing offices for seafood (in some instances these are the same offices as for meat purchases). The purchasers place orders with the suppliers, the deliveries are received at the retailers' warehouse and distribution centres or at storage facilities of the distributors. From there consignments of seafood are shipped to the individual retail outlet. Orders from each retail outlet to the chains' distribution centres are done by tele-

phone or through databased ordering systems. Agreements for buying of seafood products are often done orally, and many retail chains have loose bonds to the supplier side.

Multiple chains use relatively large supplier pools, with both domestic and foreign suppliers (Dawson *et al.*, 1987). The suppliers are utilised according to need or the ability to meet the desires of the buyers. An empirical study of seafood buying in supermarkets in the United States, found that a broadening understanding among the buyers is that long-term relationships with the supplier side are more desirable (Hanssen, 1989). In a study of the Scottish seafood industry, Dawson *et al.* (1987) found that the majority of retailers preferred to stay with existing suppliers if possible. Stability was desired, but only as long as existing suppliers remained competitive. In spite of the assertions mentioned above, some individual supermarket chains do vacillate heavily between suppliers (Hanssen, 1989).

Some retailers often use a small number of suppliers on a continuous basis. This is often the case of large suppliers, which can generally deliver adequate volumes of the desired fish year round. In addition, smaller suppliers are used according to need, and these are chosen primarily because of their product offers: the seasons that the fish varieties are offered and the price placed on their products. Reputation for quality and service is also very weighty criteria when the retail buyers select suppliers of seafood. Fulfilment of the buyers' wishes and demands become, therefore, a key factor for suppliers who want to deliver to the retail sector. This is especially true regarding the smaller suppliers. The larger suppliers, who are able to deliver what the chains want at any time, do not have the same pressures to be constantly attentive to the buyers' whims. It is as though larger suppliers, due to their powerful abilities to pacify the buyers' demands on deliveries of the desired quantity of high quality seafood products on a continual basis, become such important partners for the buyers that they cannot be substituted.

### *Applications of Theory for Explaining Phenomena in Seafood Marketing Channels*

Taking the specific context of the seafood industry into consideration, how do theoretical frameworks fit into the "real world" and what is the ability of theoretical frameworks to explain interaction issues, such as power, in this specific setting? In answering these questions, a review of previous applications of the theory in parallel contexts (*i.e.* food industry settings) is made. In order to be generally applicable in contextuality, the theory must be able to explain and predict phenomena in different industries and in different exchange relationship arrangements.

Studies on the application of these concepts in the seafood industry are very rare. This fact indicates that there are gaps between the existing tools for studying interaction phenomena and the ability of the theoretical tools to explain these phenomena across industries/different empirical realities. Reflecting on the reasons why there are gaps between theoretical tools and application of these tools across industries, one factor that is apparent is that a large number of different theoretical accounts exist, and many of these theories are to a certain degree conflicting. Some of the theoretical constructs, especially the behavioural constructs as for instance power, appear to be difficult to operationalize, estimate, and measure in an objective/independent way.

Elg and Johansson (1993) studied governance structures in the highly concentrated Swedish food industry, using transaction cost analysis (Williamson, 1975). They claim that all the three governance forms referred to in transaction cost theory (market, "hybrid", hierarchy) can be found in the transactions between manufacturers and wholesalers in the food industry. While market is the main governance structure for the smaller suppliers, transactions between large manufacturers and wholesalers are governed bilaterally – where exchange involves recurrent transactions and a certain amount of mutual adjustment between the parties. Transactions are characterised by high asset specificity (production capacity, personnel, technology), and uncertainty (access to distribution, maintenance of rela-

tionships), which is also the case in the seafood industry.

Elg and Johansson (*op. cit.*) claim that the manufacturers' high transaction costs give them a poor bargaining position, and enable their customers to behave opportunistically. Under such circumstances transaction cost theory predicts forward integration, but the authors found no evidence of manufacturers trying to integrate forward in order to gain control over distribution. This manifestation indicates that transaction behaviour can only be explained in terms of conditions *outside* the unit of analysis of transaction cost theory. There seems to be shortcomings in the transaction cost theory, with its focus on individual transactions, in order to explain governance structures in a food industry context.

As another example of empirical research in the transaction cost tradition, Ytreberg and Reve (1989) studied vertical integration within retailing. The results show that retailers gain the most from vertical integration, shifting channel power downstream away from suppliers. When talking about power in distribution channel contexts, one needs to distinguish between two types (*ibid.*). One is market power which is used to obtain economic gains and which economic theories are concerned about. The other type is channel power, which is used when dividing channel profits. Channel power has been studied extensively in the marketing literature (see *eg.* Gaski, 1984 for a review), but applications in food distribution channels have been limited.

Knox and White (1991) studied the nature and dynamics of buyer-seller relationships in horticultural marketing in the United Kingdom, using the interaction approach framework. The authors emphasise the structural alteration in the retail market, with more fresh produce sold directly through multiple retailers, compared to traditional, more indirect distribution patterns. Both suppliers and buyers are experiencing changes in the nature of their business relationships. The empirical results show that both parties recognise the power base of the retailers in conditioning the relationship. On the other side, Knox and White (*op. cit.*) found a high level of responsibility that the retailers display towards their suppliers. The authors speculate that this is due to retailers

acknowledging their increasing interdependency if future growth is to be realised. They conclude that horticultural suppliers have been successful in positioning themselves in a retailer-driven marketing environment. The relationships investigated were of a long-term nature, with highly sophisticated contact patterns with multiple linkages.

When carrying out this empirical investigation, Knox and White employed elements from the interaction approach for studying industrial markets. They talk about power and dependency without mentioning how these constructs are defined, operationalized and estimated. The degree of appropriateness of the interaction approach framework in this particular study, seems to be linked to the development of relationships, rather than to say something about power and dependency.

Hogarth-Scott and Parkinson (1993) studied the relevance of constructs of power/dependence, conflict and co-operation to the context of the UK food distribution channel. By synthesising elements from the interaction approach, the network approach, and the political economy framework, they conducted indepth interviews of manufacturers who had a continuing relationship with a retailer. About 50% of the relationships were classified as "mutual interdependence", while about 25% were classified as "retailer dominated". None were "supplier dominated". All results are based on respondents' perceptions. The authors conclude that power/dependence, conflict and co-operation are important issues in all channel relationships. In their views, power and dependence are consequences of technological (*eg.* scanning) and structural changes in the marketplace, and power was exercised by the retailer in its reluctance to share scanning information.

Brookes (1995) studied the recent changes in relationships between retailers and fresh produce suppliers, with special emphasis on the implications for the suppliers. The author adopts a basically investigative research approach, and reached some "postulatory" conclusions. A case study approach to data collection and analysis was used. In studying power in the relationships between suppliers and their customers, the author uses some concepts from the litera-

ture on channel power (*eg.* Gaski, 1984; Frazier and Summers, 1984; Butaney and Wortzel, 1988; Richardson and Robicheaux, 1992). It is not clear how Brookes operationalizes the constructs of power when carrying out the research, but he emphasises that some retail buyers now believe they have the capability to impose their “systemic” power<sup>2)</sup> over their suppliers. It seems though as Brookes is introducing elements from the frameworks mentioned in the introduction, but has some problems in applying them successfully to the relationships under investigation.

### *Ability to Explain Power in Seafood Distribution Channels*

The frameworks mentioned in this paper have not yet made clear and consistent definitions of the constructs of power and dependence, and therefore, there are difficulties in operationalizing theory into any “real-world” contexts. There is also a lack of effort to try to apply these theories specifically to seafood industry contexts. This last point might be an accident of research interests – not necessarily caused by unclear constructs. The emphasis on the construct of power varies between the different frameworks. The frameworks have accepted the importance of power issues in understanding and explaining distribution channel phenomena, but there is however a tendency in the frameworks reviewed to dismiss the analysis of intangible issues, as for instance power. The reason might be that this kind of phenomenon cannot be directly observed, and the empirical findings cannot be corroborated through the replication of the research by other researchers.

### *Possible Improvements in the Way We Study Channel Power*

In approaching the problem of observing and explaining power in seafood distribution channel contexts, one way of improving this research might be to move from deductive<sup>3)</sup> to inductive<sup>4)</sup> research methods. In the inductive research tradition, conceptual and theoretical structures are the outcome of induction, and theories that explain social

phenomena must be grounded in observation and experience (Glaser and Strauss, 1967).

It is clear from the preceding review of previous research that there are problems when regarding the ability to explain power in marketing channels. There is some disagreement among the approaches of how the construct of channel power is treated, and also about how to conduct research – how to produce knowledge – on power in distribution channels. Past researchers in the area of marketing channel power have experienced two fundamental problems in their research efforts. First, the definitions of the power construct have been weak and inconsistent with the behavioural definitions from which they were drawn (*see eg.* French and Raven, 1959; Beier and Stern, 1969). In addition, the operationalization of power by the various researchers have failed to measure the ability domain of power, and neglected an important element of channel power. In general, behavioural theories lack a proper specification of the scope of the theories, and lack a proper and common specification of power. There are also disagreements about operational definitions and causal structure, which make the testability weak. If this is accepted, then it follows that there is clearly a need to advance the study of power in distribution channels, and to clarify the definitions and concepts in this research.

### *Trends and Structural Changes that may Affect Suppliers of Seafood*

The next paragraph focusses on practical workings of power-dependency relationships within food retailing. Emphasis is put on trends and structural changes in contemporary retailing, that may affect suppliers to this industry.

### *Consumer Trends and Retail Industry Trends*

Changes in consumer behaviour may bring about changes in demographic structures (changing household compositions and sizes, ageing population, sharp division between the ‘haves’ and ‘have-nots’). Also,

consumer attitudes are changing toward a convenience orientation, and toward food, health, and ecology concerns (Johnson, 1990; Lucas, 1986). Furthermore, the shopping patterns are changing: consumers are increasingly more mobile (greater travel distance), and there is a trend toward lower shopping frequencies (weekly major shopping trips for groceries). Consumers are also more demanding: a switch from quantity to quality in food consumption was predicted in the 1980s, attributed to four main areas of influence (Webster, 1987):

- 1) Nutritional adaptation – the switch to enriched, healthier and/or slimming products.
- 2) Food taste improvements – by using better or more natural ingredients, or by using more adventurous food (eg. fruits, aromas or spices).
- 3) Incorporation of service – notably, convenience in preparation or sizes.
- 4) Image improvements – achieved through packaging and other forms of communication.

The changes mentioned above create new challenges to the manufacturers and retailers to define accurately – and effectively satisfy – the needs of the consumers. Technological changes in retailing, such as scanning and electronic data interchange (EDI), and emphasis on productivity and efficiency, may cause changes in retail strategies and the way they deal with suppliers. Today, product codes (bar codes) are standardized between manufacturers, retailers and distributors, and there is a wide range of electronic point-of-purchase systems (EPoS) available. Within the grocery sector in the UK, there were nearly 900 stores with full scanning installations at the start of 1989 (IGD News 1989), and the number is increasing steadily. EPoS systems are not limited to larger stores, and such systems involve some major benefits for the retailer (McGoldrick, 1990):

- 1) Logistical benefits: Rapid flow of information and immediate recording of sales allows stockholdings to be reduced.
- 2) Productivity benefits: Faster checkouts – better utilization of labour, better scheduling, better stock control – better utilization of space.

- 3) Buying benefits: Constantly updated record of sales trends by product and by store, basis for detailed demand forecasts (seasonal and local).
- 4) Customer service: Faster checkouts – reduce queues, itemized receipts.
- 5) Marketing strategy: Immediate feedback after changes in pricing, product range, display allocations, advertising etc. Easy to analyse the manipulation of marketing variables, guidelines for political decisions such as opening hours and customer service levels etc.

Other forces shaping changes might be competitive positioning in the retail trade because of, for example, trading-up opportunities, own-brand strategies and image building (Brookes, 1995). For instance, in UK grocery retailing, the retailer margins have increased during the late 1980s and early 1990s. This has been achieved partly by a greater emphasis on *higher-margin products* such as fresh foods (where gross margins of 30 to 40% are common), and through investments in larger outlets.

Retail companies believe that their *own-brands* will help build store-loyal customers. Larger retailers now offer own-label products that have performance characteristics comparable with the leading national brands (Lawrence, 1993). Own-label brands now account for about 15% of total grocery sales volume in the US. In UK, the figures are about 30% (Hoch and Banerji, 1993). In larger retail companies in the UK, for example, Tesco and Sainsbury's, own-brands account for closer to 50% of their sales volume (Brookes, 1995). Marks & Spencer runs its food retail business entirely on own-brands.

More and more *value-added products* are introduced by retailers: What was previously a commodity product, such as frozen pieces of meat or fish, are now presented as ready-to-cook meals. Such new food products are most likely to be packaged as the retail company's own-brand, whether they are identified by the name of the company – eg. Tesco or Safeway – or by a separate label such as 'St. Michael' (Marks & Spencer). By controlling the sources of supply and setting their own quality standards, retailers are now labelling a large amount of their fresh and frozen foods as own brands.



In recent years retailers have, to a larger degree, built long-term relationships with their quality suppliers. Such 'integration' implies a great deal of trust on both sides, and the retailers demand substantial support and commitment from the suppliers. Retailers are said to be asking for cost reductions at the suppliers – and then ask that the savings are in turn passed on to them (Brookes, 1995). Whether such saving are passed on to the end consumers are up to the discretion of the retailer.

Centralised structures are common in retail grocery chains. The reasons for this are increased complexity of buying, merchandising and marketing – increased complexity of operation – in the retail trade. Some of the major advantages of centralised buying were identified by Wingate and Friedlander (1978):

- 1) More effective use of buying power in negotiation of supply prices and other terms.
- 2) Specialist buyers can devote more time to the analysis of market trends and the identification of new product opportunities.
- 3) The cost of the buying function is lower as economics of scale are obtained.
- 4) Better and more rapid quality control procedures can be implemented, and the quality of buying and stock control decisions is equalized across stores.
- 5) A more consistent assortment can be presented across all the stores to back up national promotions and image building.
- 6) Store personnel need not be selectors and negotiators, their time is freed to concentrate upon store organisation and selling activities.

Increased centralization in the retailing industry implies that suppliers have to redefine their structures and strategies to match those of large powerful retailers. For instance, UK retailers expect their suppliers to match their structures with retail structures, with suppliers working as close-knit units with the retailing buying groups (Brookes, 1995). The increasing proportion of trade taken by the multiple chains at the expense of other types of retailers (for example, co-operative societies, voluntary groups, franchising), has been one of the most significant changes in retail-

ing structure (McGoldrick, 1990). The grocery sector is particularly highly concentrated. Euromonitor (1989) estimates that the multiples' share of food turnover and retail market share will grow in most European countries. This trend is also reflected in the Scandinavian countries, for instance in Sweden, where three multiples dominate food retailing with a joint market share of 92% (*Supermarket*, 1990). In Norway, more than 60% of retail food sales is distributed through a small number of retail chains that operate nationally. These large retailers have considerable power because of the size of their buying.

### *Possible Impacts on the Suppliers*

The changes and forces mentioned above, individually and in concert, have several significant impacts on the strategies and structures adopted by suppliers to meet consumer trends and industry changes. As mentioned before, retailers are controlling the sources of supply and setting their own quality standards. Only suppliers that are able to deliver exactly the product (specified quality, price, and product characteristics) that is asked for, have the possibility to be chosen as a quality supplier in the long run.

Today it is not unusual that retailers are monitoring their suppliers' standards (for example quality, temperature, or other agreed technical specifications) not only after purchase, but also at every stage from the production plant to when it is placed onto the supermarket shelves or displays. Buyers (retailers) expect to be kept regularly informed, and may want direct involvement with, for instance, their suppliers' research activities and new product development processes. They may also ask for exclusive rights to new products that are developed by the suppliers. This author believe that it is highly probable that those suppliers who build and maintain the closest relationships with their retail customers, are likely to be rewarded with preferred-supplier status. Suppliers need to work proactive with the retailers, and retailers expect suppliers to be 'category specialists'. Suppliers therefore need to understand where their particular product fits into its entire category, and its expected impact on *eg.* retailers sales vol-

ume for that category, and the retailer's positioning as a whole.

An important managerial implication is that suppliers need to develop structures that mirror the retailers' structures. A crucial issue for Norwegian suppliers of seafood to the European retail trade is: are the supply (export) structures sufficiently responsive and flexible to adjust to the developing strategies, structures and systems of their major retail customers? The last thirty years has seen a dramatic increase in the scale and power of retailing companies. Pommerening (1979) considered the changes in retailer-supplier relationships within a time-scale of three decades:

- 1950s: *'Manufacturer is King'* – postwar shortages and a fragmented distribution system place the primary emphasis upon manufacturing and supply.
- 1960s: *'Consumer is King'* – increasing competition brought more emphasis upon marketing and the development of manufacturer brands.
- 1970s: *'Trade is King'* – the more concentrated and powerful retailing industry increasingly took over the functions of marketing.

Size itself (in terms of large versus small companies) is not the main factor determining the nature of the power relationship between retailers as buyers and manufacturers as suppliers. Grocery retailers have utilised the period of depressed activity during the late 1970s and early 1980s to their own advantage, pushing own labels and their own image whilst overall demand was slack (Scherer, 1980). Concentration amongst the retailing industry actually intensifies this situation because it forces retailers to exploit their position to the full if they are to be able to sell competitively. The most obvious implication is that the size of the large retail chains has enabled them to obtain highly competitive and advantageous terms from food manufacturers.

The power-dependence relationship is an important component in the buyer-seller relationships. By understanding the construct of power, and by learning to manage with power, suppliers may be better able to achieve their goals. This knowledge may

further be valuable to seafood suppliers in that it can guide them to act in a way that improve their level of influence when dealing with powerful buyers. Both increasing retail concentration and changing corporate structures have increased the competitive pressures on suppliers of seafood products. Centralised buying limits the number of potential buyers in the retail sector. It also increases the importance of small numbers of key accounts as a proportion of the sales of seafood suppliers. There is clearly a need for the seafood suppliers to work closely with retail buyers, by developing stable working relationships and by fostering a relationship climate that facilitate interaction and exchange between the supplier side and the buyer side.

Manufacturers have certain advantages by supplying own brands for retailers (retailers' private labels) (Euromonitor, 1986). For instance, excess production capacity can be utilized, supplying own brands can help absorb fixed costs, and may provide a base for expansion. Small manufacturers can enter the market without the costs of branding. Own brand supply fosters a closer relationship with the retailers, and the retailer has an equal interest in selling the products. Supplying retailers' own brands also implies some potential problems for the manufacturer/supplier. For example, own brands can lead to excessive reliance on a few customers (at worst, just one customer). Also, investment in technical development and competitive advantage is given away 'free' to own brands. Finally, bargaining power is lost as the retailer can usually switch to alternative channels of supply.

Also the strategic importance of new product development is widely recognised within the retail industry. In a general sense the importance of new product performance was pointed to in the survey carried out in 1982 by Robert and Smith (loc. cit. Campaign 1983). They concluded that a striking feature of the successful markets was the extent to which that success was derived from either product innovation or changes in consumer tastes. By contrast, in the least successful markets there was virtually no innovation. Grocery manufacturers have complained that too many multiples are intent on imitating the single element of own brands from the strategies of successful

companies such as Marks & Spencer and Sainsbury.

Davies *et al.* (1985) claim that the immediate impact of own labels on new product development programmes has been felt in several distinct ways. First, because own label has the effect of compressing prices, the lower margins available on the products cut into the amount of money available for research and development. Second, selling space may be denied to the manufacturer brands – *i.e.* retailers may refuse to stock manufacturer's brands unless it agrees to also produce own brands. Considering also the retailers' access to scanner information and great knowledge about consumer trends, it is highly probable that future product innovations in the retailing industry are initiated by the retailers.

Buying specifications have tended to become more exacting, and some retailers have established long-term working relationships with their best suppliers (McGoldrick, 1990). As retailers increasingly recognize the need to innovate and maintain high quality in own brands, more care has to be given to establishing appropriate and reliable channels of supply.

### *Conclusions and Implications for Future Research*

As the previous paragraphs show, there are many reasons for the relative and often absolute increase in influence of retailers within supply chain or channel relationships – for instance, increasing levels of concentration and increased centralization of purchasing. The trend is that large grocery retailers have become more powerful, and suppliers of foods have become aware of the potential extent of this power. Retail brand strategies has increased retailer involvement in traditional manufacturer areas of new product development, product testing, brand advertising (private labels), and also control over physical distribution. Also, new information technologies (collection, transmission and analysis of information) involve some major benefits for the retailer: logistical benefits, productivity benefits, buying benefits, customer service, and immediate feedback on changes in strategy.

These changes have several significant impacts on the suppliers. Examples are: retailers are monitoring their suppliers' operations, more direct involvement, and suppliers are expected to be 'category specialists'. Further, suppliers need to adapt to the recent changes in retailing structures (*eg.* centralization of buying, concentration) and strategies (*eg.* own brands/private labels, new product development/innovations) in order to be rewarded with preferred-supplier status.

### *Research on Channel Power*

Little is known about the construct of power and the relative importance of the construct, as one moves across industries or empirical contexts. Characteristics of the specific industry are important. This is evident, for example, in the economic theory of competition, where industry structure is considered to be the determining factor (Scherer, 1970). It is plausible to believe that the special characteristics of the seafood industry and its marketing channels call for descriptive research that examines power issues in different empirical settings, before one can speak confidently about power-dependence relationships in distribution channels.

Using the seafood industry as a context for empirical research may bring out new and perhaps conflicting findings, due to the distinctive conditions that exist in this industry. For instance, does variation in supply of raw materials affect the power-dependence relations between buyers and sellers in a seafood marketing channel? Another question is: In which ways do uncertainty, unpredictability, and unstable market conditions affect the power-dependence relations? Also, the fact that there is mutual dependence between the autonomous channel participants, and clearly a need for adaptations and co-ordination of activities, may affect the influence attempts from both sides of the exchange relationship.

The versatile nature of power illustrates that it is difficult to tie down exactly what the phenomenon is. There is still a great many research questions to be raised. After considering the issues mentioned above, the researcher may start searching for the bases for power and also try to answer the following question: How should channel

members utilise their available power? Summing up so far: research has not yet reached a clear conceptualization of power, although the concept in various forms is a significant element of exchange relationships. It is my view that there exist an inappropriateness of deductive methods on the study of social phenomena. In addition, there is a lack of sufficient research to build up data for inductive reasoning. Possibilities for moving forward may be to combine deductive and inductive methods in future research on power in distribution channels.

It is this author's view that combining theories/frameworks and deductive and inductive methods, may add to the understanding of power in channels of distribution.

Deductive research methods alone are not very effective in understanding processes or the importance people put on these processes (eg. interaction between buyers and sellers in a distribution channel). Inductive research methods can act as complementary approaches, because they allow for better understanding of people's *meanings*. The researcher should be aware of the lack of initial clarity about the nature of power in distribution channels. He or she should also be open to new ideas and new insights that may emerge during the research process, which could provide new and unexpected explanations of the phenomenon under investigation.



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## Notes

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- 1) Emerson (1962) defines power as "the ability of A to affect the behavior of B". Gaski (1984) defines power as "the ability to evoke a change in another's behavior". Hogarth-Scott (1993) define power operationally as the ability of one member in the distribution channel to control another member at a different level. Last, Bates and Harvey (1986) defines power as "the ability of one person to control or determine the behavior of another according to the controller's desires. One person has the power over another person if that person is able to call forth the behavior desired regardless of the others objection".
  - 2) Brookes (1995) defines systemic power as "...the power that one party has to affect the whole "system" of another.....can be either coercive or non-coercive in nature."
  - 3) Deductive research methods entail the development of a conceptual and theoretical structure prior to its testing through observation (Gill and Johnson 1991, p. 28).
  - 4) An inductive reserach method involves construction of explanations and theories about what has been observed in the empirical world (Gill and Johnson 1991, p. 33).