COMPETITION AND COOPERATION IN VERTICAL MARKETING SYSTEMS

Luis Araujo
Lancaster University
United Kingdom

Stefanos Mouzas
Lancaster University
United Kingdom

ABSTRACT

The paper presents a case study of competitive and cooperative interactions in vertical marketing systems, incorporating manufacturers of fast moving consumer goods and retailers, in Germany. We begin by reviewing the literature on competitive interaction and argue that horizontal, competitive relationships are mediated by vertical, buyer-supplier relationships. We regard firms as embedded in complex networks of direct, economic exchange relationships and competition as both the medium and outcome of actions and initiatives taken within these exchange relationships. In sum, we see competition as a process exercised not through rival moves and countermoves in an acquiescent and faceless environment, but pursued through exchange episodes when one party attempts to elicit cooperation from others in an attempt to shape the network structure in which it is embedded to its own advantage. In our case, this takes the form of competition of retailers to get manufacturers to abide by the plans they have developed or, conversely, the competition of manufacturers attempting to get retailers to cooperate in accordance with the initiatives they plan to undertake.
Our second major point is that, contrary to most of the literature on interfirm rivalry and competitive response, we do not see the competitive moves and counter-moves as univocal actions. On the contrary, rival actions and responses often have a multivocal character - i.e. they can be interpreted coherently from many different perspectives. What is intended as a competitive move or counter-move may not be interpreted as such and similarly, actions undertaken primarily for other reasons may end up being interpreted by rivals as competitive moves.

We illustrate the interplay between cooperation and competition in vertical marketing systems and the multi-vocal character of competitive actions and responses by reference to our case study of the relationships between detergent manufacturers and two key retailers in Germany. We isolate a number of areas where cooperation between manufacturers and retailers has taken the form of local, bounded initiatives over the last few years and study their impact on competitors at both levels. We finish by offering a series of conclusions and implications for the study of vertical marketing systems and multi-level cooperation and competition in these systems.

INTRODUCTION

This paper is concerned with the processes of competitive interaction in vertical marketing systems. It attempts to build on Thomas and Soldow's (1988) framework which extends an interaction approach, generally reserved for the description of buyer-supplier and channel relationships, to explain competitive relationships. Furthermore, we also attempt to explain competitive relationships as influenced by and influencing vertical, buyer-supplier relationships within vertical marketing systems. We illustrate the interplay between these different types of relationships using a case study describing the relationships between manufacturers of detergent products and large retail chains in Germany. The
structure of the paper is as follows: in the first section we will review the literature on competitive relationships and position our own approach vis a vis extant research. In the second section we will describe albeit briefly, the methodology used in this study. In the third, empirical section we will describe a series of competitive and cooperative interaction episodes between manufacturers and retailers. In the final section we will draw some conclusions and implications from our study.

COMPETITIVE RELATIONSHIPS:
A BRIEF LITERATURE REVIEW

In his general theory of Marketing Alderson (1957, pp. 52-60) discusses markets as organised behaviour systems, and argues that competition amongst individuals is probably the most basic and primitive type of interaction. However, the struggle for survival amongst organised behaviour systems of all types has transcended some of the limitations of individual competition for survival. Alderson advances three principles relating to survival and growth of organised systems, justifying why the outcome of competition may not always be what the theory of pure competition predicts. First, a system will tend to survive as long as the niche it occupies endures, because of the collective action arising out of the status expectations of its components. Secondly, a system may survive the most aggressive attacks of its competitors because it is able to exist at the core of its position - since no competitor can invade it without operating at a disadvantage - even though it may losing ground at the fringes.

Alderson criticises the traditional picture of economic competition for dealing solely with the tactical aspects of competition and ignoring the purposeful, strategic aspects. The "survival of the fittest" arguments implicit in pure competition theory is replaced by a more moderate position given that a particular firm's strategy may fail without causing its extinction. Firms are not entirely at the mercy of environmental...
forces and changes. Finally, a system may survive despite severe functional disturbances resulting from environmental changes if sufficient plasticity remains so that new functions can be developed or new methods can be adopted for performing existing functions.

The application of the organised behaviour systems framework to the study of markets has interesting implications for the status of 'competition'. Competition is defined as the constant struggle of firms to develop, maintain or increase their differential advantages over other firms and this process is regarded as the primary force for innovation in marketing (1957, p. 102). Competition is described as an inherently dynamic process, a war of movement in which each participant is continually searching for strategies aimed at improving his relative position (1957, p. 108). Opportunities proliferate for the entry and survival of new firms with the success of incumbent firms' strategies helping to determine the character of opportunities available. The process of competition is thus seen to operate at multiple levels given the twin assumptions of resource heterogeneity and enterprise uniqueness underlying the marketing process. To characterise this process Alderson refers to the network of competition, to multilevel competition, to complete competition and to multidimensional competition (1957, pp. 120-2; 1965, pp. 201-4).

Alderson (1965, p. 239) lamented that the theme of cooperation was underdeveloped in marketing theory in relation to competition. In his view, whether a society at a primitive stage adopts the competitive or cooperative mode of organisation there will be a steady convergence towards a mixed or balanced form, involving both modes (op. cit., p. 248). Alderson also drew a sharp distinction between competition and external conflict (1965, p. 254). Firms which recognise each other as competitors have achieved a working accommodation in the sense of recognising their ground rules for interaction - i.e. within the recognised group there is rivalry but not hostility.
However, competition is not just seen to be taking place within a static system of action. The competitive attempt to create a behaviour system according to one's own preferences is seen to be the keenest form of competition, the one that has the greatest impact on the development of the market structural organisation. Alderson describes it as the competition of leaders for followers. It is either the competition for suppliers to get customers to abide by the plans they have developed or conversely, the competition of buyers attempting to get suppliers to cooperate in accordance with the plans they have developed (1957, pp. 324-5).

The dynamics of market organisation rests on the competitive attempts at coordination for one's own advantage. The competitive drive at each level, to organise the market for securing a desired form of cooperation, contributes to the maintenance of competition at other levels (1957, p. 327). The drive to organise the market is thus seen to have a far greater dynamic effect than the horizontal competition taking place at each level (1965, p. 257).

Treading in the footsteps of Alderson, Stern (1971, p. 510) argues that firms can be viewed as social groups that compete but also conflict and cooperate as well. Competition is seen as parallel striving, a form of opposition which is object-centred, indirect and impersonal. By contrast, conflict is characterised by mutual interference and qualified as very direct and highly personal. It is a direct form of opposition aimed at injuring or destroying an opponent. Cooperation is defined as involving a combination of object-centred and collaborator-centred activity based on a compatibility of goals, aims and values.

Stern like Alderson, sees the interrelationships between these three alternative forms of behaviour as occurring within and between levels of distribution. Interrelationships between activities at one level and those on another, warrant a recognition that market behaviour on one level may partially determine behaviour at other levels (1971, p. 518). Furthermore, it is possible to think of a firm conducting a number of different
relationships (i.e. competitive, cooperative and conflictive relationships) at the same time, and at different levels. Competition and conflict, particularly, may be interrelated with conflict arising at critical stages of a more prolonged competitive process. Between levels it is more likely that cooperation will change to conflict than to competition. The orientation in decision making is different because of the fundamental differences between exchange and non-exchange relationships (1971, p. 525). Assuming that there is an interest between two parties for an exchange to take place, there is a basis for cooperation. However, given that the exchange will take place, each party will try to gain at the other's expense; the situation will be characterised by the simultaneous existence of conflictive and cooperative elements (1971, p. 525).

The integration of economic and behavioural streams in the study of socio-economic systems, pioneered by Alderson and Stern amongst others, has been pursued vigorously within the interaction and network approaches. The interaction approach (Håkansson, 1982; Turnbull and Valla, 1986) has analysed in fine detail dyadic, economic exchange relationships and introduced the concept of atmosphere to capture the subtle coexistence of conflict and cooperation within a business relationship.

As in Alderson's general theory of marketing, the network approach emphasis on heterogeneity implies that traditional, horizontal competition amongst suppliers is not regarded as central. Complementarity of resources and activities between firms involved in economic exchange are more central phenomena to the study of industrial networks. Mattsson (1987, p. 239) in comparing the theoretical underpinnings of the network approach to the corporate strategy and industrial organisation approaches, stresses that in the latter approaches, competitive behaviour between sellers is of major interest. In the network approach, competition is lessened by complementarities between sellers and cooperation between buyers and sellers.
Easton (1990) and Easton and Araujo (1992) make a case for including both 'vertical' and 'horizontal' relationships in network analysis. Easton (1990) argues that customers provide a primary, if indirect link between competitors. Horizontal, competitive interactions are thus mediated via vertical, cooperative relationships between buyers and suppliers. Snehota (1993, p. 39) rehearses a similar argument: "Competition within a market is not exercised unless cooperative behaviour is elicited from some other parties".

In emphasising the interdependence between vertical and horizontal relationships in marketing systems in the study of competitive interaction we depart significantly from the recent trend in the management studies literature to study interfirm rivalry as the sequence of tactical and strategic moves and countermoves (see Chen, 1996 for a comprehensive review of this literature). Furthermore, the purpose of many of these studies is to predict the range of circumstances under which a particular type of competitive move may or may not elicit countermoves by specific rivals (Smith, Grimm and Cannon, 1992; Chen, Smith and Grimm, 1992; Miller and Chen, 1994; Chen and Hambrick, 1995. Most of these studies share the same empirical setting, the US civil aviation industry.

A related stream of publications has focused on the managerial categorisation of rivals and perceptions of competition (Walton, 1986; Porac and Thomas, 1990; Reger, 1990; Reger and Huff, 1993; Easton et al, 1993; Hodgkinson and Johnson, 1994; Porac et al, 1995) as preconditions for engaging in competitive interaction. Heil and Robertson (1991) bridge the gap between the study of managerial perceptions of rivalry and competitive behaviour by proposing an elaborate framework to study competitive market signaling.

Gripsrud and Gronhaug (1985) and Gripsrud (1986) represent interesting cases of an application of perceptual and 'objective' measures to study the structure of a particular competitive environment (retail stores in Norwegian towns) and the impact of those perceptions on strategy and responses to competitive
moves, namely pricing decisions. Gripsrud and Gronhaug (1985) found strong support for the assumption that competitors watching each other and with no differential advantage in spatial location, will attempt to differentiate their strategies, whereas an imitative strategy is more likely to occur when the main perceived competitor is not spatially close. In the latter case, classification of 'competitor' is more likely to be related to size of retail establishment - and the perception is unlikely to be returned in the case of high size asymmetries between the focal store and its main competitor. In the German language literature, Irrgang (1993) provides a useful overview of theory and empirical studies regarding vertical marketing systems (manufacturer and retailers).

The purpose of this paper is thus to study competitive interaction in vertical marketing systems by taking into account how this interaction is mediated by cooperative, exchange relationships between buyers and sellers - in our case manufacturers of one category of fast moving consumer goods (fmcg's) and retail chains. We regard the environment in which the relationships between manufacturers and retailers as a structured network of relationships. The existence of strong and very intensive relationships between a highly concentrated retail sector and large fmcg manufacturers and the connectedness of these relationships provides the raison d' être for the description of this vertical marketing system as a network (Easton, 1992). Accordingly, we take the view that competition as an indirect process, exercised not through moves and countermoves in an acquiescent and faceless environment, but pursued through exchange episodes when one party attempts to elicit cooperation from the other in an attempt to shape a network - or an organised behaviour system to use Alderson's expression - according to one's own preferences. With few exceptions (see e.g. Cunningham and Culligan, 1988 and Cunningham, 1995) this perspective has largely been neglected in the study of competitive interaction.
The second important point we want to make is that, contrary to most of the literature on interfirm rivalry and competitive response, we do not see the competitive moves and countermoves as univocal actions. On the contrary, we see competitive moves and countermoves as often having a multivocal character - i.e. they can be interpreted coherently from many different perspectives. What is intended as a competitive move or counter-move may not be interpreted as such and similarly, actions undertaken primarily for other reasons may end up being interpreted by rivals as competitive moves. Furthermore, the time lags and ambiguous feedback mechanisms involved in interpreting the outcomes of a firm's actions and the general loose coupling amongst the variables pertaining to the firm's interaction with its environment raises doubts as to the possibility of identifying intended action-response competitive interaction sequences. To complicate matters, action-response sequences may involve a variety of competitive instruments (e.g. price reductions, supply chain initiatives) and occur across a wider or narrower competitive front (e.g. they may be confined to one account, or spill over to a number of common market areas).

To study these phenomena we used a tetradic model with four focal companies, two manufacturer of detergent products and two retailers and concentrated our observation on four areas of interaction that had been identified as critical for both retailers and manufacturers, in a pilot study of fmcg manufacturer-retailer relationships (see Araujo and Mouzas, 1994). The four interaction areas constitute arenas for competitive interaction where one party (a retailer or a manufacturer) attempts to enlist the support of another for an initiative that will reinforce its competitive position vis-a-vis that account. Buzzel and Ortmeyer (1995) research into the channel partnerships between retailers and manufacturers in the USA identified a number of cooperative initiatives in areas such as electronic data interchange, new product development, assortment planning and joint sales promotion that partly correspond to the interaction arenas in our case study.
The arenas of cooperation between manufacturers and retailers and rivalry between manufacturers and retailers are:

- Product management incorporating new products and retailer brands
- Structural forms including category management systems
- Supply chain management
- Environmental protection

RESEARCH METHODOLOGY

We used the case study as the research methodology to investigate the interplay between cooperative initiatives within manufacturer-retailer dyads and competitive interaction within retailer-retailer and manufacturer-manufacturer dyads. According to Yin (1994) the case study is an empirical enquiry that investigates a contemporary phenomenon within its real life context; when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used.

The key advantage of case research lies in its ability to capture complex interdependencies by handling rich sources of data and multiple forms of data collection (Easton 1995 a,b). Traditional sampling and statistical inference theory, which uses a sample to make statements about a universe, loses much of its explanatory power in the face of dependencies which are subtle and intricate. Case research, in contrast, uses analytical logic rather than statistical logic. To employ an analytical logic, case research can make use of different analysis levels within a case study. Attention is given simultaneously to different different levels of analysis and their linkages as well as to capture the influence of context and process on the different levels of analysis the researcher is attempting to tease out (Vaughan, 1992).

We selected four focal companies - two manufacturer in the market of fmcgs (in this case detergent products) and two retail
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chains. The high frequency of exchanges linked to the high stock rotation of these items, the nature of the interaction episodes, the high frequency of new product introductions, the use of a wide range of competitive marketing instruments and the mutual dependence between manufacturers and retailers were fundamental characteristics in choosing these companies for studying competitive interaction. Furthermore, as we will show later, external pressures stemming from environmental legislation also contributed to the high rate of new product development and joint initiative between manufacturers and retailers. The companies involved in our research (i.e. both manufacturers and retailers) are leading members of their industry and are highly significant partners to each other. For reasons of confidentiality the names of manufacturers, retailers and brands have been disguised.

Alpha is a producer of a wide range of fmcgs but particularly strong in the area of detergents. Its turnover for 1993 reached 5.2 billion DM. The Beta group is the largest producer of fmcgs in Germany and had a turnover of 13.9 billion DM in 1993. GAMMA is one the largest retail chains in Germany with nearly 5,200 outlets mainly concentrated in the area of hypermarkets, supermarkets and discount outlets. Its 1994 turnover reached 24.8 billion DM. DELTA is a privately owned, discount retail chain which has grown at a breathtaking pace over the last 20 years. It has over 2,700 outlets in Germany and a turnover of 28.5 billion DM in 1994.

Between September 1995 and February 1996 we contacted twenty one purchasing, marketing and key account managers, used as sources of information documentation and archival records from Nielsen and GfK panels, and reviewed a range of studies conducted by consultancy firms such as the Boston Consultancy Group and Roland Berger as well as trade publications. The use of multiple sources of information in our case study allowed us to address a broad range of issues that evoked the interest of the interviewees and helped us to
develop convergent lines of inquiry that increase the richness of the findings.

Our study involved four different albeit closely interwoven levels of analysis relating manufacturers of fmcgs and retailers. The first level concerned products, the second structures, the third processes and the fourth the environment affected by and affected by the focal unit of our study - manufacturer -retailer dyads. For these reasons our methodology can be described as an embedded case study (Yin, 1994).

An embedded case study involves multiple units of analysis and might include outcomes from individual projects forming embedded units which can be selected via sampling or cluster techniques. By contrast if the case study examined only the global nature of say a programme or an organisation, a holistic research design would have been used. The holistic design is appropriate if no logical subunits can be identified and the relevant theory underlying the case study is itself of a holistic nature. Choosing an embedded design led us away from a global approach and instead focused our attention on a range of interrelated phenomena closer to practice and operational details.

In our case the embedded units originated from a pilot study which involved 27 personal interviews with managers representing eight fmcg manufacturers and seven retail chains, which identified a range of important issues regarding the relationship of fmcg manufacturers and retail chains in Germany. The results of this pilot study are reported in Araujo and Mouzas (1994).

The case study reported in the following sections focuses on competitive moves and their relationship to the four embedded units chosen in our research design - products, structures, processes and environment. The competitive move or episode as a focus of analysis (see e.g. Pentland, 1992), has the desirable properties of being meaningful to the actors involved in the competitive interaction process, is related to an ongoing structure of relationships within which competition takes place.
and yet is under the control of actors involved. In other words, competitive moves and countermoves constitute observable performances of actors involved in a multi-period and multi-level game and provide a good focal point to examine the nature of competition as an interaction process.

PRODUCT MANAGEMENT

NEW PRODUCT DEVELOPMENT

The importance of new product development as an instrument for competitive strategy in consumer goods market has increased over the last few years. Today's sales volume of both manufacturers and retailers is coming increasingly from products that have been introduced recently. New or improved products that are accepted by consumers provide a high contribution to the success of companies.

In the highly competitive market of fmcgs manufacturers and retailers can respond by using the "product" instrument in the following ways:

- New products that address latent wishes and demands
- Line extensions that address particular markets segments and groups of consumers
- Relaunches with new packaging, new ingredients or improved product performance
- Imitations of other already existing products
- Elimination of products that did not succeed.

The starting point in the chain of competitive interaction are product ideas that are able to generate strong consumer interest and trade support. Both manufacturers and retailers received the first information signals on the introduction of new products from the press and sales representatives and read the first offtake data and distribution levels in the Nielsen report.
two months later. Scanner data are compared with panel data and ad hoc consumer research is intensified. A response will be prepared if market feedback is positive and the competitors have the necessary resources to mount a credible response. Assuming a high degree of market commonality, the higher the market share of the initiator and the higher the degree of homophily (similarity in resources and capabilities) the quicker the response tends to be - as suggested by Chen (1996).

In our tetradic model we had two manufacturers with appreciably high market share, high market commonality and a high degree of homophily. Almost every action in the area of new product development has been responded quickly with a counteraction. The two retailers are also market leaders but with a high degree of heterophily (one specialises in hypermarkets and supermarkets and the other in discount stores) and a lower degree of market commonality. Few consumers see each chain as directly substitutable for each other although some consumers will consider shopping at either, mostly for staple commodities of which detergents is an example. Not every action of the one retailer in the area of new product development is followed by a counteraction. Moreover, the time lag between actions and counteractions tends to be much higher than in the case of manufacturers.

The years 1988 and 1989 were disappointing years for Alpha in the detergent business. Proto, the flagship brand of Alpha, had seen shipments decrease and its market share slip, while Seco, Beta's major brand, was leading the market. Alpha judged this development to be traceable to the initial absence of an adequate marketing mix, especially in the areas of product development and communication strategy and to the lack of product ideas able to generate strong consumer interest and trade support. Alpha was determined to resume business growth after consecutive years of decline. The 1990s saw the introduction of Proto Ultra as a line extension behind massive investments to rebuild and rejuvenate the steadily declining user base and the vigorous defence of the motherbrand Proto, as
the core of detergent business, via significant product upgrades in 1990 and 1991. Moreover Alpha upped the support to Proto liquid and launched an unparfumed line extension. Lastly, Alpha launched refill packs for all its products as a response to increasing environmental concerns from consumers and government legislation on the subject.

GAMMA supported all Alpha's initiatives with enthusiasm and run intensive promotional programmes at the point of sale. All launches and relaunches are inextricably linked with trade and promotion allowances and make a good opportunity to increase the profitability of the detergent category. Alpha's initiatives also exercised pressure on Beta, making the business more competitive, a necessary condition for price reductions. Furthermore, price reductions helped GAMMA in its competition against DELTA who sold cheap, conventional detergents.

Beta responded with an aggressive me-too product strategy and two innovations. From 1990 to 1995 Beta introduced: a number of new products:

- Seco Supra, a compact detergent, as a response to Proto Ultra.
- Seco Supra colour as an innovation in the compact detergents category
- Refill packs were introduced for all products in the category
- Seco Mega Pearls as an innovation which claimed superior washing performance.

However, Beta did not reduce the price of Seco despite enormous competitive pressures. Prices stabilised just below the 10 DM barrier.

Meanwhile DELTA responded to the new conditions with a number of initiatives. During the period 1993/95 it increased the space available for the category detergents and offered all detergents at 60 % of the price of the leading brands of Alpha.
and Beta. Simultaneously, it started a cooperative programme with Pion, the third and weaker detergent supplier, to restage its retailer brands. The basis of DELTA's response rested on the following initiatives:

i) build up of its own retailer brand, Trito

ii) exploiting new developments in cooperation with Pion, particularly in the areas of compact, colour and refill packs.

iii) intensive advertising and permanent price reductions at the point of sale.

Encouraged by its earlier successes, Alpha introduced in 1995 a third generation of detergents aimed at generating further consumer interest and trade support.

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With the move from the product / brand management system to a category management system within Alpha - more about which later - all major brands of Alpha were extended to a Futur version. The competitiveness of this strategy lied in consumer convenience (less weight / more performance), environmental protection (less waste) and increased direct product profitability (less space, less handling costs).

RETAILER BRANDS

In cooperation with a third weaker manufacturer Pion, DELTA entered the category detergents with the retailer brand Trito. As mentioned earlier, Trito has been well accepted as a brand name by consumers and the product line matches closely the
product lines of major brands (powder, liquids, compacts etc.). The packaging, promotion and advertising of the brand had been effective and DELTA sold Trito at 60% of full price brands. The cooperation between DELTA and Pion provided the former with the necessary know-how and technology in the detergents business and secured monopolistic positions of a series of Pion cleaning and laundry products within the account.

Beta uses retailer brands as a key to develop business with key accounts. The objective behind this involvement was not to exploit spare production capacity. Beta sees its involvement in retailer brands as a necessary condition to build up goodwill, intensify ties and cooperation with retailers which in turn strengthens the position of its full price brands within the account. This attitude does not sit well with the monopolistic, retailer brand strategy of DELTA which attempts to turn manufacturers into mere production subcontractors of retailers.

GAMMA and Beta found a platform for fruitful cooperation in retailer brands. Beta has a very strong position with its full-price brands like Seco and sells a series of retailer brands in GAMMA outlets. GAMMA's objective in the retailer brand business is twofold:

1) to increase profitability in categories where trade margins are squeezed, and

2) to keep consumers away from DELTA

The first generation of retailer brands named "Attractive and Priceworthy (A&P)" had white packaging in order to be easily recognised by consumers as a retailer brand, used conventional technology, was placed next to full price brands and priced below these. The first generation of retailer brands emphasised price and neglected the build up of brand identity and image. The A & P products of GAMMA were neither competitive in relation to the full-price brands of manufacturers nor to DELTA's retailer brand.

DELTA's strategy set new standards for another quality of competitive response. The first competitive response with
A & P product was clearly disappointing. The second competitive response was an initiative taken in the Spring of 1995. GAMMA opened 200 hard discounting stories to compete head-on and across a broad line of product categories with DELTA. GAMMA's decision to invest in a new retail chain was rooted in the conclusion that only two kinds of retailers would survive: those that offer a comfortable shopping experience which will be catered for by hypermarket and buying centres, and the hard discounters like DELTA.

The third competitive response was a redefinition of its strategy in retailer brands. The new strategy that is currently being implemented contemplates two price classes: retailer brands A priced 20 % lower than full-price brands, are well supported by advertising and with an appealing design and branding. They are positioned to compete directly with manufacturers' brands. Retailer brands B priced 40 % lower than full-price brands, are well supported by promotions and aimed at competing directly with other retailer brands in the discount business.

CATEGORY MANAGEMENT

Alpha was the first manufacturer to introduced the brand management system in the 1930s. The genesis of this product oriented organisational system is attributed to the wish and commitment to support the launch of a new brand of soap and avoid an overshadow by the established brand (Zenor, 1994).

A brand manager was responsible for profit and volume of the new product and was encouraged to compete for resources within the company. The brand management system has been adopted by most fmcg manufacturers after the World War II and has prevailed for over half a century (Low and Fullerton, 1994). The system has rested on a number of important assumptions regarding the distribution of power in marketing systems and the nature of consumer markets. The inversion of power relationship between manufactures and retailers and the evolving representation of consumer demand by retailers has
led to the introduction of category management systems in purchasing (Araujo and Mouzas, 1995).

Alpha, which prides itself on its long tradition of close ties with retailers, followed with vivid interest the restructuring efforts of the trade in the early 1990s. When a number of important retailers began to think and act in categories rather than brands, Alpha reorganised its sales and advertising (marketing) department.

Moreover, Alpha appointed category managers in sales and built up interdisciplinary teams responsible for identifying and exploiting opportunities within particular categories. The explicit mission of category managers in sales and the interdisciplinary teams was to work closely with the main retailer key accounts.

Beta has also a tradition of close and cooperative relationships with the trade. The trade appreciated Beta as a solid and reliable German company with an impressive number of products and growing volumes in many categories. When the trade started its first pilot projects in category management and Alpha introduced its own category management system in 1993,
Beta responded with two initiatives. First, it established what they labelled win-win teams responsible for cooperation with the trade. Secondly, it established category management as a staff function - more like a trade service unit - within the sales department. Instead of searching for sophisticated systems and major restructuring, Beta preferred simple, pragmatic initiatives that would produce clear and visible results in small scale projects with the trade in the areas of space and stock management, out-of-stock elimination, direct product profitability and category and market analysis.

GAMMA was convinced that product innovations contribute to more volume and profit and it welcomed a series of line extensions and new brands. In particular, the new generation of compact detergents that performed better in washing looked a very promising business. A huge number of products and variations pushed their way to the shelves. Outlets became overcrowded and as manufacturers invested heavily in advertising for both conventional and new, compact brands GAMMA was forced to carry them all.

GAMMA came to regard category management as a panacea for the chaotic situation on the shelves. The necessary software and the results from the first experience from the US market was available and the need for efficiency and transparency in the management of products and categories was more than ever evident. Instead of following the US route of immediately using category management as an optimised space management programme (see Zenor, 1994), GAMMA conducted time-consuming feasibility studies that led to the introduction of category management as a parallel organisational structure. Category management teams were recruited from purchasing, sales and marketing and were asked to run product categories as strategic business units (see Buzzell and Ortmeyer, 1995). If the category management system proves to be successful, traditional organisational structures may give way to new ones founded on the centrality of category management. Meanwhile, DELTA took no initiatives in the area of category management.
SUPPLY CHAIN MANAGEMENT

Cooperation between manufacturers and retailers in the area of supply chain management were sporadic in the 1980s and early 1990s. Between 1990 and 1995 they became frequent, increased in importance and injected a new atmosphere in the manufacturer-retailer relationships. Business jargon was enriched with terminologies such as direct product profitability, efficient consumer response, continuous replenishment programmes, cross docking, electronic data interchange, standing for some of the many joint initiatives between manufacturers and retailers.

Recent developments in this area are traceable to the following structural rearrangements:

1. The stagnation in consumer demand setting limits for volume and profit growth.

2. The rapid growth of discount channels and category specialists, the so called category killers (i.e. a new channel that specialises exclusively on a particular product category).

3. The increasing complexity of transactions involving numerous products, services, price variations, delivery schedules, etc.

4. The introduction of new information and telecommunications technology.

These structural rearrangements formed the spur for the search of productivity gains beyond the boundaries of manufacturers and retailers. The interface between manufacturers and retailers became an arena for both collaboration and conflict. The objective was to maximise productivity and improve flows in the distribution channel from the production line of manufacturers to the shelves of retail outlets. This required a high degree of scrutiny of all stages leading from the factory floor to retailers' shelves with special emphasis on delivery and stock replenishment, price management and promotions, trade
conditions and allowances, as well as communication and information systems.

The market in which GAMMA operates is a complex network continuously relating manufacturers, banks, insurance companies, authorities, wholesalers and retailers. GAMMA received from every major supplier such as Alpha or Beta 35,000 to 50,000 invoices per year. On average there were 18 different entries in every invoice and each supplier had 300 to 500 articles listed.

GAMMA identified a need for more efficiency, service, convenience and standardisation of this information flow. Moreover, the recession in the years 1992/93 and the resulting stagnation of consumer demand, exercised strong pressures for cost savings to meet profitability targets.

In 1993/94 Alpha and GAMMA worked together in a supply chain management project with the objective of increasing efficiency in the supply chain. Before the start of this cooperative project information regarding products and prices was transmitted by fax or letter to GAMMA's profit centres and managed in a central brand data bank. Based on this information, order forms were sent to outlets. Alpha sales representatives went to the outlets and checked stocks on shelves and warehouses. The outlets were then supplied directly from Alpha's production lines.

By taking into account the sales proposal, the outlet manager ordered the necessary quantities of products. The order was confirmed by official letter sent by GAMMA to Alpha. With the delivery of products, documents were produced and mailed to GAMMA. Based on the delivery documents an invoice was produced and mailed to GAMMA. GAMMA then reviewed the invoices by comparing them with delivery papers. The cooperative project between Alpha and GAMMA changed all this. Information regarding products and prices was exchanged electronically between the two organisations and transport, delivery information and invoices were sent via EDI. The success of this pilot project was the product of direct and close
contact between a number of functional areas on both sides, such as systems, logistics, finance or sales and the willingness of both parties to make mutual adaptations.

Beta followed a similar path to Alpha. Its objective in supply chain management was to develop a continuous, no-errors, no-paper information and product flow. According to Beta this objective will be achieved by concrete investments in EDI and cooperative projects with all its major trade partners. The factors that accounted for the speeding up of cooperative projects with trade partners in the area of supply chain management are the increasing volume and number of products, the increasing complexity and administrative costs of handling product diversity and the pressure exercised by leading key accounts and competitors such as Alpha. The experience in other countries, particularly the USA, and the availability of appropriate technology have also focused Beta's minds on supply chain management initiatives. Meanwhile DELTA did not make any moves in the area of supply chain management.

After the first pilot projects and the necessary investments in technology, know-how and people, in November 1995 Alpha took a major initiative to set new standards in supply chain management for all its key accounts. Alpha reconstructed the trade allowances systems to promote the idea of an efficient supply chain management. Trade allowances were categorised into four areas. One area is linked with logistics and provides volume related rebates. The other two areas were labelled ECR 1 and ECR 2 (ECR stands for efficient consumer response). ECR 1 provides 1% rebate for orders and invoices transmitted by EDI and the acceptance of whole pallets. ECR 2 provides another 1% rebate for electronic payment, continuous stock replenishment and integrated data interchange. Moreover, there is an additional 2% rebate for payments within 14 days. Alpha timed the announcement the new trade allowances system to coincide with announced price reductions of about 5% for all major Alpha brands.
The new trade allowances system of Alpha has simplified the more the twenty four different forms of rebates to retailers. In addition it contributed to promote a degree of transparency and efficiency in the whole value chain with a number of significant implications for the relationship between manufacturers and retailers. In the old system of rebates, it was very difficult to calculate net-net prices - i.e. the real price that key accounts pay. From the 600,000 invoices that Alpha produced per annum 200,000 needed reworking or rechecking. Every iteration usually cost 0.7 DM or a total of 14 million DM annually. Incremental costs of reworking and rechecking invoices also burdened key accounts. A large retailer can deploy over 100 employees to process and check invoices.

Various forms of rebates that have accumulated historically build up a chaotic situation. Key accounts are not able to calculate the operational profits of their business. They calculate the so-called "back margins" implying that profits are partly financed by rebates. A correct calculation of cash-flow coming from operational business is thus impossible to perform. With the new system proposed by Alpha all trade allowances are incorporated in the list price, allowing an easy calculation of net-net prices.

The new system proposed by Alpha promotes efficiencies in the area if supply chain management and puts a stop to the customary practice of temporary price reductions. Shelf price variaitons of over 50 % (a frequent phenomenon in the detergents category) induced by special rebates offered by manufacturers to retailers have eroded brand and store loyalty. A significant implication of the increased efficiencies in the value chain and the end of temporary price reductions is the reduction of the price gap between retailer and manufacturer brands - an implicit objective of Alpha's proposal

Alpha's initiative led initially to a strong protest and retaliation by the trade. Some key accounts with a large number of small associated supermarkets argued that Alpha model of supply chain management is only suited to the needs of Alpha and
hypermarket chains (the first users) and demanded dialogue and cooperation rather than imposed solutions. Some key accounts delisted Alpha's products and forced their way to the negotiation table. Recently Beta announced the introduction of a new trade allowance system similar to Alpha. The introduction of this new system is scheduled for the yearly negotiations for 1997 starting in September / October 1996. Learning from Alpha's troubles with smaller retailers, Beta's system will contemplate the special needs of this group.

ENVIRONMENTAL PROTECTION

The contribution for environmental protection is highly rated in German society today. Environmental issues are widely discussed, and environmental protection measures are the subject of intense negotiations amongst political parties, local authorities, environmental organisations, manufacturers and the retail trade. A series of consumer research studies confirmed that consumers increasingly expect concrete initiatives and solutions for environmental problems from both manufacturers and retailers. GfK's market research revealed that environmentally conscious consumers buy more frequently from retailers that assume environmental responsibility and are willing to pay a higher price for environmentally-friendly products.

There is no doubt that this change in consumers' attitudes is exercising an important influence on retailers and manufacturers of fmcgs. However, the response of retailers and manufacturers has been varied. The majority of retailers articulate demands and requirements towards environmental protection, taking advantage of the environmental orientation of a few manufacturers but are only willing to take sporadic and tentative initiatives in this area. The above observation is supported by a broad scale ad-hoc study conducted by the Association of Retailers (Munich) in 1993.
Retailers were found to be especially active in the areas where the legislation dictates responsibility - e.g. packaging waste - or where there is a clear saving potential (e.g. energy). When it comes to long term investments such as in the area of positioning / communication to consumers, infrastructure or personnel, retailers appear to be more reluctant to take initiatives. While a few manufacturers demonstrated concrete initiatives with an overt environmental orientation, the behaviour of the majority has been characterised by inertia or defensive responses.

Environmental legislation in Germany, reflecting or preceding a change in consumers' attitudes and demand, has been the catalyst that has speeded up the emergence of an environmental orientation of retailers and manufacturers. Under the Waste Packaging Regulations, both manufacturers and retailers are equally responsible for protecting the environment. According to this new framework, the trade has had a major responsibility for the increasing quantities of packaging. The legislation dictates that the trade should thus be involved in the waste disposal of households.

From the 1st December 1991, the trade has had to accept all returned shipping cases and from the 1st April 1992, consumers have been able to abandon all packaging at the point of sale. From the 1st January 1993, consumers have been able to return all used packaging materials to the trade.

The responsibility for disposing of packaging materials has meant an increase in handling costs for retailers. The trade, as an intermediary between consumers and manufacturers, has tried to pass on these extra costs to manufacturers. Manufacturers responded to the new situation with the establishment of an organisation - Duales System Deutschland - that grants licence to put the so called Grüner Punkt (green dot) on packaging so that consumers know they can dispose of the packaging in DSD bins.

The new legislative framework affected the perception of traditional roles and allocation of functions between trade and
manufacturers. Beside the traditional production/marketing function of manufacturers and purchasing/distribution function of the trade a new one emerged, retrodistribution (Irrgang 1993). Retrodistribution implies the return of old products, packaging or waste to manufacturers or retailers. The consequences and implications of this new development are palpable at the levels of waste avoidance, reduction and utilisation.

Our research compiled evidence of new initiatives at all three levels. Concrete measures came out of the logistic area (transport and stock replenishment) new packaging forms and refill packs, in recycling and personnel training. Irrgang (1993) and Meffert and Kirchgeorg (1992) developed a matrix to categorise and analyse feasible competitive responses towards environmental protection. A defensive environmental strategy implies a passive attitude, ignorance and resistance to contemporary trends and regulations. This frequently encountered strategy is mostly found in companies that are overwhelmingly cost driven. A selective environmental strategy is a partial response with concrete activities in few selected areas, where an offensive environmental strategy is incorporated in the company's business philosophy and guidelines. The horizontal dimensions of the competitive response matrix translates the degree of vertical co-operation and integration e.g. consumers-trade-manufacturers.

However, the implementation of the above discussed strategies faces constraints in three areas (Berekoven, 1990; Kühn, 1991; Meffert and Kirchgeorg 1992):

- Information deficit in environmental issues

Environmental thinking and acting is still shrouded in mystery, while the equivocality of the impact of concrete activities and eco-products on turnover, cost and profit is high. The information deficit and insecurity among decision makers in trade and manufacturing hinders green investments.
Deficit in the credibility of the trade and manufactures from a consumers' perspective

One of the most frequently encountered phenomena are empty claims by manufacturers and retailers such as "environmental friendliness" - a rather vague term -, "recyclable packaging" - even when no recycling infrastructure exists - and ozone friendliness - even when CFC's or other ozone-depleting chemicals have never been used. Single eco-products or selective eco-opportunism have proved insufficient to build up a credible image with consumers (Taylor, 1994)

Uncertainty among consumers

Consumer research indicates increasing uncertainty in what concerns the appraisal of the environmental quality of products. This uncertainly often leads to the rejection of substantial initiatives and environmental innovations. This constraint has not been taken into account in the product / communication and service strategy of manufacturers and retailers.

Consumer research shows that environmentally conscious consumers buy detergents more frequently from GAMMA (21 %) than from DELTA (11 %). Also, a significant proportion of environmentally conscious consumers buy their detergents from specialty shops (17 %). GAMMA's environmental concerns date back to 1984. At that time GAMMA seized the initiative and exercised enormous pressure on all detergent manufacturers to produce phosphate-free detergents. With the publishing of a letter addressed to consumers and the official delistings of all phosphate detergents, GAMMA escalated its pressure on manufacturers, speeded up the process of switching to phosphate-free detergents and built an environmentally-friendly profile with consumers.

In 1989 / 90 GAMMA invited all manufacturers to help in reducing the increased waste of packaging. The responses of Alpha and a smaller detergent manufacturer were almost immediate. The environmental dimension was then incorporated in all their product and packaging development
plans. Alpha rearranged the category detergents by moving to phosphate-free products, refill packs and compact detergents. DELTA and Beta responded to the initiatives of GAMMA and Alpha first defensively, with a strong emphasis on cost reductions, and later in 1991/92 selectively with me-too strategies in new product development.

CONCLUSIONS

The major distinctive feature of the approach taken to competition taken in this paper is that 'competition' is not regarded as a structural property of a particular system (i.e. an industry) but a series of one-to-one relationships between firms. The recognition of the interdependence between horizontal, competitive relationships and vertical, buyer-supplier relationships is a powerful reason for studying competitive relationships as the outcome of interaction moves and reinforces the argument for moving beyond a dyadic to a network level of analysis.

Our empirical data concentrates on episodes of competitive and cooperative interaction at two different levels: an horizontal level, focusing on competitive interaction between manufacturers and retailers and a vertical level, focusing on cooperative interaction between manufacturers and retailers. The two levels are intimately connected as competition involving both manufacturers and retailers is played out through attempts to mobilise resources and enlist the support of other parties to cooperate in specific initiatives designed to enhance the focal firm's position. For example, Alpha's pilot initiative in supply chain management co-opted GAMMA as a lead user and paved the way for the subsequent attempt to introduce Alpha's EDI solution into other relationships. In other words, competition as an indirect form of interfirm relationships is both the product and the medium of direct, largely cooperative, economic exchange relationships.
The second conclusion stemming from our data analysis relates to the interpretation and asymmetric nature of competitive moves as well as the multi-vocal nature of competitive moves. GAMMA perceives DELTA as posing a major threat to its operations and has taken a number of initiatives to counter this, namely in the area of retailer brands in detergents. DELTA has attempted to counter GAMMA in this category by enlisting the support of Pion to emulate the product development strategy of both Alpha and Beta, the main suppliers of GAMMA. The competition between Alpha, Beta and Pion is thus largely played through their relationships with both DELTA and GAMMA. Pion as the weaker manufacturer has allied itself to DELTA and relies exclusively on its own retailer brand, Trito. Alpha and Beta fight their battles in the shelves of other retail chains, namely GAMMA. In the mean time, GAMMA has enlisted the support of Beta to supply it with its own retailer brand, aimed directly at Trito. The difficulties GAMMA faces in its battle against DELTA across a broad product category front eventually forced GAMMA to open a specialised discount retail chain and reconsider its position in the area of retailer brands. But whereas GAMMA seems keen to engage in moves to keep consumers away from DELTA, there is no sign that DELTA is equally committed in this competitive battle, as attested by its passive attitude towards many of GAMMA's moves.

The third point worth emphasising relates to changes that are exogenous to the tetrad we studied but filter through and are seized upon or actively resisted by retailers and manufacturers. For example, GAMMA has played an active role in attempting to capture the environmentally conscious consumer by moving quickly to delist all phosphate based detergents, by exercising pressure on manufacturers to help reduce the amount of packaging on detergents and move to compact versions. These initiatives have been quickly capitalised upon as the information is passed on to consumers and GAMMA strives to build an image as the retail chain for the environmentally conscious shopper. Similarly, all retailers have reacted to new regulations regarding the disposal of packaging at the point of
sale with its associated problems of extra handling costs, by attempting to involve manufacturers in what is now called the retrodistribution channel.

In sum, a firm's competitive strength in the scenario we have described depends on the extent that it is able to associate, align and move in the same direction other actors in the same vertical marketing system. Competition, seen as interactional process consisting of moves aimed at advancing a focal firm's position to the detriment of others, can only be meaningfully studied in the context of the network of relationships each competitor is involved in. Competitive strength thus resides in the ability to enlist allies in an effort to shape and coordinate the vertical marketing system and its associated network of relationships, for one's own advantage or to use Mattsson's (1987) expression, to improve one's position in the network. The competitive game is played not through moves and countermoves in a faceless and acquiescent environment but in situated episodes of interaction with trading partners who may cooperate with or resist the other party's intentions. Our short case study of tetratic competitive and cooperative interaction contains a number of examples of both successful and unsuccessful initiatives in specific retailer-manufacturer relationships, aimed at shaping the vertical marketing system for one party's own advantage.

The implications of our study for the study of competition in manufacturing channels are fairly obvious. Instead of regarding competition as an intrinsic property of structures or as the outcome of games, in which firms continuously make moves directed at trading partners and observe their effect on rivals, we regard competition as a process and an effect of moves designed to elicit cooperation from trading partners in an effort to restructure the network of relationships in which a firm is embedded. To paraphrase Johanson and Mattson's (1992, p. 214) definition of strategic action, competitive moves from a network perspective aims at influencing actors, relationships and the network structures in which the focal firm finds itself.
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