The Evolution Of The Distribution Channel Structure And Preferred Interaction Strategies In The European Fast Moving Consumer Goods Business

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Abstract:

In this paper, we analyze the major structural changes in the European fast moving consumer goods business during the last two decades. We primarily focus on changes in what we call the ‘distribution channel logic’. Our main interest is to understand 1) how the structural changes have influenced the balance of power between retailers and manufacturers acting in the market, and 2) how this balance or imbalance has affected manufacturers’ marketing strategies and retailers’ purchasing strategies on a general level.

Key words: fast moving consumer goods business, distribution channel logic, market power, relationship

Introduction

Background and Purpose of the Study

The emergence of the European Union as a single market has had a major influence on the logic of doing business in the member countries. A single market in Europe, replacing numerous national markets and the emergence of new ‘Euroregions’, combined with an ease of doing business across Europe, has lead to significant changes in market behavior, competition and the entry of potential new players. (Halliburton Hunerberg – Töpfer 1993) Firm size and market power have become critical factors in formulating corporate marketing and purchasing strategies as far as distribution channel solutions are concerned.

Contemporarily, most European consumer goods manufacturers are trying to evaluate the challenges posed by the emergence of an immense market of over 340 million consumers. This is especially the case in the European fast moving consumer goods business. Significant concentration is currently taking place in the European retail sector in most countries, giving retailers more power to make independent product mix decisions. (Appelbaum – Halliburton 1993) Consequently, instead of viewing retailers primarily as their mass-market distribution arms, most European manufacturers are now

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vitaly interested in helping their retailers to develop more efficient marketing and merchandising strategies to 'push' products directly to the customer's door (Corstjens 1995). As Howe (1998, 212) argued, "an indication of the extent to which a typical manufacturer-retailer relationship has changed is the way in which major fast moving consumer goods manufacturers now devote considerable managerial energy and financial resources to winning the battle not only for the mindscape of consumers but also the shelfspace of most important retailers".

In this paper, we analyze the major structural changes in the European fast moving consumer goods business during the last two decades. We primarily focus on changes in what we call the 'distribution channel logic'. Our main interest is to understand 1) how the structural changes have influenced the balance of power between retailers and manufacturers acting in the market, and 2) how this balance or imbalance has affected manufacturers' marketing strategies and retailers' purchasing strategies on a general level.

This paper is structured as follows. Firstly, we take a brief but critical look at previous literature on market power in the context of distribution channels. In doing this, the formation of market power is studied largely through Campbell's (1985) widely referenced buyer-seller interaction model. Through Campbell's framework, it is possible to characterize the dominating interaction strategies within typical retail relationships in the European fast moving consumer goods business in order to understand the prevailing distribution channel logic. Secondly, we present relevant empirical data gathered from various statistical and other sources, such as concentration ratios, market shares, and the percentages of goods sourced through centralized distribution channels (see Obgonna et al. 1998, 77), to highlight the current market situation in the largest European retail markets. Thirdly, on the basis of this information and Campbell's model, we provide an analysis of the distribution channel logic in the European fast moving consumer goods business.

Our analysis is divided into three phases. The past is described as the period of time from the early 1970s until the end of 1980s, when most European retail markets were highly fragmented, and companies were still facing several barriers to trade even within the European Community. The 1990s represent present in our analysis, a period during which the retail sector in Europe has undergone significant changes due to the emergence of a single European market. The removal of the major trade barriers has led to ever fiercer competition and forced companies to rethink their strategic formulations, especially in the area of distribution. In order to speculate on the future of European retailing, we discuss two alternative trajectories, which can be interpreted as the primary

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2 Campbell's (1985) interaction approach to organizational buying behaviour results from an intensive two-year research designed to complement previous work carried out by the IMP (International Industrial Marketing and Purchasing) group. Campbell's study focused on 167 trading relationships in the packing industry in Europe. Thus, it can be argued that Campbell's interaction model is especially relevant for this study.

3 This information was gathered from the following sources: ACNielsen, Euromonitor, annual reports of key retailing companies and previous academic studies on the field of fast moving consumer goods business.

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The Concept of Market Power

The concept of market power is certainly one of the most researched topics in distribution channels research. It became popular at the end of the 1950s when French and Raven introduced the idea of ‘Bases of Power’, including such concepts as power as reward, coercion, legitimation, reference and expertise. Since then, market power has been one of the core areas of interest in channels research (see e.g. Frazier and Summers 1984, 44; El-Ansary and Reve 1972; Stern and Reve 1980). Despite the well-known critique towards the concept (e.g. Gattorna 1978, 497), the study of market power still remains a key issue in current channels research (Andersson et al. 1996, 702; cf. e.g. Järvinen 1998, 72).

Market power is usually conceptualized as the ability of one party to make another do what it would not have otherwise done (Obgonna – Wilkinson 1998, 78). Market power is also a relational concept, determined in exchange between social actors (Emerson 1962, 1972). The concept of power will always be relevant in the study of distribution channels due to mutual dependencies which exist among channel members, even though that power may sometimes be very low (El-Ansary - Stern 1972). According to Obgonna and Wilkinson (1998, 78), dependence is a key source of market power, whether it is explicitly and overtly exercised or not. Dwyer, Schurr and Oh (1987, 17) put the same issue simply as follows: "...party A's power over B is determined by B's dependence on A for valued resources. B's dependence on A is high when there are limited alternative sources of those valued resources." (cf. Emerson 1962; Thibault – Kelley 1959)

The dynamics of power and dependency in distribution channel relationships are also thought to be associated with various socio-political processes. Socio-political processes primarily refer to the dominant sentiments and behaviors that characterize the interactions between channel members (Stern - Reve 1980). As Obgonna and Wilkinson (1998, 79) argue, it is important to recognize that retailer-manufacturer relations do not exist in a vacuum, but in a wider social and political context which also to a great extent regulates those relations. In the language of dependency theory, the market power of an organization is not necessarily only a function of the prevailing economic structure of a market. “Organizations may also be dependent on political approval or at least acceptance of their activities for their continued legitimacy and ultimately their existence” (Obgonna – Wilkinson 1998, 79).

In this study, the concept of market power is characterized through the following five factors related to the structure of a market under scrutiny: the number of competitors, the intensity of competition, concentration, the relative size of interacting organizations in the political-economy framework, socio-political factors are referred to as the internal politics of distribution channels (Stern - Reve 1980).

and the general political-economy approval (Campbell 1985). The number of competitors, the intensity of competition, concentration and relative size are seen as the primary task environment of e.g. a focal channel dyad (Achrol – Reve – Stern 1983, 57). The general political-economy approval refers to the macro environment. As Achrol, Reve and Stern (1983) put it, the macro environment comprises of the general social, political, economic and technological forces, which impinge on the activities in primary task environment of a company. "The strategic options available to channel actors are heavily constrained by the nature and proximity of these factors" (Achrol – Reve – Stern 1983, 57).

**Classification of Buyer-Seller Relationships**

In accordance with how much market power buyers and sellers are able to exert on one another in a certain market context, they choose the most suitable logic of market behavior i.e. a *marketing* and a *purchasing strategy*. They can, in turn, be divided in accordance with Campbell’s (1985) framework into competitive, cooperative and command modes of behavior. If an organization can be seen as relatively independent from other key actors in a market, and it has a free choice to select the most suitable partner from many alternatives, it can be argued that most suitable strategy for the company is the *competitive* mode of behavior. Furthermore, if a party also possesses some form of market dominance (e.g. due to the lack of competitors or its relative size), the most suitable strategy can be identified in the *command* alternative. Through the command strategy, one party is able to dominate other channel members. If a collaborative relationship exists between channel members or one party is highly dependent on another party, the *cooperative* strategy can be selected. (Campbell 1985) On the basis of which behavioral logic prevails in a certain market environment (e.g. in a certain retail context), it is possible to identify six different ‘ideal typical’ buyer-seller relationship types (Figure 1). According to Campbell (1985), these are the perfect market, the seller’s market, the captive market, the buyer’s market, the subcontract market and the domesticated market.

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5 It has also been argued that individual characteristics and social interaction also affect the formation of market power. In this study, however, the formation of market power is studied largely at the macro level. Thus, individual characteristics related e.g. to a specific buyer-seller relationship are not addressed.

6 Campbell (1985) emphasizes that the independent, interdependent, and dependent types of relationships result from the interplay of competitive, cooperative and command interaction strategies.


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## Marketing Strategies

<table>
<thead>
<tr>
<th>Purchasing Strategies</th>
<th>Competitive</th>
<th>Cooperative</th>
<th>Command</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive</td>
<td>Independent</td>
<td>Mismatch</td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td>Perfect market</td>
<td>Interdependent</td>
<td>Seller's market</td>
</tr>
<tr>
<td>Cooperative</td>
<td>Mismatch</td>
<td>Domesticated market</td>
<td>Dependent</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Captive market</td>
<td></td>
</tr>
<tr>
<td>Command</td>
<td>Independent</td>
<td>Mismatch</td>
<td>Dependent</td>
</tr>
<tr>
<td></td>
<td>Buyer's market</td>
<td>Subcontract market</td>
<td></td>
</tr>
</tbody>
</table>

### Figure 1. A Classification of Buyer-Seller Relationships (Campbell 1985).

The perfect market is a situation in which the seller and the buyer use competitive strategies and mutual independence exists. In the perfect market situation, both parties have a choice to stay or to leave, neither can control the relationship and there is no commitment to long-lasting relationships. The seller's market and the buyer's market are the situations in which either party can use the command strategy, and is largely able to control another party's behavior and activities in a channel. The captive market and the subcontract market are the situations in which one party is cooperatively oriented but the other party still enjoys significant power over the other organization and can choose between the cooperative or command strategy. Domesticated markets are characterized by cooperation and coordination among parties rather than dominance, power and control. A ‘domesticated market’ situation requires mutual cooperative strategies in a channel context. (see also Alajoutsijärvi 1996, 41-44)

### Manufacturer-Retailer Relationships In European Distribution Channels For Fast Moving Consumer Goods – Past, Present And Future Characteristics

**The Past Situation – Retailers as Regional Manufacturers’ Arm’s Length**

Distribution in the European fast moving consumer goods business has traditionally been nationally, or even locally, focused (Halliburton, Hunerberg, Töpler 1993).

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7 The concept of ‘domesticated markets’ as a system governing interorganizational exchange in its various forms was originally coined by Johan Arndt in a JM article (1979). Domesticated markets are structured as a result of voluntary, long-term, binding commitments among the organizations involved. In such arrangements, exchange is planned and administered instead of being conducted on an ad hoc or ‘atomistic market’ basis.

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Market power was exerted in terms of product design, mass production techniques, consumer marketing, choice of distribution channel alternatives and trade terms laid on regional manufacturers (Howe 1998, 212). Manufacturers were generally much larger than retailers and there was a greater market concentration among them than among major retailing organizations. Manufacturers were able to control distribution and to push goods through relatively small but independent retailers (Obgonna – Wilkinson 1998, 80).

Furthermore, before the formation of a single European market, each European country had specific national laws, regulations, norms and differing tax structures, to a great extent covering regional manufacturers’ back from international competition. This led to a situation in which the number of competitors and the intensity of competition among manufacturers was regionally insignificant (Appelbaum – Halliburton 1993, 231). For example in 1985, the Cecchini Report identified about 200 market obstacles in ten selected food product groups (e.g. biscuits, chocolate, ice cream and beer). The report concluded that there were various restrictions to the use of ingredients in individual member countries, requirements related to composition as a precondition for using a product designation, regulations regarding labeling and packaging, differences in the taxes levied on specific products, and special requirements for imported products. (Maucher – Brabeck – Lethmate 1993) Thus, it can be argued that the macro environment (the general political-economy approval) largely favored regional or even local manufacturers.

In the past, retailers’ own brands were largely undeveloped, or even had a bad reputation for low price and low quality (Ford et al. 1998). As Grant (1987) argued, manufacturers were the source of almost all product innovations and new product development. They were able to control retail sale prices and physical distribution, took the responsibility for almost all advertising and powerfully influenced retailers’ inventories and displays (see also Obgonna – Wilkinson 1998, 80). Thus, retailers’ own brand shares in food retailing in 1990 only accounted for a minor share of total retail sales (Table 1).

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>17%</td>
</tr>
<tr>
<td>France</td>
<td>13%</td>
</tr>
<tr>
<td>Germany</td>
<td>18%</td>
</tr>
<tr>
<td>Italy</td>
<td>18%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>27%</td>
</tr>
<tr>
<td>Spain</td>
<td>7%</td>
</tr>
<tr>
<td>UK</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: European Marketing Data and Statistics 1997

Table 1. Retailers’ own brand shares in food retailing in 1990

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8 Even though the concentration of food manufacturers has often been argued to be lesser than concentration in many other European industrial fields, the four largest manufacturers supplied over 10% of the products offered in the European food market in 1986 (Maucher – Brabeck – Lethmate 1993). Obgonna – Wilkinson (1998, 79) argue that within some specific grocery manufacturing sectors the degree of concentration has typically been very high. For instance, the concentration of manufacturers in UK has traditionally been between 25% and 54% of a specific grocery products.

9 For example, retail trade by independent retailers in 1990 was in France 48% and in Sweden 39% of total retail sales (European Marketing Data and Statistics 1991).


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This evident market power over the channel of distribution made manufacturers see wholesale and retail organizations as the means to achieve the necessary coverage of markets to maximize the manufacturer's own return on its brand and advertising investment (Ford et al 1998). Retailers were highly dependent on manufacturers and allowed them to give significant advice e.g. on the 'optimal' management of shelfspace in retail locations (Corstjens – Corstjens 1995).

In Table 2, we summarize how we have interpreted the central characteristics of the 'ideal typical' manufacturer-retailer relationship in the European fast moving consumer goods business in 'the past'.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Manufacturers</th>
<th>Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration</td>
<td>Regionally high</td>
<td>Regionally low to medium</td>
</tr>
<tr>
<td>Number of competitors</td>
<td>Few manufacturers playing in the regional markets (cf. oligopoly)</td>
<td>Large amount of small retailers</td>
</tr>
<tr>
<td>Intensity of competition</td>
<td>Stable (see above)</td>
<td>Competition between individual retailers is high</td>
</tr>
<tr>
<td>Relative size</td>
<td>Large due to regional &quot;oligopoly&quot;</td>
<td>Small (undeveloped retail chains)</td>
</tr>
<tr>
<td>General political-economy approval</td>
<td>External competition among manufacturers was highly restricted by national laws and norms</td>
<td></td>
</tr>
<tr>
<td>Rate of technical change</td>
<td>No major technical advantages. Manufacturers were the source of almost all innovations and production techniques</td>
<td></td>
</tr>
<tr>
<td>Preferred interaction strategy</td>
<td>Command</td>
<td>Cooperative/Competitive</td>
</tr>
<tr>
<td>Dependency</td>
<td>Retailers' dependency on regional manufacturers</td>
<td></td>
</tr>
<tr>
<td>Classified relationship</td>
<td>Manufacturers' market/Captive market</td>
<td></td>
</tr>
</tbody>
</table>

**Table 2. The Typical Manufacturer-Retailer Relationship in the Past**

The dominating marketing strategy used especially by larger manufacturers can thus be characterized as a rather pure command strategy. Before a single European market, the number of competitors and the intensity of competition among manufacturers was rather insignificant, while small and independent retailers had to compete for the attention of leading manufacturers. Because of their market power, manufacturers were not generally interested in establishing deeper, long-term oriented relationships to their distributors. Instead, they focused on overcoming opportunistic behavior within the channel context itself, which was supposed to lead to information imbalances and high transaction costs (Mäkinen – Polvinen 1995).

In the beginning of the 1980s, first signs of increasing market power of retailers could be detected. In the UK, the Monopolies and Mergers Commission (1981) investigated manufacturers’ discounts to large retailers. Major findings of the report indicated that some manufacturers gave their key retailers considerable discounts, which were not directly related to any real cost savings (Howe 1998, 213).

**The Present Situation - The ‘Revolution’ of European Retailers**

During the last 10 years, international sourcing – enhanced by the formation of multinational retail buying groups - has become common in a large number of product areas. Also national retailers’ own increased market research and the resulting...
'closeness' to end consumers has provided retail organizations with considerable market information on the basis of which to control e.g. such non-product-related variables in the marketing-mix as in-store merchandising and shelfspace management. These developments have all further increased the market power of retailers over manufacturers. (Howe 1998, 214)

As Pache recently put it (1998, 85), "it is now frequently stated that European food retailers have progressively taken leadership in the marketing channel", the phenomenon being almost total in some countries (e.g. in the UK, Finland and France). In order to improve availability and to gain greater control over the supply chain, retailers began to centralize their distribution through the construction of large warehouses or logistic hubs (cf. Fernie 1997). Table 3 shows how trade in goods from factories to sales outlet networks is distributed contemporarily in three leading European countries (Paché 1998). The increased retailer dominance is evident from the Table.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>J. Sainsbury</td>
<td>80%</td>
<td>95%</td>
<td>&gt;95%</td>
</tr>
<tr>
<td>Tesco</td>
<td>40-60%</td>
<td>95%</td>
<td>&gt;95%</td>
</tr>
<tr>
<td>Safeway</td>
<td>80%</td>
<td>95%</td>
<td>&gt;95%</td>
</tr>
<tr>
<td>France:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leclerc</td>
<td>25%</td>
<td>30%</td>
<td>35%</td>
</tr>
<tr>
<td>Intermarché</td>
<td>80%</td>
<td>85%</td>
<td>90%</td>
</tr>
<tr>
<td>Carrefour</td>
<td>10-20%</td>
<td>70%</td>
<td>&gt;95%</td>
</tr>
<tr>
<td>Germany:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aldi</td>
<td>90-95%</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>Rewe</td>
<td>75%</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td>Edeka</td>
<td>75%</td>
<td>85%</td>
<td>85%</td>
</tr>
</tbody>
</table>

Table 3. Increase of regional distribution centers. Source: Paché (1998, 86)

The emerging retailer dominance in the logistical chain was accompanied by the implementation of regional distribution centers, the purpose of which was to rationalize transportation, handling and warehousing operations (Paché 1998, 86). Finnish independent retail magazine Vähittäiskauppa investigated the development in Finland during the last ten years in the area of fast moving consumer goods, and concluded that the major changes during these years certainly were the centralization of retail organizations and the formation of regional distribution centers (Ketju on... 1998, 62).

During the same period of time, key retailers in Europe have also established many cross-border alliances, giving them even more market power over manufacturers (see Table 4). A good example is the European Retail Alliance formed by Ahold (Netherlands), Casino (France) and Argyll (the UK). The same three partners have also created a venture called Associated Marketing Services with actors from other European countries. (Halliburton – Hunerberg – Töpfer 1993)

<table>
<thead>
<tr>
<th>Group (turnover $bn)</th>
<th>Members (countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Retail Alliance (24 bn)</td>
<td>Ahold (NL), Argyll (GB), Casino (F)</td>
</tr>
<tr>
<td>Associated Marketing Services (52 bn)</td>
<td>Ahold (NL), Argyll (GB), Casino (F), Allkauf (D), Dansk (DK), Hagen (N), ICA (S), Kesko (SF), Rina-Scenic (I), Mercadona (E), Vlighlos (Gr)</td>
</tr>
</tbody>
</table>

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EMD (60 bn)  Markant (D; NL); Selex (I, E); Unarmce (I); Socadip (F); Euromarcé (F); AS-ECOL (F); Baud (F); Codec-LNA (F); Nouvelles Gal (F).
Spar/Bigs (26 bn)  Spar Cooperatives (D, GB, DK, N, I); Ungro (NL); Dagels (S, Lnl, NL).
Deuro Buying (42 bn)  Metro (D CH); Makro (NL); Vande (GB); Carrefour (F).
Eurogroup (48 bn)  GIB (B); Vandex (NL); Rewe (D); Coop (CH); Paradox (F).


Even relatively small retailers from many European countries nowadays collaborate especially in procurement. For example the Spar group, which has ca. 7,000 sales outlets in Germany, is carrying out joint purchasing through Spar Trading AG in 19 countries (Halliburton – Hunerberg – Töpfer 1993). The fast moving consumer goods distributor in Finland, Kesko, has also joined the Associated Marketing Services Group (AMS). According to Honkala (1998) the chief executive officer of Kesko - through AMS, the retail organization primarily seeks cost benefits and logistical advantages. Through such cross-border alliances, retailers have been able to expand their relative size vis à vis manufacturers and, consequently, to further increase their market power in the distribution chain.

The increasing power of retailers has led to a situation in which they often require manufacturers to pay ‘slotyping allowances’ just to get new products on store shelves (Nielsen 1992; Duke 1998, 94-95). It has been difficult to secure shelfspace especially for brands which are not in any top positions in terms of market share (Ryan – Rau 1990). The more retailers become interested in running their own brands in direct competition with manufacturer brands, the more they control the shelfspace in favour of their own brands (Corstjens – Corstjens 1995). Table (5) shows the share of retail chains’ own brands from total sales in the UK in 1996. As Obgona – Wilkinson (1998, 81) argued, the emergence of retailers’ own label goods directly threatens established major manufacturers. According to ACNielsen (New ACNielsen... 1998), in such important markets as Germany and Belgium, retailers’ private label prices are more than 40% below the prices of key manufacturer brands.

As Appelbaum and Halliburton (1993) also put it, the concentration10 that is currently taking place in the European retail sector gives retailers more power in deciding which brands will appear on the shelves. Especially in Central and Northern Europe, retailers are nowadays highly concentrated. In most markets there, top five grocery retailers cover over 50% of the total market (see Table 6) (What is going... 1998, 4). Furthermore, the concentration of manufacturers has decreased since the end of the 1980s (Maucher - Brabeck-Lethmathe 1993). Halliburton and Hunerberg (1993) also note that centralized distribution and increased concentration totally alters the ‘traditional’ manufacturer-retailer relationship faced in the past.

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10 According to Maucher – Brabeck – Lethmathe (1993), throughout Europe, the degree of concentration among retailers is about two thirds higher than among manufacturers. Ogbonna – Wilkinson (1998, 9) also argue that the concentration retail organizations is “unambiguous, striking, and massive”

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Table 5. The share of own brands in UK (1996)

<table>
<thead>
<tr>
<th></th>
<th>In Southern Europe</th>
<th>In Central/Northern Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>64%</td>
<td></td>
</tr>
<tr>
<td>Britain</td>
<td>62%</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>71%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Hawkesworth (1998, 46)

Table 6. Market share of five top food retailers in 1992

After the formation of a single European market during the first half of the 1990s, competition among European manufacturers also increased rapidly. For example, after Finland joined the European Union in 1995, imports of fast moving consumer goods increased from 7 billion FIM to more than 11 billion per annum. At the same time, the growth rate in the domestic fast moving consumer goods manufacturing industry was remarkably low, around 1%, which is about five times lower than in many other industries. (Haasteet eivat... 1998) Due to these developments, the prices of fast moving consumer goods decreased by 11.4% during the first year of membership in the Union (Ketju on... 1998, 62).

In Table 7, we summarize how we interpret the central characteristics of the ideal typical manufacturer-retailer relationship in the European fast moving consumer goods business in present time.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Manufacturers</th>
<th>Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration</td>
<td>Decreasing</td>
<td>Increasing due to different kinds of joint ventures among retailers</td>
</tr>
<tr>
<td>Number of competitors</td>
<td>Formation of single European market increase number of external manufacturers and brands on the regional markets</td>
<td>Relative low due to cross-border alliances and other cooperation forms among retailers Number of individual retailers is decreasing</td>
</tr>
<tr>
<td>Intensity of competition</td>
<td>Increasing (see above)</td>
<td>Competition is increasing between different retail chains not between individual retailers</td>
</tr>
<tr>
<td>Relative size</td>
<td>Size is evaluated by manufacturer’s brands’ equity</td>
<td>Growing through alliances, centralization and development of</td>
</tr>
</tbody>
</table>

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Rate of technical change | Interest towards electronic data interchange (EDI) is increasing among manufacturers and retailers, but applications are still relatively undeveloped
---|---
General political-economy approval | Free external competition, no restrictions between EU countries (laws, taxes etc.)
Preferred interaction strategy | Cooperative
Dependency | Manufacturers' dependency on retailers is increasing especially among manufacturer's whose brands are not in top ten.
Classified relationship | Retailers' market/Subcontract market

Table 7. The Typical Manufacturer-Retailer Relationship in the 1990s

By combining increased buying power, good store location, scale, and accurate reflection of changing consumer needs, 'multiples' have clearly worked themselves into a position of dominance in the supply chain\(^\text{12}\) (New thinking... 1998, 55). It can be argued that retailers' interaction strategy has generally shifted from a cooperative orientation towards a command strategy. Due to this and the ever fiercer and more international competition, manufacturers have had to learn a more cooperative strategy to win the favour of key retailers.

Given these trends, manufacturers must reappraise their distribution and sales policy in Europe. According to Jørgensen (1995), by establishing closer relationships with retailers, a supplier can increase the switching costs of its counterparts, thus preventing new suppliers from penetrating the market. Therefore, the vital question for suppliers will be how to deepen their key distribution relationships in the future.

The Future – Towards ‘Domesticated Markets’?

"The storm clouds are gathering over the food retail sector in Europe. Over the next ten years, the multiples will face a number of new and potentially lethal challenges to their business. " (New thinking... 1998, 55)

As also Hogarth, Scott and Parkinson (1993) stated, focus in typical retailer-manufacturer relationships has now moved from repeated short-term transactions to long-term relationships\(^\text{13}\). This is well in line with the global tendency to develop more collaborative supplier-distributor relationships in many industries. Instead of relying on manipulation, such relationships take the situation of the counterpart as a crucial point of departure for relationship building (Ford et al. 1998). Instead of extensive use of

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\(^{11}\) In the Newsletter ECR Europe (What's problem... 1998, 6), electronic data interchange (EDI) is largely criticized as time consuming, error-prone, non-value adding, fragmented and redundant. The whole process is seen as opposite to what "efficient consumer responding is all about"

\(^{12}\) As Ogbonna and Wilkinson (1996) concluded, there might be some sort of a balance of power between the largest retailers and manufacturers, where strong manufacturer brand loyalty offsets retailer buying power. With the exception of largest manufacturers, retailer power is undoubtedly strong and growing.

\(^{13}\) Duke (1998) emphasizes that a global paradigm shift is happening in retail trade. This shift can broadly be characterized as a move away from adversarial, transaction-based orientation towards cooperative, more long-term relationships.
power creating tension within relationships, they build on trust and commitment between the parties involved (Ford et al. 1998, 205)

Not just manufacturers are trying to establish long-term relationships, but also retailers have showed their willingness to develop a more collaborative interaction strategy. Despite the fact that retailers have become ‘trading powerhouses’, they have at the same time often lost touch with their key suppliers (What is going... 1998, 4). Also the market e.g. for foodstuffs is mature, and the potential for volume or market growth is small and diminishing (New thinking... 1998, 55). At the same time, competition among retailers is getting ever fiercer.

For example Wal-Mart Stores, the world’s biggest retailer, has established a beachhead for an attack on the European retail market by announcing an agreement to buy Germany’s Wertkauf hypermarket chain. The deal is likely to send a shock wave through the European retail industry, because it represents the entry of the world’s most powerful retailer into a market already suffering from fierce competition (Be big... 1998, 6). The so called discounters already have established themselves in Europe, and will probably strengthen their position as incomes polarize and the need for low-cost food increases over the time (New thinking...1998). Also ACNielsen (European Consumers... 1997) reports indicate that the ‘discounter phenomenon’ has taken a firm grip on Europe. European consumers are nowadays spending the equivalent of 15 pence in every pound of the money they spend in the fast moving consumer goods area in discounters. The share of European consumer spending in discounters has grown over last five years from 9% to over 15.5% (European Consumers... 1997).

All of these developments have driven especially smaller European retail chains to seek stronger relationships with their suppliers. In Table 8, we summarize how we ‘forecast’ the key characteristics of manufacturer-retailer relationships will develop in the European fast moving consumer goods business in the future.

It is obvious that the relationship between a manufacturer and a distributor requires a great deal of co-operative effort in order to achieve the common goal of making products profitably available to end-users in increasing volumes. As Ford et al. (1998) argue, conflict between a manufacturer and a retailer often arises because each company fails to see their common situation from the perspective of the other company.

In the future, there probably will be an increasing need to create new strategies, new management systems with greater flexibility, an openness to a ‘partnership orientation’ and a commitment to new innovations (New thinking... 1998, 56). As in so many other cases and industries, it has been argued that knowledge will be the key to success, as information is more important than mere physical or structural issues. Information goes beyond the location of stores, and will give both manufacturers and retailers an enormous competitive advantage. high quality local information as the key to its European expansion (When less is... 1998, 276).

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Manufacturers</th>
<th>Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration</td>
<td>Stable</td>
<td>High</td>
</tr>
<tr>
<td>Number of competitors</td>
<td>Many manufacturers playing in the</td>
<td>There is a threat of “unknown”</td>
</tr>
</tbody>
</table>


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Intensity of competition

| Market, but biggest competitors are mainly well-known (no clear threat of unknown manufacturers) |
| Retail chains and discounters, such as Wal-Mart Stores |
| Competition of the shelfspace will further increase, not just between manufacturers' brands but also between manufacturers' and retailers' brands |
| Increasing due to mature of markets. Especially price competition is growing due to discounters |

Relative size

| Manufacturers who have strong brands, might keep their market shares, but manufacturers with weaker brands will be in dangerous to loss their shares |
| Tendency to create even larger retail chains. Especially purchasing policy will be more focused among European retailers |

Rate of technical change

| The use of different kinds of new management systems (e.g. quick response and ECR), based on electronic data interchange, will increase rapidly |

General political-economy approval

| Free external competition but some restrictions on the concentration |

Preferred interaction strategy

| Cooperative |
| Cooperative Competitive |

Dependency

| Mutual interdependence or mutual independence |

Classified relationship

| Domesticated market (with new management systems) |
| Perfect market Retailer’s market (with laissez-faire) |

Table 8. The Typical Manufacturer-Retailer Relationship in the Future

As Ford et al. (1998, 209) argue, suspicion between manufacturers and retailers in the past meant that rather little information was exchanged between them. Nowadays, actors in the European fast moving consumer goods business have to realize that the movement towards increasingly cooperative, 'domesticated markets' requires a new approach and new sort of managers with different views of their roles.

In recent marketing literature, some novel managerial approaches have emerged to increase information exchange between retailers and manufacturers. At least three of them have received considerable attention in managerial practice. These are category management (CM)15, quick response (QR)16, and efficient consumer response (ECR)17.

Many of these ideas are pioneered in many markets but often fail to produce real results in the long run (What is going... 1998, 5; What’s problem... 1998, 9). Why? Perhaps one reason is the lack of commitment. Many new ideas often seem to be conceptualized just as mere 'managerial tools', and concentrate just on discrete exchange episodes (i.e.

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14 Based on feedback from 135 manufacturers and 31 retailers across Europe. *Newsletter ECR Europe*, reports, actual ECR implementation is running high, with 78 per cent of manufacturers and 81 per cent of retailers reporting some implementation. (The KSA tracking... 1998, 2)

15 Category management is a process that involves managing product categories as business units and customizing them on a store-by-store basis to satisfy customer needs (Nielsen 1992).

16 Quick response is a vertical strategy, where the manufacturer strives to provide products and services to its retail customers in exact quantities on a continuous basis with minimum lead times, resulting in minimum inventory levels throughout the pipeline (Fiorito - Giunipero - Yan 1998, 237).

17 Efficient consumer response (ECR) aims at offering increased customer service and cost reduction in the logistic chain. It streamlines internal operations, at the same time enabling better co-operation between independent supply chain partners and, thus, enhances an organisation's responsiveness to the changing needs of consumers (Loebbecke - Powell 1998, 17).

in McLoughlin, Damien. and C. Horan (eds.), *Proceedings of The 15th Annual IMP Conference*, University College, Dublin 1999
mainly economic transactions) in order to achieve short-term gains. In our opinion, this overtly managerial viewpoint often leads to a situation in which the prevailing way to measure the effectiveness of these ‘new retail chain management systems’ is financial. For example, retailers are more interested in gross-margins and price-competitiveness than in the more long-term and abstract development of an interorganizational relationship (cf. Nielsen 1992, 96).

Most managerial tools often exhibit a serious lack of conceptual structure that would be able to capture the complexity of the contexts managers face in their daily work e.g. in retail trade (Ford et al. 1998). Vide the emerging relational perspective to marketing on a more general level, we suggest that new management systems developed in the fast moving consumer goods business should also be assessed from a relational perspective, taking into account their long-term effects on manufacturer-retailer relationships.

Long term supplier-distributor relationships and the trust on which they are based act as a prerequisite for improving distribution performance in the future. They form a basis for a more efficient co-ordination of activities and a more effective combination of resources (Ford et al. 1998, 205). This new ‘distribution channel logic’ will probably require totally new kind of concepts and respective management systems to understand how it would be possible to move individual relationships towards domesticated markets in the future of European fast moving consumer goods business.

Conclusions And Implications For Future Research

In this paper, we have evaluated the development of an ‘ideal typical’ retailer-manufacturer relationship in the European fast moving consumer goods business during the last three decades. It became obvious that the business and the logic of market behavior related to it has changed to a considerable extent during the last 20-30 years. Since the formation of a single European market, market power has gradually shifted from manufacturers to retailers. Our key conclusions regarding the past, present, and future development of the industry are summarized in Figure 2.

In the past, regional manufacturers enjoyed more market power than corresponding retailers did. The general political-economy approval was largely favorable for regional manufacturers. Numerous trade restrictions enabled the number of competitors and the intensity of competition to remain insignificant among manufacturers. At the same time, retailers were small and highly dependent on regional manufacturers. Thus, manufacturers had a dominant position of strength and could use command-type interaction strategies in the distribution relationships. Small retailers were willing to a more cooperative relationship. Consequently, the typical retailer-manufacturer relationship was classified as a manufacturer’s market captive market situation.

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The movement towards a single European market increased competition among manufacturers. When trade restrictions decreased between EC/EU countries, retailers were able to create large cross-border alliances, which have given them more market power over manufacturers. Also concentration, centralization and own market research in the retail sector have further increased their position of strength vis à vis manufacturers. As can be seen from Figure 2, the typical retailer-manufacturer relationship in the present situation can be classified as retailer's market subcontract market.

During the last few years, further changes are occurring in the fast moving consumer goods business in Europe that will probably affect the logic of the typical retailer-manufacturer relationship in the future. Food markets will reach the point of maturity, and price competition will increase rapidly. Manufacturers and retailers will now seek more collaborative relationships. They will probably be willing to move towards the situation of the domesticated market.

In recent marketing and retailing literature, new channel management systems such as a category management have been introduced to help retailers and manufacturers to increase mutual information exchange. They can also be seen as a way towards a domesticated market situation. However, in their current form, these concepts may not work in real-life business situations and contexts. Instead of viewing them purely as novel tools in a marketing or purchasing manager’s toolbox, we emphasize that their successful design and implementation requires a much deeper commitment from both


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interacting parties in the distribution channel than proposed by most existing, more or less mechanistic conceptualizations of CM, QR, or EC. On the other hand, a so-called ‘laissez-faire strategy’ may lead to a situation in which key relationships move towards a perfect market situation, or remain in a retailer’s market situation.

References


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