The Determinants of Retailer Power within Retailer-Manufacturer Relationships: Evidence from the Irish Food Manufacturing Industry

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Abstract

This research investigates the determinants of retailer power within retailer-manufacturer relationships by specifying and testing three models of retailer power. It is based on a sample of 55 Irish food manufacturers and their experiences of relationships with Irish and British retailers. The study adopts the view that the existing body of research into relationships with retailers is fragmented, and that a more complete understanding of these power relations may be obtained by simultaneously focusing on three sets of factors. The factors are industry specific, firm and product specific, and relationship specific.

Much of the existing empirical work investigating power relations implicitly assumes power to be unidimensional through the measures employed. Consequently, the current study investigates retailer power, measured as a unidimensional construct. However, the work proceeds to explicitly acknowledge that power is multidimensional by examining retailers' power over manufacturers' product related and margin related activities. In examining these two dimensions of power, findings of a more strategic nature are obtained.

The analysis draws on the importance French and Raven (1959) attributed to observability as a determinant of power. While neglected throughout the power literature, observability, by introducing monitoring activities, provides a bridge with the transaction cost literature. In this way, specific investments, and the role of retailers' branding strategies, are incorporated into our study of power. The relationship between retailers' monitoring activities and power is specified. Proceeding from monitoring activities, the analysis sheds light on the determinants of inter-firm integration between retailers and food manufacturers. The role of specific investments, symmetric dependency, brand portfolio

and retail influence on price are highlighted. The analysis of retailers' product related power supports the role of retail concentration, product shelf-life, manufacturer specific investments and retailers' product monitoring activities. Examining retail margin related power points to the importance of retail concentration, own brand penetration, the importance of economies of scale in manufacturing, product shelf life and manufacturer specific investments. Finally, retail power, measured as a unidimensional construct, is found to be related to own brand market penetration, the importance of economies of scale in manufacturing, manufacturer specific investments and retailers' monitoring activities.

Chapter One

The Determinants of Retailer Power within Retailer-Manufacturer Relationships: Evidence from the Irish Food Manufacturing Industry

1.1 Introduction

There is a growing body of literature that provides evidence of increasing retail involvement in food manufacturing activities. This body of work supports the view that food retailers are gaining greater control over strategic activities, which were formerly the remit of manufacturers. Indeed it appears that some food manufacturers are accommodating greater retail influence over strategic variables, which are themselves the source of the manufacturer's competitive advantage. The basis for such accommodations and the increase in retailer power is imprecise. An examination of the relevant literature points to a series of variables that may contribute directly or possibly indirectly to the growth in retailer power. Examples include greater retail concentration, excess capacity in manufacturing, the growth in own brand penetration, more strategic use of own brands, retail integration into the distribution function and the emergence of strategic alliances among retailers and suppliers. However the existing literature is fragmented and does not clearly take account of the potential interconnections among these variables. Consequently some variables may be attributed with determinacy, which may be more appropriately posited elsewhere.

Another trend clearly emerging from the literature is the move away from market contracting towards more "domesticated" markets with pronounced features such as

relationship stability and idiosyncratic investments. Focus is shifting from competition among firms at the same level of the marketing channel to chains of competing firms identified by their retail customer. Such developments have potentially unwelcome effects such as increasing barriers to entry and exit and ultimately in the move towards more retail specific supply chains. Under these conditions, manufacturers are more likely to face the prospect of having to tie their allegiance and futures to individual retailers. The concern here is that under such a regime, the disproportionate burden of risk is borne by the manufacturer.

From a manufacturer's perspective, a greater understanding of the dynamics of retailer power is critical. While it is proposed here that greater retail influence over manufacturing activities is not in itself undesirable and may indeed be very positive, the surrender of control over key strategic variables is not to be advised without extreme caution. This study sets out to investigate the factors that determine the extent to which manufacturers have ceded control to retailers. In doing so, it proposes to highlight some of the hidden costs of doing business in an environment where retailers, for the moment, dominate. Because the study focuses on industry, firm and mode of governance characteristics rather than on individual retailers, the results should be more general providing applicability across a range of retail markets and manufacturing industries.

The purpose of this study is to investigate the determinants of retailer power and influence over food manufacturers' activities. In particular, the research proposes to:

- identify the range of food manufacturing activities over which retailers exert influence and power ;
- identify the factors that promote and facilitate such retail control;

- To specify a model of retailer power and to estimate the contribution of each factor in the determination of retail power.

Chapter two commences our review of the Irish grocery and food manufacturing sectors. It is largely contextual. It adopts an evolutionary approach, tracing the development of the Irish grocery sector since the 1950's. It highlights the changes that have occurred in the Irish grocery channel over the period and points to some of the key drivers of change. One of the chief aims of the review is to gain a deeper understanding of the nature of the interaction between the grocery and indigenous food manufacturing sectors over the period. The second aim of the chapter is to ascertain whether or not the Irish food manufacturing sector can act as an appropriate sampling frame for the study of retailer-manufacturer relations in the food sector in general. To address this issue the chapter examines the diversity of trading relationships that the Irish food manufacturing sector enjoys. This part of the chapter is based on primary research, as little secondary information existed regarding this issue. As much of the study takes individual retailer-manufacturer trading relationships as its basic unit of analysis one requirement is o ensure that our sampling frame offers a sufficient degree of variation of such relationships.

Chapter three sets out to identify constructs and measures that may prove fruitful in the pursuit of this study. It reviews the existing literature on the organisation of economic activity within a series of vertical relations. The chapter initially focuses on the marketing channel literature, which draws heavily on the construct of power. The review aims to develop a clear understanding of the power construct as it evolved through the literature, the units of measurement employed by earlier authors and their findings with respect to power and vertical relations. The second part of the chapter reviews an alternative

explanation of the co-ordination of vertical relations as espoused in the neoclassical model. In particular, the review focuses on the emergence of the transaction cost literature. This literature is selected primarily because it facilitates the incorporation of information asymmetries, monitoring costs and specific investments into the study. It is argued that by considering both these literatures, a pool of mutually consistent constructs may be identified, which can aid a more detailed examination of our specified relationships and yield a more potent insight into and a deeper understanding of retailer power and influence.

Chapter four focuses on the existing literature on retailer-manufacturer relationships. The purpose of the chapter is to assess the work of earlier scholars, the hypotheses tested, methodologies employed and the findings on interrelationships that exist between the sectors. The chapter sets out to gain a deeper understanding of the determinants of the balance of power within retailer-manufacturer relationships and, by considering the existing literature as a whole, establish a broader perspective in which to base the current study. In this fashion the chapter acts as the basis for formulating a series of hypotheses drawing on existing work but extending it by establishing new or formerly implicit interconnections.

Chapter five addresses the methodology to be employed to test the hypotheses established in chapter six. The chapter has two major concerns. The first is the composition of an appropriate sample to test the hypotheses. The second is to construct a series of measures with which to test the hypotheses. Much of the chapter is given to testing the individual measures to establish that they measure what is required in a reliable fashion. Consequently that chapter devotes considerable effort to establishing construct validity.

Chapter six develops and tests the series of hypotheses that forms the basis of this study. Because of the fragmented nature of existing empirical research on retailer-manufacturer power relations, the chapter adopts a cumulative approach. The chapter formulates a series of hypotheses based on earlier research, which cumulatively establish a more precise understanding of the determinants of retailer power. In this manner the hypotheses are intended to build upon on one another. Thus each finding represents a potential building block for a more complete understanding of retailer power. One of the strengths of such a broadened perspective is that it facilitates separating out determinants of retailer power. More focused studies, while having their own particular strengths, run the risk of identifying second order determinants as primary determinants because of the imposed restriction on variables gathered. The chapter is based on the framework that retailer power may be viewed as acting through three sets of characteristics:

- industry structure (retailing and manufacturing);
- firm and product characteristics ;
- and mode of governance.

The hypotheses are organised according to this framework and, when considered together, provide a broader and more detailed study of the phenomenon under review.

Chapter seven provides a more considered discussion of our results. Given the cumulative nature of the results chapter, chapter seven draws on all our findings. It considers the identified relationships and associations among the variables employed in more detail and, based on the findings, establishes three models of retailer power. The first seeks to explain retailer power over manufacturers' margin related activities. The second seeks to explain retailer power over manufacturers' product related activities, while the third seeks to explain retailer power when measured as a unidimensional construct. In the ensuing

discussion, the findings are integrated into the existing literature highlighting its unique contributions. To complete the study the chapter highlights some of the limitations of the current investigation and points to some research questions emerging from the work.

Chapter Two

The Irish Grocery and Food Manufacturing Industries

2.1 Introduction

The structure of the Irish grocery trade has changed considerably over the last forty years as the forces of demographic trends, legislation and technology in addition to changing consumer needs and preferences shaped and continue to shape the grocers' trading environment. Over the period, structural change in the grocery sector has had substantial consequences for the operation of the entire marketing channel delivering food products to the Irish consumer. The role of the wholesaler has evolved substantially, embracing many of the functions associated with the retail operation. Grocers themselves found the nature of their business changing rapidly as economies of scale and scope, in conjunction with legal constraints, came to play a central part in the way they operated and in the determination of their profitability. While some grocers have prospered, managing to adapt to the changing times, others have succumbed to competitive pressures. Moreover, there has been an increasing awareness of the role of the grocer as an integral agent in the food marketing chain. The nature of retail and manufacturer/supplier relations is being subjected to closer scrutiny as awareness of its impact on the allocation of scarce resources, employment and consumer satisfaction increases.

The purpose of this chapter is twofold. First, it sets out to examine the conditions underlying the evolution of the Irish grocery market over the last forty years and to assess the impact, if any, on the evolution of the retailer-manufacturer relations. The analysis takes the mid 1950's and the abolition of resale price maintenance as its starting point and proceeds to evaluate the

effect of price competitive forces on a heretofore protected sector. It investigates the conditions underlying the emergence of the multiple grocer together with the conflict and resultant change that this new phenomenon introduced to the food marketing channel. The role of the legislature is central to the unfolding of competitive pressures in the Irish market and the development of the Irish retail environment and as such is an integral part of the review.

Second, the analysis turns to the food manufacturing sector, focusing on its development since entry to the EEC, and evaluates the extent of its dependency on both domestic and foreign retail markets. Here the concern is with the scope of Irish food manufacturers' portfolio of retail markets and the range of demands to which they have had to respond. The analysis focuses on food manufacturers' dependency on the UK market in particular. While both the Irish and UK markets display some similarities, they have differed significantly in many strategic aspects of their businesses, e.g. own brand, distribution, use of technology etc. Finally, the chapter draws the two sectors together highlighting the nature of the dependency that exists between the manufacturing and the retailing sectors.

One of the chief difficulties in researching the Irish grocery sector is the lack of reliable performance data on the main operators. This is due primarily to the fact that the sector is dominated by private interests who are under no obligation to release details of their commercial performance into the public domain. Other substantial operators have tended to be foreign owned with their accounts consolidated into their parents' returns. Therefore much of the data utilised below were sourced from enquiries into the grocery sector by various agencies. Market share figures are frequently used. However, caution needs to be used when

interpreting them. First, as they measure share within selected and limited product fields, they serve as limited proxies for the overall market. Second, the product fields measured change over time with additions and deletions occurring on a relatively frequent basis. Unfortunately the first problem cannot be surmounted. The second problem has been minimised by using data series as they appear in existing literature. This is considered to be appropriate as much of the data obtained was furnished to government advisory bodies such as the Restrictive Practices Commission.

2.2 Retail Competition and the Channels of Distribution

At this point, it is appropriate to examine the nature, evolution and consequences of competition within the grocery sector. The 1955 enquiry into the grocery trade by the Fair Trade Commission resulted in the implementation of the first (1956) Groceries Order and the abolition of resale price maintenance (Fair Trade Commission 1956) (Hereafter FTC 1956). Since then there have been three further public enquiries and four reviews of the Restrictive Practices act as it applies to the grocery trade. This level of scrutiny has been primarily due to the dramatic evolution of the sector and the concerns raised about the nature of competition and the consequences for independent grocers, manufacturers and consumers.

2.2.1 The Demise of the Wholesale and Independent Sector

Traditionally the grocery wholesaler played an important role in the supply chain for food products in the Irish market. However, in the early 1950's it became apparent that changes were occurring to wholesalers' share of trade. While imported goods were channelled through

wholesalers, an increasing proportion of domestically produced products were being purchased directly from manufacturers. The principal agents behind this trend were the larger grocers in the Dublin area where most of the large manufacturers were also situated (FTC 1956).

The emergence of the multiple grocer had not yet gathered any real momentum. These grocers existed to a limited extent in Dublin and on a very localised basis throughout the country (FTC 1956). However, where they did exist, their limited geographical distribution facilitated a considerable degree of centralised control. In many instances store managers had discretion only with respect to the purchase of perishable produce, while longer life products were purchased by the organisation's head office. Many of the existing multiples also carried out much of their own distribution, with most operators conducting a wholesale business. In these cases, manufacturers delivered to the wholesale warehouse, where the individual store's orders were assembled and dispatched to the outlet.

Retail trade associations played an important role in the marketing channel during the 1950's. The largest of these was the Retail Grocery, Dairy and Allied Trade's Association (RGDATA). One of the more important functions of this organisation was to ensure "fair profit margins for its members in commodities, the prices of which are either officially controlled or fixed by manufacturers" (FTC 1956:41) and the maintenance of the independent grocers' position in the marketing channel. One of the more interesting activities carried out by RGDATA was the policing of competition among its members to ensure adherence to the pricing regime under the conditions of resale price maintenance. There is strong evidence indicating the anti-competitive stance of the association. RGDATA itself argued that " the

force of competition and the desire of manufacturers to achieve low prices and capture a wider share of the market is so great that an association such as RGDATA is most necessary to offset the inequality of bargaining power of the individual grocers when faced with strong manufacturers" (FTC 1956:42). Indeed the Association frequently took upon itself to report price-cutting grocers to the manufacturers concerned, requesting that forces be brought to bear and either prices restored to recommended levels or supplies disrupted (FTC 1956). Manufacturers who failed in this regard risked being boycotted by the organisation's members.

The level of retail price competition prior to the abolition of resale price maintenance was minimal with many products subject to price control. For instance, wholesale and retail prices were specified by order of the official price control for both butter and sugar. Manufacturers or suppliers specified the retail price for most other domestically produced and some imported products. The price was usually enforced through price marking, advertising or direct instructions to the grocer (FTC 1956:24). There is evidence that failure to charge prices in accordance with recommendations regularly resulted in discontinuity of supply (FTC 1956). Manufacturers frequently attempted to specify wholesale prices although allowances were usually made to permit consideration of competing brands.

There is evidence to suggest increasing interchannel competition with manufacturers attempting to usurp the wholesalers' role. "In many instances however, the gross margins available to wholesalers make it economically difficult for all but a small number of wholesalers to compete with manufacturers for the business of grocers whose orders entitle them to quantity terms at higher rates" (FTC 1956:33). Indeed it appears that price

competition was more intense at wholesale level, with manufacturers, wholesalers and retail buying groups all competing for the affections of the grocer. Further pressure was exerted on the wholesale sector by grocers claiming wholesaler status and attempting to qualify for discounts from manufacturers. These discounts served to either enhance the grocer's profitability or price competitive position. The difficulty of identifying genuine wholesalers was clearly recognised by various manufacturers but it does not appear that concerted efforts were made to restore a level playing field (FTC 1956).

During the 1950's and 1960's, most channel innovation concerning the role of either the grocer or wholesaler occurred in the Dublin area. This is unsurprising given the geographical distribution of the population and the increasing concentration of consumer purchasing power in and around the capital. One such innovation was the establishment of the retail buying group, Allied Dublin Merchants (ADM) in 1954, which had a significant impact in the wholesale market in the Dublin area. This development appears to have been the first major onslaught by a component of the retail sector on the wholesale function. The retail members of the group were its shareholders and provided the initial capital investments required to set up and operate a warehouse. Many of the individual members had sufficient scale to purchase supplies at the optimum terms provided by manufacturers. However, the buying group enabled these to achieve increasing efficiency through better management of stocks and increasing stock turnover (FTC 1972).

ADM's success had an immediate impact on the channel. Despite initial difficulties in acquiring wholesale terms from many manufacturers, the group stimulated intense competition within the wholesale sector. While RGDATA frequently took upon itself the role

of price advisor with government, manufacturers and suppliers alike, it had not intended to act as a purchasing agent for its members. However, in light of continued pressure from its members, due no doubt to the success of ADM, RGDATA established Merchants National Co-operative (MNC) as a wholesale buying society in 1956. Within three years the co-operative was operating three depots located in Dublin, Cork and Ballyshannon.

The pressures on the wholesale sector were partly self induced. Throughout the late 1940's and early 1950's, wholesalers through their trade associations, attempted to fix prices to grocers and obtain optimal terms from manufacturers and suppliers. The size of these fixed margins would have proved alluring to the manufacturing, importing and retailing sectors. Consequently many of these firms internalised the more attractive aspects of the wholesaling function. Manufacturers' ability to identify the more lucrative segments of the retail business and grocers' ability to identify the more attractive product areas would have left wholesalers operating in fewer attractive product areas and serving the more costly components of the grocery market. Indeed manufacturers' prices direct to grocery outlets would have had the effect of reducing the wholesale margins, particularly in the concentrated Dublin market.

Given the constraints imposed by resale price maintenance, retail competition during the 1950's was largely based on differentiation with emphasis on service. Multiples competed on the basis of delivery services, credit facilities and product range (FTC 1956:21). However, moves to reduce costs through the reduction of these services were already appearing in the Dublin market (FTC 1956:23). In general, multiple operators, because of their volume purchases or wholesaler status, were given better buying terms than the single outlet operator, although the generosity of the terms varied from manufacturer to manufacturer (FTC

1956:37). Manufacturers argued that cost savings associated with central purchasing, distribution and order size, in addition to higher operating expenses incurred by the grocer, justified better buying terms. Under conditions of resale price maintenance these terms would have contributed directly to profits. In the absence of such price restrictions they provided another basis for the intensification of price competition.

In its deliberations, the Fair Trade Commission of 1955 concluded that existing retail price competition was limited and should be stimulated to the benefit of the consumer. Thus it proposed that resale price maintenance either by manufacturer, supplier or wholesaler be prohibited. However, the Commission recommended that manufacturers and suppliers be given the power to set maximum retail prices and withhold supplies from grocers who sold products at prices below wholesale cost before the deduction of quantity discounts. Grocers were also prohibited from using suppliers' recommended prices for advertising purposes under conditions where the retail price charged was lower than the recommended selling price. Cessation of supplies to grocers would be permitted when these conditions were broken. Suppliers would also have the discretion to terminate supplies to a particular wholesaler if a retail outlet served by that wholesaler consistently failed to operate within the conditions laid down by the Commission.

For their part, suppliers were prohibited from engaging in unfair discrimination with respect to the terms and conditions of a transaction. The Commission intended that terms and conditions reflected the true costs of doing business and did not exceed the savings resulting from direct dealings with the larger grocers. The Commission also attempted to introduce some transparency to the price mechanism, and insisted on it having access to all terms and

conditions available from both suppliers and manufacturers.

The introduction of a more liberal pricing regime immediately led to claims of excessive price competition. Indeed an examination of the grocery sector indicates substantial structural change, with the number of outlets declining by 5,224 or 21% over the 1956-66 period (table 2.1). While the service oriented grocery outlet, i.e. "other grocery", had the largest absolute decline in outlet numbers (falling by 2,341), dairy outlets and country general shops recorded dramatic declines of 64% and 52% in outlet numbers respectively. Tobacco, sweets and newspaper outlets also suffered heavily with numbers falling by 39% or 1,741 units. The substantial reduction in outlet numbers was reflected in the fall in employment in the sector. This fell by 28% or 15,582 persons over the period[1].

Table 2.1

Structural Change in the Grocery Sector (1956-1966)

	No. Outlets		Turnover £'000s		Gross Margin £'000s		Persons Engaged	
	1956	1966	1956	1966	1956	1966	1956	1966
Supermarket	NA	41	NA	12,327	NA	1,597	NA	1,060
Delicatessen	NA	NA	NA	NA	NA	NA	NA	NA
Other Grocery	13,111	10,770	63,614	83,250	7,291	10,462	26,471	19,551
Grocery &Pub	3,742	3,007	2,1472	22,270	3,274	3,698	10,658	6,847
Fresh Meat	1,776	1,803	12,368	15,009	2,197	3,248	5,138	3,990
Bread	336	397	1,202	3,329	293	969	777	1,240
Dairy	195	71	2,281	5,970	591	2,130	1,004	1,406
Fish & Poultry	162	167	1,206	1,666	261	376	534	412
Fruit & Veg	546	362	1,262	1,350	253	289	916	510
CGS[1]	448	215	14,948	6,412	1,789	980	3,294	1,163
TSN[2]	4,480	2,739	9,618	11,304	1,652	1,961	7,225	4,256
Total	24,796	19,572	127,971	162,887	17,601	25,692	56,017	40,435

[1]Country General Shop [2] Tobacco Sweets and Newsagent
Source: CSO Census of Distribution 1956, 1966.

[1] This figure does not take full-time/part-time considerations into account.

A further feature worth noting is that the 1966 census is the first census to provide a measure of the impact of the supermarket[2]. Despite accounting for only 0.2% of outlet numbers it had already gained 7.5% of turnover and 6.2 % of gross margin. The data also suggests that the new retail format was operating at approximately the same gross margin in percentage terms as its other grocery competitors. Sales per person employed of £11,629 versus £4,258 for "other grocery" outlets, highlights the increased efficiency that the supermarket was introducing to the sector. Gross margin per person employed of £1,490 for the supermarket was almost threefold that of the other grocery format at £535.

During the 1960's, the intensification of price competition was primarily a result of competition among the multiples particularly in Dublin. There was a growing awareness of the strength of the multiples on their respective supplier bases and the increasing asymmetry in dependency. Concern was raised that the multiples' ability to obtain preferential terms and conditions from their suppliers would result in the domination of the trade by a small number of chains. This in turn might lead to oligopolistic pricing practices to the detriment of consumer welfare. Furthermore the costs of entry into the grocery trade were increasing in line with increasing store size. While not prohibitive, these costs were believed to limit entry to existing multiples or foreign operators. Indeed the concentration of ownership and the possibility of a take-over by a foreign operator was deemed to be potentially damaging to indigenous manufacturers opening the way to imported products purchased centrally at head offices located abroad (Fair Trade Commission 1972).

In 1966, the Commission undertook a further study of the trade in light of these claims and

2 A self service outlet where groceries and household provisions accounted for the bulk of turnover and

the emerging new trends in consumer shopping habits and the growth in the supermarket and multiple outlets. The Commission concluded that remedial action was not necessary and that very few instances of unfair competition actually existed (FTC 1972). More importantly the Commission held that manufacturers were coming to grips with the emerging trends in the retail sector and left the various protagonists to their own devices. The Commission's findings and recommendations were subjected to severe criticism and further complaints were made by grocers and suppliers alike.

The impact of intensified price competition was immediately felt throughout the supply chain. Emphasis on cost reductions to fuel price competition led to significant increases in the share of product delivered directly to outlets as the multiples sought optimum terms of purchase. Clearly the increase in direct deliveries to outlets, rather than through the wholesale distribution system where economies associated with drop size could be enjoyed, resulted in increased costs to manufacturers and suppliers. Furthermore, the multiples' ability to obtain terms on a par with those obtained by wholesalers, despite the inherent inefficiencies associated with split drops, resulted in claims of cross-subsidisation and reflected their growing power. There was growing evidence to suggest that manufacturers were failing to differentiate between the retail and wholesale functions in their pricing structures with the supermarket multiples receiving supplementary terms over and above those justified by economies of order size (FTC 1972).

It became clear that during the 1960's retail productivity was increasing at a faster rate than wholesaling. Cogan (1978) estimated that retail productivity was increasing at approximately

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operated at least three checkout points.

3.5% per annum compared with 2.0% in the wholesale sector. In response to this reduction in its relative competitiveness, the grocery wholesale sector underwent a process of consolidation resulting in an 11% decline in numbers over the period 1956-1966 (Table 2.2). The immediate impact of the rationalisation appears to have paid dividends with grocery wholesalers' share of the wholesale market increasing by four percentage points over the 1956-66 period. However, the gains were short-lived, and their share of the market declined rapidly and dropped almost 15 percentage points over the next 11 years.

Table 2.2

The Wholesale Sector (1956-1977)

	Establishment Numbers			Sales £'000s			Gross margin £		
	1956	1966	1977	1956	1966	1977	1956	1966	1977
Grocery	258	222	191	29,965	41,210	222,558	4,789	4,163	18,622
Tea, coffee, sugar	38	21	14	14,966	9,271	63,824	NA	1,577	9,718
Fruit & Veg	84	99	120	5,615	9,361	71,797	629	121	9,316
Other food	162	196	236	8,963	15,393	196,040	1,248	3,946	24,917
Total	542	538	561	59,509	75,135	554,219	6,666	9,807	62,573
	% Establishment Numbers			% Sales			% Gross margin		
Grocery	47.60	41.26	34.05	50.35	54.85	40.16	71.84	42.45	29.76
Tea, coffee, sugar	7.01	3.90	2.50	25.15	12.34	11.52	NA	16.08	15.53
Fruit & Veg	15.50	18.40	21.39	9.44	12.33	12.95	9.44	1.23	14.89
Other food	29.89	36.43	42.07	15.06	20.49	35.37	18.72	40.24	39.82
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Source: CSO Census of Distribution 1956, 1966, 1977									

In their attempt to adapt to the new competitive environment a number of wholesalers committed themselves to the voluntary buying group concept which had been developed on the continent. The emergence of these groups and their associated symbol outlets represented an alliance of two sectors, wholesalers and independent grocers, which individually had been experiencing decline but together offered the hope of effective competition with the multiple sector. In addition to better buying terms as a result of bulk orders, the benefits accruing to the participating grocers were a clear identity supported by advertising, access to cheaper

private label brands, together with marketing and operational support services. In time the success of the symbol groups led ADM to acquire the Londis franchise for the Republic of Ireland and enhance its ability to compete with the multiples through the introduction of its own private label brands. The success of this organisational form can be partly measured by the fact that by 1970, 25% of all retail outlets belonged to either wholesale or co-operative groups (FTC 1972). Operational changes also occurred as cash and carry wholesaling emerged. Many grocers now assembled and took charge of their own orders at the wholesaler's depot. Payment in cash and the resultant savings in wholesale costs could then be passed on to the grocer in the form of lower prices.

Nevertheless, while the grocery sector was experiencing increasing competition and falling numbers, specialist wholesalers were emerging to meet the retail market's requirements for fresh produce and other foods. Consequently, the number of wholesalers held up remarkably well and actually increased over the 1956-1977 period. The success of these new operators was no doubt due to the limited shelf-life of their products, the fragmented nature of the supply industry, the efficiencies associated with order consolidation and the reduced costs of holding safety stock at wholesale level rather than in the retail outlet.

However, these developments were possible only in the context of a changing retail environment. The increase in price competition and the move towards cash and carry wholesaling necessitated that the provision of credit at the retail level be curtailed. Further cost economising in the retail outlet passed the functions of order assembly and delivery to the customer, giving rise to the rapid growth in the self service supermarket. As mentioned earlier, the 1966 census was the first to capture the initial impact and potential efficiency of

the new retail format. Indeed, the efficiency of this new retail format and its suitability under conditions of price competition as the primary means of retail differentiation ensured its immediate success. Product standardisation, improved packaging and the proliferation of brands removed much of the need for personal service while price competition, by its very nature, reduced the number of dimensions on which operators could compete.

The late 1970's saw a degree of stabilisation return to the wholesale sector. While overall volumes had declined considerably, it appears that manufacturers' decisions to cease direct deliveries to independent grocers and focus instead on the larger multiples had the effect of halting the wholesale sector's decline in share of trade (Restrictive Practices Commission 1980, hereafter RPC). The establishment in 1979 of the Irish Association of Distributive Trades Ltd. (IADT), an alliance of wholesalers and independent grocers, also assisted. This alliance represented 74 wholesale organisations operating from 151 warehouses. Of these 108 were cash and carries catering to the independent grocer while the remainder were delivered warehouses catering to the symbol groups. One of the primary functions of IADT was to negotiate the best terms for its members with manufacturers and suppliers. It also sought to have cost reductions associated with the wholesale function recognised in the terms and conditions negotiated with suppliers. The effectiveness of the organisation is partly measured by the fact that by the mid 1980's it had achieved such recognition from a substantial number of suppliers (RPC 1987)

One of the more important developments was the establishment of the Super Valu symbol group and trading fascia by the wholesale group Musgraves in 1981 (RGDATA 1992). This group was arguably the most innovative of the symbols and, with a minimum store size in the

region of 4,000 sq.ft, presented a substantial challenge to the multiples particularly outside the Dublin region. Growth of the group came initially from the upgrading and conversion of existing VG stores although over time new members joined though the construction of new outlets and the purchase of some of the former H.Williams' stores. This group, together with its sister group Centra, a trading fascia composed of convenience type outlets, enabled Musgraves to achieve a substantial share of the grocery market and constrain both the growth of the major multiples and the decline of the symbol groups. Members of both groups could now benefit from the buying power of the third largest buying entity in the country as well as from international linkages through the buying group European Marketing and Distribution (EMD). In addition to buying power, group members could also enjoy the benefits of certain retail services. These helped enhance retail expertise and operations at outlet level as well as improved identity through extensive advertising.

The position of the independent grocer had been underpinned to a degree by government legislation. In 1982, the government issued a directive to local authorities in response to sustained political pressure from the independent grocery sector. The General Policy Directive was to provide local authorities with clear criteria to be considered in the case of retail shopping development. In effect the planning process would now have to consider planning applications in light of:

- Adequacy of existing retail shopping outlets in terms of size, location, quality and convenience;
- Impact on existing communities, employment and established shopping outlets;
- The needs of existing community members and their shopping requirements;

- Potential impact on existing infrastructure and urban development (Parker 1994b).

The impact of the planning directive was to make the securing of planning permission for new retail locations significantly more difficult. First, the need for such developments had to be demonstrated. Second, it gave existing retailers greater scope to involve themselves in the planning process thus either delaying or blocking planning applications. These delays could be utilised to improve existing outlets such that the defined need would be either removed or market share captured. While the planning directive did not halt the development of new and larger scale retail outlets, it certainly introduced more balance to the development of the sector (Parker 1994b). However, it could be argued that the legislation introduced a substantial barrier to new entry. It clearly favoured both the existing retail infrastructure and competitive structure thereby enhancing the position of the independent grocer. In particular, it favoured those existing grocers who could avail of the most recent advances in retail technology and operations through their affiliation with the larger symbol groups.

2.2.2 The Rise of the Multiple Grocer and the Move Towards Government Intervention

Throughout the 1960's the growing mobility of the population through access to both private and public transport increased the size of retailers' geographic catchment areas and hence the area of effective competition. Potential savings motivated customers to travel further and consolidate their purchases. This facilitated the development of larger scale outlets, the fixed costs of which could be amortised over larger catchment areas. The increasing degree of sub-urbanisation of the Irish population led to greater decentralisation of shopping opportunities (Parker 1994a)(FTC 1972). This process was reflected in new retail formats, developed

initially in Dublin, with the emergence of the large scale shopping centre during the mid 1960's. It was usual to find one of the main grocery multiples acting as the primary anchor tenant. The development of shopping centres proceeded gradually during the early 1970's but gathered momentum towards the end of the decade with the rapid expansion of the 3 Guys discount chain operated by Albert Gubay. (Lord et al 1988)

In attempting to attract a greater share of the grocery market, the larger retail operators frequently took recourse to various promotional devices, including below cost selling (sale below purchase price), trading stamps, turnover tax exemptions and coupons (FTC 1972). The incidence of below cost selling appears to have increased dramatically during the late 1960's and early 1970's. The usual practice was to sell a narrow range of well-advertised staple products at below cost. Larger operators could use their wider product ranges to increase the probability of enticing sales of higher margin products thus managing their bottom line margins and profitability.

Manufacturers, despite coming under increasing pressure from certain sectors of the retail trade to employ their powers under the Groceries Order to withhold supplies from grocers who refused to refrain from selling below wholesale cost, usually desisted from doing so. They argued that such attempts would be in vain as the guilty grocers would simply source their product elsewhere or substitute other competing products from willing suppliers (FTC 1972). Thus, this provision of the Order proved almost totally ineffective. Nevertheless, it is clear that manufacturers did not advocate below cost selling given the detrimental effect it had on sales patterns and the impact on consumers' perception of normal prices and brand image.

The intensification of price competition continued the process of structural change. The entry of Associated British Foods into the Irish market through its acquisition of Quinnsworth introduced a new dimension to existing retail competition. By 1977, there were 250 supermarkets in operation (table 2.3). While accounting for less than 2% of retail outlets, the format had now amassed almost 31% of grocery sales. The change within the sector was considerable with outlet numbers falling by 28% or almost 5,500 units in eleven years.

Table 2.3

Structural Change in the Grocery Sector (1966-1977)

	No. Outlets		Turnover £'000		Gross Margin £'000		Persons Engaged	
	1966	1977	1966	1977	1966	1977	1966	1977
Supermarket	41	250	12,327	244,521	1,597	36,806	1,060	6,036
Delicatessen	NA	NA	NA	NA	NA	NA	NA	NA
Other Grocery	10,770	7,305	83,250	26,370	10,462	39,904	19,551	18,598
Grocery & Pub	3,007	1,362	22,270	57,851	3,698	9,622	6,847	4,662
Fresh Meat	1,803	1,862	15,009	105,829	3,248	19,464	3,990	5,157
Bread	397	270	3,329	13,111	969	3,171	1,240	952
Dairy	71	22	5,970	813	2,130	115	1,406	52
Fish & Poultry	167	141	1,666	6,717	376	1,475	412	460
Fruit & Veg	362	354	1,350	12,189	289	2,566	510	927
CGS[1]	215	105	6,412	21,527	980	3,590	1,163	794
TSN[2]	2,739	2,404	11,304	68,803	1,961	12,331	4,256	6,078
Total	19,572	14,075	162,887	794,731	25,692	128,194	40,435	43,386

[1]Country General Shop [2] Tobacco Sweets and Newsagent

Source: CSO Census of Distribution 1966, 1977. Census of Services 1988

Once again it tended to be the smaller independent grocer that suffered most with "other grocery" outlet numbers declining by almost 33%. The number of grocery outlets with pubs declined by almost 55% but this probably reflected some degree of specialisation into either the licensed trade or the grocery business. The number of TSN's declined by approximately 12% representing a considerable slowdown in their demise following the dramatic decline during the late 1950's and early 1960's. Despite the reported intensification in price

competition, the census data suggests that gross margin as a percentage of sales increased marginally for the sector as a whole but for the supermarket component in particular. Many specialist areas such as bread and confectionary, dairy, fish and poultry record declining shares of turnover and gross margin. Indeed gross margins expressed as a percentage of sales declined substantially in all of these categories. The factors underlying these reductions appear to have been the increasing competition with the multiple supermarkets as they diversified into new but formerly specialist product areas.

The level of below cost selling continued to intensify during the late 1970's to such an extent that further amendments were made to the Groceries Order. Under the 1973 Order, manufacturers were permitted to cease supplies of any product that grocers were selling at prices below the price at which they had bought them. The 1978 Order empowered manufacturers or suppliers to withhold supplies of all products from a grocer who was selling any product at below net invoice price. However, below cost selling continued to occur on a regular basis as did the advertising of such activities. Despite being prohibited by law, H. Williams, Tesco and Quinnsworth were all prosecuted for below cost advertising in 1980. Nevertheless, there was growing evidence to indicate that suppliers were beginning to use their powers to withhold supplies from offending grocers (RPC 1980). The effectiveness of these actions was queried in the Second Report of the Joint Committee on Small Businesses (Yates 1984) which indicated that increased competition among the multiples was generating widespread below cost selling. Indeed intense inter-multiple competition during the late 1970's probably contributed to the growing concentration in the market. The Five Star chain of supermarkets was taken over by Quinnsworth and Albert Gubay's retail chain, 3 Guys, was purchased by Tesco in 1979.

While the impact of below cost selling on the consumer price index remains unclear there was much debate on its impact, both actual and potential, on the Irish food manufacturing sector. The manufacturing and wholesale sectors argued that the practice endangered Irish employment with imports ultimately substituted for domestically produced goods. Below cost selling on the part of one grocer had a knock on effect as competing grocers demanded cost prices to enable them to compete with the initiator but without loss of margin. Thus the supplier had the choice of either terminating supplies to the offending grocer or providing his competitors with even lower prices. Given low manufacturer margins and the concentration of the grocery sector, either alternative could result in considerable financial difficulties and possibly even closure.

On the other hand, the multiples argued that below cost selling would not, in itself, lead to additional imports as the level of imports was governed by price assuming a given level of quality. Indeed, the inability to match retail competitors, who by way of special discounts were gaining a temporary competitive advantage by selling below cost, might encourage the importation of cheaper competing products from abroad. However, in its enquiry into the below cost selling of grocery goods in 1980, the Restrictive Practices Commission did not recommend a ban on below cost selling because the problems in the grocery trade have little to do with the prevalence of the practice. "We believe that the real causes of the problems must be looked for elsewhere, in the unequal power relationships which cause distortion and disequilibrium of trade, in the discriminatory application of terms and conditions and in the possible trend towards future oligopoly" (RPC 1980:67).

The 1980's continued to witness considerable change in the grocery market particularly in terms of the continuing concentration of the market and the organisation of the independent sector. The multiples continued to experience rapid growth in market share, accounting for 58% of the total market and 81% of the Dublin market by 1984 (Yates 1984). Tesco's entry in 1979 and rapid expansion in terms of new store development made a significant contribution to the increase in multiple concentration. The high multiple share of the Dublin market encouraged the expansion into other regions. This is reflected in the increase in the multiple outlet numbers from 84 in 1979 to 106 by 1986 throughout the rest of the country. Table 2.4 indicates that multiple outlet numbers increased by 63% over the seventeen year period 1970-1986 and that the entire increase occurred outside the Dublin area. Dublin did witness considerable change as many outlets were refitted to cater for emerging consumer trends and the substitution of new larger formats for existing retail stock.

Table 2.4

Multiple Outlet Numbers

		Number of Outlets	
Year	No. of Multiples	Total	No. in Dublin
1970	8	107	67
1972	8	128	NA
1975	6	137	69
1979	6	155	71
1986	6	174	68
1991	5	154	55
Source FTC 1991 (Table 13)			

The multiples' steady expansion into the provinces resulted in casualties in terms of both independent grocers and their organising agencies. The relentless growth in the multiple share of the market is shown in table 2.5. The data show the continual decline in the independent sector. However, during the early 1970's the share of trade accounted for by the symbol groups held up reasonably well. It is probable that their share would have been supported by

an inflow of new members from the independent sector. However, over time this flow would have diminished in terms of both numbers and quality. Thus in the early to mid 1980's we see a dramatic drop in the group share with two of the symbol groups, Merchants National Cooperative (1983) and A&O (1985) ceasing to trade, leaving four groups in operation.

Table 2.5

Market Share by Ownership in the Grocery Market

Outlet	1971	1975	1979	1984
Multiples	30	16	44	58
Symbol Groups	35	33	21	21
Independents	35	31	25	21
Total	100	100	100	100
Source: Yeats (1984)				

The multiple sector was dominated by five players, Dunnes Stores, Quinnsworth, Tesco, H.Williams and Superquinn with approximately 50% share of the market in 1982 (Yates 1984). The fact that two of these operators, Quinnsworth and Tesco, were foreign owned and had strong links with overseas supplying organisations, caused considerable concern for Irish manufacturers particularly in light of existing legislation in relation to below cost selling. It was suggested that while the Restrictive Practices Commission had the authority to demand supplier terms from companies within its jurisdiction it had no authority to obtain them from companies based overseas. Thus, it would be a relatively straightforward procedure to compete below cost using imported items.

The intense competition took its toll on even the larger of the multiple grocers, foreigners included, with Tesco, H.Williams, Moyletts and Five Star all departing the sector in the 10-year period 1977-1987. The concentration of multiple outlet ownership is presented in table 2.6 showing Power Supermarkets, in particular, increasing its outlet portfolio substantially.

This was achieved by its purchase of the Five Star chain in 1979.

Table 2.6

Trends in Multiple Shop Numbers

	1977	1983	1988	1991	1993
Power Supermarkets	36	65	68	69	70
Dunnes Stores	31	39	49	50	48
Superquinn	8	10	12	13	16
L&N	13	15	14	15	18
Roches Stores	4	5	6	7	8
H.Williams	17	13	0	0	0
Five Star	28	0	0	0	0
Tesco	0	14	0	0	0
Moyletts	4	0	0	0	0
Total	141	161	149	154	160
Source: Nielsen Retail Census 1994					

The exit of H.Williams had a significant impact in the Dublin area. the number of multiple outlets fell for the first time from 68 in 1986 to 55 in 1991 (Table 2.4). The main beneficiaries of H.Williams' closure in terms of market share were Quinnsworth and Dunnes Stores. AGB Attwood figures given in table 2.7 indicate that, while the multiples increased their share of the product fields reviewed by 7 percentage points from 58% to 65%, Quinnsworth and Dunnes Stores managed to achieve growth of 15 percentage points from 34% to 49% of the market over the period 1982 - 1986.

Table 2.7

Growth in the Market Share of the Two Largest Multiple Retailers

Period	Total Multiples	Dunnes Stores & Quinnsworth
1982, 4 Weeks to *(sic)* December	58	34
1983, 4 weeks to 8 October	57	35
1984, 4 Weeks to 6 October	59	34
1985, 4 Weeks to 5 October	64	43
1986, 4 Weeks to 4 October	65	49
Source: Attwood Consumer Panel as reported by Restrictive Practices Commission 1987		

Increasing concentration of the market was now beginning to cause growing concern. In 1986, the Restrictive Practices Commission was again requested to review the Groceries Order. Once again, the reasons for the request were political because the continued reduction in grocery establishment numbers was causing concern. To understand the climate within which the Commission was adjudicating it is worth examining the economic environment at that time.

Since the 1970's, the Irish economy experienced both periods of considerable growth and deep recession. During the mid 1970's to the early 1980's, Irish gross national product (GNP) grew rapidly at approximately 4 % per annum. This increase in income was reflected in the demand for retail services with corresponding average annual rates of growth in both grocery (7.0%) and total retail volumes (3.1%). However in 1982, the Irish economy entered a prolonged recession. GNP declined and indeed failed to recover to 1981 levels until 1987.

The impact on retail sales was immediate. Total retail volumes fell for three consecutive years and recovered to 1981 levels in 1989. Grocery volumes, accounted largely by food products, proved more resilient to the recession with continued growth until 1986. The primary factor underlying the continued growth in grocery volumes was probably the strong natural increase in population, which rose by 172,000 persons over the period 1980-1985. Moreover, given the low income elasticity of demand for food, falling incomes in addition to increasing population size saw the proportion of total expenditure on goods and services accounted for by food increase rapidly during the earlier part of the decade (Figure 2.1).

However, even grocery volumes stagnated over the four year period 1986-1989. Headcount

would appear to be a major contributory factor. Population growth ground to a halt in 1986 - 1987. The later part of the decade was characterised by increasing levels of net migration so that the total population declined by 30,000 persons over the period. That the typical emigrant tended to be relatively young and near the age of household formation would have had a two edged sword effect. First, this age group would have had above average per capita grocery expenditure while at the same time expected to produce the next generation of consumers. Thus, the changing composition of the population and the resurgence in GNP towards the latter part of the decade, resulted in a dramatic decline in food share of total expenditure from approximately 26% in 1982 to less than 20% by 1993.

Figure 2.1

Food as a % of Total Consumption Expenditure

Nevertheless, it is clear that during the mid 1980's grocery volumes held up much better than

food volumes alone (Figure 2.2). One possible explanation lies in the range diversification embarked upon by the supermarket trade expanding into new product areas, both food and non food, in ever increasing attempts to take advantage of economies of scope and obtain a larger percentage of the household weekly expenditure. This strategy, initiated by the major multiples during the late 1960's (FTC 1971), and continued throughout the 1970's and 1980's (FTC 1991), could not have been adopted with equal success by the small independent grocer given space constraints.

Figure 2.2

Food and Grocery (1990=100)

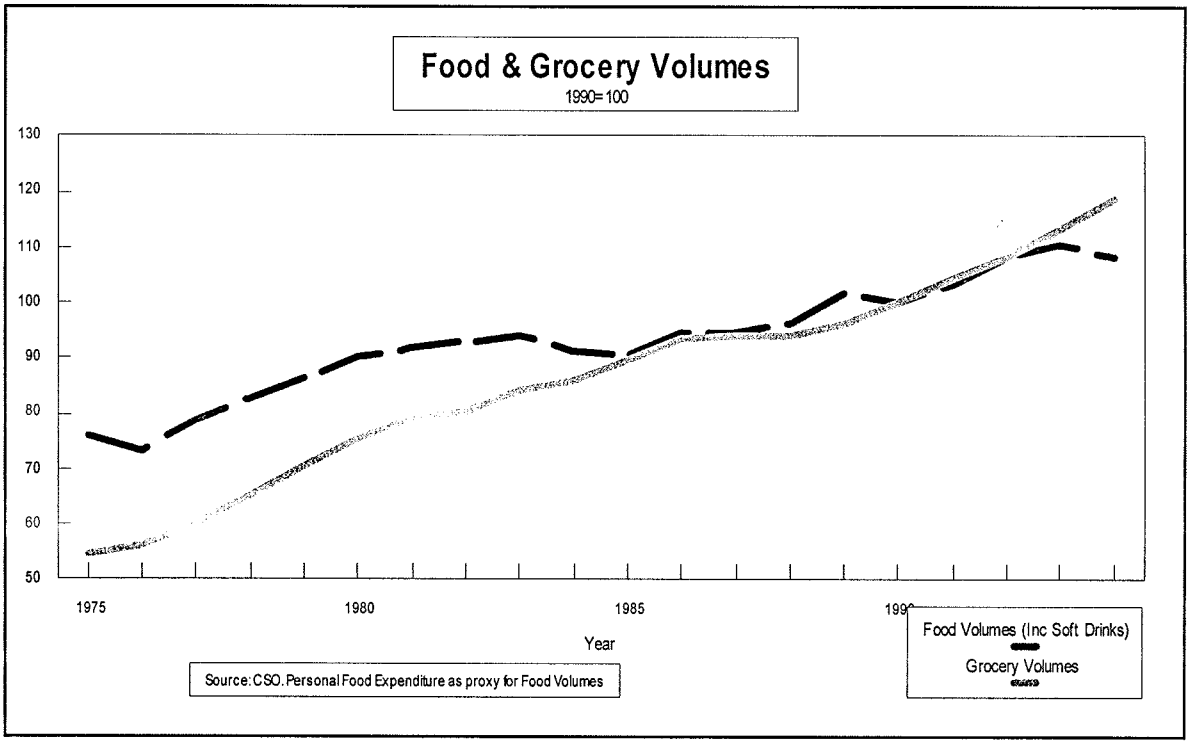

Table 2.8 captures some of the changes in retail outlet formats over the 1977-1988 period. The first feature to note is that the number of supermarkets grew by 86%. Retail selling space increased by 89%, representing an increase in average supermarket size of over 9%. Nevertheless, average supermarket size at just over 9,000 sq.ft. appears small when compared

with British multiple outlets. Some further information on store size was furnished by the Restrictive Practices Commission in its 1991 review, indicating that of the major multiples, Quinnsworth, Superquinn and L&N had most if not all of their store portfolio in excess of 8,000 sq .ft. Dunnes Stores, on the other hand had a substantial number of smaller outlets. Examining other grocery outlets it is clear that average size increased substantially, growing in the region of 34% over the period (table 2.8). Thus, despite a 29% decline in other grocery outlets numbers, actual selling space fell by less than 5%, indicating that those grocers leaving the sector were extremely small with little potential for diversification.

Table 2.8

Change in the Average Grocery Outlet Size

	1977	1988	% Change
Number of Supermarkets	250	466	86.4
Number of Other Grocery Outlets	7,305	5,176	-29.14
Supermarket Selling Space ('000 Sq ft)	2,100.9	3,975.1	89.21
Other Grocery Selling Space ('000 Sq ft)	3,007.2	2,865	-4.73
Averag Supermarket Size ('000 Sq ft)	8.40	9.18	9.24
Average Other Grocery Size ('000 Sq ft)	0.41	0.55	34.46
Total Selling Space ('000 Sq ft)	5,108.1	6,840.1	33.91
Source: Census of Distribution 1977, Census of Services 1988			

2.2.3 Government Intervention

In its 1987 report, the Restrictive Practices Commission calculated that the multiples' grocery sales increased by 38% over the period 1979-1985 while those of wholesalers declined by 12% in real terms (RPC 1987: Table 13). Thus, despite competing in a growing market, the independent sector displayed a continual inability to compete. This inability to compete is dramatically displayed in table 2.9, showing the rising level of concentration within the industry. In 1977, the top 2% of outlets accounted for an estimated 25% of the market. By

1993, these outlets accounted for 50% of food turnover (table 2.9). What is more remarkable is that in 1993, 50% of all food outlets accounted for only 6% of turnover, suggesting that the process of structural change is incomplete and that the industry will experience continued exit on a large scale.

Table 2.9

Concentration of Grocery Turnover

	% of Grocery Turnover				
% of Outlets	1977	1983	1988	1991	1993
2	25	39	48	49	50
5	37	53	58	60	61
10	47	62	66	68	70
20	61	71	75	78	80
50	84	87	89	93	94
100	100	100	100	100	100
Source: Nielsen Retail Census 1994					

Given the evidence, it became patently clear that the existing Groceries Order was completely ineffective in ensuring a level playing field between the multiple and independent grocers. Buying power held by the multiples could and was being used to achieve considerably more favourable terms and conditions from a weak and largely unprofitable Irish food manufacturing sector. In its recommendations to the government in 1980, the Commission had argued, that given existing constraints, to prevent below cost selling would not be in the interest of free trade. Nevertheless, it could foresee a situation where multiple concentration, by reducing the economic feasibility of the independent sector, might necessitate such a provision. The existing practice of below cost selling was believed to have had the effect of generating customer perceptions of lower multiple prices which did not match existing pricing structures. Moreover, many believed that these perceptions were the primary factor underlying the multiple retailers' increasing share of the market. The independent sector argued the prohibition of such practices would redress these perceptions and restore a level

of fairness to the trade.

By 1987, the Commission, swayed by the growth in market concentration, the rapid increase in the sale of own label goods and its associated change in the balance of power between grocers and their suppliers, decided to recommend the prohibition of selling below net invoice price inclusive of all discounts, rebates and allowances. "Hello money" or slotting allowances, as well as advertising allowances, being considered discriminatory and unfair, were also prohibited. Suppliers were to maintain a complete list of all terms and conditions, which were to be made available to the Director of Consumer Affairs and Fair Trade on request. However, the prohibition excluded a number of fresh and perishable products such as fresh and frozen meat and fish, fresh fruit and vegetables (FTC 1991). These recommendations were duly accepted and came into effect in late 1987.

In its review of the operation of the Groceries Order in 1991, the Restrictive Practices Commission argued that the perceived price differential between the multiples and other operators appeared to have diminished. While there were some isolated instances of intense price competition, it was generally held that the prohibition was being observed and that the nature of competition had shifted from a price to non price basis with more emphasis on store attributes, convenience and service (FTC 1991). It also appeared that the level of multiple concentration diminished over the 1986 - 1990 period (Table 2.10). The extent of this decline was considerably greater than that accounted for by the exit of H Williams with substantial gains recorded by both the symbol and independent sectors.

Table 2.10

Changing Market Shares in the Irish Grocery Market

	Dec 1983	Dec 1987	Dec 1994
Dunnes Stores	17.4	25.4	21.0
Power Supermarkets[1]	18.5	24.5	25.8
Superquinn	6.6	6.2	5.4
Tesco	8.4	0.00	0.0
Multiple (CR3)[2]	44.3	56.1	52.2

[1] Trading under Quinnsworth and Crazy Prices
[2]Combined share of the 3 largest multiple retailers
Source: Taylor Nelson AGB

While the combined share of the two largest multiple operators remained very substantial, competition was clearly evident. During the late 1980's, attempts by a number of multiples to increase margins encouraged Power Supermarkets to relaunch a number of their Quinnsworth stores under the Crazy Prices trading fascia. This fascia was intended to appeal to price conscious segment of the market. The fascia established its price position partly through a new range of generic products under the KVI label. The success of the format was such that by 1991, 20% of Power Supermarkets' outlets traded under Crazy Prices.

The limited data that exists supports the view that margins have increased since the prohibition of below cost selling. Table 2.11 displays grocery turnover, gross margin quantum and gross margin percentages for the years 1977, 1988 and 1991. The data suggests that margins increased slightly over the 1977-1988 period but then grew rapidly over the next three years increasing by some four percentage points. This observation was supported by two of the major multiples indicating that their gross margins had increased by approximately three percentage points since the ban (FTC 1991).

Table 2.11

Changing Grocery Margins

Year	Turnover ex VAT (£'000)	Gross Margin (£'000)	Margin %
1977	507,891	75,860	14.93
1988	2,093,905	327,868	15.66
1991	2,858,682	557,876	19.52
Sources: Census of Distribution 1977, Census of Services 1988, Annual Census of Services 1991			

However, it would be ill-judged to argue that the increase in gross margin was entirely attributed to the prohibition on below cost selling as one could also identify a number of other contributory factors. First, the exit of Tesco and its subsequent purchaser H. Williams from the sector may have reduced the intensity of inter multiple price competition. Second, it is plausible that rising incomes and changes in demographic trends changed the product mix towards more fresh and convenience type products. The increased costs of retailing these products would have required increased gross margins. In any case, the prohibition did not cover many fresh items including meat together with fruit and vegetables. Third, non-price attributes such as quality, range of products stocked and store ambience were becoming more important to certain sections of the consumer market. The multiple operators could not have responded to these requirements without the increase in gross margin. Nevertheless, recent empirical work points to a positive and significant relationship between the ban on below cost selling and grocery retail margins (Collins and Oustapassidis 1997).

The signing of the Competition Act in 1991 brought Irish competition law into harmony with that throughout the EU. Despite providing an opportunity for the removal of the Restrictive Practices Act, the new act made provision for retention of the Groceries Order. Indeed in its conclusion to the 1991 review of the Groceries Order, two of the three members of the Fair Trade Commission recommended the complete repeal of the Grocery Order and that

competition within the grocery sector should be subject to the Competition Act alone. However, the then Minister for Industry and Commerce decided to amend the Restrictive Practices Act, retaining the Groceries Order and those provisions facilitating the enforcement of the Order by the offices of the Director of Consumer Affairs and Fair Trade. The need for enforcement, according to the Director of Consumer Affairs and Fair Trade, was not necessarily to prevent below cost selling but to protect consumers against "price fixing and price maintenance arrangements" even though "even if the ban were removed, these other arrangements would continue to have a disadvantageous effect for the consumer and indeed might strengthen and solidify and replace any effect the ban might have" (Director of Consumer Affairs and Fair Trade 1991:11). The decision to maintain the Grocery Order was again reviewed in 1994 when, once again, the Minister decided on its retention for a minimum of two years after which time a further review would be carried out. The Order continues to remain in place today.

2.2.4 Consolidation

The 1990's continued to see continuing change in the retail sector. The enhanced performance in the economy appears to have resulted in increasing segmentation of the market particularly in Dublin, with the top end of the market served by Superquinn and Quinnsworth while the price conscious segment's requirements are met by Crazy Prices and Dunnes Stores. This fragmentation of the traditionally price conscious market has reduced Dunnes Stores global appeal while Power Supermarket's trading fascias, Quinnsworth and Crazy Prices, enabled it to chase both segments. This is one of the factors explaining Power Supermarket's considerable success in attaining an increasing share of the market at the expense of its

traditional major multiple competitor (Table 2.9). The symbol segment of the market continued to perform well during the early 1990's with Musgrave's accounting for the lion's share.

However, growth of the symbol sector halted and declined over the 1992 - 1994 period. One of the possible explanations for this reduction in share is given in table 2.12 which shows that the number of symbol outlets declined by 12% over the three year period 1988 - 1991. The reduction in symbol outlets was in part due to attempts to improve the quality of the retail stock, and members who were unwilling to make the required investments surrendered their trading fascia. The need to improve standards in the symbol sector is displayed by the increasing competition in the convenience market. This type of retail outlet, catering for top-up and distress shopping, was a relatively recent arrival to the Irish market. However, despite some relaxation in competitive pressures from the large multiples, the Seven-Eleven convenience group went into receivership in 1991. Moreover, new entry on a substantial scale has taken place on the petrol forecourt with Jet, Shell and Esso refitting most of their outlets to cater for this segment of the market.

Table 2.12

Shop Numbers by Trade Sector

	1988	1991	1993	% Change 1988/1993
Multiple	149	154	160	7.4
Symbol	1,134	999	1,015	-10.5
Independents	9,387	9,119	8,494	-9.5
Total	10,670	10,272	9,669	-9.4
Source: Nielsen Retail Census 1994				

Further concentration on the buying side occurred in the grocery sector in 1995, when Musgraves' acquired the L&N group of stores and subsequently sold off the individual outlets

to independent members trading under the Super Valu fascia. Roches Stores' decision to enter into an agreement with Musgraves in 1998 represented a further contraction of the multiple sector but also an increase in buying concentration. Both the purchase of L&N and the agreement with Roches Stores represent considerable defensive positions, given the potential entry of further British or European grocers into the market. The acquisition also prevented any of the remaining multiples from obtaining a more substantial foothold in many of the less populated parts of the country where the Super Valu trading fascia has dominated to date.

2.2.5 Private Label Products

During the early 1970's, it became clear that the use of private label as a means of price competition was gaining ground. Devoid of certain promotion and distribution costs private label products could be sold at considerably lower prices than existing brands. These products also tended to exist in well-established branded product categories and posed the greatest threat to secondary and tertiary brands. The supply of these products reflected their availability and consequently domestically sourced products were used where possible. However, there was concern that the limited size of the Irish grocery market would prevent the exploitation of economies of scale and that in such cases there would be a tendency to rely on imports (FTC 1972:99).

Manufacturers' response to these products was to increase below the line expenditure, providing an incentive to grocers to stock their products and attempting to maintain customer franchise (FTC 1972). There is evidence pointing to a trend for manufacturers to substitute below the line expenditure for advertising in the mass media, with the multiples obtaining the

lion's share (FTC 1972). The multiples' growing strength is further seen with the increase in supplementary terms with suppliers supplying merchandisers, preferential advertising allowances, cash discounts and extended credit (FTC 1972). There was also increasing concern about the adverse impact of extending credit facilities to the multiple grocers as many manufacturers were operating on very low margins and grocers ran the risk of over extending themselves.

By the late 1970's, the multiples had captured up to 40% of the Irish grocery market with approximately 70% in Dublin (RPC 1980). However, marketing strategy with respect to private label differed considerably among the main operators. Quinnsworth , the largest of the multiples in terms of outlet numbers with 69 stores in 1979, offered a very narrow range of private label products. Dunnes Stores, on the other hand, had a private label participation in the region of 40% of grocery sales in its 40 outlets. Estimates for H. Williams suggest that no more than 5% of its sales were accounted by private label in its 17 stores while Tesco, operating from 12 outlets, had a private label share of less than 1% of sales (RPC 1980).

The main concern with regard to private label products was that they would serve as a conduit for increased imports from companies abroad who were better placed to reap economies of scale in production. These fears proved unfounded and the market remained underdeveloped by the early 1980's. However, during the mid 1980's there was a noticeable shift in the strategy of the main multiples and symbol groups with increased emphasis placed on private label. By 1987, 50% of Dunnes Stores sales were accounted for by its private label brand St Bernard, 12% of Quinnsworth sales and 15% of Superquinn's (table 2.13) were accounted for by private labels. This suggests an estimated private label share of 15.6% for the three

firms combined. As expected, private label share varied significantly across product categories with markets characterised by low advertising to sales ratios, excess manufacturing capacities and low technical requirements displaying the highest shares. By and large, private label was sold at a substantial discount to existing brands frequently by up to 25 % (Atwood 1993). However, the strategic weakness in retailers' use of own brand is displayed in their propensity to switch into branded products when opportunities arose. For instance, Dunnes Stores share of own brand diminished significantly over the 1987 - 1993 period in response to the dramatic depreciation of sterling which reduced the relative price of imported brands.

Table 2.13

Private Label Shares in the Irish Grocery Market

	Share of Private Label	
	1987	1993
Dunnes Stores	50	29
Quinnsworth/Crazy Prices	12	16
Superquinn	15	20
Super Valu	NA	17
Total[1]	15.6	14.54
[1]Total calculated using share of markets (87, 93) DS 24%, 26%. QW/CP 23%, 26%. SQ 6%, 4%. SV NA, 17%. Source: AGB Attwood 1993		

In its investigation of the grocery trade, the Restrictive Practices Commission (1987) noted the rapid growth in private label sales in the multiples, symbol and wholesale sectors. It acknowledged that private label enabled the larger grocers to engage in the practice of "loss leaders" with relative ease and impunity under the existing legislation. The likelihood of a private label manufacturer withholding supplies was extremely remote, highlighting the flaws in the existing Groceries Order. However, the Commission also acknowledged that private label had proven to be of considerable benefit to a number of manufacturers entering the grocery trade. This was due to the negligible costs of brand development (RPC 1987). The Commission also noted that a certain degree of stability and loyalty existed between the

private label supplier and its retail customer.

However, as the nature of competition changed after the abolition of below cost selling, the use of private label also appeared to undergo a considerable strategic shift. Table 2.12 indicated that private label strategy tended to be volatile with large swings in individual grocer's share. It appears that Dunnes Stores availed of opportunities emerging from the 1992 currency crisis and the devaluation of sterling. This reduced the price of branded products relative to domestically produced private labels, resulting in a significant reduction in private label participation from 50% in 1987 to 29% in 1993 (AGB Attwood 1993). This suggests that the use of private label as a means of achieving a competitive price position was one of its major roles and, when conditions suited, private label could be removed or scaled down.

However, more recent events suggest that Dunnes Stores management have become more ambitious in their goals for their private label and attempted to reposition their St. Bernard label through high profile and well-advertised relaunches. Power Supermarkets on the other hand expressed a commitment to branded products in their Quinnsworth and Crazy Prices trading fascias, despite the development of two generic labels Yellow Pack and K.V.I. over the years (Pratt 1994). Indeed, the development of private label within this company could be described as haphazard at best, with up to three generic lines occupying the shelves at any one time. Despite stated assurances and commitments to brands, Power Supermarkets nevertheless launched a new range of own brand products in 1996 labelled Premium Choice.

In April 1997, Tesco Stores plc purchased the grocery arm of Power Supermarkets. The move took both the grocery and food manufacturing sectors by surprise. The implications for the

dynamics of internal competition within the grocery sector were considerable. First, the largest grocer in the country was now an international arm of the largest British food grocer with sales in the region of £14 billion sterling. This was approximately 14 times the size of the nearest competitor on the Irish market. Second, the company had at its disposal a sophisticated supplier base with a highly developed range of own brand products. Third, in addition to a range of value added own brand products, the company also had a range of price orientated generic products.

The impact on the manufacturing base was expected to be significant. The parent company's heavy reliance on own brand as a keystone of its overall retail strategy raised immediate concerns among indigenous branded manufacturers. The possibility of increasing own brand imports from UK based suppliers, displacing both Irish branded and own brand manufacturers, also raised concern and soon took a political dimension. After considerable dialogue and consultation with the government, Tesco made assurances to increase the supply of Irish produced goods and to increase trade with Irish suppliers by 40% by the year 2002 (O'Keeffe 1998). In 1998, goods supplied by Irish firms accounted for 40% of Tesco Ireland sales. This was comparable to Power Supermarkets in 1997 but was substantially lower than Superquinn (62%) and Musgraves (80%)(Humphries 1998).

2.2.6 Technology and the Irish Grocery Sector

One surprising feature of the evolution of the Irish grocery market has been its marked lack of investment in information technology. Investment in technology has been one of the major features of the development of the British market during the 1980's with significant impact

on retail manufacturer relationships (Hogarth-Scott and Parkinson 1993; Smith and Sparks 1993, Lynch 1990). Early attempts to introduce information technology to the grocery sector appear to have failed as evidenced by Musgraves' decision to dispose of its cash & carry computer systems in 1981 and return to manual accounting procedures (Business & Finance 1981). L&N was the first of the multiple grocers to trial scanning technology as far back as 1983 (O'Toole 1983). However, it is clear that the new technology failed to diffuse quickly throughout the industry. In its "IT Budget's Survey", Price Waterhouse estimated that the retail sector invested a mere 0.35% of total turnover in information technology compared with an industry average of 2.06% (Price Waterhouse 1992). Nevertheless, by the mid 1990's investment had begun to taken place, as the number of scanning outlets increased from 136 in 1991 to 192 in 1993 (Nielsen 1994). However, the strategic commitment to the use of technology has varied across the main multiples. Power Supermarkets and Superquinn were the first of the major multiples to invest while Dunnes Stores were latecomers commencing their rollout of scanners as late as 1994.

The Nielsen survey indicates that the independent sector has almost completely ignored investments in new technology. This was confirmed by Goodbody Stockbrokers (1995) who suggested that the lack of investment was based on a failure to grasp the benefits and potential that technology has to offer. However, the symbol sector, and Super Valu in particular, appeared to have readily embraced the new technology. By the end of 1995, 80% of members had introduced scanning technology. The close link between Musgraves and the Super Valu members enabled them to enjoy many benefits including access to price files, which may be amended at outlet level, and a recently introduced sales-based ordering system (Crowe 1996).

2.2.7 Summary

From the foregoing analysis, it is evident that the Irish grocery trade has undergone significant structural change since the abolition of resale price maintenance. The independent sector has declined dramatically in response to competition from the large multiple grocers but more recently emerging vertical relations between some retailers and wholesalers have led to growing stability in the marketplace. The nature of retail-manufacturer relationships has also evolved as competitive pressures increased and as regulatory authorities imposed their policies on the sector. The modes of competition within the retail sector have also evolved, reflected in periods of intense price competition but more recently in an apparent shift to non-price competition. The strategic use of own brand and retailers' use of information technology as potential sources of competitive advantage have tended to be ignored. This, as we shall see, is in marked contrast to the evolution of the British retail market.

2.3 The Food Manufacturing Sector

Having reviewed the grocery sector, it is now appropriate to examine the structure of the food manufacturing industry. The purpose of this section is to ascertain the importance of the industry to the Irish economy, its structural characteristics, its level of dependency on both the domestic and export markets and its relationship with the grocery trade.

2.3.1 An Overview of the Food Manufacturing Sector

The food manufacturing sector's contribution to the performance of the Irish economy is highlighted in table 2.14. Until the early 1990's, the sector's contribution to industrial production and employment was relatively stable accounting for approximately 20% of both manufacturing employment and net output generated within the country. While both these shares declined during the 1980's, some commentators have argued that a substantial proportion of the reduction may be accounted for by rationalisation with various functions contracted out to the services sector (NESC 1993). One example is the widespread contracting out of the milk collection function within the dairy sector. Another factor underlying its diminishing share are the various production constraints, e.g. milk quotas, imposed on agriculture and limiting the amount of raw material available to the manufacturing sector. However, the mid 1990's saw a dramatic shift in the balance of production with non food manufacturing growth exceeding food growth to a considerable degree.

Table 2.14

The Importance of the Food Manufacturing Sector

Year	Food Sector		Total Manufacturing		Food Share %	
	Net Output £'000	Employment	Net Output £'000	Employment	Net Output	Employment
1973	158.20	46,195	701.60	207,568	22.6	22.3
1980	614.10	47,647	2,771.80	226,800	22.2	21.0
1987	1,466.00	37,466	6,496.60	183,516	22.6	20.4
1990	1,828.30	36,861	8,911.60	194,177	20.5	19.0
1996	3,140,692	40,540	19,483,250	244,585	16.12	16.6
Source: Census of Industrial Production. Various						

However, despite these downward trends, its contribution to the balance of payments ensures that food production played and continues to play an integral role in the development of the Irish economy. More importantly, the vertical relationships that exist between the agricultural and food processing sectors adds to its strategic importance. The high utilisation of indigenous resources and propensity to import is demonstrated in table 2.15.

Table 2.15

Usage of Irish Produced Materials in the Production of Gross Output

Industrial Sector	Materials Used £'000	% Irish
Meat	2,059,081	96.5
Dairy	1,733,046	92.4
Fruit & Vegetables	77,881	57.3
Fish Products	134,627	85.6
Other Food	635,897	63.0
Total Food	5,116,795	89.1
Total Manufacturing	15,858,303	53.0
Source : Census of Industrial Production (1990) Note from the Census: These figures may contain some degree of imprecision due to the varying interpretation of intervention sales made by respondents		

It indicates that almost 90% of all materials used in the production of the food manufacturing sector are Irish produced, which is significantly higher than the 53% average for the

manufacturing industry as a whole.

Industrial policy throughout the 1970's and 1980's failed in many instances to single out the food industry for particular attention. Instead, government actions favoured to exert political pressure at European level ensuring that the Common Agricultural Policy (CAP) maintained farm incomes through the price and income support mechanisms at its disposal (Kennedy et al 1989). Nevertheless, the food sector did manage to obtain approximately one third of all of grant aid to indigenous industry through the various incentive programmes in operation during the 1970's and early 1980's (NESC 1982).

While this may appear substantial, it must be taken in the context where funds approved for indigenous industry accounted for only one third of all funds approved over the period. Moreover, much of the grant aid was directed towards fixed assets and low risk investments compared with the more risk laden aspects of market development. Finally, it is clear that during the 1970's and 1980's, government policy towards the food sector failed to address the strategic need for greater co-ordination between the primary producer and the processing sector. Over time, much of the country's agricultural output was produced in response to CAP pricing regimes and failed to reflect the needs of the processing sector, the long term competitiveness of which would be dependent on its ability to meet real market needs.

Prior to entering the EEC, indigenous Irish manufacturing had failed to establish a competitive position in internationally traded value-added product markets. Having joined the EEC in 1973 along with the United Kingdom, it is surprising that a review of the period immediately after entry does not indicate as fast a growing food sector as might be expected as the initial benefits of EEC membership and the CAP were exploited. While net output grew at a

satisfactory rate, employment growth failed to reflect this buoyancy. Indeed, total manufacturing annual growth rate exceeded that of the food sector in 1976 and continued to do so until 1982. This is surprising given the substantial restructuring and job losses in other traditional manufacturing sectors such as textiles and footwear as a result of more liberal trading conditions (Ruane 1987). A brief digression may serve to highlight some of the structural difficulties that faced the food processing sector and acted as inhibitors to accelerated growth.

Climatic conditions and the relatively long growing season favours grass-based food production systems and underpins the dominant positions of both the Irish dairy and beef sectors within the Irish food industry. However, such production systems being tied to the growing season impose significant constraints on the processing sector. To achieve minimum production costs at farm level, output distribution must reflect the availability of cheap grass. Milk production and beef slaughtering have historically tended to follow a strong seasonal pattern with peak milk production during the summer and peak slaughtering during the autumn and early winter months. To process this peak in supply, significant investments in capital equipment have been made by both sectors. In effect, the less capital intensive farm operation is compensated for by a relatively highly capital intensive but under-utilised processing sector. In the case of milk, its short shelf life means that it requires immediate processing. Thus, the product portfolio favours long-life products such as butter and skimmed milk powder, the prices of which are supported by the CAP. The seasonal supply pattern is not conducive to the production of short life products required on a year round basis, imposing stringent constraints on the marketing function. In turn, the CAP has historically tended to encourage this seasonal production pattern through its guaranteed markets, resulting in a

limited dairy product portfolio and a high degree of dependency on CAP support mechanisms (PA Consulting 1992; NESC 1982). Moreover, the ownership structure of the sector through the co-operatives, generated a short term orientation whereby immediate returns to farm level were sought through the milk price. Thus, the processing sector rarely managed to obtain either the necessary financial resources or balanced supply of raw materials to achieve the longer term aspiration of a competitive industry with reduced dependency on the EEC.

Similar problems are experienced by the beef sector with highly seasonal slaughtering patterns and sub-optimal capacity utilisation at each stage of the beef supply chain. Second, the operation of the CAP through some of its support mechanisms has had the effect of increasing the cost of raw materials to the processing sector, thereby increasing the incentive to export unprocessed and commodity type products. The difficulties of developing non CAP dependant markets were also compounded by the quality of raw material produced at farm level. There is evidence to suggest that only 10% of beef processed in the early 1980's was of a sufficient quality standard to meet UK supermarket requirements and that many processors found themselves unable to source sufficient quantities of suitable raw material to utilise their vacuum packing capacity (NESC 1982). This inability to develop new autonomous markets resulted in a particularly heavy reliance on the CAP with an estimated 29% of all processed beef going into intervention over the 1974 - 1984 period (NESC 1982) in addition to extensive use of highly subsidised third country exports.

During the 1980's the sector concentrated with a small number of large operators dominating the industry and achieving sufficient size to enjoy economies of scale. This concentration process also assisted the formation of relationships with key buyers. This probably provided

the foundation for the industry's one notable success, the development of its vacuum packed beef, achieving 10% of the UK beef market through the main supermarket multiples by 1992 (P A Consulting 1992).

Many commentators argued that the most important components of the food sector, dairy and meat, failed to achieve growth due to their failure to upgrade their product mix away from standard low value added bulk commodities produced subject to seasonality constraints (Kennedy et al 1988; NESC 1992). However, other factors, such as the limiting size of the domestic market, lack of marketing expertise, peripherality, logistics expenses, domestic packaging and energy costs, have all contributed to the failure of indigenous industry to achieve growth through the development of value-added export markets. The inability to develop successful brands and achieve brand premia, particularly in the UK market, suggested that branding, with its associated risks, was not the most appropriate development route for much of the processing sector (NESC 1982). Thus, the Irish export portfolio tended to consist of either bulk, commodity type products produced by indigenous companies or more value-added type products produced by Irish located multinational companies with greater logistical and marketing expertise.

Given the limited size of the domestic market relative to its production capabilities, the Irish food manufacturing sector has, by necessity, adopted an export orientation, albeit underpinned by the CAP. An immediate implication is that much of the processing sector has been less dependent on domestic marketing channels and domestic grocers than might be imagined. The sectoral level of dependency on the domestic market has already been highlighted in table 2.15. Certain sectors such as bread and bread confectionery exhibit a much greater degree of

dependency on the domestic market and a higher degree of import penetration.

However, components within sectors display wide variation in dependency. For instance, the poultry component of the meat sector is highly dependent on the domestic market, accounting for 80% of its sales in 1991. Poultry processing is highly concentrated with six companies accounting for 90% of the industry's sales but competition is intense, heightened by the development of own label (P A Consulting 1992). The pork processing sector experienced rapid growth during the late 1980's with three of the large dairy co-operatives diversifying into the area. An interesting feature of this product area is its more balanced portfolio, selling substantial quantities of product into the British market under own label while adopting a branded strategy on the domestic market.

An analysis of export destination indicates that Great Britain[1] is of particular importance to the Irish food manufacturing sector (Table 2.16). While Britain's share of exports has declined it remains the single most important market for food exports. In 1980, it accounted for 38.4% of all Irish food exports falling to 30.2% in 1994. This reduction in share has largely been the result of concerted efforts to develop new export markets with other EU member states. We also see that dependency on the British market varies by product category. Although the fruit and vegetable sector accounts for a small proportion of total food exports, it is particularly dependent on the British market. This reflects the recent emergence of the mushroom industry which has strong markets with the large multiple grocers. In 1990, the mushroom industry sold 76% of its exported produce into the British market accounting for

[1] Great Britain consists of England, Scotland and Wales while the UK consists of the United Kingdom of Great Britain and Northern Ireland. Where possible trade data with Great Britain is used due to the primary interest in the interaction between Irish food manufacturers and the major British grocery multiples. Given that the period reviewed does not include trading periods by these companies in Northern Ireland, reference

48% of all fruit and vegetable exports. By 1994 mushroom exports had increased by 35% in sales value, 99.5% of which were destined for the British market, accounting for 50% of exported fruit and vegetables (CSO Trade Statistics). Another small component of the export trade, coffee, tea, cocoa also relies heavily on the British market. The main products in this category are chocolate and chocolate products produced by multinational companies situated in Ireland.

Table 2.16

Irish Food Exports and the British Market

		Breakdown of Irish Food Exports %			GB Share of Irish Food Exports (%)		
SITC		1980	1990	1994	1980	1990	1994
01	Live Animals	13.06	7.05	4.37	22.7	22.9	20.6
02	Meat	42.09	28.78	28.35	44.6	29.3	27.6
03	Dairy & Eggs	20.35	18.04	17.85	42.2	36.1	32.9
04	Fish	2.82	5.33	4.30	19.4	6.4	8.2
05	Cereals	3.01	3.40	2.50	21.4	24.1	64.8
06	Fruit & Vegetables	1.75	2.47	2.14	49.8	54.4	77.2
07	Sugar Products	2.68	2.27	1.56	30.9	35.2	28.3
08	Coffee, Tea.	3.21	5.26	3.49	83.1	88.8	90.8
09	Animal Feed	2.14	1.65	1.51	64.4	39.8	46.1
10	Misc Food Preps.	8.89	25.78	33.95	12.7	22.2	22.5
	Total	100.0	100.00	100.00	38.4	30.9	30.2
Source: CSO Trade Statistics various years							

Given that their absolute size accounted for 46% of all Irish food exports in 1994, the dairy and meat sectors' dependency on the British market assumes particular importance. Furthermore, British acquisitions by many of the dairy and beef companies underpins the strategic importance of the British market to the Irish food manufacturing sector and establishes particularly strong linkages between the markets.

In 1994, the dairy and meat sectors accounted for 45% of all food exports to Britain in terms

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to Great Britain is deemed more appropriate

of value. The meat sector's dependency on the UK market varies considerably across species. Britain is the most important commercial market for beef products. In 1990, Irish beef exports were estimated at 370,000 tonnes of which 25% went into the British market. Closer links with the British multiples is suggested by the fact that 45% of these exports were in the form of value-added vacuum packed sales (CBF 1991). By 1994, export volumes had increased to 600,000 tonnes of which 150,000 tonnes were from intervention stocks. Approximately 25% of these exports or 37.5% of commercial exports went to the UK market (An Bord Bia, 1995).

The Irish sheepmeat trade has traditionally been heavily dependent on the export market and France in particular. In 1990, for example, the French market accounted for 68% of sheepmeat produced and 90% of exported product (CBF 1991). By 1994, France accounted for 75% of exported sheepmeat sales or 61% of sheep output (An Bord Bia 1995). On the other hand, the Irish pigmeat sector displayed a high degree of dependency on the domestic market until very recently. In 1988, for instance, 70% of Irish pig production was destined for the Irish market. However, rapid expansion of the sector, from a herd size of less than 100,000 head in 1988 to in excess of 1.5 million in 1993, required substantial development of export markets. While new markets were developed for much of this additional output Britain continues to be the most important export market, accounting for 50% export tonnage during 1994 (An Bord Bia 1995).

As discussed earlier, the dairy sector's product portfolio has traditionally been highly dependent on commodity type products supported by the common agricultural policy and with commercial market returns broadly following returns on the world dairy market. The sector's

continued dependency is indicated by the fact that in 1992, 60% of Irish whole milk was utilised in the manufacture of butter while 43% of skim milk went into milk powder production (Residual Milk Marketing Board (RMMB), 1995). In 1994, butter accounted for 61.7% of whole milk utilisation, excluding liquid milk, while skim milk powder utilised 44% of skim milk (Irish Dairy Board (IDB) 1995).

The sector has enjoyed some success with the continual development of its "Kerrygold" brand on export markets through the efforts of the Irish Dairy Board. The Board has a strong presence in the British market through the Adams Group, its wholly owned subsidiary, which packs cheese, manufactures processed cheese and distributes both branded and private label products to its retail and food service customers (IDB 1995).

Considerable progress has been made by the Kerrygold Company, which has achieved the status of second largest pre-packed cheese supplier in the UK market with a 10% share of the processed cheese market (IDB 1994). However, British trading conditions have become increasingly more difficult over recent years and market returns have failed, on occasion, to meet intervention equivalents (IDB 1991). Underlying factors were the static consumer demand for traditional dairy products, the rise in retail concentration, competition generated by the expansion of private label products and UK milk pricing policies as organised by the former Milk Marketing Board. Decisions as to the continued support of the Kerrygold brand in the UK market were regularly reviewed and that support was contingent on the belief of better times ahead (IDB 1991)(IDB 1992). The Board also operates its own distribution service, IDB Benelux, on the continent. This gives it a significant presence in the Belgian and German markets. The importance of the German market is attested to by the fact its is now

the single largest market for Irish butter sales and has been the Board's largest branded market since 1991. In 1994, the Kerrygold brand held a 10% share of the German butter market (IDB 1995).

2.3.2. The Structure of the Irish Food Manufacturing Sector

The structure of the Irish food manufacturing industry is presented in table 2.17. The variables examined are the numbers of establishments, which relate to plants as against companies, which may operate from a number of plants, engaged in manufacturing. Total employment, or persons engaged, gross output and net output, defined as the difference between gross output and industrial input, are also provided. One of the first features to note is that during the period 1980-1990 the number of establishments engaged in food production declined by over 12.6% or by 110 plants. Since then the number of plants has remained stable but micro firms, those employing less than 20 persons, continue to suffer falling plant numbers. On the other hand, large firms, employing more than 200 persons had the largest reduction in proportionate terms declining by 32.6% over the 1980-1990 period but have recovered well since.

Table 2.17

Size Structure of the Irish Food Manufacturing Industry

Number of Establishments

Number of Employees	1980	1985	1990	1996	% Change 1990/96	% Share 1980	1985	1990	1996
0-19	479	435	409	363	-11.2	54.7	54.0	53.5	47.7
20-49	181	173	166	184	10.8	20.7	21.5	21.7	24.2
50-199	169	163	159	172	8.2	19.3	20.2	20.8	22.6
200+	46	34	31	42	35.5	5.3	4.2	4.1	5.5
Total	875	805	765	761	-0.5	100	100	100	100

Employment

Number of Employees	1980	1985	1990	1996	% Change 1990/96	% Share 1980	1985	1990	1996
0-19	4,471	4,047	3,819	3,265	-14.5	9.4	10.3	10.4	8.1
20-49	5,826	5,581	5,316	5,686	7.0	12.2	14.2	14.4	14.0
50-199	17,001	16,606	15,574	16,501	6.0	35.6	42.3	42.3	40.7
200+	20,454	13,013	12,152	15,088	24.2	42.8	33.2	33.0	37.2
Total	47,752	39,247	36,861	40,540	10.0	100	100	100	100

Net Output £'000

Number of Employees	1980	1985	1990	1996	% Change 1990/96	% Share 1980	1985	1990	1996
0-19	54,305	72,580	87,203	88,552	1.5	8.9	6.5	4.8	2.8
20-49	70,331	134,420	164,425	237,016	44.1	11.5	12.0	9.0	7.5
50-199	265,544	602,189	1,122,135	1,166,568	4.0	43.3	53.8	61.4	37.1
200+	223,406	310,250	454,520	1,648,556	262.7	36.4	27.7	24.9	52.5
	613,586	1,119,439	1,828,283	3,140,692	71.8	100	100	100	100

Gross Output £'000

Number of Employees	1980	1985	1990	1996	% Change 1990/96	% Share 1980	1985	1990	1996
0-19	242,746	331,537	412,504	367,519	-10.9	8.5	6.9	6.5	4.3
20-49	330,903	677,187	801,606	1,013,189	26.4	11.6	14.1	12.6	11.9
50-199	1,177,762	2,418,098	3,337,695	3,653,598	9.5	41.3	50	52.3	42.8
200+	1,102,217	1,365,572	1,834,635	3,511,887	91.4	38.6	28.5	28.7	41.1
Total	2,853,628	4,792,394	6,386,440	8,546,193	33.8	100	100	100	100

Gross Margin: Net Output as % of Gross Output

Number of Employees	1980	1985	1990	1996
0-19	22.4	21.9	21.1	24.1
20-49	21.3	19.8	20.5	23.4
50-199	22.5	24.9	33.6	31.9
200+	20.3	22.7	24.8	46.9
Average	21.5	23.4	28.6	36.7

Source: Censi of Industrial Production

An examination of employment figures indicates the substantial reduction in employment throughout the 1980's. However, the reduction in employment in the food sector is probably overstated. During the 1980's many components of the food industry underwent a substantial rationalisation process with a series of mergers and take-overs. In addition to closing smaller and less efficient plants in ever increasing attempts to achieve economies of scale, many companies refocused their activities and contracted out many peripheral functions. Thus, some of the reduction in manufacturing employment would be compensated by increases in the services sector. Despite this the food sector has displayed substantial growth throughout the 1990's with the larger firms dominating.

The clearest feature to emerge from the above is the decline in the relative importance of micro firms in terms of establishment numbers, employment, gross output but most notably net output. Large firms, and those employing in excess of 199 persons, despite experiencing considerable difficulties throughout the 1980's, have recovered well showing substantial growth in all the variables reviewed.

Table 2.18 outlines the changes in the structure of the meat and dairy sub-sectors over the period 1980-1996. The key feature to note with respect to the meat sector is the growing importance of large firms. Despite suffering considerable rationalisation during the 1980's, the number of large plants has increased throughout the 1990's generating substantial increases in the numbers employed, net output and net output per person employed.

Table 2.18

Size Structure of the Irish Food Industry by Sector: Meat

Number of Employees	Number of Establishments				Employment			
				% Change				% Change
	1980	1990	1996	1990/96	1980	1990	1996	1990/96
0-19	42	38	47	19.15	354	391	426	8.22
20-49	27	34	43	20.93	873	1,220	1400	12.86
50-99	20	22	27	18.52	1,473	1,637	2030	19.36
100-199	25	27	28	3.57	3,507	3,716	3878	4.18
200+	16	12	19	36.84	5,234	3,733	6111	38.91
Total	130	133	164	18.90	11,441	10,697	13,845	22.74

Number of Employees	Net Output £'000				Net Output Per Person Engaged £'000			
				% Change				% Change
	1980	1990	1996	1990/96	1980	1990	1996	1990/96
0-19	8,497	10,844	12,864	15.70	24.0	27.7	30.2	8.16
20-49	9,649	32,959	40,913	19.44	11.1	27.0	29.2	7.56
50-99	18,155	44,578	64,043	30.39	12.3	27.2	31.5	13.68
100-199	38,320	109,542	153,267	28.53	10.9	29.5	39.5	25.41
200+	51,022	84,741	191,657	55.79	9.7	22.7	31.4	27.62
Total	125,643	282,664	462,744	38.92	11.0	26.4	33.4	20.94

Size Structure of the Irish Food Industry by Sector: Dairy

Number of Employees	Number of Establishments				Employment			
				% Change				% Change
	1980	1990	1996	1990/96	1980	1990	1996	1990/96
0-19	26	29	39	25.64	273	245	349	29.80
20-49	26	25	20	-25.00	981	805	671	-19.97
50-99	15	25	28	10.71	1,060	1,777	1911	7.01
100-199	19	10	12	16.67	2,452	1,373	1630	15.77
200+	10	8	10	20.00	5,397	3,440	3546	2.99
Total	96	97	109	11.01	10,163	7,640	8,107	5.76

Number of Employees	Net Output £'000				Net Output Per Person Engaged £' 000			
				% Change				% Change
				1990/96				1990/96
	1980	1990	1996		1980	1990	1996	
0-19	3,580	8,638	9,045	4.50	13.1	35.3	25.9	-36.04
20-49	13,553	32,793	38,496	14.81	13.8	40.7	57.4	28.99
50-99	11,751	57,394	80,754	28.93	11.1	32.3	42.3	23.57
100-199	38,152	73,321	118,533	38.14	15.6	53.4	72.7	26.56
200+	66,808	196,639	215,071	8.57	12.4	57.2	60.7	5.75
Total	133,844	368,785	461,899	20.16	13.2	48.3	57.0	15.28

Source: Census of Industrial Production

The dairy sector underwent substantial restructuring during the 1980's with a large reduction in the number of plants employing more than 100 persons. This rationalisation, achieved largely through merger activity, paid immediate returns resulting in a very substantial increase in net output per person employed over the decade. The rationalisation also had a profound impact on the distribution of employment. In 1980, 23% of those employed in the dairy sector worked in plants with less than 100 employees, while by 1990 these plants accounted for 37% of persons employed by the sector. Since 1990, the micro firms have continued to increase both in terms of establishment numbers and employment. However net output has failed to keep pace. An examination of net output performance indicates that firms in the 50-199 employee categories currently display most growth.

The bread, biscuits and flour confectionery sub-sector endured the most radical restructuring of all during the 1980's. One of the principal agents underlying the process was the grocery sector. The primary reason for this was the bakery sector's dependence on a very limited product portfolio. Approximately 42% of sales were accounted for by basic white bread products. The sector also relied heavily on government support in the form of the bread subsidy paid on bread production. Estimates suggest that the subsidy exceeded total wage costs during the early 1980's (Sectoral Development Committee 1990). The subsidy was removed over the 1984-1986 period removing the substantial crutch to less efficient operators in the industry. However, advances in baking technology in the early 1980's, gave new entrants to the sector, lured in part by the bread subsidy, considerable cost advantages over existing but less efficient operators. This was particularly so in the large-scale production of standard white bread.

One of the new entrants, Neville (Bros) of Dublin and Macroom, is of particular interest in that it represented backward integration by the Dunnes Stores organisation into the bakery sector. In light of existing legislation, control of its own baking facilities gave Dunnes Stores a considerable advantage in stimulating intense price competition. Consequently, the bread price war among the main grocers during the late 1980's focused primarily on the standard while loaf of bread, with substantial repercussions for the sector. Although bread volumes failed to increase, the share of private label bread rose to 97% in Dunnes Stores, 52% in Quinnsworth and 45% in other chains in 1989 (Sectoral Development Committee 1990). The growing leverage of the multiples and Dunnes Stores' production capacity resulted in rapidly reduced producer margins. Over the 1980-1990 period, the number of establishments declined by 94 plants representing a decrease of 29%. However, employment was more severely affected falling by almost 42%, the vast majority of which came from the larger plants, particularly those employing more than 200 persons. While bread consumption in general is expected to continue to decline throughout the 1990's, there are a number of speciality areas such as morning goods and fresh dough products which are forecast to increase (P A Consulting 1993). These product areas have developed rapidly in line with the introduction of instore bakeries in retail outlets and the more recent innovation of bake-off products.

The biscuit segment of the industry, accounting for approximately 40% of the Irish market, is evenly divided between domestically produced output and imports. The high exposure to and penetration of imports, particularly the strong brands from Britain, makes the sector a particularly difficult market (Sectoral Development Committee 1990). Furthermore, its poor track record in the export market and the increasing participation of the retail sector in the production of baked products suggests that the prospects for the bakery and flour

confectionery sector are rather grim with further rationalisation expected.

Thus it is clear that the food industry experienced considerable restructuring during the 1980's, with a notable decrease in the importance of large establishments in favour of medium-sized plants. The substantial amounts of grant aid made available to the sector over the period for fixed asset investment would also have encouraged the substitution of capital for labour. The importance of the micro and small food establishment also increased in line with its rising share of manufacturing employment. However since the beginning of the 1990's, large plants have made a resurgence suggesting that scale issues have again come to dominate the structure of the industry. Nevertheless, the industry continues to suffer from scale-related difficulties. The large number of small and medium-sized enterprises inhibits cost competitiveness and access to markets. It is also a barrier to investment in product/process innovation and in the development of human resources (Department of Agriculture and Food 1998a).

2.4 Manufacturer Dependency and the Grocery Market

At this stage it is appropriate to explore the dependency relationships that exist between the Irish food manufacturing sector and its customers in both the domestic and foreign grocery industries. Limited data exist on these relationships. However, given the nature of the research question, one of the first issues to be addressed is whether or not the Irish food manufacturing industry can serve as an appropriate sampling frame for the analysis. In the next chapter it will be shown that the determinants of power and dependency relations are closely aligned. Consequently, to explore power relations, some preliminary insights must be gained into the factors that are likely to either promote or inhibit Irish food manufacturers'

dependency relations with their retail customers. To redress this limitation in the existing body of research, much of the following analysis is based on empirical research carried out over the course of the initial stages of this research (Collins and Burt 1999).

It is interesting to note that the 1984 White Paper on industrial policy singled out the indigenous grocery trade as occupying a crucial position in the food chain (Government Publications 1984). Its immediate proximity to the customer and its access to market information could prove invaluable to the food manufacturing sector, which was struggling in its attempts to develop a product portfolio less dependent on commodity type products. Furthermore, the presence of foreign-owned grocers in the Irish market also offered the opportunity of developing export markets based on trade relationships developed initially in Ireland but expanding over time to embrace the foreign-based head offices.

In its 1987 review of the grocery market, the Restrictive Practices Commission noted that the Irish food manufacturing sector was weak and not sufficiently profitable. Furthermore, it noted that the scale of purchases by the Irish multiples ensured that the loss of a major customer could prove disastrous to the wellbeing of an individual firm (RPC 1987). In its analysis of the market, the Commission obtained a set of data from manufacturers and suppliers to the grocery trade illustrating their dependency on the various multiple operators. The data is given in table 2.19.

Table 2.19

Manufacturers' Dependency on the Indigenous Multiple Sector: % Sales (1986)

Manufacturer	Dunnes	Quinnsworth	H.Williams /Tesco	Superquiinn	L&N/Roches	Multiples Total
Market[1]	22.0	22.0	9.0	6.0	N/A	65[2]
1	7	8	5	3	3	26
2	28	13	8	5	-	54
3	26	16	8	7	5	62
4	1	15	4	4	3	27
5	15	25	12	8	6	66
6	16	15	9	2	3	45
7	3	5	3	2	1	14
8	14	9	4	2	5	34
9	26	15	3	2	5	51
10	4	8	3	2	3	20
11	14	21	6	7	6	54
12	17	18	1	6	4	46
13	20	26	6	9	5	66
14	17	21	9	6	4	57
15	12	22	9	7	6	56
16	18	19	9	7	5	58
17	9	20	8	5	5	47
18	24	18	4	6	4	56
19	14	9	4	5	3	35
20	14	18	16	10	4	62
21	22	23	8	5	4	62
22	12	18	6	5	4	45

Source: RPC 1987 (Table 11)
[1] Grocery market shares taken form Taylor Nelson AGB.
[2] Overall market share as reported in table 2.7

While we have no information on the how representative the data is, a number of interesting features emerge. First, the level of dependency on a given multiple operator does not appear to be particularly high. In general, dependency on a given retailer appears to be lower than the grocer's share of the packaged goods sector as measured in row one. This is most notable with respect to Dunnes Stores and Quinnsworth. Second, there is no evidence of vertical restraints. With only one exception, all the manufacturers in the sample trade with each of the multiple operators.

However, with the exception of manufacturers 4, 7 and 10, all remaining manufacturers

display a considerable exposure to either Quinnsworth or Dunnes Stores. In other words, if any of these firms were to lose one of these customers it would be unlikely to find a sufficient outlet to compensate for loss in sales in the multiple sector. Thus, for instance, if manufacturer number 13 were to lose its account with Quinnsworth, it would have to either increase it trade with Tesco and H. Williams fourfold or double its trade with Dunnes Stores. It is plausible to assume that the price reductions necessary to generate such a new distribution of sales would be prohibitive. However, the impact of a lost account of this scale is critically dependent on the capital intensity of the manufacturing firm. A manufacturer, with high fixed costs and dependent on marginal sales for contribution, would be more exposed than a company with a high proportion of variable costs to fixed costs. The manufacturer, with a greater proportion of variable costs, might be in a position to reduce output and variable costs accordingly thereby maintaining viability.

Similar data but for a larger sample size is available for 1990 (Table A2.1 in appendix A2). The manufacturing firms surveyed accounted for total grocery sales in the region of £1.3 billion, a very substantial share of the grocery market. One of the features to emerge here is the prominence of the Musgrave group. Although the 1986 survey focused explicitly on the multiples and did not report on the wholesale operators, developments over the period would have necessitated that the 1990 survey fill this particular gap in its coverage. The limited like-for-like data suggests that those companies trading with Quinnsworth in 1986 and continuing to trade with them in 1990 had increased their dependency on the grocer. Those trading with Dunnes Stores on the other hand show a broadly similar if not lower level of dependency than earlier. Another feature worth noting is that a few manufacturers appear to have specialised in serving the largest two multiples almost exclusively. Firms numbers 39 and 50 in table

A2.1 serve Quinnsworth and Dunnes Stores almost exclusively, although the differential in shares suggest that one or both of the grocers may source their product from more than one company. In contrast to these manufacturers, there are others who serve one but not both of the big two. Manufacturer 44 for instance carries out 40% of its business with Dunnes Stores but none with any of the remaining multiples while firm 57 does 53% of its business with Quinnsworth. It is possible that these companies were engaged in private label production.

However, as in the earlier sample, the level of dependency does not appear unduly high. Nevertheless, the Commission's survey focused on the largest suppliers to the trade and as such may have failed to represent private label manufacturers, which are likely to be considerably smaller than those reported. The other possibility is that private label products are imported, in which case the level of dependency reported stands (FTC 1991).

In its review in 1991, the Commission reports that suppliers and manufacturers attributed the removal of discriminatory practices to the ban on below cost selling (FTC 1991). The frequency of delisting, the grocer's ultimate weapon, had fallen considerably. More space was allocated to branded products with secondary and small manufacturers' brands obtaining shelf-space in place of private label (FTC 1991). This provides some evidence to suggest a reduction in conflict in the relationship between the manufacturing and the indigenous grocery sector.

We have already seen that a substantial share of the Irish food manufacturing sector is dependent on Britain as an outlet for its food production. Given the increasing level of retail concentration in this market it would not be unexpected if many Irish food manufacturers

display a similar if not even greater level of dependency on British grocers than on domestic grocers. This assumption is supported by the considerable number of acquisitions of British operations made by Irish food manufacturers, particularly in the meat and dairy sectors. Indeed in its analysis of the food sector, the industrial policy review group suggested that the British market "should be considered as the home market with subsequent development into Europe" (P A Consulting 1992:16). Furthermore, as the effects of the reform of the CAP and GATT agreement are felt, reliance on community support measures will decline, thereby increasing the dependency on alternative marketing channels.

The inexorable rise in retail concentration among the top four retailers in the British Market is given in table 2.20 displaying a 11 percentage point increase over the 1987-1995 period. Furthermore, the multiples' strong market share is reflected at product level in a number of categories where Irish dependency on the British market is particularly high. The more notable of these include cheese, oils and fats, including butter, in addition to a substantial share of the meat, fruit and vegetable markets (Table 2.21).

Table 2.20

Concentration in the British Grocery Market

	Dec' 1987	Dec' 1990	Dec' 1993	Dec' 1995
Tesco	8.4	10.2	10.7	13.7
Sainsbury	10.0	11.3	12.4	12.5
Asda	4.9	7.0	6.7	7.4
Safeway	6.8	7.3	7.7	7.5
Big 4	**30.1**	**35.8**	**37.5**	**41.1**
Morrisons	1.0	1.4	2.0	2.5
Sommerfield	7.6	5.2	4.4	4.3
Source: Institute of Grocery Distribution as reported in the Grocer, Feb 1st 1997.				

Table 2.21

Multiple Grocers Concentration of Selected Product Categories: % Sales

	1991/92	1993/94	1996	1998
Meat – Beef	44	44	73	75
	1991/92	**1993/94**	**1995**	**1997**
Milk	18	18	42	47
Oils and Fats	71	71	NA	NA
Cheese	73	77	NA	NA
Source: Mintel				

The high penetration of own brands within the multiple sector increases the manufacturer's dependency on the grocer and the degree to which the manufacturer is subject to the grocer's marketing strategy (Table 2.22). The nature of the Irish export portfolio with its imbalance towards commodity type products, produced at minimum cost yet with the appeal of quality production, is ideally suited to the multiple grocer's private label requirements. Indeed, it could be argued that the production of private label is a logical alternative to production for intervention or subsidised exports given the low level of risk and financial resources required when compared with branding. It also promises substantial and rapid potential for market penetration.

Table 2.22

Own Brand Penetration by Retailer

	1993	1995	1997
Tesco	44	45	47
Sainsbury	53	53	50
Asda	30	39	46
Safeway	38	41	42
Somerfield	33	38	37
Source: Mintel			

The importance of the private label market was highlighted in the expert group report on the food industry, which argued that the competencies and scale developed by Irish companies

in the manufacture of private label was central to the future development of the Irish food industry (Expert Group 1993). However, recent industrial policy as it pertains to the food industry has placed increasing emphasis on adding value to indigenous raw materials. One segment identified for development was consumer ready foods achieved by the "exploitation of development opportunities for strategic alliances such as those conducive to co-packing and private label supply" (Expert Group 1993:26). Moreover, this recommendation was given subject to the understanding of the "need to focus first on being competitive in the UK before tackling the distinct and fragmented European system" (Expert Group 1993:26). Indeed, it appears that growth has already been achieved in this particular market, reflected in the considerable success in supplying major British food groups. By 1998, the UK accounted for over 70% of exports in the fast-growing prepared food sector (Department of Agriculture and Food 1998b). However, such success has resulted in increasing dependency on the large British retailers.

More detailed analysis of Irish food manufacturers' customer portfolios in the Irish and UK markets is provided by Collins and Burt (1999). This provides a clearer insight into the series of dependencies and interdependencies that existed between the sectors in 1997.

Table 2.23

Distribution of Trading Accounts (%)

Trading pattern	Total
Irish Grocers only	52
British Grocers only[1]	7
Irish and British Grocers	41
Total	100
[1]Tesco, Sainsbury, Asda, Safeway, Somerfield and "Other British" represent the British market Source: Collins and Burt (1999)	

The distribution of customer portfolios across the Irish and British markets is given in Table 2.23 above. It demonstrates that 52% of the sample have trading accounts with Irish grocers only, 7% with British grocers only and that 41% trade with both Irish and UK grocers.

The importance of the major Irish supermarket chains to Irish food manufacturers is given in table 2.24. It indicates that Power Supermarkets (PSL), which was purchased by Tesco, had the broadest supplier base, estimated at over 70% of Irish food manufacturers. About 42% of these state Power Supermarkets to be their most important account while 88% indicate that it ranks among their top three customers. Among those manufacturers who gave PSL as their most important account, 64% supplied branded products only, while 56% of these believed their brand to be market leader in the Irish market.

Table 2.24

Irish Retail Accounts by Importance

	Companies trading with Grocer		Companies stating Grocer as top account		Companies stating Grocer in Top 3 Accounts	
	Count	%	Count	%	Count	%
PSL	60	71	25	42	53	88
Dunnes Stores	52	61	17	33	42	81
Musgraves	57	67	14	25	46	81
SuperQuinn	50	59	11	22	30	60
Spar	34	40	2	6	8	24
Roches Stores	45	53	4	9	15	33
Other Irl	39	46	9	23	16	41
Total IRL Grocers	**79**	**93**	**64**	**81**	**76**	**96**

[1]If two accounts were of equal importance the same rank was assigned. Thus the sum of the counts may exceed the column total.

Source: Collins and Burt (1999)

Manufacturers were asked to what extent they agreed with the statement that the loss of the

PSL account would increase their unit costs substantially due to lost economies of scale (from 1, strongly disagree to 7, strongly agree). The results are given in table 2.25.

Table 2.25

Agreement with the statement that loss of the PSL account would increase their unit costs substantially due to lost economies of scale.

Importance of the PSL trading account		95% Confidence Interval for the Mean	
	Mean	Lower Bound	Upper Bound
Most Important	5.64	4.87	6.41
2nd	5.58	4.77	6.39
3rd	3.40	1.78	5.02
Total	5.20	4.64	5.76
Scale: 1, Strongly Disagree to 7, Strongly Agree Source: Collins and Burt (1999)			

These show a significant increase in agreement between those manufacturers who consider PSL as either their most or second most important customer and those for whom PSL is ranked third. The risk here is that lost economies of scale may threaten manufacturers' horizontal competitiveness which, in the longer term, may undermine manufacturers' viability. It may also influence other Irish grocers' ability to source competitively priced merchandise in Ireland, thereby increasing the likelihood of imports being substituted for domestically produced products.

The importance of British grocers in Irish manufacturers' customer portfolios is given in table 2.26. The first feature to note is that over 47% of Irish manufacturers trade with at least one British grocer. The results also suggest that there is considerable variation in trading patterns with 20% of manufacturers dealing with Sainsbury but only 12% with Asda. The prominence of Somerfield at 15.3% is also notable. Another feature is that both Tesco, and particularly,

Sainsbury are likely to be very significant accounts with those companies with whom they do business. The results show that 41% of those companies trading with Sainsbury indicate that the company is their most important account and over 76% rank it within their top three customers.

Table 2.26.

British Retail Account by Importance

	Companies trading with Grocer		Companies stating Grocer as top account		Companies stating Grocer in Top 3 Accounts	
	Count	%	Count	%	Count	%
Tesco	14	16	6	43	7	50
Sainsbury	17	20	7	41	13	76
Asda	10	12	1	10	4	40
Safeway	11	13	0	0	6	55
Somerfield	13	15	3	23	7	54
Other British	27	32	4	15	13	48
Total British Grocers[1]	40	47	20	50	26	65

[1]If two accounts were of equal importance the same rank was assigned.
Source: Collins and Burt (1999)

Table 2.27 gives Irish manufacturers' brand portfolios with the three largest Irish grocers and wholesaler. As noted earlier, few Irish manufacturers have specialized in selling own brand products to Irish outlets. It is likely that the limited size of the Irish market constrains such development and that few products actually enjoy sufficient market penetration to justify such a limited portfolio.

Table 2.27

Irish Manufacturers' Brand Portfolios by Grocer (%)

Grocer	Brands only	Own Brands only	Both Brands and Own Brands	Total
PSL	59.0	9.0	32.0	100.0
Dunnes Stores	43.0	12.0	45.0	100.0
Superquinn	65.0	2.0	33.0	100.0
Musgraves	55.0	13.0	33.0	100.0
Total (Irl)	42.0	11.0	47.0	100.0
Source: Collins and Burt (1999)				

The results indicate that while 43% of Dunnes Stores' suppliers supply branded products alone, 45% supply a mixed portfolio of both branded and own branded products. While shares contrast considerably with other Irish retail organisations, the application of a chi-square test failed to support any significant relationship between grocer and customer brand portfolio.

Table 2.28

Irish Manufacturers' Brand Portfolios by Market (%)

Market	Brands only (n=39)	Own Brands only (n=23)	Both Brands and Own Brands (n=46)	Total
Irish Market	31 (42%)	8 (11%)	35 (47%)	74 (100%)
British Market	8 (24%)	15 (44.%)	11 (32%)	34 (100%)
P-value<.001 Source: Collins and Burt (1999)				

Table 2.28 above examines brand portfolio by market where Dunnes, PSL, Musgraves and Superquinn represent the Irish market and where Tesco, Sainsbury, Asda, Safeway, Somerfield and "Other British" represent the British market. The results indicate that 74 firms sold products to Irish grocers. Of these, about 11% supply only own brand products to all their Irish retail customers. Approximately 44% of those who trade on the British market supply only own brand to all their British customers. The data demonstrate that Irish

manufacturers are more likely to specialize in the production of own brand products for the British market than for the Irish market (X^2=15.53, DF=2, P<.001). The results also show that approximately 76% of companies trading into the British produce own brand products for at least one British retailer.

Producing own brand products, by avoiding many of the marketing costs and risks associated with brands and consequently avoiding substantial barriers to entry, has frequently been seen as a viable entry strategy. This strategy is supported by the evidence provided in table 2.29 which indicates (X^2=18.07, DF=4, P=.001) that newer firms less than 6 years old are more likely to specialize in either brands or own brands than their older counterparts.

Table 2.29

Firms' Brand Portfolios by Age

Age	Brands only[1]	Both Brands and Own Brands[2]	Own Brands Only[3]	Total
1-5 Years	11 (79%)	0 (0.0%)	3 (21%)	14 (100%)
6-10 Years	6 (43%)	6 (43%)	2 (14%)	14 (100%)
>10 Years	15 (33%)	29 (63%)	2 (4%)	46 (100%)
Total	32 (43%)	35 (47%)	7 (10%)	74 (100%)

P-value =.001
Notes:
[1] Indicates that the firm supplies only brands to all its customers
[2] Indicates that the firm supplies a mixed portfolio to all its customers
[3] Indicates that the firm supplies only own brand to all its customers
Source: Collins and Burt (1999)

Table 2.30 examines the relationship between the type of brand sold and the pattern of trade with both Irish and British grocers. Restricting our analysis to the top 3 Irish grocers and Musgraves together with all British grocers, yields information on 297 trading relationships. Specifically, we have details on whether or not firms supply each grocer with branded and/or own brand products. For instance, the relatively small number of firms who have specialized

on serving the British market alone provide us with 20 observations on exchange relationships. Of these, 70% transacted own brands only, 10% brands only and 20% a combination of branded and own brand products. The sample also included firms who traded solely with Irish grocers. These provide us with details on 119 exchange relationships. The data supports a relationship between brand type and a firm's brand portfolio within its trading accounts (X^2=56.73, DF=4, P<.001). Firms trading with Irish retail customers only are more likely to supply branded products alone while firms trading to British grocers are more likely to supply own brands to their customers.

Table 2.30

Brand Portfolio and Trading Pattern

	Brand Portfolio			
Trading Distribution of Company	**Brands Only[1] n=139**	**Own Brands Only n=59**	**Both Brands and Own Brands n=99**	**Total n=297**
British Grocers Only	2 (10.0 %)	14 (70.0)	4 (20.0%)	20 (100%)
Irish Grocers Only	78 (65.5%)	10 (8.4%)	31 (26.1%)	119 (100%)
Both Irish and British Grocers	5 (37.3%)	35 (22.2%)	64 (40.5%)	158 (100%)
Total	139(46.8%)	59 (19.9%)	99 (33.3%)	297(1000%)

[1] 139 of the 297 trading accounts analysed involved branded products only.
P-value<.001
Source: Collins and Burt (1999)

The analysis extends to examine the relationship between brand portfolio and manufacturer size (Table 2.31). These results support a relationship between size and the propensity to produce branded versus own brand products for a *given retail account* (X^2=43.02, DF=8, P<.001.) They indicate that small firms, employing less than 10 persons, are more likely to

specialize in branded products than their larger counterparts. They are highly unlikely to adopt a dual branding strategy and supply both brands and own brands to a given grocer. As firm size increases, the propensity to pursue a dual branding policy rises. This is particularly evident in the case of firms employing over 100 persons. From a policy perspective, one important implication is that reduction in the space allocated to brands is likely to affect small firms disproportionately.

Table 2.31

Customer Brand Portfolio by Firm Size

	Brand Portfolio			
Firm Size (Employee Numbers)	**Brands Only**	**Own Brands Only**	**Both Brands and Own Brands**	**Total**
1-9	38 (74.5%)	11 (21.6%)	2 (3.9%)	51 (100%)
10-19	16 (61.5%)	5 (19.2%)	5 (19.2%)	26 (100%)
20-49	30 (51.7%)	9 (15.5%)	19 (32.8%)	58 (100%)
50-100	8 (22.9%)	12 (34.3%)	15 (42.9%)	35 (100%)
>100	47 (37.0%)	22 (17.3%)	58 (45.7%)	127 (100%)
Total	139 (46.8%)	59 (19.9%)	99 (33.3%)	297 (100%)
P-Value <.001 Source: Collins and Burt (1999)				

In line with the previous results, table 2.32 supports a relationship between the age of the manufacturer and the brand portfolio with its customers (X^2=34.14, DF = 4, P<.001). On the one hand, new firms are most likely to supply branded products. Additionally, a larger than expected share specialize in own brand products. Large firms, on the other hand, are more likely to supply a portfolio of branded and own brand products for their customers rather than restrict themselves to a branded product portfolio. Thus, the evidence suggests that dual branding strategies, where the manufacturer supplies both brands and own brands to a retail account, are extremely unlikely during the early stages of a firm's development. These dual

branding strategies are more likely to emerge as the manufacturer matures.

Table 2.32

Brand Portfolio by Firm Age

	Brand Portfolio			
Age of Firm	**Brands Only n=139**	**Own Brands Only n=59**	**Both Brands and Own Brands n=95**	**Total**
1-5 Years	32 (74.4%)	11 (25.6%)	0 (0.0%)	43 (100%)
6-10 Years	27 (54.0%)	13 (26.0%)	10 (16.2%)	50 (100%)
>10 Years	80 (40.0%)	25 (17.5%)	85 (42.5%)	200 (100%)
Total	139 (47.4%)	59 (20.1%)	95 (32.4%)	293 (100%)
P-Value <.001 Source: Collins and Burt (1999)				

The above has identified the significant variations that exist in the interdependencies between Irish food manufacturers and their retail customers. The extent of manufacturer dependency on the Irish and British markets and the specific roles played by individual retailers were also highlighted. Our analysis has demonstrated the importance of economies of scale in food manufacturing and the impact that the loss of a major retail customer's business would have on a manufacturer's business. Finally, Irish food manufacturers' propensity to engage in own brand production for both the domestic and British markets was identified and some characteristics of brand and own brand suppliers were also uncovered.

2.5 Conclusion

This chapter traced the evolution of the Irish grocery market. It identified the key formative influences shaping the grocery channel in Ireland, the changing nature of competition and the role of the regulator in influencing retailer-manufacturer relations. The chapter highlighted the increasing concentration, particularly on the buying side, and examined the role of private label as a strategic and tactical tool within the Irish grocery market.

The chapter then proceeded to examine the structure of the food manufacturing sector and assessed its dependency on the domestic retail market. The analysis pointed to both the commoditization and export orientation of the sector, which reduces dependency on the domestic grocery market. Nevertheless, the analysis suggests that firms may be more dependent on the home market during the earlier stages of their development after which penetration of foreign markets becomes necessary for further growth. The analysis also investigated certain, as of yet non-traded, sub-sectors of the food industry, which exhibited considerable dependency on domestic grocers.

The high export share of Irish food production ensures that a broad range of retail markets with varying structural features and trading conditions are serviced. Thus, for instance, the dairy industry's experience of the British retail market is rather different to that experienced in Germany. Recent trends in Britain, in particular, with the rapid growth in both retail concentration and private label participation, has on the one hand, seriously impeded the Irish industry's ability to develop a strong branded presence, while on the other, posed a number of opportunities in relation to own brand production.

The chapter uncovered the dependencies and interdependencies that exist between Irish food manufacturers and their retail customers on both the Irish and British markets. The extent of the trading relationships between food manufacturers and Irish and the large British grocers has been demonstrated. More importantly, the findings on the brand portfolios traded highlights the diversity of trading relationships experienced by Irish food manufacturers. In doing so it supports the view that the Irish food manufacturing base can act as an appropriate sampling frame for our study. We propose that the diversity of trading relationships emerging from the sample used by Collins and Burt (1999) justifies the sample's use as the basis for our investigation of the determinants of retail power.

Chapter Three

The Organisation of Economic Activity

3.1 Introduction

The purpose of this thesis is to investigate the determinants of retail power within their relationships with food manufacturers. Clearly, these relationships and the balance of power within them have significant implications for both the consumer, in terms of choice and price, and for the efficient allocation of resources throughout the economy. A considerable body of literature has emerged recently examining these specific relationships. As a prelude, it is initially instructive to nest our primary area of concern within the broader question of the organization of economic activity within vertical marketing systems, the nature of economic relationships within marketing channels and the implications for channel performance. The chapter has two main aims. First, it seeks to provide the theoretical bases for the hypotheses that will be developed in chapter six. Second, through its review of both the traditional marketing channels and the transaction cost literatures it will attempt to identify those constructs and measures appropriate to our subsequent analysis.

3.2 The Marketing Channel Literature

The investigation commences with a review of the marketing channel literature. This will be subdivided into sections. First a review of the various perspectives adopted throughout the study of marketing channels will be carried out. Then the development of the concepts of power and dependency will be traced throughout the literature culminating in an examination of the relationships between power, conflict and leadership.

3.2.1 Perspectives

Throughout its literature, traditional marketing channel theory defines its focus of study as the structured networks of vertically aligned firms involved in the process of transferring ownership of outputs from the point of production to the ultimate point of consumption. Marketing channels are viewed as sets of interdependent organisations participating in the process of delivering a product or service to its point of final consumption (Stern and El-Ansary 1982). While there is some variation in the breadth of definition, there appears to be a broad consensus on the importance of ownership and the sequential transfer of title (McKinnon 1989, Bowersox et al 1980). Ownership confers decision-making status while imposing specific risks on the title holder, thereby compelling those with title to engage in particular channel decisions especially those related to channel relationships. This is not to deny or underestimate the role of specialists or facilitators in the channel but to suggest that their participation is dependent on particular decisions made by those holding title. Thus, for instance, a firm holding title may decide to either absorb or contract out a specific function depending on the given circumstances and market conditions. The specialist's involvement is contingent on those with title perceiving some contribution over and above that which primary agents could achieve with their own resources. In this respect, specialists may be viewed as lubricants within the channel enhancing its performance. Indeed the existence of such specialists is dependent on the improvements in performance that they bring to the channel as they hold no monopoly on the functions they carry out.

The emergence of marketing channels is largely explained by the separation of production and consumption in terms of time and space. Temporal separation requires that manufacturers

usually produce output in the expectation of demand resulting in risk bearing and stockholding. The existence of economies of scale requires goods to be produced in large homogenous bundles, while the unit of consumption tends to be small heterogeneous baskets of goods. Attainment of economies of scale also requires the consolidation of production despite the dispersion of consumers imposing distribution costs on the producer and search costs on the consumer. Furthermore, the assortment demands of consumers, at odds with the productive specialisation of manufacturers, results in complex and numerous transaction relations. The solution to these conundrums is the use of intermediaries to bridge the gap between production and consumption. Intermediaries emerge within this exchange process by providing space, time and form utilities. They engage in the process of sorting, allocation and assorting, thereby assisting in the alignment of consumption bundles with manufactured output. Intermediaries enhance efficiency in exchange by reducing the number of transactions and, in the process, offer the opportunity of routinization and reduced search costs. The shape and form of a given channel are governed by the opportunities for achieving costs efficiencies as a product moves from its place of manufacture to its place of final consumption in conjunction with the output required by the final consumer.

Central to the marketing channel literature is the notion of efficiency and performance in the provision of output. The traditional functions carried out within the marketing channel, possession, ownership, promotion, negotiation, finance, risk-taking, marketing information, ordering and payment (Stern et al 1989) may be carried out by all, some or most agents within the channel depending on the degree of specialisation. Clearly, the precise distribution of these functions will have cost bearing consequences in addition to the performance criteria and measures applied to each agent (Rosenbloom 1979:39). Channels compete by interchanging

these core functions among channel members, thereby attempting to achieve lower costs associated with the provision of channel output. While output will vary according to channel, it will be dimensioned by spatial convenience, lot size, delivery time and assortment variety.

Given the multiplicity of forms which channels may take, it is not surprising, that one feature emerging from the literature is the range of different perspectives and assumptions employed in relation to the study of marketing channels, channel co-ordination and channel performance. While varying in terms of scope and focus, the appropriateness of each perspective is largely governed by the specific channel under review in conjunction with the aims of the study at hand. El Ansary (1979) outlines a four-way classification: the structural, behavioural, environmental and managerial perspectives. The structural or functional perspective (Higby and Smykay 1979) perceives the performance of the channel as determined by its structure, which is composed of institutions producing outputs through the transformation of inputs subject to the given state of technology. The approach largely follows neoclassical economic analysis, where cost economies and market demand for output determine the level of specialisation and the firm's functional activities (Heide 1994). Thus, the framework is concerned with both the identification of functions and the measurement of inputs and outputs at each stage in the channel and the efficiency with which outputs flow through the channel. The relative efficiency of channels is measured in terms of cost associated with meeting market demand.

The behavioural perspective is based on the assumption that structure alone fails to account for channel and channel member performance. However, while it incorporates a number of behavioural variables believed to be significant determinants of performance, structural

variables are held to be important determinants of each channel member's behavioural characteristics. Thus, for instance, the number of distribution levels within a channel and the number of agents within a level would play an important role in determining channel member behaviour and performance. In this respect, the perspective incorporates some of the notions underlying the structure-conduct-performance paradigm of industrial economics.

This perspective views marketing channels as behavioural systems, where groups of individual but interdependent firms, interact, establish relations and engage in exchange. Interdependencies exist because few firms can satisfy consumer needs alone. They may emerge on the supply side where inputs are purchased or on the demand side where outputs are sold and, in most instances, interdependencies exist on both sides. The interdependencies reflect the boundaries of the firm and the degree to which the firm has chosen to specialise in particular functional activities. The very existence of these interdependencies gives rise to power relations among firms within the channel and these relations offer useful insights into the functioning of the channel and interorganisational interactions (Reve and Stern 1979).

Assuming that consumption is the sole reason for economic activity within the channel and that consumption is the domain of the consumer, some form of role congruence is required among firms constituting the channel. Given the centrality of interdependence, the potential for conflict and the need for co-operation is substantial. Consequently, role specifications and performance expectations need to be negotiated and communicated throughout the channel. Indeed role negotiation and bargaining, together with effective communication of goals and expectations, are central to the effective workings of channel relationships. Behavioural literature identifies leadership as the primary means of achieving such congruence acting as

organiser of the resources within the channel (Reve and Stern 1979). These leaders act as power centres through the exercise of control. Channel control is a function of a leader's power base, its resources, dependence, power, its desire to influence and leadership effectiveness together with other channel members' tolerance for control (Robicheaux and El-Ansary 1975). The effective application of channel power and the resultant outcome in terms of channel satisfaction is a major determinant of channel performance. The prerequisites for the emergence of clear leadership are specified by El-Ansary (1979:50):

1) a channel member must possess sufficient power over other agents in the channel

2) the channel member must be capable and willing to exercise this power

3) other channel members must be willing to submit to the exercise of power, which will be dependent on channel member satisfaction resulting from outcomes of channel relations.

The environmental approach views the structural, behavioural and policy parameters governing channel performance as being largely determined by the environment within which channel tasks are completed. Channel member behaviour, channel structure and channel policies are embedded in the task environment which is beyond the direct influence of these channel characteristics. However, the interplay of channel behaviour, policies and structure has a substantial impact on channel member performance in terms of efficiency, which in turn, through a feedback process, has indirect consequences for the makeup of the task environment.

The managerial perspective views the marketing channel as a superorganisation and the relationship between its constituent firms resembles the internals of an organisation.

Emphasis is placed on "measures of planning, organisation, communication, decision-making and control similar to those found in an intraorganisational setting" (El-Ansary 1979:52). Channel system performance is perceived as dependent on the effectiveness of channel management. The management variables determining performance may be classified according to technical variables, of which channel structure, policies and information flows are the more significant, and behavioural variables comprised of communication, role/position, conflict/co-operation and power/control. In this respect, the managerial approach incorporates much of the behavioural and environmental contributions to the study of marketing channels. Information flows and communication provide the cementing agent between the technical and behavioural dimensions.

The foregoing suggests that the traditional marketing channel literature may be decomposed into two broad strands, a microeconomic/structuralist perspective and a broad managerial/behaviourist approach. However, one of the more important debates to emerge from the managerial/behaviourist approach is the issue of power and its relationship with dependency, conflict and control. As the concepts of power and dependency are central to our analysis, it is appropriate to examine their evolution in the literature.

3.2.2 Power in the Marketing Channel

One of the first features emerging from a review of the literature is that power is considered as a characteristic inherent to a social relation and not perceived as an attribute of a particular agent (Emerson 1962). Power is a phenomenon that resides within social relations, existing between social parties, and may be viewed from two perspectives, that is, from either of the

protagonists. French and Raven (1959) provide a systematic definition of power, which is particularly relevant to our case. Power is viewed from the recipient's perspective, that is, the agent over whom power is exerted, and is defined in terms of influence brought to bear resulting in change on the part of the recipient. This element of influence emerges elsewhere in the literature. Cartwright (1965) argues that "if O has the capability of influencing P we say that O has power over P". A more explicit definition in the context of marketing channels is provided by Wilemon (1972:71), where "power refers to the ability of one channel member to change its behaviour in favour of the objectives of the channel member exerting the influence". El-Ansary and Stern (1972:47), define a channel member's power "as his ability to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution". Thus, while there is some variation within the literature, the common elements are the ability to institute change in another agent's behaviour in a direction which it would not freely tend and in a direction favouring the influencer's utility function. In this respect, it is common for the terms power, influence and control to be used almost interchangeably (Wilemon 1972). This introduces some degree of confusion in that, as we shall argue, it is possible to have an influence relation with a party yet fail to have control over that party. Moreover, power within a channel context is viewed vertically across levels of distribution as against horizontally within a level.

French and Raven (1959) identify five bases of power: reward; coercive; legitimate; referent; and expert power. Reward, coercive, expert and legitimate sources are the more important for the study of power relations in the grocery channel. Reward and coercive power sources emanate from agent P's perception that agent O can dispense either rewards or punishments. The strength of these sanctions, and hence the dependent change, is a function of both the

probability that O can and will dispense them which in turn will depend on the degree to which O can observe P's behaviour. The importance of observability as a determinant of the strength of both reward and coercive power sources is stressed.

According to French and Raven, while the distinction between reward and coercive power may not be entirely clear in terms of application, their dynamics are quite different (French and Raven 1959). Reward power tends to attract agents P and O together while coercive power tends to lead to polarisation. Indeed the utilisation of coercive power may present difficulties in that polarisation might result in agent P leaving O's sphere of influence through a divorce process and resulting in relationship termination. Thus, other restraining forces may be required to maintain relationships in face of coercive power. The notion of polarisation emerges elsewhere. "With a personal rejection of the source of power the influencee also increases his desire to retaliate and to avoid influence whenever possible" (Raven and Kruganski 1970:73). This is in contrast to the exercise of reward power, which appears to enjoy a self-reinforcing effect in that its effective use increases the perceived probability of future rewards for appropriate behaviour.

The strength of expert power depends on the extent to which agent P evaluates O's degree of expertness within a given sphere. Expert power is effective through P's cognitive structure and in this fashion institutes change. It is evaluated on two dimensions. First, it is appraised relative to agent P's own knowledge and second, it is assessed against some absolute standard external to the relationship. Expert power also possesses a temporal dimension. The power of new information may be decomposed into two parts; the primary change, which is largely governed by the credibility of the messenger, and informational power based, on the

information content of the message which is independent of the messenger's identity. Consequently, the impact of expert power is different to that of either reward or coercive power. These forms of power generated dependent change, suggesting that once the perceived threat or benefit of sanction was removed, the new state of affairs tended to revert to its original condition. Expert power, on the other hand, generates independent change based on this informational power, which is not a function of identity. The importance of expert power within the grocery channel is attested to by the fact that retailers have access to information channels unavailable to food manufacturers. Through their access to electronic point of sale data (EPOS) and various measures of supplier performance, they possess information that has the capability of directing actions throughout the supply chain.

The final source of power to be considered is that of legitimate power. French and Raven (1959) proposed three bases for legitimate power; cultural values, acceptance of the social structure and designation by a legitimizing agent. It is this third base that may be of direct relevance to retailer-manufacturer relations. The development of private label brands by retailers could be expected to legitimise increased retail involvement in their manufacturers' operations and production processes. Indeed, the introduction of the food safety act in the UK and its requirement that retailers demonstrate due diligence is likely to have increased and justified such retail participation (Hobbs and Kerr 1992).

A dominant feature of French and Raven's (1959) assortment of power sources is the central role of perceptions in determining power. Gaski (1986:63) proposes an additional manifestation of power that is independent of perceptions but depends on the power agent's ability to "modify the influencee's environment". This "manipulative or ecological" power

might, for instance, be based on control of information and the restriction of alternatives. However, to the extent that it is independent of perceptions, appropriate units of measure are difficult to conceptualise, never mind operationalise.

The difficulty of differentiating among non-coercive sources of power as above led Hunt and Nevin (1974) to conclude that the appropriate classification was between coercive and non-coercive sources. However, even the distinction among non-coercive and coercive power sources is unclear. This difficulty was alluded to by French and Raven in their original article. "Is the withholding of a reward really equivalent to a punishment? Is the withdrawal of a punishment equivalent to a reward?" (French and Raven 1959:158). Thus, the distinction between coercive and reward sources of power are defined in terms of the influencee's psychological interpretation of the stimulus. However, while conceptually appealing, the distinction is clearly difficult to operationalise. Gaski enters this debate and proffers the distinction among coercive and reward sources of power in terms of "latitude for deviation in a favourable or unfavourable direction" (Gaski 1984:23). Coercive power sources can be defined as those "potential actions with a natural limit in the positive or favourable direction but great latitude for deviation in the negative direction" (Gaski 1984:23). Thus, the withholding of payment is perceived as a coercive power source because one could withhold well into the future (large latitude for deviation on the negative) while immediate payment displays little latitude deviation on the positive side.

Not surprisingly given the conceptual difficulties, the measurement of power has proven elusive. French and Raven (1959:152) define the strength of power of agent O on agent P, O/P, as "the maximum potential ability of O to influence P in A", where A is some system in

P's life space. The power relation between O and P can vary across systems but it is assumed that this can be aggregated providing a magnitude of power of O/P. Power is not an objective ability to influence a given agent in that the appropriate measure must entertain the notion that it is power perceived by the recipient that induces change. El-Ansary and Stern (1972) in one of the first attempts to develop a model of power, conceptualised power as:

1) a function of dependence,
2) a function of power sources and
3) a function of both power sources and dependence.

In this instance, self perceptions and attributions of power were measured using a Likert-type scale and correlated with attributed power measures. Dependency, on the other hand, was measured in terms of share of business accounted for by an agent, the cost and difficulty of replacing the agent and the importance of the agent's marketing policies to the target's business. However, the study failed to support any relationship between power and the independent variables, dependence and power sources. The authors argued that "lack of agreement between self perceptions and attributions of power represents evidence of diffused power" (El-Ansary and Stern 1972:48). However some of the specifications employed, where both power sources and dependency are utilised as independent variables, suggest possible multicollinearity. This point, the possible separability of dependency and power sources is argued by Gaski (1984).

Hunt and Nevin (1974) examined the relationship between power sources and channel power in their study of a franchiser/franchisee channel. The selection of this particular channel promised to circumvent the diffusion problem argued by El-Ansary and Stern (1972). The

relationship was estimated using "an index of power" based on franchisee scoring of their perceptions of franchiser control on a number of decision variables. Sources of power were reduced to coercive and non-coercive categories with non-coercive sources identified by agents' "willingness to yield power to another" (Hunt and Nevin 1974:188). This distinction is also alluded to by Lusch (1976) who argues that coercive sources involve an agent begrudgingly yielding power to another while non-coercive sources, in contrast, encourage a willingness to yield to power. This notion of willingness is rather reminiscent of French and Raven's (1959) opposing force. Conceptually, this opposing force could be measured on a continuum from zero, where there is no opposition at all and total willingness to cede to power, to one where opposition is of such a scale that there is no change. Indeed French and Raven (1959) include the possibility of negative power. As to whether or not these later cases reflect power situations is questioned by Gaski (1984:24) who argues that "there is no such thing as an unsuccessful attempt to exercise power when power is present. Power means the ability, not the inability to alter behaviour".

While influencee perceptions are deemed central to the measurement of power, there does not appear to be similar importance attached to influencee classification of power sources. One could argue that this issue features in Hunt and Nevin's (1974) results where they reject the finding that as the quality of reward attempts increases perceived power decreases as being spurious. Similar findings were made by Brown et al (1983) where they rejected the hypothesis that non-economic power bases held by a supplier determined retailers' perceptions of the supplier's power. Could it be that as the quality of reward-attempts increasee, the influencee is less likely to perceive the non-coercive attempts as power attempts and more likely to interpret them as the addition of negotiation variables to the exchange relation?

Gaski (1986:66) proceeds along these lines and suggests that "as the use of reward increases, its recipient may interpret it as obsequious behaviour, a sign of weakness, and the expert, referent and legitimate power may wane". This raises the possibility that the relationship between power and power sources is non linear. While many of the arguments underlying the power/basis of power debate have referred to the possibility of diminishing returns in terms of contribution to power, none have explicitly tested whether or not a non-linear relationship exists.

Despite these shortcomings Hunt and Nevin (1974) argued that their results substantiate a significant relationship between the power of a channel agent and the sources of power available. Of more importance was their finding of a negative relationship between the use of coercive power instruments and franchisee satisfaction and a positive relationship between the use of non-coercive instruments and influencee satisfaction. Brown and Frazier (1978) argued that their findings support the view that the more manufacturer power is perceived by dealers, the less those power sources need to be used. As Gaski (1984:10) suggests, "it may be more correct to regard the perception itself as the source of power".

A further feature which emerges from the earlier utilisation of French and Raven's (1959) taxonomy of power sources was the failure to extend empirical investigation to the possibility of causal interdependencies among the power sources. This remained beyond study while empirical investigation restricted itself to perceived power sources. Gaski (1986) attempts to redress this issue focusing on the exercise of power sources, particularly coercive and reward, and the consequences for referent, legitimate and expert power sources. In his review of a heavy industrial machinery channel, Gaski (1986) finds some weak evidence to support the

hypothesis that the use of reward sources of power has a positive effect on referent, legitimate and expert power sources, while the exercise of coercive sources has a negative effect. In an attempt to investigate the possibility of these compound effects, Gaski (1986) introduces a new taxonomy of power sources based on quality/capability. Capability power sources are defined as "the perceived abilities to impose punishments and grant rewards" while quality sources refer to the "perceived intrinsic qualities of the power holder: expertness, attractiveness or legitimacy" (Gaski 1986:74). With the use of this construct, he establishes a positive relationship between the exercise of reward sources and "quality" sources of power, while coercive power sources have a negative effect on these sources. Thus, having identified such compound effects, Gaski finds sufficient evidence to reject the view that the total effects of reward and power sources on power and dealer satisfaction are the same as the direct effects.

3.2.3 Dependency

The conceptual link between power and dependency is clearly established in the literature. "We assume that any change[1] in the state of a system is produced by a change in some factor upon which it is functionally dependent" (French and Raven 1957:153). Emerson (1962: 32) is more emphatic arguing that "power resides implicitly in the other's dependency" and that "the power of A over B is equal to, and based upon, the dependence of B upon A". Thus, power over another agent is both function of and equivalent to the degree of dependence among the protagonists. Emerson (1962:33) proceeds to present the underpinnings of dependence as being "(1) directly proportional to B's motivational investment in goals

[1] French and Raven (1959) define power in terms of influence which is in turn defined in terms of psychological change.

mediated by A and (2) inversely proportional to the availability of those goals to B outside that A-B relation". In this regard the power relations emerge from, and are governed by, the interdependency between actors and the alternatives available to them. It also suggests that motivational investments and available alternatives, with due consideration of the costs of pursuing them, are the key variables in determining the level of dependency. Frazier (1983) develops Emmerson's notion of dependency as a function of alternatives arguing that the perceived level of an agent's role performance will be an important explanatory variable in determining a target agent's level of dependence within an exchange relation. The degree to which an agent's role performance exceeds others in terms of outcomes will largely govern the domain of realistic alternatives.

Much of the foregoing analysis suggests that there is an interrelationship between dependency and power sources. Thus, explanations of power cannot reside solely in an understanding of either power sources or dependency alone. The effect of power sources on dependency must also be incorporated. Brown et al (1983) suggest that the more attractive the resources an agent has, the more likely that its target views that relationship as essential. Thus, dependency is perceived as a function of sources of power. They found, in their examination of retailer-supplier relations, evidence to support the hypothesis that retailers' dependence is determined by their perceptions of suppliers' power sources. They also found support for the hypothesis that economic power bases, perceived to be held by the supplier, determined the extent of perceived supplier power.

In his review of much of the earlier investigations, Gaski (1984) concludes that there is very little evidence to support a strong relationship between power and dependency in the

marketing channel, possibly perhaps because power and dependency are conceptually inseparable. He argues that "any valid content selection of channel member A's power sources, especially reward sources, should adequately cover the domain of what channel member B is dependent upon for ultimate success" (Gaski 1984:23). Indeed his review of the empirical data led him to agree with the sentiments as "to whether we really know anything about power and conflict in distribution" (Gaski 1984: 21).

Etgar (1976) found that dependence, while significant, did not have the same explanatory power as power sources. This suggests that the measures of dependency did not capture as much of the underlying relationship as did the measures of power sources. Brown et al (1983) found a significant relationship between retail dependence and perceptions of supplier power. Supplier power, in turn, was a function of economic power bases. Other instances of separability problems occur in studies where both power sources and dependency are specified as independent variables in the format

$$P_{ij} = F_1 (PS_{ij}, D_{ji})$$

Where P_{ij} refers to the power of channel member$_i$ over member $_j$

PS_{ij} refers to member $_i$'s sources of power used to control member $_j$

D_{ji} refers to member $_j$'s dependency on $_i$

Such a hypothesis was tested by El-Ansary and Stern (1972:51) where they proposed that "the power of one channel member over the other can be viewed as a function of: (1) the extent to

which the latter is dependent on the former and (2) the sources of power possessed by the former".

Etgar (1976:255), by incorporating the notion of countervailing power, avoids this separability problem. Thus the specification tested is given as:

$$P_{ij} = F_2 (V_{ij}, C_{ji})$$

Where P_{ij} refers to the power of channel member$_i$ over member $_j$

V_{ij} refers to member $_i$'s sources of power used to control member $_j$

C_{ji} refers to member $_j$'s countervailing power sources which allow member $_j$ to resist member $_i$'s control attempts.

These countervailing powers, reflect member $_i$'s dependency on member $_j$ and were shown to be negatively related to member $_i$'s power to control member $_j$.

Gaski's (1984) primary challenge to existing empirical findings rested on lack of construct validity and informant bias. He argues that measures of power are inherently difficult to operationalise, particularly that element which deals with "the ability to alter behaviour" and suggests that many of the measures applied failed to capture that which they sought to measure (Gaski 1984:19). Indeed, most of the earlier instruments reviewed measured exercised power (El-Ansary and Stern 1972; Hunt and Nevin 1974[2]; Etgar 1976). Also, assuming content validity is assured, it has been shown that the perceptions can vary widely

[2] Hunt and Nevin's research instrument measuring power utilised a six point scale "I have almost complete

throughout an organisation (Phillips 1981; Seidler 1974). These perceptions may be situation specific, as informants at different levels of an organisation can elicit substantially different responses to the same research instrument. Clearly, this accusation places substantial doubts over the validity of earlier results. It questions the extent to which a social relation between agents in a distribution channel can be captured by taking recourse to individual informant perceptions. However, as we shall see, the use of multiple informants has its own inherent shortcomings. Consequently, one of the key issues facing this study will be key informant selection.

3.2.4 Dependency Balancing

Following Emerson (1962) the next critical advance in the dependency literature was made by Pfeffer and Salancik (1978). They propose that "interdependence can create problems of uncertainty or unpredictability for the organisation... which is typically troublesome to organisations and derives from the lack of co-ordination of activities among social units". Consequently "organisations facing uncertainty attempt to cope with it on occasion by restructuring their exchange relationships" Pfeffer and Salancik (1978:42).

In a useful contribution to the debate, Buchanan (1992) examines the role of dependence and symmetry in vertical trade relationships. Dependence is defined as the "extent to which a trade partner provides important and critical resources for which there are few alternative sources of supply". Thus the exchange relation is central in that if both parties' resources are equally valued there will be symmetry within the relationship, while if there is a differential

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responsibility for this" ...to ... " My franchisor has almost complete responsibility for this".

in valuations the relationship will be asymmetric. Valuations of resources are based on the perceived contribution to channel member performance. Put in this way, dependence is no longer perceived purely as a liability, in that the less dependent firm may use its influence to achieve its own goals at its partners expense, but as a motivation to establish stronger inter-firm ties and relationship norms required to govern the relationships.

This is supported by Feldman (1998:288) who, drawing on the transaction cost framework, argues that, "mutual interdependency between buyer-suppliers can yield economic transaction gains. However, an exchange partner which perceives that it is too dependent on the other can be expected to reduce this perception of over-dependency". This can undermine the workings of the relationship and consequently "it is important that the exchange partner understands what it can do to prevent the partner firm acting to reduce this dependency" (Feldman 1998:289).

Thus, the focus is not on reducing one's own dependency, but of managing the relationship. The problem faced by the more dependent firm is the extent to which it is willing to invest in the relationship. A firm will continue to invest in the relationship and assist its partner to achieve its goals as long as the expected benefits in terms of its own goal achievements exceed the benefits that would be enjoyed from alternative arrangements. For example, a supplier in seeking shelf space for its products would invest its resources, thereby assisting the retailer meet its goals, up to the point where further investment would reduce the value of the relationship below that of some other alternative. On the other hand a retailer, requiring additional scarce product might reduce its demands on its partner, thereby increasing the partner's satisfaction, up to the point where a further reduction in demands would make

alternatives preferable. Buchanan's (1992) empirical results indicated that retail buyers' performance was enhanced by increasing dependency on suppliers in departments where there was a symmetric relationship but that asymmetric relationships with dominant suppliers resulted in poorer performance when subjected to increasingly uncertain trading conditions.

3.2.5 Conflict

However, despite considerable debate on the measurement of power and its relationship with sources of power and dependency, there is broad agreement on conflict. Underlying almost all of the empirical investigations of channel power and sources of power is the implicit assumption that the sources and exercise of power have implications for the level and nature of conflict. Furthermore, there is a general consensus that the "causal sequence of power and conflict can and does proceed in either direction" (Gaski 1984:12). Thus, the exercise of power may result in conflict or that conflict may itself necessitate the use of power.

Raven and Kruganski define conflict as "tension between two or more social entities (individuals, groups or larger organisations) which arises from incompatibility of actual and desired responses" (1970:70). Reve and Stern (1984:11) define conflict as "the perception on the part of a channel member that its goal attainment is being impeded by another with stress or tension the result". Thus, there is a strong relationship between conflict and channel member dissatisfaction. Conflict is seen as unavoidable in an interorganisational context. Reve and Stern (1979:407) suggest that dependency within the marketing system "brings seeds of conflict". Specialisation within the marketing channel increases functional interdependency as the attainment of one firm's goals becomes increasingly related to other firms' performance. Inherent to this interdependence are both conflict and co-operation

(Robicheaux and El-Ansary 1975). Causes of conflict are differing role prescriptions, issue differences, differences in perceptions of reality and goal incongruence. Moreover, role prescriptions and performance standards become increasingly more stringent as interdependency increases, resulting in the greater likelihood of performance failure, stress and conflict. Furthermore, increasing dissatisfaction with a channel partner's performance results in higher levels of conflict (Rosenberg and Stern 1971).

The link between conflict and power sources is not as strong as one might have expected. For instance, Lusch (1976:383) argues that " if A is likely to use coercive sources of power when B does not co-operate with him, then B will have more frequent and intense conflicts with A". Non-coercive sources of power on the other hand are hypothesised to reduce conflict. Lusch (1976:387) finds very weak evidence to support this. Although the strength of evidence varies from study to study and from channel to channel, it broadly substantiates a positive relationship between channel member satisfaction and non-coercive power sources and a negative relationship with respect to coercive sources (Hunt and Nevin 1974; Lusch 1976; Gaski 1986). Gaski (1986) suggests that many of the weaker and inconsistent results may be due to their failure to consider the indirect effects of coercive and non-coercive sources through "quality" sources.

While conflict is unavoidable within a channel context, much effort has been given to a deeper understanding of the relationship between sources of power and conflict and the consequences of employing varying power sources (Lusch 1976; Hunt and Nevin 1974; Gaski 1986). Given that conflict emerges from the perception that attainment of one's goals is being impeded, it is closely linked to channel member satisfaction. Therefore, the consequences of power

sources on channel member satisfaction must also be considered when investigating channel conflict. Indeed, it could be argued that channel member satisfaction is in part governed by the degree to which performance expectations are believed likely to be realised. Consequently, the processes underlying the formation of these expectations could play an important role underlying channel conflict.

3.2.6 Conflict, Control and Channel Performance

Underlying the channel literature is the clear notion of channels competing with each other for supremacy. Channel performance is a result of the effectiveness of channel control and the degree of satisfaction of channel members with channel relationships (Robicheaux and El-Ansary 1975). One manifestation of channel competition is conflict between channel members ensuring change and adaptation to new conditions over time. In this regard, conflict is viewed positively and contributes to channel performance. However, while vertical conflict is unavoidable within a channel, minimisation of dysfunctional conflict and the promotion of channel co-operation is seen as imperative to both the effective operation and continued existence of the channel. Conflict containment is subject to two necessary conditions. First, each channel member's role and expected performance must be clearly specified. Role prescriptions, associated with each position in the channel, implicitly specify certain levels of co-operation and co-ordination by ensuring expectations congruency, thus enhancing channel efficiency (Robicheaux and El-Ansary 1975). Second, the level of interchannel co-operation, which by itself may be dysfunctional if taken to extremes (Brown 1979), and the minimisation of dysfunctional conflict is also achieved by control exercised by channel leaders over key decision variables of other firms (El-Ansary 1979).

However, control is a double-edged sword. As each firm strives to maintain its autonomy and independence, the exercise of inter-firm control runs the risk of reducing channel member satisfaction and increasing channel conflict. However, increased performance resulting from control is likely to increase tolerance of control, and in that fashion, enhance co-ordination and channel performance. Thus, Anand and Stern (1985) found a significant relationship between channel members' willingness to relinquish control over key variables when they perceived that enhanced performance resulted from channel leadership. However the issue of leadership calls into question the fashion in which leadership is exercised.

Price (1993) suggested that the most effective leadership behaviours may vary according to the degree of task interdependency within the channel. Two styles of co-ordination are identified. Participative leadership is based on inter-firm communication and informational flows. Channel members' opinions are sought and considered in advance of decision-making. Directive leadership is based on the communication of clear commands throughout the channel. In this way channel members' functions and activities are planned and communications established to assist in co-ordination. Prices' (1993) results indicate that channel members facing low levels of interdependency achieve higher levels of satisfaction under directive leadership than do those members facing high levels of interdependency. The reasoning behind this is that in such low interdependency situations the channel member is spared the costs associated with decision making and can take the directive or leave it. Conversely, however, directive leadership appears to increase conflict significantly in high interdependency contexts. Participative leadership is positively related to channel member satisfaction and is independent of the level of interdependency (Price 1993).

3.3 An Economic Perspective of Vertical Relations

The marketing channel literature provides a number of frameworks and constructs which may be usefully applied to the study of vertical relations. However, the study of vertical relations has also occupied much of the economic literature. This body of work, encapsulated largely in the neoclassical model, provides an alternative view of vertical relations. In doing so it yields a series of constructs, which complement those from the marketing channel literature, and adds to the understanding of the organisation of economic activity from the point of initial production to ultimate consumption. By and large, this study shall focus on relatively recent developments within the neoclassical model and the contributions leading to the emergence of the transaction cost framework. Central to this framework are the concepts of specific assets and bounded rationality and the role they play in the organisation of vertical relations. The framework focuses attention on the importance of monitoring within vertical relations and, in doing so, picks up on a line of argument highlighted by French and Raven (1959) but ignored by much of the subsequent power literature. We have seen that the study of power takes the relation as its basic unit of analysis. Williamson's (1975;1979) development of the transaction cost framework is based on the transaction as the basic unit of analysis. It is proposed here that, in coupling these two literatures, a richer insight into the balance of power within vertical relations may be realised.

3.3.1 The Neoclassical Model

One of economists' more important contributions to the understanding of economic co-ordination is embodied in the neoclassical model. Essentially, the model is composed of two agents, consumers who are assumed to maximise utility derived from the consumption of goods and firms who maximise profits. While there are clear interrelationships between the two, for example, consumers providing their labour services to firms in return for wages in addition to receiving firm's residual as income in the form of profit dividends, the need for abstraction rendering the focus of study manageable necessitates that such overlaps are ignored. Firms maximise their profits by transforming inputs into outputs that ultimately satisfy consumer needs. "Consumption - to repeat the obvious - is the sole end and object of economic activity" (Keynes 1936). However, the co-ordination of such activity, together with the efficient allocation and utilisation of scare resources, presents the organisation problem which is ultimately solved by the use of prices within the context of competitive markets.

All prices are assumed to be freely known and it is the system of prices that brings buyers and sellers together directing resources to their most efficient use. Prices direct entrepreneurs, pursuing their own self interest through the attainment of profit, to produce those goods that consumers would be willing to purchase in order to maximise their utility. Adjustments, both in consumption and production, are instigated by changes in relative prices. The efficiency of markets is couched in terms of the optimal allocation of resources such that no alternative allocation of the given resources would make at least one consumer better off without reducing the utility of another. Indeed the neoclassical model ensures that the costs of co-ordinating the efficient allocation of resources are minimised in that all necessary information

resides with the relevant parties. Consumers know their preferences and relevant market prices while entrepreneurs know relevant prices in addition to their production function. Furthermore, the model can incorporate uncertainty in a fashion through the use of a theoretical device that Arrow (1974:34) refers to as "contingent commodities" traded under conditional contracts with associated prices. Thus, "umbrellas when it is raining are distinguished from umbrellas when its sunny" (Milgrom and Roberts 1992:68).

Under such assumptions, all economic activity takes place within markets. Markets ensure efficiency. However, such a system does not approximate to reality where non-market forms of economic activity are frequently observed striving to enhance efficiency. Thus, non-market organisation of economic activity would be expected to replace market organisation when and where markets fail. The study of economic organisation under conditions of market failure lead us to the transaction cost framework.

3.3.2 The Transaction Cost Framework: Antecedents

Much of the recent literature on organisational form has adopted the transaction cost paradigm as developed by Oliver Williamson (1975; 1979; 1985; 1991). However, before examining Williamson's contribution, a brief digression is made to explore some of its antecedents and the genesis of its core concepts. The basis for the market failures approach to the study of economic organisation has its origins in Ronald Coase's seminal 1937 article. Coase's central question was if the price mechanism carries out the effective co-ordination of economic activity, why do firms exist? If movements in relative prices are sufficient to ensure the efficient allocation of resources why do firms, where co-ordination is based on entrepreneurial

directives, emerge? Coase's argument is essentially that markets and firms are alternative modes of organising production and allocating resources.

Coase proposes that "the main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism" (Coase 1937:23). Coase identifies these costs as those associated with discovering relevant prices, the negotiation of contracts and uncertainty. Coase proceeds to focus on a more interesting issue, that being the boundary of the firm. How does the firm decide its range of activities, how does it decide what functions to internalise and for what activities it can rely on the market? The answer he argues is that "the firm will tend to expand until the cost of organising an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of an exchange on the open market" (Coase 1937:24). Thus the firm suffers increasing marginal costs of organising transactions thereby constraining the activities of the firm and determining the choice of mode of governance.

The importance of market failures as an explanation for the existence of firms was highlighted by Arrow (1974). He argues that "organisations are means of achieving the benefits of collective action in situations where the price system fails". One reason for the price system's failure is its inability to deal with uncertainty and efficiently allocate risk bearing. "Uncertainty means that we do not have a complete description of the world which we fully believe to be true" (Arrow 1974:33). Such failure may result from problems posed by moral hazard or adverse selection with the existence of informational asymmetries among the parties to a transaction. Adverse selection exists as a pre-contractual phenomenon where the existence of asymmetric information, where a party has information relevant to the transaction

that is unavailable to the other, makes it probable that an efficient market will not emerge if it emerges at all. Classic examples include the markets for second hand cars and health care. In the case of the former, poor quality cars drive out good quality cars. In the case of health care, as the price of health premiums increase only the worst risks purchase them. "The insured may know his risks better than the insurer" (Arrow 1974:36). Efficient pricing is impossible, as the attainment of all relevant information to the particular transaction requires incurring costs. Moral hazard, on the other hand, is a post-contractual phenomenon. Here, behaviour changes after the contract, with the tendency to cheat in the absence of costly monitoring.

The extent of the asymmetric distribution of information will be dependent on the structure of information channels available to a given agent. These information channels reflect both existing information and the possibility of accessing relevant information when needed. Thus, the attractiveness of non-market organisation is partly governed by the characteristics of these information channels and the distribution of relevant information to the participants of a transaction. However, a given economic agent may invest in the creation of information channels. Such investments will depend on that party's evaluation of expected costs and benefits. Arrow (1974) argues that there are a number of characteristics of information costs shaping such an investment decision. First, the individual's capability to absorb, process and utilise information is fixed, rendering information sources subject to diminishing returns. Second, information costs are, in part, sunk costs in that they cannot be reversed. Costs of varying degrees are incurred during the initial attempts to interpret new signals. Signals themselves provide no information until sufficient resource is invested in developing an apparatus to interpret them. Once investment has been made in a given channel it will be

cheaper to continue to use that channel than to acquire other channels. This is because, on the one hand, the diminishing capacity of the agent to assimilate the new information and, on the other hand, thereduction in the value of the existing channel once supplanted by the new one. Third, the costs, and therefore an agent's effective choice amongst different information channels, is in part determined by previously employed information channels in that economies of learning are enjoyed.

Arrow's contribution is that of linking the organisation of economic activity to the existence of uncertainty and the unequal distribution of information. Such uncertainty arises because of bounded rationality emanating from "the individual's very limited capacity for acquiring and using information" (Arrow 1974:39) while the unequal distribution of information imposes costs which may be reduced through the use of hierarchy as the preferred mode of governance.

Alchian and Demsetz's (1972) central question is whether or not the benefits of specialisation and co-operative production may be best realised through organisation within the firm or across markets. They argue that the problems of metering productivity and rewards underlie economic organisation. Rewards dispensed in line with productivity generate a more efficient allocation of inputs while rewards dispensed disproportionately promote shirking[3]. Team production or organisation within the firm, would be preferred if the joint production of its members were to exceed the sum of outputs that would be produced by the individual entities producing in isolation by more than the costs of organising and monitoring team members.

[3] This is very similar to the arguments made by French and Raven (1959:156) who propose that "P's new rate of production will be dependent on the subjective probability that O will reward him for conformity minus his subjective probability that O will reward him even if he returns to his old level. Both probabilities will be greatly affected by the level of observability of P's behaviour"

Team production is where a number of different inputs are employed, where the output is not a sum of the separable outputs of each input and where all the inputs are not owned by one individual. To ensure that productivity is duly rewarded requires appropriate monitoring of the team production process. However, the monitor also has an incentive to shirk unless such a specialist is the claimant of the residual generated in part through the reduction of shirking activities by other team members. Thus, the monitor becomes the manager of co-operative inputs (Alchian and Demsetz 1972). The characteristics of the monitor are that it is a residual claimant, it observes input behaviour, it is the party common to all contracts with inputs, and it has the capacity to alter the composition of the team unilaterally. In this respect, the firm is perceived as a policing device, observing, monitoring and rewarding joint production.

The contribution here is threefold. First, we have the emphasis on observability and the metering problem, the costs they impose and the implications for organisational form. Moreover, the analysis suggests that opportunism is not simply an inter-firm phenomenon but may exist within firms in the form of shirking. Second, the authors propose a link between organisational costs and modes of policing and contractual form. Third, the link between evolving organisational form and variations in the scope of economic activity is made. Thus, the change in organisational form from the putting out system in the weaving industry to that of the factory system as a result of the development of power sources resulted not from the reduction in transaction costs but rather from the increased ease of managing input behaviour. Here the role of technology assumes particular importance in that "sometimes a technological development will lower the cost of market transactions while at the same time it expands the role of the firm" (Alchian and Demsetz 1972:784).

Klein et al (1978) develop on another aspect of market failure, that of post contractual opportunism. They highlight the importance of quasi-rent seeking as an explanatory factor underlying organisational form. Economic rent is payment to a factor over and above what is required to keep it in its current employment. While economic rent applies to a factor, the supply of which, is fixed in the long run, for example land, quasi-rent refers to payments to a factor that is fixed in the short run. It is given as the difference between total revenue less total variable costs, that is, the payment to the fixed factor. Once a specific investment[4] is made, there is an incentive for the purchaser of the output of that investment to reduce price such that it tends towards the marginal cost of production thereby reducing the contribution to the fixed asset.

While contractual arrangements may afford some protection to parties, the costs of negotiating and specifying contracts to include all possible contingencies, in addition to the costs of litigation, may be prohibitive. Moreover, the nature of quasi-rent seeking is such that it may act in either direction. For example, assume we have an ingredients supplier producing a particular food component using highly specialised equipment for a branded manufacturer. On the one hand, once the supplier has invested in the specific asset the manufacturer may attempt to appropriate quasi-rents by reneging on the original contract and reducing price until it approximates the next best price available on the market to the supplier. On the other hand the supplier may attempt to appropriate additional quasi-rents by increasing the price of ingredients. The manufacturer may have recourse to litigation but by the time it runs its course the potential loss of market share may cause that route to be ineffectual (Rubin and Dezhbakhsh 1995).

[4] Specific investments are investments that cannot be costlessly redeployed to be used in another business

Attempts to appropriate such quasi-rents may be more difficult to detect as they may not always be price orientated. The supplier may fail to maintain equipment thus producing product of an inferior quality imposing policing costs on the buyer. Another example of a highly specific asset is a brand name. A strong brand is likely to represent a significant proportion of company's investment in its relationship with its customers. While brand names can be sold, they are likely to be difficult to redeploy. For example, it is debatable whether or not the Heinz brand would have any value outside the food sector. One could portray own brand producers as renters of a brand name. However, incentives exist for a given renter to attempt to appropriate as much of the quasi-rents possible partly through the production of poor quality product. Indeed, improving own brand franchise increases the appropriable quasi-rents resulting in greater contracting and policing costs. Clearly, the potential for one agent to engage in opportunistic behaviour is dependent on the alternatives available to the other party. Indeed, the greater the degree of asset specificity the greater the amount of quasi-rents ceteris paribus.

Specific investments, by nature, present considerable and possibly insurmountable contracting problems in that all contingencies are unlikely to be catered for in a cost efficient manner. However "even if terms could be reached, there is still the problem of policing the agreement" (Williamson 1976:95). These implicit contracts may be underpinned by the provision of a premium to the agent likely to engage in opportunistic behaviour. This is set such that the present discounted value of the future stream of premia exceeds the gains from cheating.

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relationship.

Thus, the size of the premia is positively related to the opportunistic gains from a once off [5] theft, assuming one doesn't get a second chance, and negatively related to expected length of the relationship[6]. An important feature to note is that the premia does not necessarily take the form of a price-average variable cost differential but might consist of other business related benefits. Indeed, there might be reasons to avoid such use of price in that "for one thing price adjustments have an unfortunate zero sum quality, whereas proposals to increase/decrease or delay delivery do not" (Williamson 1979:251). Nevertheless, the size of the premia would be expected to be negatively related to expected growth as the opportunity cost of cheating when expected growth is positive is the loss of subsequent, increasing sales.

Thus "a crucial determinant of economic organisation is therefore the anticipated demand growth compared to the actual demand growth" (Klein et al 1978:318)]. If anticipated growth is less than actual growth, the premia paid to partners will be less than that required to prevent opportunistic behaviour, thereby increasing policing costs. In effect, what one has in this context is a contract embedded in a framework of premia that provides the incentive to avoid reneging. Thus, the "premium stream may be usefully thought of as insurance payments made by the firm to prevent cheating" (Klein et al 1978:305). This "insurance payment" may be considered as an alternative to policing or monitoring costs. The greater the appropriable quasi-rents, the greater both the explicit contract specification costs and, consequently the premia required to support the contract, the more likely the firms are to vertically integrate. The lower the appropriable quasi-rents the more likely the firms are to use contractual

[5] Once off here refers to the length of time over which opportunistic behaviour occurs which would include the period where the behaviour was undetected, or detected but unpreventable and until the relationship was terminated possibly by finding another supplier or customer.

[6]Indeed, if there is a known final period, one party will have an incentive to cheat on the last transaction. Given that both parties know this, there will be an incentive to cheat in the N_{-1} period. Thus, the whole system collapses as the reason to forego opportunistic behaviour is determined by the discounted value of

arrangements (Klein et al 1978).

In addition to highlighting the particular problems posed by the existence of specific assets and the possibility of post-contractual opportunistic behaviour, the above forwards some ideas of how agents party to such transactions may resolve the propensity to cheat and attempt to appropriate quasi-rents. It highlights the conditions under which the problems may assume greater magnitudes and the cost implications for the transaction. The high costs and relative inflexibility of explicitly stated long-term contracts enhance the merits of market-orientated implicit contracts. The sanctions here are not of a litigious nature but rather the withdrawal of future business and the loss of associated goodwill. It is proposed here that the effectiveness of these sanctions will be a function of dependency.

The above also draws our attention to information flows and monitoring costs. Where scope for opportunistic behaviour exists, parties have a number of options to reduce the cost of such activity. First, they can engage in monitoring activities to ensure that the terms and conditions laid down in the contract are being fulfilled. However, the costs of such monitoring activities will in part be dependent on the distribution of information among the parties and the cost of acquiring new information. It may be necessary to establish new information channels. The expected benefits of the new information will be weighed against the costs of obtaining it. Alternatively, rather than invest in new information channels or engage in monitoring activities the firm may decide to provide incentives to reduce cheating by a stream of premia payments. Clearly, a combination of monitoring activities and premia may be used to promote the desired behaviour. Monitoring activities are likely to display diminishing returns.

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expected future premia.

Consequently, after a certain stage, premia may be substituted for these activities to minimise the total cost of ensuring compliance.

3.3.3 Markets and Hierarchies: Williamson

The review of the marketing channel literature earlier highlighted the significance of power and dependency relationships in organising the channel. Power, dependency and satisfaction within the exchange process are the units of analysis. The transaction cost approach takes the transaction as the unit of analysis. Power is not considered unimportant but "power considerations will usually give way to efficiency - at least in profit making enterprises" (Williamson and Ouchi 1982:363). Thus, the concern here is the efficiency of the transaction. Concern for the organisation of the transaction and its governance mode are paramount. "Indeed if transaction costs are negligible, the organisation of economic activity is irrelevant" (Williamson 1979:233). Underlying the transaction cost paradigm is the assumption that "transactors choose the organisational arrangements to minimise the expected costs of governing the transaction over the life of the relationship" (Masten et al 1991:2). Mode of governance is defined as "the institutional framework in which contracts are initiated, negotiated, monitored, adapted and terminated" (Palay 1984:265). The optimisation problem facing transactors is broad in that there exists a "continuum of potential governance structure for vertical relationships" (Joskow 1985:36).

Underlying the transaction cost approach to the organisation of economic activity are the behavioural assumptions of bounded rationality and opportunism. The constraints on rationality, the propensity for the entrepreneur to make mistakes and the subsequent impact

on firm size had already been pointed out by Coase (1937). The limitation on rationality in conjunction with the propensity to seek self-interest through guile impose costs on the exchange act in addition to those costs usually considered in neoclassical economics. "What is crucial is that some agents behave in this fashion (opportunistically) and that it is costly to sort out those who are opportunistic from those who are not" (Williamson and Ouchi 1982:351). Examining the market for component supply Williamson (1975:91) argues that "bounded rationality makes it impossible, or prohibitively costly, to attempt to write the comprehensive contracting which the contingent supply claims are exhaustively stipulated". Thus, the problem facing the firm is to organise its transactions such that it minimises the constraints associated with bounded rationality while simultaneously minimising the potential costs associated with partners behaving opportunistically. The choice of governance structure partly resolves the dichotomy here. "Governance structures, however, are properly regarded as part of the optimisation problem" (Williamson 1979:246).

Central to the transaction approach is the proposition that transaction costs differ on the basis of three critical dimensions (Williamson 1979). Also, these dimensions govern the economising effectiveness and the appropriateness of alternative institutional modes. Williamson identifies these as uncertainty, frequency and idiosyncratic investments. It is propose that, given the nature of the grocery business, both frequency of transactions and uncertainty may be ignored as means of differentiating among transactions at minimal loss to our analysis. Idiosyncratic investments are those which are specific to a particular relationship and where the identity of the parties "has cost bearing consequences"(Williamson 1979:240). To these, Joskow (1985) adds the extent to which the transaction in question is subject to economies of scale or scope, which might not be realised in a purely vertical integrated

institution. Williamson identifies six kinds of asset specificity: site; physical asset; human asset; brand name capital; dedicated and temporal specificity (Williamson 1991:281).

There are many interesting implications emanating from the existence of these specific investments under conditions of uncertainty and complexity, where complete contract specification is prohibitively costly. First, the decision to make such transaction specific investments is likely to be based on the expectation that the relationship will continue into the future as the cost of these investments will have to be amortised across all future transactions within the relationship. Second, when assets are highly specific they transform the relationship between both parties into a bilateral monopoly. Third, the more specific the asset, the lower its value in its next best alternative use. Given the propensity to behave opportunistically, and once the specific investment is made the transaction is subject to quasi-rent hazards, it is not surprising then that the governance structure underlying these relationships assumes critical importance. Fourth, the risks associated with specific assets are positively related to the measurement of post contractual events[7]. For instance, a retailer may have a contract with a manufacturer relating the price of output to certain conditions. Under condition A, when the retailer's market share is less than or equal to 10%, the retailer pays a price X for each unit of output. Under condition B, where it is greater than 10%, the retailer pays a price Y which is 10% lower than A. The problem here is that it may be difficult to ascertain which condition actually exists. Finally, specific assets present risks when there is either difficulty in monitoring one's partner's performance or enforcing actual terms and conditions.

[7]This has its parallel in marketing channel literature where differing perceptions of reality is one of the chief

Without opportunistic behaviour, bounded rationality or specific assets, transaction costs will not exist and governance mode will be irrelevant. In situations of complete knowledge, perfect contracting is possible and costless. The protagonists may resolve limitations in contracts satisfactorily as neither will attempt to gain undue advantage. A transaction without specific assets will take place in contestable markets where they do not require long term relationships (Dietrich 1994). However, the risk of expropriation of quasi-rents provides an incentive to allocate more resources to governance mechanisms to protect those specific assets. Moreover, "such added specificity is warranted only if these governance costs are more than offset by production savings and/or increased revenues" (Williamson 1991:282).

In examining governance structure, Williamson considers three alternatives (1979). The first, market governance, is based on classical law and contingent claim contracting. Frequency is unimportant and the transaction is discrete and standardised while the costs of changing exchange partners are small. The risk of falling prey to opportunistic behaviour is limited as personal judgement is usually sufficient to complete the sale.

Trilateral governance is based on neoclassical contracting and is of relevance in situations where occasional or recurrent idiosyncratic investments are made, thus providing both parties with an incentive to complete the contract. Parties maintain their autonomy but are "bilaterally dependent to a non trivial degree" Williamson (1991:271). Moreover, because they cannot foresee all future events and the costs of contracting are positively related to the scope of contingencies catered for, all contingencies are not accounted for in the contract. Thus " the contract is mediated by an elastic contracting mechanism" (Williamson 1994:5)

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causes of conflict (Robicheaux and El-Ansary 1975:23)(Stern, El-Ansary and Brown 1989:363).

facilitating flexibility. To compensate, both transactors have recourse to a third party for arbitration purposes, reducing the risk of opportunism and enhancing the life-span of the relationship. Classical contingent claim contracting and direct moves to litigation are considered inappropriate under these conditions due to the associated costs and the negative impact they might have on the continuing relationship.

The final governance structure is that of relational contracting. Here, the extent of specific investments and the frequency of transaction encourage the establishment of an administrative order and routinization processes, where adjustments in contractual terms required for unanticipated contingencies may be resolved. "Transactions, by contrast, where the parties bear a strong bilateral dependency relation to each other are the ones for which co-ordinated adaptation yields real gains" (Williamson 1996:51). Within this governance mode two structures may emerge. In the absence of excessive idiosyncratic investments and where the buyer's demand for a product is insufficient to reap the benefits of economies of scale, a bilateral governance structure may emerge where the firm's requirements are purchased from a trading partner. When economies of scale may be realised through internal production and/or where the transaction becomes increasingly more idiosyncratic, exchange with a second party becomes less likely and vertical integration may become preferable.

However, the central question is not simply one of "make or buy" as set out by Coase (1937) but takes a more detailed perspective on the various contractual forms that underlie the "buy" decision. Thus as Masten (1984:74) argues, "production is organised administratively within firms as well as contractually between them and given the practical limitations of bureaucratic organisation, the relevant question can be seen to be not merely whether contractual

difficulties exist but how severe such deficiencies may be relative to the alternative costs of organising production internally. The important issue from an institutional choice perspective thus becomes how the particular details of a transaction affect the differential efficiency of alternative organisational forms". He later comments on existing theoretical work, "In particular, the choice between internal and external organisation and in the event of the latter, the choice of contract terms have been related to several critical parameters of the transaction".

Clearly, the cost of governance structure varies significantly along the continuum from market to vertically integrated modes. These costs include co-ordination costs, information costs and imperfect commitment (Milgrom and Roberts 1992). However, in a world where contracts are typically incomplete, parties to a relationship involving a high level of uncertainty in relation to future contingencies and highly specific assets are subject to opportunistic and quasi-rent seeking behaviour. The ability of governance structures to protect relationships from the destructive nature of these behaviours, together with their costs, will determine the governance structure employed to monitor the contractual relation by determining the most efficient means of organising the exchange relation. Thus, economic organisation attempts to "align transactions, which differ in their attributes, with governance structures that differ in their costs and competencies in a discriminating way" (Williamson 1991:79).

3.3.4 Mode of Governance and Adaptability

Emphasis thus far has been placed on the dimensions of the transaction, with particular emphasis on asset specificity, as determinants of the most appropriate mode of governance. However, the next issue to be resolved is to identify the key characteristics of the alternative governance modes that enable such discriminating alignment to take place. Arguments so far suggest that governance modes differed on the basis of contract law. "But there is more to governance than contract law. Crucial differences in adaptability and in the use of incentive and control instruments are also germane" (Williamson 1991:277). Williamson (1991; 1994) points to two forms of adaptations: price (market) and non-price (authority).

In the introduction to the organisation of economic activity it was argued that neoclassical analysis held that the price system, through changes in relative prices, provided sufficient information to ensure that producer and consumer actions adjusted optimally. The basis for these adjustments was optimising behaviour. Producers adjusted their production decisions such that profit would be maximised while consumers adjusted their consumption decisions such that their utility would be maximised under the new conditions. Autonomous goal optimisation was sufficient to ensure appropriate adaptation. Autonomous optimisation was ensured because the optimising agent had sole rights to the benefits from adaptive behaviour. High powered incentives are said to exist when consequences are clearly linked to actions in this way (Williamson 1991). Thus the first, adaptation (A), is where market prices are sufficient to ensure that the parties make the optimal decisions independent of each other.

The second, adaptation (B), is where price statistics are insufficient to ensure the optimal co-

ordination. This is more likely to be the case where parties "bear a long-term bilateral dependency relation to one another" (Williamson 1994:15). Where specific investments are in place and where contracts are incomplete, adaptations of form (A) are inappropriate. Under such circumstances, changing conditions give rise to self-interested bargaining and costly delays. The associated renegotiations, bargaining costs and the costs of maladapted transactions due to delays increase transaction costs. Indeed, the possibility of renegotiations after the fact, raises the likelihood of "buying in" and benefiting from first mover advantages. In such cases, the existence of bilateral dependency creates the need for a more co-ordinated approach to adaptations. "As compared with the market, the use of formal organisation to orchestrate co-ordinated adaptation to unanticipated disturbances enjoys adaptive advantages as the condition of bilateral dependency progressively builds up" (Williamson 1991:279). This is partly due to the avoidance of the renegotiation and bargaining costs alluded to above. However, while these are avoided, the level of incentive intensity assured by benefit appropriation is diminished. To the extent that incentive intensity is reduced, other administrative structures and control methods are required.

Table 3.1

Distinguishing Attributes of Market, Hybrid and Hierarchy Governance Structures

Attributes	Market	Hybrid	Hierarchy
Incentive Intensity	++	+	0
Administrative controls	0	+	++
Adaptation (A)	++	+	0
Adaptation (B)	0	+	++
Contract law	++	+	0
Note: ++ = strong; + = semistrong; 0= weak Source: Williamson (1994)			

Given that the market and hierarchy are positioned at the extremes of the governance continuum, Williamson positions the hybrid as an intermediate (table 3.1). The characteristics

of the hybrid are such that independent ownership ensures autonomy, providing more incentive intensity than the hierarchy. Thus, it is well equipped to adapt to market changes of a non-bilateral nature. Also, because of the varying degree of bilateral dependency, other forms of adaptive machinery, such as long-term but incomplete contracts, underpin these particular transactions. However, participation in bilateral transactions necessitates the diminution of incentive intensity. A comparison between the two extremes, market and hierarchy, highlights the trade-offs between incentive intensity and administrative controls. "If added incentive intensity gets in the way of bilateral adaptability, then weaker incentive intensity supported by added administrative controls (monitoring and career rewards and penalties) can be optimal" (Williamson 1994:16).

3.3.5 Applications of the Transaction Cost Framework

In their assessment of the existing body of empirical work using the transaction cost framework, Shelanski and Klein (1995) classify studies according to qualitative case studies, quantitative case studies and some cross sectional analysis. Of these, the most prevalent are case studies (Williamson 1976) (Palay 1984). The primary reason for the application of a case approach is that the main independent variables are difficult to operationalize across industries or even firms. Examples of qualitative case studies include Williamson's (1976) study of the franchising scheme for Oakland's CATV. This study highlighted the problems posed by the failure to specify contracts to the optimum level of detail when drawing up award criteria. Such failure permitted "buying in" and subsequent post contractual renegotiation where the benefits of first mover advantage facilitated a move towards monopoly pricing.

Quantitative analysis carried out by Masten (1984) examined input purchases by the aerospace industry. The hypothesis tested was that the make or buy decision would be made based on the differential between the cost of internal production versus the cost of market exchange. The independent variables incorporated were the transaction attributes, specificity and complexity. Specificity was subdivided into two categories. Item specificity, which related to the design of a particular item and the degree to which it was tailored to a specific user, had three possible values: highly specialised where the item was unique to the customer in question, slightly specialised where the item could be relatively easily adapted to meet other customer's needs, and standardised. Site specificity was also considered. This was to capture the possible effect of location in determining the degree of specificity and the alternative use of assets once in place. Item complexity in production was used as a proxy for uncertainty but no appropriate measure was available for uncertainty on the demand side. A three point scale, A-C, was used to capture the degree of item complexity. The dependent variable, the probability that a given input would be produced internally, was measured using the observed make or buy decisions for the selected items. The model specification is given below.

$$L_i^* = B + b \cdot W_i + U_I$$

$$L_i = a \cdot \lambda_i + c \cdot W_i + \nu_I$$

Where L_i^* is the cost of internalizing the production of item $_I$.;

B represents administrative costs;

W_i represents item complexity;

L_i is the cost of market contracting;

λ_i represents item specificity;

and where U_i and ν_i are normally distributed error terms.

Given the above, the probability of witnessing internal production may be specified as:

$Pr\ (L_i^* < L_I)$

The results derived from maximum likelihood estimates yielded highly significant and positive coefficients for both complexity and specificity, indicating that the probability of internalisation increased with both these factors. The combination of complexity and specificity, by increasing the risks of incomplete complete contracts resulted in a 92 % probability that a product is produced in-house. The results also highlighted a substantial predisposition by management towards external purchases resulting from the additional administrative burden associated with internalisation.

Monteverde and Teece (1982) tested the transaction cost explanations of vertical integration with their study of the US automobile industry. In particular, they wished to test whether or not transaction specific know-how, as against transaction specific capital assets, played an important role in determining the probability of internal versus external organisation of transactions. The existence of such specific know-how, emerging from first mover advantage, raises switching costs to the buyer, thereby increasing the likelihood of expropriation of rents as a result of opportunistic re-contracting. Specifically, their hypothesis tested the relationship between engineering effort, the source of first mover advantage considered to be positively related to quasi-rents, and the likelihood of vertical integration. A Likert scale, attempting to measure the cost of producing components, was employed as a proxy for engineering effort and investment. A second variable captured the company specificity of a component. This identified those components where make and model information was required for purchasing

purposes. The final variable was a systems component that grouped individual components into subsystems. This captured the interrelationships that existed between components. Thus, for instance, the design of the chassis will have substantial impacts on the design of other components, therefore requiring more co-ordination and control and increasing the likelihood of internalisation. The findings of the study indicated a strong relationship between transaction specific skills and the probability of vertical integration suggesting, that the potential for achieving substantial first mover advantage has important implications for the degree of vertical integration.

The central thesis underlying the transaction cost framework, that organisational form is determined by the relative efficiency of transacting under alternative modes, is difficult to refute. This is due to the fact that the costs of alternative modes are not observable for a given institution. While the costs of internalising a function by a particular firm may be observable, the costs of alternative arrangements by reason of the integration decision are not (Masten et al 1991). A second problem is that the transaction cost framework focuses almost exclusively on the market alternatives, that is, it is concerned with asset specificity, uncertainty and the costs of contracting to reduce the risks of post-contractual opportunism. It neglects those factors that affect the internal costs of the firm which play an equally important role in determining the mode of governance for a particular transaction. For instance, the cost of opportunistic behaviour within firms is not explicitly considered. A third issue of concern is that the costs associated with the purchase of inputs, themselves market transactions, are not considered when a particular stage of the production process is internalised. In this respect, the characterisation of the transaction cost framework as "make or buy" is not strictly correct.

In the above, focus has been placed on the make or buy dichotomy. However, as mentioned earlier, there is considerable scope in terms of contractual form to cater for the nature of the "buy" transaction in question. Consistent with our earlier analysis, the transaction cost framework provides considerable insights into the factors underpinning the nature of such contracts. It proposes that contracts will be established in such as way to minimise transaction costs. Palay (1984:266), in his study of rail freight contracting, argues that as "investment characteristics become more transaction specific, the associated institutional structure becomes increasingly unique to the parties and transaction it supports". This is demonstrated clearly in Table 3.2. It shows the association between governance structure and the nature of investment characteristic.

Table 3.2

Governance Structure and Investment Characteristics

	Governance Structure			
Investment Characteristics	Market	Mixed	Relational	Total
Non Specific	13	7	1	21
Moderately Idiosyncratic	0	10	8	18
Highly Idiosyncratic	0	2	10	12
Total	**13**	19	19	51
Source: Palay (1984)				

Palay (1984) identifies five aspects of governance structure which were expected to vary as investment specificity increased; method of enforcement, adaptations to changing circumstances, types of adjustments implemented, exchange of information to assist long term planning and whether or not structural planning was attempted. In cases characterised by low levels of asset specificity, market enforcement and the threat of the potential use of substitutes

was sufficient to ensure the completion of transactions. Such threats were likely to be made possible by the existence of various substitutes. In situations of increasing levels of specificity, the likelihood of opportunistic behaviour was constrained by the perceived need to retain one's reputation intact. Moreover, relations were frequently underpinned by commitments reflecting mutuality of interest, which although legally unenforceable, served to convey commitment to less trusting members of one's trading partner's firm. This element was of particular note in that relations could exist at individual and/or firm level.

Attitudes towards adjustments varied considerably with the level of asset specificity (Palay 1984). The less specific the investment, the less willing parties were to accommodate adjustments in contractual arrangements. Growing flexibility accompanied increasing degrees of specificity. However, at lower levels of specificity, flexibility was achieved only through renegotiation accompanied by some compensations that improved the accommodator's position. Attitudes towards adjustments in situations of greater degrees of specificity were more favourable. They deemed the need to accommodate change within the relationship essential to the preservation of both parties' investments.

The implementation of adjustment also varied on the basis of specificity with unilateral amendments in a contract more likely in situations of non-specific investments. Other possibilities included negotiated agreement on the revised terms. Under these conditions, parties with non-specific investments were more likely to request immediate compensation as part of the new contract, while transactions characterised by more specific investments were more likely to agree to future compensatory gains for current accommodating behaviour.

The need for long term planning and structural planning is a necessity for the continued success of any given firm. However, the provision of proprietary information, especially that of an impacted nature, to the transactor may be expected to vary considerably with the nature of the mode of governance. As expected, Palay (1984:285) identifies some evidence showing that "parties to idiosyncratic transactions were more likely to be involved in exchanges in information for long-term forecasting". The provision of information to outside parties for structural planning purposes represents a much deeper relationship. Such information would form the basis for the development of "rules or procedures for dealing with long-term problems or unforeseen contingencies" (Palay 1984:286). Once again, the propensity to engage in such activities was positively related to the level of idiosyncratic investments supporting the transaction.

3.3.6 Specific Investments and Dependency Balancing

Both the marketing channel literature and the transaction cost literature view dependency as a critical ingredient in the formation of inter-firm relations. Much of the earlier marketing channel literature, by virtue of its approach to the study of relationship dyads, tended to view power as a symmetric phenomenon. Power is seen as closely related to, if not inseparable from, dependency and may be exercised over another agent. The transaction cost literature, on the other hand, focuses on bilateral dependency and the implications for the mode of governance. The transaction cost literature argues that the existence of transaction specific assets generates bilateral dependency. However, the framework implicitly assumes that the dependence is balanced partly through the use of credible commitments that emerge to support the exchange process (Williamson 1983). Thus, dependency balance is relationship specific.

Work by Buchanan (1992) and Fein and Anderson (1997) suggests the same. Dependency balancing is relationship specific and as such strengthens the particular inter-organisational relationship.

Work by Heide and John (1988) also investigates the link between specific investments and dependency. They argue for dependence balancing where specific investments exist. However they suggests that dependence balancing is viewed as external to the immediate relationship. A firm that has made significant specific investments with a principal will seek to establish balancing relationships with other customers. This view does not support the premise that dependency balancing promotes the exchange process. It merely increases the principal's substitutability. Feldman (1998) argues that dependency balancing across relationships is a possible outcome if the over dependent party perceives itself vulnerable in the relationship. Consequently, credible commitments are required to maintain the "equilibrium of interdependency between buyer-supplier" and "whether buyer-seller economic exchanges will yield successful outcomes" (Feldman 1998:290).

3.4 Conclusion

The foregoing has reviewed much of the channel literature as it pertains to power and the organisation of marketing channels. The contribution made by French and Raven (1959) was that, in devising their taxonomy of power sources, they provided a framework within which to examine the power relation. The merits of the framework are established in the substantial body of literature which takes it as its starting point in assessing the use of power sources and the implications for channel conflict, member satisfaction and channel performance. The framework presents a means for investigating the likely "terms of trade" that emerge from

within a trading relationship. This is in marked contrast to much economic analysis, which frequently points to a range of possible "equilibria" within an exchange relation. Here the final outcome depends on the parties' relative bargaining power and their initial endowment of resources. The above provides some means of opening this particular "black box".

However, much of the empirical work operationalizing French and Raven's (1959) conceptual framework has certain shortcomings. First, as pointed out by many commentators, the distinctions among power bases is unclear despite substantial effort and investment in defining new taxonomies. In the original seminal article, reward, coercive and expert power sources were defined in terms of the influencee's perceptions (French and Raven 1959). For instance, reward power is based on the perceived power to dispense rewards. However, in all the reviewed literature, no attempts were made to elicit influencee's classifications. Instead, researchers imposed their own constraints and categorisations in a rather unsystematic fashion. This is of particular importance when considering that the same researchers constructed the units utilised to measure and assess the relationship between the strength of power and power sources. While Gaski (1984) places considerable emphasis on construct validity, it is unclear whether or not correlations and factor loadings as in Lusch (1976) are sufficient to construct appropriate power constructs[8]. Thus it is argued here that much of the earlier work lacks clarity because one cannot be confident that they measure that which they set out to quantify. What is proposed here is that sanctions must be differentiated from some baseline expectation. Thus, it is the influencee who must differentiate and categorise sanctions. "Is

[8]In Lusch (1976), factor analysis is carried out on a series of power sources. One of the loaded factors is entitled financial assistance, which is then classified as a non-coercive power source. This final classification is based on the author's assessment. However, it is possible that the existing level of receipts were simply incorporated into the expected terms of trade and the potential loss of these assistances represented a substantial negative sanction.

the withdrawal of punishment equivalent to a reward? The answer must be a psychological one - it depends on the situation as it exists for P" (French and Raven 1959:158).

French and Raven (1959) argued strongly that the strength of both coercive and reward power and the extent of dependent change was governed by the degree to which an agent's conformity was observed. This critical dimension was neglected in all later empirical research. Furthermore "the level of observability will in turn depend on both the nature of the system and on the environmental barriers to observation" (French and Raven 1959:155). The importance of and difficulties presented by the observability and the metering problem was highlighted by Alchian and Demsetz (1972). The awarding of rewards disproportionate to productivity resulted in shirking and opportunistic behaviour. Second, the ability to hide under-performance resulted in cheating. Arrow (1974), in his discussion on information costs, presented an insight into some of the environmental barriers to observation and the possible means of overcoming them. These have important implications for both channel member and channel performance. Thus, it is proposed that some measure of observability be incorporated into the measurement problem.

The final point in relation to the marketing channel literature is its contribution to the study of interdependency. While marketing channels are viewed as sets of interdependent organisations participating in the delivery of a product or service to the point of ultimate consumption, much of the empirical work focused solely on asymmetric power relations. Indeed, this was the case until the introduction of countervailing power by Gaski (1986) broadened the potential uses of the framework.

While the marketing channel literature focused on the relation as its unit of analysis, the contribution of the transaction cost framework is that in viewing governance mode as "part of the optimisation problem", it focuses attention on the transaction. In doing so, it points to those characteristics that determine the choice of governance mode and focuses on the way transactions are negotiated, initiated, monitored, adapted and terminated. Its focus of study is the area within which power relations emerge. The framework highlights the components of the trade-off, the need to protect the transaction from contracting hazards and the costs of governance modes in terms of both incentive intensity and adaptability and the trade-offs that exist between these elements under conditions of bilateral dependency. These are the factors that govern relative efficiency amongst alternative governance modes.

What then do these approaches have to contribute? Much of the marketing channel literature holds that channel co-ordination is a function of channel leadership, which in turn is a function of channel member power. Power resides in all relations including transactional. The transaction cost framework argues that co-ordination is governed by efficiency and the need to minimise transaction costs, which are determined by the characteristics, asset specificity, frequency and uncertainty. Thus, the nature of relationships varies depending on the characteristics of the transaction. It is proposed that both viewpoints are not incompatible. The review suggests that, while measuring sources of power is problematic, appropriate methodologies exist to measure exercised power. Differentiation amongst governance modes on the basis of transaction characteristics is also possible. This raises the question as to what happens to the level, the distribution and sources of power under different modes of governance.

It is noteworthy that many of the questions posed by Gaski (1984), and particularly those relating to the distinction among power sources, still remain. For instance, recent work (Katsikeas et al 2000) still fails to redress the problem of differentiation among power sources i.e. is withholding rewards any different from applying sanctions. However, in arguing for the inseparability of power sources and dependency, Gaski (1984) points to an alternative. This is to follow the dependency literature (Emerson 1962; Pfeffer and Salancik 1978, Buchanan 1992) which may be more rewarding.

The second contribution emerging from our review of both literatures is the role of observability. As argued above, French and Raven (1959) point to observability as a key determinant of power. The transaction cost framework approaches observability through administrative controls and performance monitoring. Under conditions of bilateral dependency, monitoring costs play a significant role within the economising problem. They are viewed as a means of supporting incentive intensity in the absence of the benefits of high-powered incentives resulting from appropriability provided by market contracting. The trade-off between incentive intensity and administrative controls has been highlighted. Monitoring activities act as a means of protecting against low levels of incentive intensity (Williamson 1991; 1994) in part by acting as a means ensuring agreement compliance (Klein et al 1978). However compliance, where the agreement is a type of implicit long-term agreement, may also be supported through "insurance premia" (Klein at al 1978).

The review highlighted the relevance of dependency within the organisation of vertical relations. Pfeffer and Salancik (1978) view dependency as related to uncertainty which can be managed by better co-ordination of activities by trading partners. The transaction cost

literature (Williamson 1985) provides a broader view on the implications of uncertainty by pointing to the potential costs of opportunistic behaviour and the means by which these costs may be minimised through the adoption of appropriate governance structures.

The review also establishes clear linkages between power and dependency, dependency and specific investments, and specific investments and the mode of governance. However, the role of specific investments in the determination of power has not been explicitly examined. This represents a serious omission within the current literature for both theoretical and practical purposes. On the theoretical side it may be that specific investments provide a further bridge between the power and transaction cost literatures.

These theoretical linkages will become more evident in practise in the course of the next chapter. Within the retail environment one hears of increasing retailer power over manufacturers. As shall be seen in the next chapter, there is a growing body of evidence to suggest that the level of asset specificity is increasing on both sides, raising the level of interdependency, with substantial implications for the both the distribution of power and the appropriate mode of governance. The development of the retail brand, partly through improving the quality of private label products represents a considerable sunk investment by certain retailers. The greater level of sophistication required of manufacturers and the substantial first mover advantages accruing to an existing supplier base increase the risks of expropriated quasi-rent seeking as manufacturers take advantage of increasing switching costs. Similar threats exist on the manufacturers' side where specific investments are made and retail dedicated supply chains emerge.

However, not all retailer-manufacturer relationships are subject to such contracting hazards. Differences will exist both within and across product categories. The argument presented here is that these differences are reflected in the level of power exercised together with mode of governance used to organise the transaction.

Given the growing evidence of increasing specific investments made by both parties and the risk of opportunistic behaviour within these business relationships, one would have considered the transaction cost framework as offering the researcher a potent means of analysis. As shall be seen in the next chapter, many authors draw on the transaction cost framework for conceptual tools such as specific investments and switching costs but while some have examined the impact on relationship stability (Dawson and Shaw 1989; Fearne 1996) none have considered the implications for retail power. This state of affairs may have emerged for two reasons. First, the sources of power literature emerged largely in the US where retail development and strategies have been notably different from that experienced in the UK (Hughes, 1996). In the US, the extent of specific investments and the applicability of the transaction cost framework may not be immediately obvious. Second, it is proposed that Gaski's (1984) paper highlighted that the power literature, based purely on French and Raven's (1959) taxonomy of power sources, had gone as far as it could and may have indeed gone further than was possible. Thus the topic became largely ignored and the complementarity between the transaction cost and power literatures never arose.

Chapter Four

A Review of Retailer-Manufacturer Relationships

4.1 Introduction

At this stage it is appropriate to review the existing literature pertaining to retailer-manufacturer relationships. The goal of the review is to gain a deeper understanding of these relationships and the factors that govern the balance of power within them. For the purpose of clarity, the review sets out the main arguments and findings concerning the evolution of power relations within the retailer-manufacturer dyad rather than presenting a detailed analysis of each of the many contributions. The discussion presents the argument that variations in retailer-manufacturer relations are evident across three distinct sets of characteristics and that these act as determinants of the balance of power within these relationships:

- At the most aggregated level one observes variations in market structures. Examples of such variations include the importance of economies of scale in manufacturing, the concentration of the manufacturing and retailing sectors and own brand penetration. These structural characteristics may be expected to vary both across product categories (manufacturing industries) and indeed markets;
- One witnesses variations at firm level, where both retailer and manufacturer characteristics differ. Product characteristics and the relative importance of different products to the retailer may also be expected to vary;
- Finally, one observes variations in relationship characteristics among food retailers and their suppliers. One example is the degree of inter-firm integration among trading partners with new modes of governance emerging to support differing transactions.

Much of the power literature reviewed earlier, with the exception of Etgar (1977), assumed that the chief determinants of the balance of power were, in effect, endogenous to the relationships. Little attempt was made to identify "extra-dyadic variables that could increase our understanding of channel members' power positions" (Butaney and Wortzel 1988:52). The purpose of dividing our analysis into the components above is to ensure that we capture the richness of the subject under review and identify the relevant extra-dyadic variables necessary for a more complete understanding of retail power. It is hoped that by adopting this framework we may derive a more complete model of power within retailer-manufacturer relations.

It should be noted that there are considerable inter-relations among our three sets of characteristics. For instance, we witness certain retailers internalising functions formerly carried out by manufacturers. Some retailers have adopted brand strategies with clear implications for the way they manage their relationships with their suppliers. Physical distribution is another case in point. Retail integration into this function may be expected to influence monitoring costs, which in turn, may be expected to have implications for the mode of governance between the trading parties. Consequently much of our analysis will seek to assess the importance of these interactions, and in doing so, identify first order causal relationships.

To complement our earlier analysis of the Irish market, this review focuses on the experience of the UK grocery sector. This serves three purposes. First, as we have seen, the UK is Irish food manufacturers' single-most important export market. Second, the UK grocery market

has formed the basis for much of the study of retailer-manufacturer relations, highlighting many of the power interactions with which this study is concerned. Third, the UK market provides the opportunity to consider retailer-manufacturer relationships in the context of greater strategic use of own brand products. The strategic use of own brand products is one of the features which currently distinguishes the UK market from other markets such as the US and France. Nevertheless, some have predicted the convergence of own brand strategies in time (Hughes 1996; Fernie and Pierrel 1996). The chapter will proceed first by examining changes in structure. Then it will review the literature that points to firm and product characteristics as determinants of retail power. Finally, it will assess the literature that examines variations in trading relationships.

4.2 Structural Change

This section examines three components of structural change that the literature suggests influence the nature of retailer-manufacturer interaction. These are the changing consumer, relative concentration in the retailing and manufacturing sectors, and product differentiation including own brand.

4. 2.1 The Changing Consumer

The most appropriate starting point for the review of structural change is the consumer and the sets of needs and wants that ultimately drive the entire food supply chain, determining the roles, interactions and ultimate distribution of both power and rewards among the various channel participants. There is considerable evidence of the growing sophistication and, indeed, fragmentation of consumer requirements over the last 50 years. Burt and Sparks

(1994), in their review of the British grocery market, sketch out changing consumer needs through periods of rising incomes and emerging shopping patterns during the 1960's, through the increasing price focus of the 1970's to the consumption revolution of the 1980's. Walters (1980) portrays the consumer market as ageing, fragmenting in terms of household type, more leisure orientated and more sophisticated in terms of accessories used and foods eaten. More exposure to foreign cuisine, through greater ethnic diversity within the UK population and more access to foreign travel, widened the range of products demanded. Indeed, one of the more dramatic features of the change in consumption patterns has been the explosion in products available to consumers increasing from an average of 600 products in the typical corner shop of the 1950's to over 18,000 in the multiples today (Hughes 1994:10).

Walters (1980) highlights the interaction between these changing consumer circumstances, and both the retail and manufacturing environments. The fragmentation of the consumer market resulted in continual growth in the demand for new products. According to Walters (1980), the rate of new product introductions increased throughout the 1960's and was maintained throughout the 1970's. It and peaked during the 1980's (Hughes 1994). However, a growing proportion of these products fell into the "me too" category and lacked a real innovative content. Consequently, up to 85 %, of products failed to have a retail presence one year after launch (Hughes 1994:23). Nevertheless, the impact of this rate of introduction was likely to have been significant, as the constant flow of new products would have increased demand for retailer controlled shelf space.

Changes in lifestyles were also reflected in changes in purchase criteria. Environmental, health and animal welfare concerns assumed greater importance. The move to healthy eating

was quickly reflected in the strategies employed by the major multiple retailers[1] who "regard their fresh produce displays as traffic generators" (Knox and White 1990:40). Many of these trends have continued. There is also substantial evidence to support other changes in lifestyles, particularly among women as more took to market employment. The implications for grocery requirements are clear as "the working woman is short of time to prepare meals, seeks convenience when shopping for food products and is willing to buy time" (Hughes 1994:16). This incentive to buy time was reflected in the consolidation of the shopping activity through the use of large shopping outlets facilitated by greater access to cars and freezers (Walters 1980).

The consolidation of shopping activities was also encouraged by changes in retail advertising where "advertising of market baskets has a cumulative effect over time, concentrating consumer preferences on one-stop shopping and emphasising the disutility of moving between competing stores" (Akehurst 1984: 107). Akehurst (1984) argues that better consumer access to price information during the 1970's removed the potency of deep but selective price reductions and enhanced the aggregate low pricing policies of companies such as Asda and Kwik Save. These aggregate low pricing policies were, in part, facilitated by the relative size of retailers. Grant (1987) argues that retailer power lay in the ability of large retailers to generate price discriminatory policies on the part of manufacturers. The Office of Fair Trading (1985) proposed that the lower prices obtained by larger multiples were indeed being passed on to consumers[2]. The continuation of discriminatory pricing by manufacturers

[1] Other examples include the extensive range of "Healthy Eating" own brand products developed by Tesco.

[2] In this respect there is a clear distinction between market (monopoly) power and retailer power where the former refers to the ability to raise prices above marginal cost. For recent studies in the area of retailer monopoly power see (Messinger and Narasimhan 1995;Ailwadi et al 1995; Collins and Oustapassidis 1997).

throughout the 1980's is confirmed by Ogbanna and Wilkinson (1996:402) who, drawing on the Economist Intelligence Unit, point to a 10-12 percent differential in the price paid by independent retailers and their large multiple counterparts. These discriminatory discounts are likely to have helped fuel the concentration process.

More fundamentally however, the shift in emphasis from deep price cuts at product level to basket competitiveness "leads not so much to brand loyalty outside the shopping environment but to firm loyalty, so that in effect there is product differentiation within stores but store differentiation at market level" (Akehurst 1984:116). This shift in loyalty from brands to outlets was to have a significant influence on retailer power. This is pointed out by Steiner (1984:179) who argues that "the relative market power of manufacturers and their retailers is governed by whether or not shoppers are disposed to switching stores within brand or brand within stores. In the case of the former, manufacturers will dominate while in the case of the latter, retailers will hold sway".

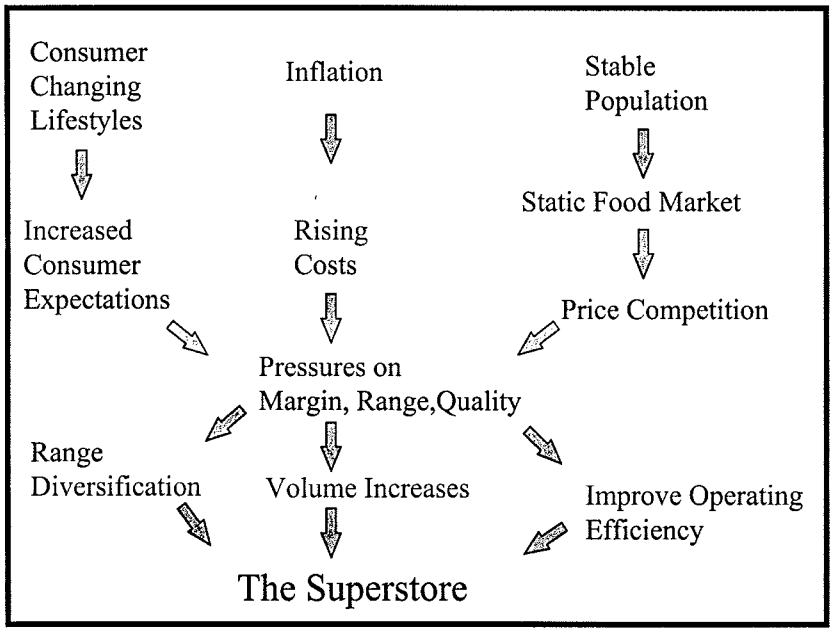
4.2.2 Relative Concentration in the Grocery and Food Manufacturing Sectors

The consolidation of shopping activity played an important part in the concentration process within the grocery market by inducing a convergence between consumer requirements and retailer needs for operational efficiencies (Akehurst 1983, 1984). Population growth and grocery volumes stagnated during the early 1970's. Furthermore, growing inflationary pressures were quickly transmitted to wage inflation with a substantial impact on the labour intensive grocery sector. Depressed demand prevented efficiency gains through market growth placing increased emphasis on market share gains (Institute of Grocery Distribution

1990, hereafter IGD). Retail diversification into new product areas provided some means of achieving economies in the absence of volume growth in the market for staples (Akehurst 1983) but risked the danger of diverting resources into non-core business areas (Leahy 1987; 1994). However, the attainment of a low pricing position also required substantial volume gains and productivity improvements to provide sufficient economies of scale to finance such a policy. In this regard, "Operation Checkout" marked the emergence of the large-scale retail outlet as the dominant retail format for the foreseeable future. These factors which led to the dominance of the superstore are presented in figure 4.1.

Figure 4.1

Factors Giving Rise to the Superstore



Source: (IGD 1990)

According to McGee (1987), the continual growth in the market share of the large grocers and the substitution of large trading units for small outlets provides a clear indication of the potential for cost efficiencies. The need for improved cost efficiencies had become clear

during the mid 1970's. High rates of inflation had permitted retailers to pass cost increases directly to consumers. However, it was becoming evident that such a solution could not continue indefinitely (Davies et al 1985). The intense price discounting of branded products by retailers during the late 1970's was largely financed by cost economies resulting from scale and distribution in addition to margin contributions from own brand products (Davies et al 1985).

Wrigley (1993:44)proposes that an integral part of the concentration process was "the new store development process" which had become "the critical arena of competition". Scale economies, in terms of replication, provided one of the more important drivers towards increasing concentration in the grocery market (Shaw et al, 1989). Additional sources of retail cost economies in the form of economies of scale, at outlet and firm level, and economies of scope were to play a growing influence in structural change and retailer-supplier relations (Dawson and Shaw 1989b).

The concentration process had begun during the 1970's with the multiple share of the packaged goods market increasing from 50% in 1974 to 72% by the end of 1982. This amounted to approximately 40% of the total grocery market in 1982 (Davies et al 1985:8). Furthermore, a number of retailers had entered the decade committed to increasing market share by passing on the benefits[3] of volume discounts and efficiency gains to their customers. The subsequent increase in concentration resulted in oligopsonistic power on the retail side of the market "which conditioned all aspects of food manufacturer-retailer relations" (Wrigley 1993:45).

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[3] Davies et al (1985:12) argue that there is no evidence to suggest that all the benefits were indeed passed

The food manufacturing industry entered the 1980's in a fragmented and inefficient state (Wrigley 1993; Davies et al 1985). Nevertheless, while fragmented, the top 10 companies accounted for approximately 33% of sales. Over 60% of product markets had five firm concentration ratios in excess of 70% (Davies et al 1985:4). While concentration levels appeared high they masked declining profitability as net margins declined throughout the 1970s from a peak of over 6% to less than 4% by the end of the decade. Much of this decline was attributed to increasing inter-retailer and inter-manufacturer competition resulting from static market demand and chronic excess capacity (Davies et al 1985). However, the problem of over-capacity was partly resolved by the shake out during the recession in the early 1980's (Keynote 1995). During this period, the food manufacturing sector in turn began the concentration process. By 1988, just 7 companies accounted for almost half of total food turnover through grocery outlets (Ogbanna and Wilkinson 1998).

The growing concentration in both manufacturing and retailing meant that competition was increasingly between large entities. More importantly, growing horizontal competition among larger retailers intensified the level of vertical competition that frequently resulted in temporary breakdowns in trading relationships (Davies et al 1985). These were reflected in the aggressive exploitation of own label development, greater control of shelf space and the reduction in space allocated to branded manufacturers. This, in turn, facilitated the appropriation of additional discriminatory discounts from manufacturers and the imposition of more stringent supply conditions (Wrigley 1993). However, there was a belief that growing retailer power, by reducing the number of product lines, was itself contributing to

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on to consumers.

manufacturer concentration (Davies et al 1985).

Nevertheless, despite growing manufacturer concentration, retailer dominance still continued and was reflected in subtle shifts in manufacturer strategy. Instead of the former adversarial relationships, manufacturers now sought "stability and communication in their relationships with the major food retailers, relationships in which they could develop effective and profitable strategies for anticipating and responding to retailer demand" (Wrigley 1993:46). However, the most notable change was that marketing to the retailer had become the key to success for many manufacturers (Segal-Horn and McGee 1989; Davies 1991).

The nature of retail competition in the grocery sector continued to change throughout the 1980's as increasing concentration resulted in even greater importance of economies of scale (Dawson and Shaw 1989; Shaw et al 1994). Greater sales volumes through more widely dispersed outlets promoted the use of technology, facilitating the centralisation of control within multiple retail operations. Centralised buying practices were adopted to maximise leverage in negotiations with manufacturers. Retail investments were made in new central distribution systems providing additional volume-related efficiency gains and increasing the pool of potential own brand suppliers (Burt 1992). The increase in the absolute size of the larger multiple operations together with more sophisticated consumer demand encouraged and, indeed in many cases, necessitated that greater emphasis be placed on global sourcing, further increasing inter-manufacturer competition.

4.2.3 Product Differentiation and Own Brands

The shift in consumers' concerns from product pricing to basket pricing had the impact of repositioning the locus of product competition from the market-place to retailer-controlled shelf with subsequent implications for vertical relationships. However, the basis for substituting store loyalty for product loyalty was not price alone. Davies et al (1985) argue that the nature of competition changed during the early 1980's with the emergence of the retail brand supported by growing levels of advertising by the major multiples. A shift in advertising expenditures had commenced during the 1970's (Fulop 1983; Grant 1987; Segal-Horne and McGee 1989). While grocers' advertising was increasing in real terms, manufacturers' below the line expenditure was assuming a greater share of total manufacturer promotional spend (Walters 1980). Advertising allowances, bonuses, over-riders and trade deals represented some of the means whereby retailers appropriated manufacturers' promotional spend (Fulop 1988). Grocers' advertising increased almost six-fold over the 1972-1981 period, while that of manufacturers had merely doubled (Alexander 1988; Fulop 1988). In 1980, 10 of the top 20 advertisers in the UK were retailers (McGoldrick 1984).

Fulop (1983) noted that retailers were becoming more sophisticated with three distinct types of advertising emerging. These were price focused, own brand product focused and variety focused. Also, new advertising objectives were evolving whereby "some food retailers seek to reinforce the distinctive character of the particular retail firm as perceived by shoppers" (Fulop 1983:370). Consequently, there is considerable evidence to suggest that the increasing importance of price as a result of the economic crises of the early 1970's and the support of growing retailer brand advertising, provided the platform for the future strength of own brand products and generic labels (Alexander 1988; Davies et al 1985; McGoldrick 1984).

The significance of branding and consumer franchise is highlighted by Steiner (1984). He argues that "the most important adversarial functions concern the provision of product-specific information and brand reassurance - whether it is the manufacturer's or the retailer's reputation that counts with the consumer...to the parties that control these functions goes the market power and the monopoly profits"(Steiner 1984:200). Porter (1974) had followed similar thoughts. He argued that the retailer's contribution to product differentiation is not fully appreciated but can be considered as "the influence he exerts on the purchase decision of the consumer" (Porter 1974:220). The potential sources of retailer influence on the purchase decision are broad and may emanate, for example, from the retailer's reputation for quality, the store ambience amongst other retail controlled variables. Recent work highlights the relationship between retailers' organisation of shelf displays and the impact on manufacturer brand equity (Buchanan et al 1999). The aggregate return from the differentiation process is a function of the effectiveness of differentiation at both the manufacturing and retailing stages in the channel (Segal-Horne and McGee 1989). However, as "the retailer's influence on product differentiation increases, the bargaining power of the retail stage vis-à-vis the manufacturer increases" (Porter 1974:421).

The strategic opportunities presented by the growing retail contribution to product differentiation were slowly embraced through the development of own brands. In addition to providing a point of differentiation among retailers, own brand products established an additional source of increased retailer bargaining power. As store loyalty increases relative to manufacturer brand loyalty, own brands may be more easily substituted for manufacturers' branded products (Galizzi et al 1997; Dawson and Shaw 1989b). Also, retailers can switch

suppliers more easily as the manufacturer is no longer identifiable at consumer level (Dawson and Shaw 1989b).

Davies (1992) suggests, in a useful discussion of the ways in which retailers can be brands, that there are two potential aspects of the retail brand. These are retail product brand and process brand. The contribution made by own brand products in positioning the retail brand is also stressed by Leahy (1994). The successful retail product brand has at least five attributes (Davies 1992:32);

- it is differentiated from other brands;
- there is sufficient retail control to guarantee quality;
- sells at a premium to other products;
- product name is capable of beneficial transfer to other products/services;
- and that the purchase enhances the self image of customers.

However, the evolution of own brands, to a stage where they represented true brands in their own right, was a relatively slow and cautious affair. Initially, own brands were introduced to provide a cheaper, value for money alternative to manufacturer brands (Leahy 1987; 1994). While own label had existed in the UK market in some form for many years, its appears that Tesco's "Operation Checkout" in 1977 was a critical juncture. The immediate effect of this price war was to reduce the price of branded products and own brand products' share of sales (Burt 1992). However, the promotion severely reduced margins on branded lines enhancing the position of own branded products as a substantial contributor to profits. Also, intense inter-retailer competition and reduced retailer margins on branded products placed ever-increasing demands on manufacturers' advertising budgets which were being reallocated to

trade promotion. The consequence was reduced support for secondary and tertiary brands (Davies et al 1985; de Chernatony 1989). The necessity of maintaining consistent advertising to develop successful brands is highlighted by de Chernatony (1989a). However, reductions in advertising expenditures suggest a polarisation within manufacturers' brand portfolios with some well supported brands that would continue to flourish but others which, devoid of consumer franchise, would ultimately give way to own brand products.

Over time, the relationship between own brand quality and consumers' patronage decision was realised, resulting in concerted efforts to reposition own brand products by focusing on their intrinsic branding potential (de Chernatony 1989; Leahy 1987; 1994; Burt 1992; Burt and Davis 1998). Grocers' growing awareness of the relationship between their image and customer loyalty, resulted in continuing advertising support throughout the 1990's to build their own brands and enhance their image (Fernie and Pierrel 1996).

Shaw et al (1992) argue that the evolution of the retail brand and the successful positioning of these brands by major UK retailers had substantial implications for supplier relations. Retailers will seek manufacturers who are capable of producing products congruent with the positioning and specification of the retail brand (Hughes 1996). Retail buyers will seek the bundle of product attributes, composed of taste, quality, consistency, packaging and design amongst others, which fit the their market positioning, because "retailers develop a total market rather than individual brand markets...market planning becomes their responsibility" (Shaw et al 1992:132). This has two important implications. First, it requires greater retail control of processes formerly considered the remit of manufacturers. Second, the motivation for retailer involvement and control increases with the quality positioning of own brand

products (Davies 1992). Variations in product quality risk undermining the brand's positioning and the horizontal competitiveness of the retailer.

The development and repositioning of own brand caused a substantial redistribution of marketing functions throughout the marketing channel with retailers becoming more active participants. Howe (1990:24) proposes that manufacturers' "almost exclusive power over product design and development, advertising, physical distribution, distributor stocking and display, retail price setting and distributor's trading margin has been either reduced or abolished". This is supported by Segal-Horn and McGee (1989) who argue that retailers have taken over many of the functions formerly carried out by suppliers, including pricing, advertising, branding, physical distribution, and new product design and development. The extent to which retailers have seized the strategic initiative is attested to by Shaw et al's (1992) finding that 87% of retail brand new product development initiatives were instigated by the retail buyer rather than the supplying firm. The implication for manufacturers is that, as a consequence, retailer branding and innovation have been established in the food market and the role of brand guarantor has shifted from manufacturer to retailer (Segal-Horn and McGee 1989).

The adversarial position between retailers and manufacturers is intensified as retailers attempt to achieve economies of scope and extend their own brands into new product categories competing directly with branded substitutes and indirectly through greater pressure on available space. Manufacturers' "muscle" on the other hand is dependent on its product's appeal to the customer (Davies 1995:14). Where economies of scale are important, the dilemma facing branded manufacturers is whether or not to embark upon a dual branding

strategy as the share of own brand products increase. Such a strategy has considerable attendant risks. First, the decision of branded manufacturers to produce own brand products may result in the diffusion of operational details such as costs and specifications to the retailer. Second, the growing willingness of manufacturers to enter own brand markets would be expected to raise the level of horizontal price competition with existing producers, initially resulting in reductions in own brand prices and subsequently branded premia. Third, consumer awareness of the dual branding strategy may result in an "early commoditisation" of a category. These factors serve to increase retailer power within their relationships with manufacturers (Galizzi et al 1997).

Steiner (1984) proposes that the market power of a manufacturer or a retailer is a joint function of its horizontal position relative to firms at the same stage and its vertical bargaining leverage against firms in the downstream or upstream stage. This has two implications. First, increasing retail concentration enhances retailer power by increasing the importance of individual retail accounts. As retail concentration increases, the effect of brand switching has a greater impact on production costs particularly when manufacturers are subject to economies of scale. Increasing retail concentration enhanced retailer power by increasing their ability to deny manufacturers access to the shelf with adverse consequences for costs and horizontal competitiveness (Davies et al 1985:9). Second, the means whereby retailers can appropriate additional power is to force manufacturers into more vigorous horizontal competition. The development of own brand, by availing of excess capacity in manufacturing and increasing competition on the shelf, intensified inter-manufacturer competition. Nevertheless, Ogbanna and Wilkinson (1996) argue that retailers' continued dependence on manufacturers' brands, at least in some sectors, limits retailers' exertion of direct control. However, "as concentration

increases further, and as own label goods come to dominate more and more grocery sectors, more direct retailer influence over manufacturers' operations cannot be ruled out" (Ogbanna and Wilkinson 1998: 82).

For reasons already outlined, manufacturers have traditionally been reticent about own brand production. Galizzi et al (1997) suggest that early in the development of own brands, large branded manufacturers could avoid a dual branding strategy and resist retailers' attempts to coerce them into own brand production. Initially, own brands were produced by small manufacturers. Retailers' preferences for small firms, technology permitting, was also found by Omar (1995). However, as the quality (and substitutability for the branded alternatives) and market volumes of own brand increases, branded manufacturers find themselves in a prisoner's dilemma. While there is still an incentive among the branded manufacturers to refrain from producing own brand, the incentive to cheat, that is to produce own brand, increases as own brand share increases. This represents a further diminution of manufacturer power. However, where manufacturer concentration is high, greater opportunity for unspoken agreements among food manufacturers to refuse own brand production exists (Ogbanna and Wilkinson 1998).

4.2.4 Structural Change and the Balance of Power

The argument so far suggests that structural features on both the input and output side will influence a given agent's power within the channel. Consequently, one would expect that variations in structural features would result in variations in the extent of retailer power across industries. Burns and Henson (1995) point out that within buyer-seller exchange, concentration alone is not sufficient to generate bargaining power and that other market and

competitive elements need to be considered. Manufacturer concentration does not in itself increase manufacturer power in that certain industries, such as bread, are subject to high fixed costs and large minimum efficient scales, requiring large shares of the market to maintain volumes and cost competitiveness (Burns and Henson 1995).

Bowlby and Foord (1995:334) recognise that "retailer or manufacturer power is determined not only by the internal organisation and resources of the firms involved but also by the features of the particular product market and industry under consideration". Factors such as excess capacity, industry technology and the significance of both fixed and sunk costs, the degree of product differentiation, own label shares, barriers to own brand, and the ease of switching suppliers will all partly explain bargaining power. Davies (1994) and Porter (1974) both argue that retailers have to stock products with strong brand franchise but may be more fickle with secondary and tertiary lines. Segal-Horne and McGee (1989) argue that high advertising intensity and strongly differentiated products have prevented retailer power growing at the same rate across all industries. Ogbanna and Wilkinson (1996) support this, arguing that manufacturers continue to dominate certain market segments suggesting a balance of power. These structural features beyond relative concentration will influence bargaining power manifested in the terms, both price and non-price, obtained by retailers.

Dawson and Shaw's (1989; 1989b) central hypothesis is that vertical relations are managed to maximise horizontal competitiveness. They argue that "the extent to which the management of vertical relationships takes place will vary with product and may even vary within a particular product range depending on the relative importance" (Dawson and Shaw 1989:68). The growing importance of the retail brand as a source of competitive advantage,

together with increasing retail concentration and competitive supply conditions, enabled retailers to demand competitive prices in addition to other elements in the marketing mix. Changing cost structures necessitated that retailers place more demanding conditions on their suppliers while differences in the extent of vertical competition provided the leverage to impose these new conditions on suppliers.

4.3 Variations in Firm and Product Characteristics

At this stage, it is appropriate to investigate the second set of characteristics. These are concerned with variations in firm characteristics, both retailer and manufacturer, and product characteristics. They include the importance of the product to the retailer's market position, manufacturer innovation, brand franchise, the retailer's control of the supply chain, and the retailer's strategic use of own brand and its supporting monitoring activities. It shall be shown that manufacturers may experience considerable variations in the nature of transactions across different trading accounts. Much of this variation will depend on retail characteristics which determine complexity both in production and delivery, the level of monitoring and the use of new supporting technologies. Product characteristics also vary, for example short shelf-life versus long shelf-life products. It is proposed that these features may be expected to influence the balance of power within trading relationships.

4.3.1 Product Characteristics

The role of product characteristics, as a determinant of interaction strategies between buyers and sellers, is highlighted by Campbell (1985) in his review of the industrial purchasing process. He proposes that the product characteristics, frequency of purchase, product complexity and switching costs all influence interaction strategies employed by trading partners. Further support is provided by Migchels (1996:244), who argues that "the architecture of the food chain and the nature of the relations within it will to some extent depend on the product that is involved".

Not all products are of equal value to the retailer. Some highly branded products will fall into a must-stock category, while more retailer discretion is allowed where loyalty to the store exceeds the product franchise (Porter 1974). Some products and the nature of the vertical supply conditions provide retailers with greater opportunity for horizontal differentiation than others (Hobbs 1995). There is also considerable evidence that individual products and categories make differential contributions to overall store image (Knox and White 1990). Consequently, the importance of these products to the retailer and the distribution of power will vary accordingly.

4.3.2 Manufacturer Innovation and Brand Franchise

The strength of the manufacturer's brand franchise has been identified as one of the critical determinants of the choice of a supplier by a retailer (McGoldrick and Douglas 1983). The role of brand franchise also emerges as one of the primary sources of manufacturer

countervailing power. Dawson and Shaw (1989) argue that strongly supported manufacturer brands impose stability within relationships. The retailer needs to stock these products if market share is to be maintained and "control over major if not all elements of the marketing mix is likely to be in the hands of the manufacturer" (Dawson and Shaw 1989:67). Ogbanna and Wilkinson (1998) found that a balance of power of sorts existed between large branded manufacturers and retailers. Retailers were unable to dictate prices and had very little information on the manufacturers' cost structures. The apparent basis for the countervailing power lay in the retailer's dependence on manufacturers' brand franchise. Hogarth-Scott and Parkinson (1993a) also found that the relationship between strong branded manufacturers and a large UK retailer displayed a more symmetric balance of power.

Bandyopadhyay and Divakar (1999) argue that one of manufacturers' key resources is brand equity based on history, marketing skills and knowledge yet unavailable to retailers. They argue that strong brands generate primary demand and, in doing so, increase category sales. Thus, they propose a hybrid strategy between retailers and manufacturers, suggesting a more symmetric distribution of power. Under these circumstances, retail selected strong brands would be allowed to pursue independent brand management strategies enhancing product profitability while retailers pursue category management strategies improving category profitability.

The importance of speed of access to the shelf will vary for some manufacturers. From a manufacturer's perspective, rapid access to the shelf may be necessary in product categories characterised by very short product cycles and rapid rates of product imitation. In this respect, the product and product category's market characteristics would be expected to have a bearing

on the balance of power within these relationships. Pellegrini and Zanderighi (1991) argue that differentiated relationships in transactions are to be seen in the acceptance of new products. Retailers are more likely to instigate new product development with their own brand suppliers where the benefits of such collaboration is likely to be dedicated to the participating retailer alone. This is likely to suit the manufacturer, as products developed under these circumstances are more likely to meet the retailer's requirements and obtain shelf space. As Burt and Davis (1998) point out, retailers have a propensity to allocate a disproportionate amount of space to own brands when compared to manufacturer brands.

However, when branded manufacturers engage in new product development, the likelihood is quite different. An additional source of retailers' power is located in the fact that "when a manufacturer launches a new product brand, loyalty is still to be gained. In the consumer's store selection, the availability of that product does not play a role. The retailers' discretionary power is at its highest. For most new products, which are not very innovative, manufacturers can only count on the goodwill established on other products in their portfolio... or...pressure they can exert on retailers on the basis of an implicit all or nothing proposition" (Pellegrini and Zanderighi 1991:164). While advertising support clearly increases the probability of success, we continue to witness falling advertising intensities due to retailers' requirements for "additional and specific disbursements" to entice retailers to stock new products (Pellegrini and Zanderighi 1991:160). The necessity of providing additional advertising allowances when introducing new products is also supported by Fulop (1988). This results in a certain asymmetry[4] in the power balance between own brand suppliers,

[4] It is clear that branded manufacturers with new products face the risk of hold-ups by retailers. By threatening to delay access to the shelf, the retailer in effect threatens to reduce the manufacturer's return on the NPD activity. Thus, the retailer has access to these rents. In the case of the own brand product,

known branded manufacturers and less well known smaller suppliers. Hogarth-Scott and Parkinson (1993a) found support for this asymmetry. Small firms perceived themselves to have no power and could be dropped easily by the retailer. Their strategy to remain on the shelf was to rely on innovation and sought to produce products that added value and that were in some way unique.

Davies (1994) argues that the success of a retailer-supplier relationship is strongly influenced by the retailer's perception of the relationship as either co-operative or business-like and whether or not there was frequent communication. He proposes that the relationship between the parties may be thought of as a number of bonds, the importance of which will depend on product characteristics. These bonds are given as the commercial transaction, interpersonal exchange, information exchange and trade marketing support. The commercial transaction assumes particular importance when the product is branded and has a strong consumer franchise. Other bonds come into play when the retailer is not dependent on the supplier's brand.

4.3.3 Retail Characteristics

One of the key retail characteristics that has displayed dramatic change in recent years has been the application of information technology (IT). Introduced initially to exploit potential reductions in operating costs concomitant with improved service to stores, I.T. increased the centralisation of retail decision-making with important implications for retail buying power and the nature of retailer-manufacturer relationships (Smith and Sparks 1993; Hogarth-Scott

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joint investments by both the retailer and the manufacturer reduce these risks.

and Parkinson 1993). Electronic point of sale technology (EPOS) was rapidly adopted by UK retailers, increasing from 382 outlets in 1986 to 4,864 outlets. This amounted to 82% of grocery sales by 1994 (Nielsen 1996). Access to EPOS generated information gave retailers a much more accurate reflection of product performance providing them with the "ammunition to drive for more responsiveness from their suppliers" (Lynch 1990:163). Enhanced control of shelf space was largely as a result of the introduction of scanning technology and the development of advanced space planning software. The availability of this new source of information has enabled retailers to understand their customers better and gain greater power over their manufacturers (Bandyopadhyay and Divakar 1999). Indeed, the combination of own brand and more strategic use of EPOS data promoted retailer power as "the provision of selective information enables retailers to influence manufacturer's production and promotional activity" (Ogbanna and Wilkinson 1996:406).

Lynch (1990) points to the growing use of technology as a contributory factor in shaping retailer-supplier relationships. Bandyopadhyay and Divakar (1999) argue that the shift in relations between retailers and manufacturers from confrontation to co-operation has occurred because of new technology, applications and information. IT plays an important role in extending the enterprise beyond its traditional organisational boundaries facilitating new forms of marketing and distribution channel services (Konsynski 1993). As such it offers the potential to achieve internal and external efficiencies through the redesign of both inter and intra-organisational relations. The development of electronic data interchange (EDI) networks such as tradanet, provided a seamless information highway between retailers, their distribution centres and manufacturers, further improving the relative advantage and performance of centralised distribution. O'Callaghan et al (1992:45), in their discussion of EDI, point to the

growing consensus that "computer based interorganisational systems will have a significant impact on the relationships between channel members". They argue that EDI reduces transaction costs in addition to enhancing one's response to market needs. Drawing on Dwyer and Welsh (1985), O'Callaghan et al (1992) assert that increased competition in the output market promotes the formalisation of information processing and assists the attainment of greater cost control.

The benefits of EDI are well documented and include faster transmission, greater accuracy and more transaction specific information (Lambert et al 1988; Murphy and Daley 1998). As such EDI is an enabling technology, facilitating faster response to market and customer demands by transmitting relevant market information throughout the chain in a timely manner. However, the pace of technological development has been such that Bamfield (1994) argued that EDI has become best practice and a means, not of achieving competitive advantage, but of avoiding competitive disadvantage. Despite this however, retailers' use of EDI differs significantly and it is clear that the quality, quantity, frequency and usefulness of information transmitted from retailers to their suppliers vary significantly (Collins 1997).

The nature of the data provided to suppliers promotes both supplier responsiveness to their retail customer's needs and retailers' expected level of performance by their suppliers. The provision of information will also reflect both parties' commitment to the relationship to the extent that it requires idiosyncratic investments. It may also be expected to influence the distribution of power within the relationship by reducing information asymmetry and limiting manufacturer opportunism.

4.3.4 Distribution, Logistics Control and Supply Chain Transparency

From a manufacturer's perspective, retailer integration into and growing control of the distribution function represents one of the more dramatic shifts in functions across channel members. From a retailer's perspective, the transformation of distribution, acting as a facilitator for increasing retail control of the supply chain, underpinned much of the recent growth in retailer power. Hughes (1994) argues that the centralisation of distribution was a necessary precondition to the successful repositioning of the Tesco brand during the late 1980's and early 1990's. This study takes the view that it provided the retailer with the most efficient means of monitoring supplier performance thereby minimising the loss of appropriable rents through shirking behaviour.

In the late 1960's multiple retailers channelled about 60% of supplies through their own warehouses. However, during the 1970's, this figure declined due to the increase in store size, permitting larger drop sizes to outlets and the rapid growth of Tesco and Asda who continued to operate a direct delivery to store policy. The need for greater control of physical distribution was highlighted by Tesco's rapid increase in market share after its successful "Operation Checkout" (Walters 1980). The strains on Tesco's modus operandi were enormous with market share increasing from 7.9% in May 1977 to 11.8% in July of that year (Akehurst 1984).

Sparks (1994) drawing on Cooper et al (1991) traces some of the key problems that led to retail innovation with regard to logistics. During the 1970's and 1980's, central distribution was increasingly substituted for direct store deliveries (DSD). The main reasons for

internalising the physical distribution function are given by McKinnon (1985:49). These are better buying terms, minimum order restrictions, product availability, improved service levels to outlets, stock control, reduction of inventory levels, more efficient use of space in store and reduced labour costs through the reduction in goods handling.

Prior to the centralisation of distribution, delivery to outlets was primarily on the basis of DSD from manufacturers' local warehouses. This had a number of operational and strategic implications for the retail operator. DSD constrained small manufacturers from supplying large retailers' needs, thereby limiting the potential supplier base, inter manufacturer competition and increased retailer dependency. Also, given limited economies of scope, frequency of delivery was low requiring substantial stockholding at store level. Third, the possibility of establishing strong customer franchise for retail brands was limited given the lack of retail control and visibility of the supply chain. Such control was necessary to ensure that product quality and availability reflected the desired positioning of the retail brand (Davies 1992) while also meeting existing food safety legislation (Smith and Sparks 1993).

Greater control of product at outlet level, in terms of availability and quality, was achieved by taking title of the product at a central depot where costs of quality assurance were spread over greater volumes of product. Moreover, the introduction of this intermediary between the outlets and the manufacturer increased the transparency of the supply chain and assisted the development, collection and dissemination of supplier performance measures by reducing the number of direct contact points. Current performance measures used by the main multiple retailers vary but include delivery accuracy, quality, arrival time, vehicle turnaround time and invoice matching (Christopher et al 1993; IGD 1995; Collins et al 2000)

This strategic shift in retail activities was encouraged by a number of factors in addition to those mentioned earlier. First, data captured at store level by EPOS promised a new source of competitive advantage. The development of sales based ordering (SBO) systems became more feasible with the availability of faster computer processors and more efficient data storage systems. Control of the distribution function enabled retailers to harness this advantage, developing stock control and inventory planning systems operating on a seamless interface between the retail outlet and stock location. In this regard, it is noteworthy that most of the larger British multiple retailers have developed much of their own system requirements in-house (IGD 1995) thereby retaining the benefits of any innovations.

The retail benefits resulting from the integration of sales based ordering (SBO), inventory planning and stock control systems were expected to be considerable (Soars and Wolvern 1995). The move towards just in time delivery, facilitated by EDI, reduces stockholding costs in addition to freeing up valuable sales space which had formerly been allocated to storage (Sparks 1994). The general principle underlying recent developments in the grocery supply chain is to achieve greater alignment between customer demand, store demand, depot demand and ultimately production, thereby reducing the amount of stock and capital tied up throughout the system. Nevertheless, the means by which retailers are organising their respective supply chains vary. Some retailers have experimented with vendor managed inventory. Others provide suppliers with regularly updated forecasts and draw-offs by depot by day. Finally one particular retailer is intent on establishing consolidation[5] centres with the aim of achieving complete inventory visibility throughout the supply chain. The

[5] For the encouragement of non-retail dedicated consolidation centres see Collins (1997). These are

consequences for manufacturers are similar to some extent, requiring substantial reductions in order quantities, order lead times and increased frequency of delivery. Nevertheless, one would expect that the balance of power within such trading arrangements vary considerably.

The second implication of increased transparency is identification of product specific costs. Over recent years, the introduction of new costing systems such as direct product profitability (Soars 1994) uncovered many of the hidden product costs associated with the provision of a product for sale. Initially, the focus of these new systems was restricted to that part of the supply chain under the direct control of the retailer. Costs within this component of the chain were identified and internal operational changes were made to adopt best practice procedures reduced through the use of fiat. Such efficiencies were relatively easily achieved as the level of inter-firm interdependency and co-operation required to implement them was low. However, as this component of the chain became more efficient, further comparable cost reductions were dependent on greater co-operation or power among retailers and their suppliers.

Indeed, the identification of potential cost reductions itself becomes dependent on greater awareness of one's partners' modus operandi. Historically, retail suppliers have been paid on delivered-price as against an ex-factory price. This precluded retail involvement in many supplier activities. Retailers were concerned only with production and availability capabilities of their supplier base. However we currently witness greater retail attempts to take a "supplier to shelf" approach to managing the supply chain (Collins 1997). The forms this approach takes vary across product categories and particular supplier characteristics. Certain suppliers,

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expected to achieve inventory efficiencies following Bucklin's (1965) principle of postponement.

and own brand suppliers in particular, operate on an open book basis where there is complete transparency in terms of input costs, production efficiency and ancillary costs associated with a particular retail account. Such transparency is of considerable advantage in identifying and removing costs from retailer specific supply chains and is clearly supported by a number of retailers. Brookes (1995) comments that retailers expect to investigate their suppliers' cost structures and are likely to suggest means of cost savings which are then appropriated. In many instances, one witnesses retailers bringing their size to bear on their suppliers input costs. Examples include retailers negotiating costs for transportation and distribution services, primal meat (these are meat cuts before final processing for consumer packs) and poultry (Collins 1997).

Brookes (1995:149) argues that supermarkets "now have the greater strategic marketing expertise and merchandising programmes, the information technologies and systems, and the internationally directed buying structures and logistics networks to influence the behaviour of suppliers". The theme here is that growing control of logistics is extending back from retailers' operations into their respective supplier bases. Initially, the positioning of retail controlled intermediaries, such as regional distribution centres, between the retail outlet and the supplier enhanced retailers' view of the supply chain and promoted the development of more stringent supplier performance criteria. Currently, one witnesses various retail attempts to identify and achieve further cost efficiencies. Some of these efficiencies currently lie outside retailers' immediate control while others, because of the nature of relations between partners, do not.

Fearne (1996) found that supplier rationalisation is part of retailers' agendas to improve cost

efficiency within the supply chain. However, it does beg the question as to whether or not retailers, in reducing the number of suppliers, will reduce their ability to appropriate the cost efficiencies achieved. Wilson (1996:270), in her review of the vegetable market across Europe, suggests "that the power of individual retailers in each country is arguably an indication of the supply chain management practices advocated". In other words, the balance of power is reflected in the extent to which barriers between each stage in the supply chain have been broken down to achieve savings and cost efficiencies.

4.3.5 Retail Characteristics and Switching Costs

The discussion earlier pointed to the increasing scale of retail operations and the growing influence of cost economies (Dawson and Shaw 1989). Larger-scale retail activity increased the capital costs of market entry, which in turn resulted in a greater proportion of fixed to variable costs. This redistribution of costs increase the opportunity cost of a stockout, to the extent that it would have made a contribution to fixed costs. Also, the redistribution exposes the retailer to greater risks of shifts in demand, as the higher proportion of fixed costs necessitate operating at higher levels of capacity. The problem of fixed costs is compounded by the nature of retail investments. Davies et al (1985) point to the increased capital investments made by retailers in out of town sites, highlighting the sunk and irrecoverable nature of many of these costs given their low alternative use values. This was to become an even greater problem during the late 1980's and early 1990's due to premium pricing of grocery retail locations over this period (Wrigley 1992; 1996).

This exposure to potential shifts in demand and the importance of contributions towards fixed

costs resulted in more stringent demands on suppliers in terms of delivery conditions to minimise the probability of lost sales and maintain or enhance the retailer's horizontal competitiveness. The stringency of these demands contributed to relationship stability by providing the manufacturer with first mover advantages. The source of these advantages included the initial learning costs during relationship formation and the potential risks of new supplier failure faced by the retailer.

Steiner (1984) stresses the existence of both competitive and complementary elements within retailer-supplier relationships. This is clearly evident with regard to own brand. Leahy (1987) identifies six principal advantages of own brand. These are the ability to control products and ranges, participation in innovation rather than imitation, establishment of brand loyalty, and improvements in market planning and profit. The desired positioning of the retailer as the brand (Shaw et al 1992; Burt 1992) had substantial implications for the product assortment decision as own brand products were to play a major role in the positioning the of retail brand. The retail brand is in part determined by supplier participation with subsequent implications for retailer-manufacturer relations. Dawson and Shaw (1989b) argue that strong central organisation enabled retailers to play a greater role in developing the product assortment, particularly through own brand.

Own brand as a means of achieving competitive advantage is promoted through vertical linkages with suppliers, which enables retailers develop their own unique proposition (Wileman and Jary 1997) through the provision of product that is consistent, safe, and achieves the required quality standards (Palmer 1996). Shaw (1994) posits that more sophisticated consumer demands in terms of quality, consistency and availability require that

retailers develop certain types of relationships with suppliers to ensure that they maintain their competitive strengths. Shortening product life-cycles necessitates that, to maintain horizontal competitiveness, retailers respond rapidly to changing consumer tastes identified through retail controlled information. In the dynamic market, retailers frequently rely on their suppliers' specialised competencies, business practices, awareness of technological advances and innovations to develop own brand products (Doel 1996, Sayer and Walker 1992).

Some of the implications of the greater strategic use of own brands for retailer manufacturer relationships may be identified in table 4.1. It proposes that the nature of the relationship between the retailer and the manufacturer evolves as the strategic use of own brand increases and the products' objectives become more image and loyalty focused. While the table suggests an evolutionary perspective, this is not the case. Greater segmentation by retailers has ensured that different own brand variants may co-exist, meeting different marketing objectives. The impact on the supplier base may also vary. It is possible that a given supplier produces a number of variants for a given retailer. Alternatively, different suppliers may be used to produce different generations.

Table 4.1

The Strategic Use of Own Brands

	1st Generation	2nd Generation	3rd Generation	4th Generation
Type of Brand	Generic No name Brand free Unbranded	Quasi brand Own label	Own brand	Extended own brand - segmented own brand
Strategy	Generics	Cheapest price	Me-too	Value Added
Objective	Increase margin Choice in price	Increase margin Reduce manufacturer power by setting entry price Provide better value product	Enhance category margins Extend product range Build retailer's image	Increase and retain customer base Enhance category margins Improve image Differentiation
Product	Basic	Staples with large volumes	Big category products	Image forming product groups Niche products
Technology	Simple production processes and basic technology lagging behind market leader	Technology still lagging behind market leader	Close to brand leader	Innovative technology
Quality/Image	Lower quality and inferior image w.r.t. manufacturers' brands	Medium quality but perceived to be lower than leading brands	Comparable to brand leaders	Same or better than brand leader Innovative technology
Examples	Tesco Value Lines	Standard Own Label	Subbrands Sainsbury Novon	Tesco Finest M&S Connoisseur
Monitoring Costs	Low	Low/Medium	Medium/High	High
Specific Investments	None	Low	Medium	High
Mode of Governance	Market	Market	Market/Relational contracting	Relational contracting

Source: Rows 1-6 adapted from Laaksonen (1994)

Hughes (1996), agreeing with Doel (1996), argues that there are two polar modes of own label supplier initiation. The first is where there is excess capacity, usually in plants belonging to weak national brand manufacturers. The second is where the retailer actively seeks and stimulates the emergence of an entirely new supplier base to develop new own brand products. This latter mode "epitomises the changing dynamics and shifting balance of power within the food channel" (Doel 1996:55). Under these circumstances, the retailer may demand product

exclusivity "because of the time and commitment that we spend with our suppliers, it would be very unfair if that product were to be given elsewhere" (Doel 1996:61). Thus, as the strategic role of own brand varies among retailers, and the product portfolio varies among suppliers, the extent of monitoring activities, specific investments and the relationship with suppliers are likely to differ.

Stability within these relationships enhances the probability that "retail needs for specific quality, consistent offerings and timely delivery are most likely to be met by partners familiar with the trading methods and requirements of the retailer" Shaw (1994:394). Stability within relationships is increased by the perceived high costs of switching suppliers (Dawson and Shaw 1989). One component of these switching costs is the high implementation investments made by both parties. Sunk costs, particularly those on the retailer's side in terms of brand image, may be expected to influence the level of stability. Variations in product quality risk the devaluation of the brand and must, therefore, be safeguarded by engaging in monitoring activities. Other factors positively related to switching costs include, delivery conditions, ordering patterns, importance of the product to the retailer, the need for joint development work, the need for supplier flexibility and concentration in the supplying industry.

Switching costs were increased further with the introduction of the British Food Safety Act (Hobbs and Kerr 1992), by demanding proof of due diligence by all agents in the food industry. The new legislation represented a substantial "shock" to retailer-supplier relations. Under the new Act "to defend themselves, buyers must now show that they have exercised due diligence - been proactive - in ensuring that not only the food they handle directly but also the food they receive from suppliers conforms to the provisions of the Act" (Hobbs and Kerr

1992:577). From a retailer's perspective, this involves incurring costs in monitoring supplier performance. More importantly, it changes much of their existing relationships with suppliers. Hobbs and Kerr (1992) argue that under this new legislation new relationships would be expected to emerge as both parties to a transaction establish new forms of vertical relations to minimise "their joint cost risk". The investments in these new relations are idiosyncratic by nature and increase the costs of switching suppliers, thereby promoting stability.

UK multiple retailers want suppliers that are capable of serving all their stores, thus raising barriers to entry (Shaw 1994; Foord et al 1996). Dealing with fewer suppliers has cost benefits and appears to underlie some retailers' commitment to supplier rationalisation (Fearne 1996; Collins 1997). In their examination of the horticultural market, Knox and White (1990) argue that structural change in the retail market changed both suppliers' and retailers' trading patterns. Concentration of buying and the centralisation of distribution imposed growing demands on retail buyers to source suppliers who could provide product of appropriate specification and continuity of supply throughout the year. Bowlby and Foord (1995:353) found evidence to support that "fostering long-term relationships has been identified as a means of acquiring the accuracy, efficiency and stability they (*retailers*) require for a national and increasingly international presence".

4.4 Differentiated Relationships and Mode of Governance

Finally the review turns to the third set of characteristics. Here the concern is with variations in the nature of the relationship between the retailer and manufacturer and the way in which both parties have organised the working of the relationship. Segal-Horne and McGee (1989:26) propose that "retail/supplier relations require review at a strategic and not just structural level". Much of what has been reviewed focused on structural change and the subsequent implications for retailer-manufacturer relations. Some consideration has also been given to strategy pertaining to retailers' integration of the distribution function and own brand development. However, the portfolio of relationships that retailers and manufacturers manage is becoming of increasing importance. Chapter two demonstrated that the brand portfolios traded by food manufacturers vary considerably. When examining own brand variants it became clear that the required amounts of specific investments displayed considerable variation. Drawing on the review of the transaction cost literature one would expect this to result in variation in the way relationships are organised and the degree of inter-firm integration.

Davies (1994) highlights the strategic nature of the maintenance of channel relationships, arguing that the key issue facing suppliers is which of a number of options should be used to achieve best possible relationships. As will become clear, there is considerable evidence to indicate that manufacturers and retailers operate within a system of relationships of varying intensity and subject to different governance modes. This study proposes that the power balance within these relationships will vary accordingly.

4.4.1 Relationship Portfolios

The existence of manufacturers' relationship portfolios is confirmed by Knox and White (1990) who, in their review of fresh produce suppliers, identify four types of retailer-supplier relations. These are uncommitted, developing, mature and declining. A further finding was that suppliers attempt to maintain a balanced customer portfolio to ensure maintenance of negotiation strength and reduce dependency. As argued by Foord et al (1996:79), "the availability of alternative suppliers or markets becomes important to the negotiating power of both parties". A striking finding of Knox and White's (1990) work was that not only do manufacturers attempt to establish a balanced portfolio of suppliers but that retailers also seek the same. Indeed, both parties appear to operate a similar strategy independently of each other. These findings echo Anderson and Narus' (1991:99) recommendation that firms "target market segments for various kinds of relationship efforts" thus opening up the possibility of maintaining a portfolio of relationships. Further evidence of the existence of relationship portfolios is provided by Fearne (1996) who provides case studies of M&S/Mack, Northern Foods/M&S and ABP/Sainsbury. The interesting feature here was that, while all three supplying firms dealt with the major multiples, the relationships with the mentioned retailers were considered unique.

Shaw et al (1994) point to the continuing turbulence and substantial change in the UK retailing environment. Changing demography, consumer mobility and social structures have resulted in changing consumer demand and new behavioural patterns. Product life-cycles are becoming shorter as the speed of innovation and imitation increase, while rapid access for new products to the consumer is becoming of growing importance. This has two implications. On

the one hand, in restricting access to the shelf, retailers can in effect carry out hold-ups and appropriate substantial rents on manufacturers' development activity. On the other hand, to achieve greater levels of horizontal competitiveness via own brand products, retailers required greater involvement in new product development with suppliers. Indeed, many large retailers provide completed specifications, thereby removing the supplier from much of the product innovation process completely (Dawson and Shaw 1989b). Consequently, the means by which these manufacturers can achieve horizontal differentiation is considerably reduced. The retailer in effect becomes the purchaser of manufacturing services.

Bowlby and Foord (1995) find support for the dominance of relational contracting between manufacturers and retailers in the UK. They argue that not only "have retailers become more powerful but that this has led to the prominence of relational contracting" (Bowlby and Foord 1995:340). They subsequently argue that relational contracting between parties "suggests an increasing interdependence of parties which may diminish overt conflict but not diminish uneven power"(Bowlby and Foord 1995: 341). A similar argument and its consequences is put forward by Foord et al (1996:74) who propose that "what is new is its (relational contracting) increasing dominance across the retail sector; the form in which it is negotiated; and the implications of contemporary relational contracting for the division of the costs and revenues of realizing surplus value between retailer and manufacturer".

It is arguable as to whether or not retailers would be willing to sacrifice power, as greater control of the distribution channel is likely to be desired for better execution of their marketing strategies. Thus, we may have a system of relationships where "retailers have locked manufacturers into a situation of co-operative dependency" (Hughes 1996: 2216) but

where retailers "rely on the competitive position of these manufacturers to provide the means for the growth of their own label supply chains" (Hughes 1996: 2212).

Brookes (1995) states that retailers are looking to build up long term-relationships with suppliers. Central to these relationships is bilateral trust, which is frequently unsupported by formal contracts. Dawson and Shaw (1989) find evidence of many retailers and suppliers entering into long-term business arrangements. The basis for these arrangements was the expectation that they would provide advantages to both parties. Such expectations promoted heavy investments by both parties in the development of these relationships generating stability. Shaw et al (1992) found that one significant benefit to manufacturers from enhanced stability was that retailers refrained from switching suppliers for temporary pricing or other advantages.

There is considerable evidence supporting the benefits of close collaboration between retailers and manufacturers. Senker (1986) provides the case of Sainsbury and Poultry Packers who together initiated the development of the frozen poultry market. Senker's case study highlights the role of close collaboration and the stringency of product preparation and delivery conditions due to the increased risks of product contamination. The development of the chilled chicken market by M&S also provides evidence of retailer involvement in the innovation process and their willingness to invest in sunk investments. For instance, in the development of this particular product M&S, acted as information broker, collecting relevant information on a global basis and providing it to their suppliers. The breadth of retailer expertise is highlighted in the case study of Katie's Kitchen. In this instance, Tesco provided the company with substantial assistance when upgrading facilities to cater for the Tesco

account during the early 1980's. The technical advice was broad, covering issues fom hygiene, machinery, packaging to new product development.

The need to achieve supply chain efficiencies also promoted new governance modes between retailers and their suppliers. Gilbert et al (1994) argue that just in time philosophy requires a partnership between manufacturer and supplier based on a long-term orientation with frequent communication. Hall (1995), suggests that increasing demands by customers, government, shareholders and competitors require more rapid and co-ordinated responses by retailers and their suppliers to avoid the costs of duplication, fragmentation and confusion. The drivers for change include customer expectations in terms of quality, availability, variety and value. Shareholder demands are putting greater pressure to remove costs. Legislation is constraining areas for growth, while the potential to exploit new technologies demands greater inter-company integration. Supply chains will have to become more customer focused, responsive in terms of shorter lead times and frequency of delivery, lean in terms of stripping out non value adding activities, and "integrated with retailers and suppliers sharing information, systems people and physical resources to ensure maximum performance" (Hall 1995:5). Whiteoak (1996) highlights the prerequisites for continuous replenishments. The need for shorter lead times, daily reviews, scheduled deliveries and consistency in terms of reliability will require further learning on the part of both retailers and their suppliers. Brookes (1995) supports this view and makes the point that future performance gains will result from the use of information resources that exist at one level of the overall value chain being used to improve performance at another.

Shaw (1994) highlights the growing importance placed by retailers on the management of the

vertical linkages between manufacturers and their suppliers. As discussed, some of the interest is due to legislative requirements and the Food Safety Act, that resulted in retailers being more demanding of their suppliers (Palmer 1996; Hobbs and Kerr 1992). The relationship between supplier role performance, retailers' performance and product characteristics was also highlighted by Knox and White (1990) who found strong evidence to suggest an interrelationship between product characteristics and retailer-supplier relationships. Supply problems in fresh foods quickly impact on store performance. Retail buyers are therefore more critical and demanding of these suppliers with subsequent implications for the level of specific investments and relationship stability. The stringency of retail standards is stressed by Brookes (1995:155) who proposes that "retailers may appear to be overly zealous when monitoring their suppliers' standards such as quality, temperature or other agreed technical specifications". However much of this stringency was due to retailers' emphasis on branding their stores. The cost of product failure, particularly own brand, increased dramatically as retailers now assumed the role of brand guarantor.

Vertical linkages also met retailers' need to be involved in the innovation process enhancing their ability to respond quickly to changing market demands and achieve greater levels of horizontal differentiation. According to Bowlby and Foord (1995), relational contracting enabled retailers gain greater control of production processes, product characteristics and price. Fearne (1996) argues that strategic alliances represent a cheaper, more flexible and less risky means of maintaining growth in a food industry characterised by the need for greater market responsiveness to a transient consumer. This need for integration is the driving force for joint development work with suppliers. However, an important aspect of the integration process is the selection of appropriate suppliers. Here "the distinction between predominately

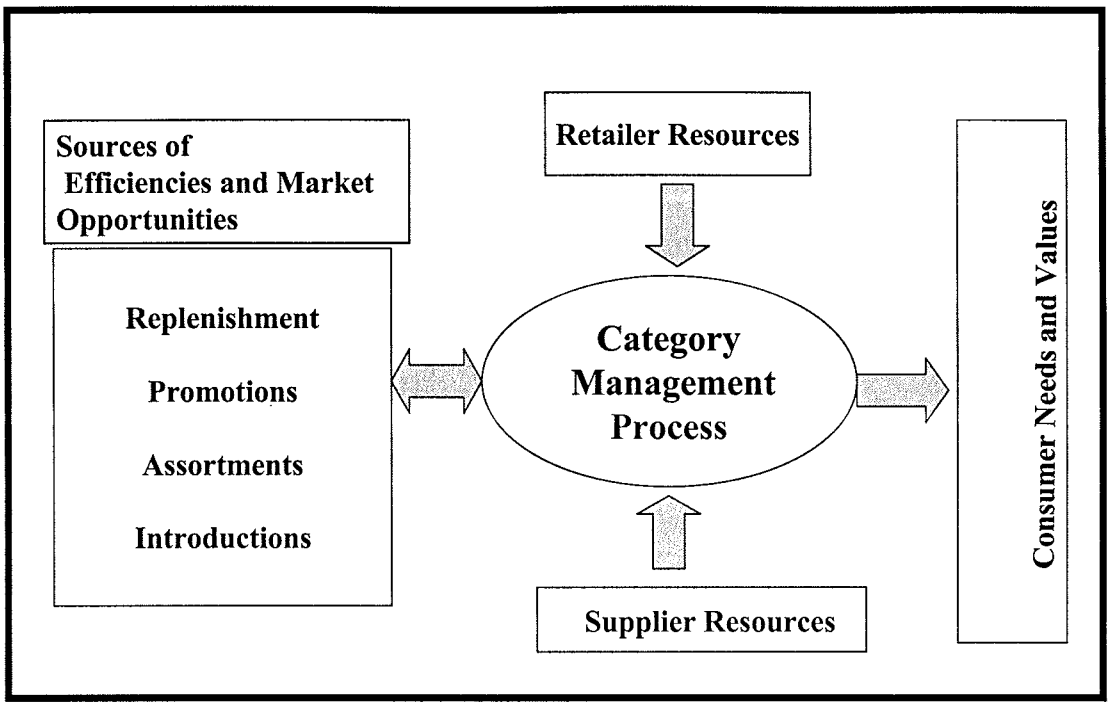
own label or predominately brand suppliers is important, as conflicting retail pressures make radical change with a brand supplier more difficult" (Hall 1995).

New forms of retailer-manufacturer relations are expected to emerge from the emphasis on efficient consumer response (ECR). ECR promotes an integrated supply chain response to consumer requirements to achieve increasing levels of efficiency and customer value. Central to the ethos of ECR is that of co-ordinated activity among channel partners and the removal of non value adding or duplicated activities within the supply chain (Viner 1996). Indeed, the identification of duplication and cost saving opportunities across the boundaries of firms requires a degree of openness among channel partners that cannot be automatically presumed. The salient dimensions where ECR expects to yield enhanced performance are new product introductions, product promotions, store assortments and product replenishment. A review of recent changes in the UK supply chain suggests that considerable strides have been made in the area of product replenishment.

While ECR is an industry initiative and seeks to promote best practice at industry level, category management operates within individual trading relationships (Harris et al 1999). Thus, category management may be viewed as trading partners' strategic response to the efficiency and market opportunities highlighted initially by the ECR framework. The relationship between category management and ECR is represented in figure 4.2.

Figure 4.2

The Relationship between Category Management and ECR.



Many have argued that category management will add impetus to the evolution of retailer-manufacturer relationships (Barnes at al 1995; Hogarth-Scott and Dapiran 1996; 1997; McGrath 1997; Collins 1999a). Category management is viewed as a process "by which retailers and their suppliers jointly develop strategic category plans" (Barnes et al 1995:8). Underlying the concept is the notion of differential resources and core competencies. Retailers are finding it increasingly difficult to develop markets and profitability given the restrictions of their own resources, while manufacturers cannot achieve further growth within a framework of confrontational relations. Frequently retail and manufacturer strategies are not aligned, with the result that scarce resources are expended without generating additional consumer value. Category management is seen as providing a framework wherein both retailers' and manufacturers' resources can be effectively co-ordinated (Collins 1999a).

Central to the successful implementation of the category management process is communication, both internally in the respective retailer and manufacturing firms and externally across the participating companies. Furthermore, awareness of interdependence, a long-term orientation, trust and commitment were identified as essential prerequisites for close relationship formation as the category management process involved a bilateral shifting of resources. "Retailers were keen to utilise suppliers' resources and were positive towards those who allocated additional resources to move a category forward" (Barnes et al 1995:35). The resources of particular interest to retailers were marketing knowledge, packaging design, consumer research and merchandising experience. Supplier expectations were firstly, improved relationships through a greater understanding of the retailer's business and objectives and secondly, access to retailer held data and information on consumer purchasing behaviour.

Underlying category management is the central idea of a hierarchy of suppliers where category captains or "preferred suppliers" work closest with the retailer (McGrath 1997). A precondition and determinant of the level of collaboration is the supplier's endowment of resources. This was confirmed by Bowlby and Foord (1995) who found evidence that relational contracting discriminated against small suppliers. Furthermore, the understanding of collaboration under category management must be tempered as "suppliers will only be termed category captains if they are willing to take decisions which may adversely affect their business in the short run, should it be required" (Barnes at al 1995:40). This willingness to incur current costs or forego current gains in the expectation of future benefits does not appear to be reciprocated on the part of retailers. For instance, Hogarth-Scott and Dapiran (1996:13)

identified considerable structural change on the part of suppliers who "adapted their organisational structures to match those of their key retail partnership organisations". Such supplier reorganisation, to the extent that it is unique to a particular retailer, represents a specific investment in the relationship. In contrast, the most prominent retail reasons for reorganisation was to derive internal, rather than external, efficiencies through better co-ordination and incentive alignment (Barnes et al 1995; McGrath 1997).

Hogarth-Scott and Dapiran (1996) propose that the retailer-manufacturer relationships in the UK have evolved from being adversarial and confrontational to being collaborative and partner-like. However, this is still within the context of retailer power but "whilst power and conflict still exist in these relationships, their role is frequently different or reduced"...thus the question arises "are the concepts of power and conflict still relevant?" (Hogarth-Scott and Dapiran 1996:5).

4.4.2 Evidence of Transaction Specific Investments

Heide and John (1988) propose that dependent parties to an exchange will attempt to reduce the level of dependency by engaging in bonding behaviour with other parties by making specific investments in these relationships. However, the decision as to where such bonding investments are made may not be as discretionary as suggested. Brookes (1995:155) points out that "UK retailers expect their suppliers to match structure with structure, with suppliers' marketing, technical, production and logistics experts working as close knit units with the retail buying groups". While this matching process involves substantial specific investments by both parties, it appears that the greater part of the investment is made by the supplier to

accommodate existing retail structures[6].

Shaw (1994), in her case-study of the relationship between the Malton Bacon factory and Safeway, found evidence of the manufacturer's commitment to engage in dedicated product development and capital investments in plant and equipment to achieve retailer required cost economies. On the side of the retailer there was a commitment to buy at "fair but competitive prices", and the provision of assistance in product development, product marketing and research, and delivery systems. Fearne (1996) points to a number of characteristics of successful partnerships. In the case of M&S and Northern Foods, a partnership which continues to exist 25 years after its inception, multilevel contact between the firms on a regular basis, complementarity of organisational forms and substantial investments in specific assets by both parties appear to cement the relationship. In the case of ABP and Sainsbury, specific investments in terms of a dedicated plant on the part of ABP and technical assistance on the part of Sainsbury appear to underlie the relationship (Fearne 1996). What is noticeable is, despite the existence of specific assets, written contracts are not relied upon. Product specifications relating to product quality and safety are tightly defined but prices and quantities are flexible.

Senker (1986) points to the growing retail sophistication in food technology as not merely a

[6] In certain cases, it is possible to view the allocation of shelf space to a product as a specific investment. A hypothetical example may serve to demonstrate. Assume a particular retailer decides to reorganise its meat department and rather than use in-store butchers, meat will now be prepared by suppliers in consumer ready packs. Now assume that only one supplier is willing to make the investment in the necessary plant and equipment as it represents a specific investment. The move to the new provision of meat is duly completed with one supplier catering for all the retailer's customers. If relationships between the parties deteriorate the retailer could decide to remove the supplier and find alternative sources. However, this might be difficult give the current modus operandi. Alternatively, the retailer may decide to redeploy the space allocated to meat to other products. However, the cost in terms of consumers' store patronage may be high in this instance. Indeed, one could argue that the extent of the specific investment on the part of the retailer is related to the cost of a stock-out in terms of customers' perceptions.

response to legal obligation but to company policy. Technologists' activities included packaging trials, quality control, new product development, dissemination of information to buying and marketing functions, and own brand specification. The results of these activities usually involve the provision of information and expertise to certain segments of the retailer's supplier base. Once given, the value of the information cannot be removed. As such, it represents an irrevocable transfer of resource to one's trading partner. The extent of retail investments was highlighted by Senker (1986). She found one large retailer who estimated that up to 50% of their technologists' time was spent with suppliers. The contributions made to suppliers' operations, particularly small suppliers, were considerable, providing expertise on up to date technical developments.

4.4.3 Relationship Governance and Power

Following Williamson (1985) Gilbert et al (1994) argue that the relevant dimensions of governance will be to some extent industry specific. Anderson and Narus (1991:96) suggest that not only is governance industry-related but that each marketplace is characterised by a range of relationships that are "more collaborative, or more transactional, in nature relative to that marketplace's norm". This range is referred to as the "industry bandwidth" of relationships. The extent to which relationships are collaborative will depend in part on industry characteristics such as growth, complexity amongst other factors. Doel (1996:58), examining own brand suppliers, argues that "the mode of initiation has direct implications regarding the qualitative character of governance relations across the entire own label supply chain". This suggests that, the balance of power within retailer-manufacturer relationships may be expected to vary, for while "the general balance of power remains with the

retailer....this general position of dependency may be modified by a range of factors relating to the characteristics of the supplier and retailer and the market demand" (Bowlby and Foord 1995:353).

Oliver (1990) proposes 6 critical motives for the formation of inter organisation relationships. These are necessity, asymmetry, reciprocity, efficiency, stability and legitimacy. Oliver's conceptual framework is useful in that it provides some insights into the role of power and the motives for the establishment of inter-organisational relationships. For the current study's purposes, asymmetry, reciprocity, efficiency and stability are of particular interest. By asymmetry, Oliver (1990:243) argues that "resource scarcity prompts organisations to attempt to exert power, influence or control over organisations that possess the required scarce resources". Thus, a supplier may form a relationship with a particular retailer so that it may exert more influence over the retailer's scare resources than other suppliers.

While asymmetry may exist in terms of resource endowments to the extent that resources are different, symmetry may emerge when the complementarity of resources is considered as a whole. Such a view is supported by Bandyopadhyay and Divakar (1999). In this respect, it is noteworthy that Anderson and Narus (1991:101) assert that there is evidence suggesting that "collaborative relations prosper as long as the supplier firm and customer firm each have significant and roughly the same dependence upon the relationship", suggesting a balanced power relation in this instance. Dependence criteria include, switching costs, which serve to raise barriers to exit and entry and time horizon, that is the benefit of continuity and market industry change (Anderson and Narus 1991:101). The importance of balanced dependency to the successful operation of the relationship is also supported by Feldman (1998). However,

Duke (1998:96) argues that co-operative arrangements can be based on " mutually agreed unequal strength". This view is based on the observed relationship between own brand suppliers and their retail customer. Duke (1998:96) suggests that "the position of own brand supplier is the weakest a manufacturer can be in" and consequently, willingly cedes control to the retailer.

Following Emerson (1962) reciprocity relates to the pursuit of mutually beneficial goals. Emerson (1962) emphasises balance, harmony, equity rather than coercion, conflict and domination. This is consistent with Davies' (1994:192) definition of co-operation as "where the supplier and retailer co-ordinate their activities towards a common goal" and "where co-operation is more formalised, a partnership may be said to exist". However, "conditions of reciprocity also may disguise the acquiescence of a dominated exchange partner to the terms and conditions prescribed by a more powerful partner" (Oliver 1990:247). Drawing on the transaction cost framework, potential efficiency gains would be expected to play an important role in determining inter-organisational relations. Environmental uncertainty can be reduced to some degree by inter-organisational relations, thereby increasing stability (predictability). What Oliver (1990) argues is that the various methodologies used to examine inter-organisational relations and their formation, fail to account for the interaction among these potentially "concurrent contingencies". This suggests that both the motivations underlying the formation of and the power balance within inter-organisational relationships can and do vary.

Partnering involves both firms "developing strong, extensive social, economic, service and technical ties over time with the intent of lower total costs and/or increasing value thereby

achieving mutual benefit" (Anderson and Narus 1991: 96). One of the direct implications of this involvement is the increase in boundary personnel contact, be it between retail technologists and production managers or retail buyers and key account managers. In this regard, the boundaries of individual companies become, increasingly blurred but more importantly the exchange and constant interplay between personnel assist the reduction in inter-firm conflict while promoting an adaptive approach to joint problem-solving. Johanson and Mattsson (1987) stress the importance of the social exchange process in that they strengthen the bonds between firms and increase relationship durability while permitting opportunity for change within the relationship.

Anderson and Narus (1991) suggest that while partnerships may be the currently ascribed way of doing business, it may not necessarily be in a company's interest to organise business in such a fashion. Shaw (1994) argues that partnerships are not an automatic means of redistributing margins and returns. Indeed, power relations are present within partnerships, with the more powerful partner attempting to appropriate the benefits of joint co-ordination as much as possible (Wilson 1996). However, it is plausible to assume that the asymmetric distribution of benefits will continue as long as the benefits to both parties exceed what could be achieved elsewhere. Segal-Horne and McGee (1989:43) place somewhat of a dampener on the notion of mutuality: "All are statements of mutuality of interests implying a common ground shared by both manufacturer and retailer. The history of manufacturer/retailer relationships suggest little of the sort...Oligopsony turns manufacturing into commodity servicing...only weakly differentiated products inconvenience outlets or shared differentiation costs in non convenience outlets, provide genuine common interests".

While there has been considerable discussion on the concept of partnership, its meaning and attractiveness to manufacturers vary. While some manufacturers view the future optimistically and appeared to work towards partnerships by involving retailers in many strategic aspects of their businesses, others viewed them with extreme caution seeing partnerships as a means of undermining the manufacturer's competitive advantage. This is supported by Ogbanna and Wilkinson (1998: 83), who found that manufacturers viewed retailer's interest in partnerships as another means to "further erode our competitive advantage". Retailers' view on partnerships on the other hand were clearer expressing the necessary condition of self interest (Ogbanna and Wilkinson 1996). The retail view was that "we all want partnerships as long as it is on our own terms". Perhaps this is possible because, as Brookes (1995) suggests, retailers now have a degree of systemic power and are able to affect the whole system of their suppliers.

4.5 Conclusion

This chapter has reviewed the more commonly referred to reasons for the rise of retailer power and the subsequent implications for retailer-manufacturer relations. One feature emerging from much of the literature suggests a uniformity of retailer-manufacturer relationships. This perceived uniformity may be based on the assumption of a particular evolution path. This investigation proposes that this uniformity does not, in fact, exist and that variations in structural, firm, product and relational characteristics ensure diversity with consequences for the balance of power within these relationships.

Another feature emerging from the review is that much of the literature is fragmented. While

certain studies adopt an evolutionary approach (Davies et al 1985) and examine retail power over time, others focus on particular aspects of retail power (Senker 1986; Grant 1987). While each work contributes in its own way to our understanding of retail power, it is very difficult to establish connections between the individual studies. Consequently, questions such as the relationship between retail power over margin activities and product related activities cannot be addressed in a reliable manner. To achieve this, we must consider the full set of relevant related variables and subject them to analysis at a point in time and under a given set of underlying conditions.

In most academic literature, increasing retail concentration is considered to be a significant factor in explaining the shift in power from manufacturers to retailers. However, while concentration is increasing in Britain, higher levels of concentration are evident in Sweden, Finland, Belgium, and Germany. Similar levels of concentration are witnessed in Ireland and France (Collins 1997). Furthermore, the absolute purchasing power of individual European retailers is considerably larger than their British counterparts. This suggests that the analysis forming the current study must extend beyond the measure of concentration alone. Some researchers have considered the importance of changes in relative concentration. Thus one must consider what is happening in the food manufacturing sector. There is growing evidence to suggest that concentration in manufacturing is also increasing. Sternquist and Kacker (1994) argue that the emergence of retail alliances was, in part, precipitated by the growing power of manufacturers through horizontal alliances. Finally, although not addressed earlier, there is a growing body of research on the evolution of international retail alliances (Robinson and Clarke-Hill 1995; Dawson and Shaw 1992).

While much of the literature reviewed indicates that relative concentration plays an important role in determining the distribution of power between retailers and their manufacturers, it remains unclear which measure of concentration should be used. Retail concentration at national level is alluded to by many commentators. Tucker (1978), for instance, argues that concentration at a national level was a more important determinant of bargaining power than product market concentration. This is consistent with the consumer process of shopping consolidation which would tend to equate concentration across markets. It also reflects the low barriers to entry into many new product categories by own brand extension. However, the increasing globalisation of both food manufacturing and retailing suggests that concentration at a national level only captures part of the determinants of relative negotiation strengths. The emergence of new organisational forms such as international buying alliances (Robinson and Clarke-Hill 1995) renders national concentration figures of limited use with pricing, assortment and in some cases distribution decisions being made at supra national levels. Similar problems exist with manufacturing concentration as many manufacturers have embraced pan European manufacturing and branding strategies since the formation of the single market.

Our analysis highlighted the importance of economies of scale in influencing retailer-supplier relations. The cost structure of UK retailing necessitated that retailers operated at high levels of capacity. Also, the high opportunity cost of storage space at outlet level promoted supply chain efficiencies and the move towards just in time delivery. This, in turn, encouraged the formation of particular relationships with certain suppliers to identify best practice procedures. On the other hand, manufacturers subject to economies of scale require high levels of throughput to maintain their horizontal competitiveness. The loss of a retail account in a

concentrated market not only represents a loss of share but may also result in uncompetitive costs.

Much of the literature reviewed stressed the importance of loyalty, both brand and store loyalty, and the position of brand guarantor within the marketing channel, as a determinant of channel power. The nature of retail advertising, by emphasising baskets rather than individual products, promoted consolidation of shopping purchases enhancing store loyalty rather than brand loyalty. The use of own brand products as a surrogate for the retail brand was another potent vehicle for generating store rather than brand commitments. While there is a large body of anecdotal and intuitive evidence, there is a paucity of empirical evidence to support own brand's influence on the balance of power. More importantly, it appears to be the strategic use of own brand rather than the mere presence of own brand that contributes to the shift in power. In this respect, the shift from price to non price competition on the part of retailers appears to have played a substantial role in altering the balance of power.

The review indicates that the centralisation of retail buying and retailer control of secondary distribution, by separating the manufacturer from the point of sale and increasing the transparency of the supply chain, resulted in a further shift in the balance of power. Prior to the centralisation of distribution, the asymmetry of information favoured the manufacturer. The manufacturer had greater opportunity to engage in opportunistic behaviour as all relevant information on supplier performance was not available to retail buyers. However, the centralisation of distribution, supported by new information technologies, reversed this position. Indeed, the availability of scanning data provided the retailer with the opportunity to pursue self-interest through guile by releasing selective information to suppliers. An

examination of different countries displays a wide variation in the extent of retailer integration or quasi integration into distribution. The Irish market remains largely DSD and manufacturer controlled, as do the French and German markets. Also, one witnesses substantial variations in both the use and provision of retailer generated information across the supply chain. Both these features would be expected to influence the balance of power within relations.

Another feature that emerges is that particular product characteristics influence the balance of power within relationships. All products are not of equal importance to retailers. Certain products may be more demanding in terms of production, delivery and perishability. Alternative suppliers may be available but at substantial costs in terms of lost sales and even brand image. Some exchange relations will involve branded products. Others will involve own brand, while even more may involve a portfolio of both types of goods.

Throughout the review, there was considerable reference to growing stability. Foord et al (1996:68) propose that "the emphasis on interactive, flexible and stable supply networks was a key retailing strategy". However, in much of the literature, the notion of stability has not been clarified. Dawson and Shaw (1989) link stability to the development of long term relationships based on trust and commitment to encourage the investment in specific assets. However, there appears to be no appropriate measure of stability developed or utilised. Longevity, or the expectation of longevity, is a poor proxy for stability. For instance, it takes no account of volumes traded, which is a form of instability with substantial cost implications for manufacturers. On the other hand, there is evidence change on many dimensions. Retailers are assuming greater control over activities formerly the remit of manufacturers. One finds organisational change at firm level to ensure better fits between manufacturing

firms and their retail customers. Also there is evidence of concentration in manufacturing, which is consistent with supplier rationalisation on the part of retailers. While it is clear that certain retailers have domesticated some of their trading relationships to a greater or lesser extent, the implications for stability and the balance of power within the relationships have not been clarified.

In the earlier discussion of the literature on power, it was noted that power was a characteristic inherent to a social relation and not an attribute of a particular agent. Furthermore, as power is a phenomenon residing within a social relation it may be viewed and measured from either of the protagonists' perspectives. From this discussion it is clear that both manufacturers and retailers may participate in a number of differentiated relationships. This view is supported by Ogbanna and Wilkinson (1998: 83) who propose the " existence of significant differentiated relationships each having different power implications". The current study argues that, on the one hand, these relationships vary in terms of the structural conditions within which they exist. Manufacturers trading in different countries will encounter varying levels of retail concentration, different legislation, varying own brand strategies, different own brand market shares and varying levels of branded activity. On the other hand, the closeness of the retailer and manufacturer may vary across customer accounts. Whether or not a given manufacturer produces own brand for a retailer may be expected to influence their relationship. The review has found evidence of different degrees of partnershipping, be it in relation to category management or simply in terms of stage of maturity. Indeed, the maintenance of a customer portfolio was highlighted as a key strategic decision facing firms.

The foregoing analysis suggests that there is substantial scope for variations within retailer-

manufacturer relations and to discuss the issue of the balance of power while assuming a degree of homogeneity is flawed. Following Segal-Horn and McGee (1989) one is inclined to agree with their view that relationships must be analysed at both a structural and strategic level. Much of the research to date has adopted the retailer's perspective and consequently missed the diversity that emerges on the manufacturer's side. The analysis suggests that structural, firm, product and relational characteristics are significant determinants of the balance of power within the relationships under review. However, to obtain a more complete understanding of the forces at work a cross sectional approach adopting a manufacturer framework is required.

The review also suggests an appropriate framework for organising our analysis. It has highlighted variations in industry characteristics, firm and product related characteristics and the mode of governance that operates among retailers and manufacturers. As a summary of the foregoing analysis, these three factors and their underlying characteristics are presented in table 4.2. It should be noted that some characteristics may operate at more than one level. For instance, economies of scale can be considered an industry characteristic governed by technology but which plays and important role in determining the minimum efficient scale of operation. The extent to which companies exploit these scale efficiencies will be a firm characteristic and can influence dependency relationships. The current analysis, while aware of these interactions, proposes that the current framework is likely to provide a more useful base for analysis by simplifying the problem at hand.

Table 4.2

Determinants of Retailer Power

Factor Group	Characteristic
Industry structure characteristics	Availability of alternative capacity
	Importance of economies of scale
	Retail concentration
	Manufacturer concentration
	Own brand penetration
Firm and Product characteristics	Product complexity and contribution to retailer's positioning
	Strategic use of own brands
	Product related monitoring
	Margin related monitoring
	Manufacturer emphasis on innovation
	Manufacturer's brand franchise
Relationship characteristics	Manufacturer dependency
	Retail dependency
	Interdependency
	Retailer's share of manufacturer's sales
	Brand portfolio traded
	Manufacturer specific assets
	Retailer specific assets
	Joint Effort
	Inter-firm integration
	Expected continuity and relationship potential

This framework will be used to structure the formulation of the hypotheses in chapter 6. It is proposed that in doing so, a more complete understanding of the determinants of retailer power may be gained. The framework also has the added benefit of presenting a coherent flow to the organisation the remaining chapters.

Chapter Five

Methodology

5.1 Introduction

The purpose of this research is to investigate the determinants of retail power over food manufacturers' activities. This will be achieved by specifying models of retail power and estimating parameter values for each of the hypothesized determinants. In the review carried out in the last chapter, it was concluded that there were three sets of characteristics that merited detailed analysis. These were, industry structure, firm and product, and relationship characteristics. In the next chapter, a series of hypotheses will be developed, which will be used to investigate these characteristics' role in the determination of retail power. This chapter addresses the methodology to be employed to test these hypotheses. The chapter has two major concerns. The first is the composition of an appropriate sample and key informants to test the hypotheses. The second is the structure of the research instrument to be used and the development of a series of constructs to measure the phenomena underlying the hypotheses. Much of the chapter is given to testing the individual measures so that one can be confident that they measure what we want to capture and are free from measurement error. Consequently, that chapter devotes considerable effort to establishing construct validity.

This chapter is structured as follows. After addressing the issues of sample and informant selection the chapter will adopt the organising framework set out in the previous chapter. First, the dependent variables, power and influence shall be examined; second, the chapter will proceed to industry structure characteristics; third, measures for firm and product characteristics will be developed; fourth, measures of relationship specific characteristics will be derived; and finally, constructs to measure mode of governance or the degree of

integration among the firms will be established.

5.2 Data Collection

One of the main features emerging from the review in chapter four is the complexity of power relations between retailers and manufacturers. In identifying three sets of factor groupings, the current study attempts to establish a framework that will reduce the complexity of the problem, thereby facilitating a more considered analysis. However, within these groups a rather large number of specific characteristics emerge. As will be seen, some of these characteristics are closely related, for example economies of scale and manufacturer concentration, but are expected to influence retail power in opposite directions. Other interactions such as those between retail concentration and own brand penetration are both expected to increase retail power.

These interactions add considerably to the complexity of the task at hand, as this research seeks to separate out the primary determinants from secondary determinants of retail power. However, the complexity of the problem and the inter-relatedness of many of the key characteristics does suggest an appropriate method of analysis and, consequently, the manner in which data should be collected. To separate out the contributions made by each of the characteristics, while holding others constant, quantitative analysis, and regression analysis in particular, are the most appropriate tools. However, carrying out this analysis requires measures of the underlying constructs. Given the role of perceptions in the determination of power (Gaski 1984) and the matter that few external measures of the characteristics of interest exist, measures would have to be derived from data obtained from food manufacturers themselves. Given the number of characteristics of interest, a survey of a sample of food

manufacturers using a detailed questionnaire was considered most appropriate. The use of structured or semi-structured interviews was considered impracticable given the number and scope of the constructs required. The use of a standard questionnaire also had the added benefit of facilitating construct validity across responding firms.

5.2.1 The Sample

In July 1997, the author undertook research investigating Irish food manufacturers' customer portfolios, endorsed by and with the assistance of the Irish Food Board. The results of this work have been detailed in chapter one and elsewhere (Collins and Burt 1999). As their contribution to the project, the Food Board distributed the research instrument to the managing director/owner, manager or key accounts manager of the population of Irish food manufacturing firms. In total, 155 firms responded of which 85 firms returned usable questionnaires and dealt directly with grocery retailers.

The sample of firms used in the current study was drawn largely from the list of firms that had engaged in this earlier research. The sample is intended to capture variations within retailer-manufacturer relationships. In doing so, it also intends to reflect the range of food manufacturers' experience of power relations within the grocery sector. The results of the earlier analysis indicated a broad range of trading relationships and suggested considerable variations in manufacturer dependency. Consequently, it was decided to use these firms as the sampling frame for the current study.

Each of the original 85 firms were contacted by the researcher. A number were unwilling to participate in the current study. The dominant argument against further participation was

primarily time related[1]. Five firms who had returned unusable questionnaires in the earlier study indicated their willingness to participate in the current study[2]. Consequently, a total of 63 firms participated in the study. Eight firms participated in the pretest stage and the remaining 55 food manufacturers provided the data used in all subsequent analysis. The data were collected during the spring and summer of 1998.

From a statistical perspective, the firms surveyed were not chosen on a strictly random basis, as participation in the earlier study increased the probability of bring selected for current study. However, the first sample was representative of the Irish food manufacturing sector (Collins and Burt 1999) and almost 70% of the original sample participated in the current study in some fashion, that is pretest or live application. No bias could be detected among those firms who were unwilling to participate. Furthermore, for confidence in our statistical analysis, one requires that the selection of retail relationships be random rather than the manufacturing firms per se. As shall be seen, when discussing informant selection, the retailer-manufacturer relationships are randomly selected and therefore appropriate for statistical analysis.

Some of the chief characteristics of the sample relevant to the study at hand are presented in tables 5.1, 5.2, 5.3 and 5.4 .

[1] At the time of data collection there were a number of other studies were in process under the auspices of the Economic and Social Research Institute (ESRI) investigating the interaction between retailers and manufacturers
[2] 45 of the firms in the initial sample dealt with wholesalers and not directly with retailers.

Table 5.1

Distribution of Sample: Firm Size

Employee No.	1-9	10-19	20-49	50-100	100-500	>500
% of Sample	5	13	22	9	36	15
Observations (n)	3	7	12	5	20	8

Table 5.2

Distribution of Sample: Product Category

Category	Dairy	Bread	Fresh Mea & Poultry	Dry Grocery	Chilled Food	Soft Drinks	Alcoholic Drinks	Frozen Foods	Other Consumer Foods
% of Sample	20	7	10	24	7	7	2	9	13
Observations (n)	11	4	6	13	4	4	1	5	7

Table 5.3[3]

Distribution of Sample: Product Shelf-Life

Days Life	1-3	4-7	8-14	15-31	>31
% of Sample	6	9	6	25	55
Observations (n)	3	5	3	14	30

Table 5.4

Distribution of Sample: Brand Portfolio

Brand Portfolio	Brands only	Own Bands Only	Mixed Portfolio (Both Brands and Own Bands)
% of Sample	26	14	60
Observations (n)	14	8	33

[3] Totals may not add to 100 due to rounding

5.2.2 Informant Selection

A single informant was chosen from each firm. The use of a single informant as the sole basis for data collection dominates much of the marketing literature (Brown et al 1983; Frazier 1983; Knox and White 1990; Price 1993; Davies 1994; Mohr and Spekman 1994; Selnes 1998). However, the methodology has its flaws, with potential problems emanating from informant bias, adverse selection and error in disclosure. A discussion of some of the limitations is presented by Bagozzi et al (1991). They highlight measurement error associated with key informant prejudices or limitations, social desirability, halo effects and acquiescence. Over-reporting or possible under-reporting of the phenomena under investigation may result directly from the position of the key informant within the organization. To overcome these limitations, some researchers have used multiple informants (Anderson and Narus 1990). However, such a procedure, even when a number of competent informants exist, is not without its own difficulties. These may emerge with divergent perceptions of the same phenomena, undermining the validity of averaging responses.

The decision to use a single informant was based on the following reasons. The method employed required each informant to rate their relationship with two retailers with whom they were most familiar. During the pretest, it became clear that many of the larger firms had individual account managers specializing in the management of a limited number of particular retailer relationships. Thus, it was unlikely to find another informant as familiar with the given retail relationships at the same level in the company. Another issue encountered in large firms was that they tended to produce a number of different products that frequently came from different industries. For instance, a number of firms operated in both the dairy and meat sectors. During the pretest, it was also noted by a number of informants that retail influence frequently varied significantly across product categories. Thus, the decision was made to

carry out the analysis at principle category produced. This presented a potential risk as the more senior the management interviewed the more likely a cross category perspective would be obtained. Consequently, one risked not comparing like with like. Finally, in smaller firms, where account management structures did not exist and the product tended to be homogenous, it was the most senior executives alone who had sufficient knowledge, or access to the relevant information, to complete the instrument satisfactorily.

Each firm was contacted prior to the study. Initial contact was made with the individual who had completed the research instrument used in the first study. This individual was queried to identify the person with most awareness of retail influence on the organization. Given the nature of the study, this individual had to have considerable experience of week to week dealings with the company's retail customers. Subsequently, a letter detailing the nature of the research, was sent to each individual. One week later the potential informant was contacted by the researcher to ascertain whether or not they were best positioned to complete the questionnaire and willing to participate in the study. If they suggested an alternative informant the new potential candidate was also forwarded the same letter and contacted a week later. Informants were either owners, managing directors, key account managers or, in two cases, marketing managers.

5.2.3 Instrument Structure, Pretest and Launch

The instrument, provided in appendix A5.1, is divided into two components, one of which is not expected to vary across a manufacturer's trading relationships while the other is expected to vary. The first component focuses on industry, the manufacturing firm's characteristics and product characteristics. These were the availability of alternative capacity; the importance of economies of scale in manufacturing, manufacturer concentration, product shelf-life,

manufacturer emphasis on innovation and retail concentration. This component of the instrument also measured the importance of a series of strategic variables in maintaining the firm's competitive advantage which would be used in the construction of the measure of power .

The second component is relationship specific, designed to capture variations across retailer-manufacturer relationships. It is composed of items to measure retailer influence, the strategic use of own brands by the retailer, retail monitoring, retail dependency, retail specific investments, manufacturer dependency, manufacturer brand franchise, brand portfolio, extent of joint effort, expected relationship continuity, and the degree of integration among the firms. The market penetration of own brands is also measured in the retail specific component of the questionnaire. The reasons for this will be discussed later. As the purpose of the exercise was to identify variations in retailer power, the informant was asked to choose and score two retailers who they considered to differ in the way they did business[4]. This increased the likelihood of capturing variations in relations while simultaneously increasing the number of observations per informant. However, the criteria used to decide the respective retailers were left to the informant's discretion. Thus, the retailer-manufacturer relationships underlying the study are considered random and therefore suitable for statistical analysis.

The instrument was developed according to the procedure outlined by Churchill (1979). Individual items used in the pretest instrument were based on the review of the literature and the researcher's past experience as a retail buyer. The number of test observations was limited by the expected number of firms who were likely to participate in the study. It was believed that firms who had participated in the first study would be willing to assist once again but very unlikely to do so on a third occasion. Even if they were willing to do so, it was very likely

that the results would be subject to random error due to fatigue, boredom etc. Therefore, it appeared that a large pretest could reduce the number of observations in the final study. Consequently, eight firms were chosen for the pretest. Over the course of each application, informants were queried in relation to areas requiring clarification or subject to misunderstanding. Areas omitted but considered important by the informant were incorporated into the subsequent tests. Areas considered irrelevant by the informant were noted. Any additions were re-circulated to earlier participants.

On completing the pretest, items generating proposed constructs were tested for internal reliability using Chronbach's α. The pretest yielded eight observations on items relating to firm specific, product specific and industry structure characteristics[5]. Twenty observations were obtained on relationships with individual retailers[6]. On the basis of the α scores, items were deleted until a satisfactory score was achieved. Then, factor analysis was applied to establish an initial view of the separability of the constructs.

Having finalized the research instrument, the questionnaire was distributed to the participating manufacturers. In most instances, the informant pre-agreed the names of the retailers, enabling a dedicated questionnaire to be sent out. This ensured that the instrument was more easily completed. In some instances, the manufacturer, while willing to participate, wished the retailers to remain anonymous. In this circumstance, the informant scored retailer 1 and retailer 2. After a period of three weeks the informant was given a follow-up call. Given the relative seniority of the informants a number were slow to reply. Under these conditions, a visit to the manufacturer took place and the instrument was administered personally.

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[4] One manufacturer scored only one retailer.
[5] This is a limited number of observations for rigorous validity testing. Consequently a number of additional items were included in the live instrument to increase the likelihood of obtaining appropriate measures.
[6] Four of the pretest firms scored three retailers rather than two retailers.

The highly structured nature of the instrument enabled the interview to take place without prompts, which could have resulted in bias. Also, earlier power studies have used a combination of both personally administered and mailed questionnaires (Brown 1981). In total, 55 firms were surveyed, 33 of which self-administered the instrument while the remaining 22 were interviewed personally. However, this procedure risked generating systematic error (Churchill 1979). To test for the existence of this potential problem, a series of t-tests comparing the mean values for the constructs were used to identify any between group differences (self-administered versus researcher administered). One statistical difference was identified and related to perceived retail concentration. Further analysis revealed that the source of the discrepancy was the higher proportion of drinks companies in the personally administered component of the sample. These companies were much less reliant on the grocery sector with most of their sales going to the pub trade. Consequently, it was decided to keep these observations in the sample as the differences were unlikely to be due to systematic error.

5.3 Construct Development

5.3.1 Measures

To complete the analysis and test the hypotheses set out in the next chapter, there is a need to develop a series of measures for the constructs given in table 5.5. Because behaviour is based on perceptions rather than on objective measures, the constructs are measured using the manufacturer's perceptions of their market, their firm, principal product category and relationships with specific retailers. With a very limited number of exceptions, self-attributed scales were used to measure the constructs. Also, perceptions were measured because, as

Gaski (1984:10) suggests, "it may be more correct to regard the perception itself as the source of power".

Table 5.5

Constructs Required

	Construct	Measure
Dependent Variable	Retail influence	Likert Scale
	Retail power	Likert Scale
	Retail power over product related activities	Likert Scale
	Retail power over margin related activities	Likert Scale
Industry structure characteristics	Availability of alternative capacity	Likert Scale
	Importance of economies of scale	Likert Scale
	Retail concentration	Likert Scale
	Manufacturer concentration	Likert Scale
	Own brand penetration	Likert Scale
Firm and Product characteristics	Product complexity and contribution to retailer's positioning	Days shelf-life
	Strategic use of own brands	Likert Scale
	Product related monitoring	Likert Scale
	Margin related monitoring	Likert Scale
	Manufacturer emphasis on innovation	Likert Scale
	Manufacturer's brand franchise	Likert Scale
Relationship characteristics	Manufacturer dependency	Likert Scale
	Retail dependency	Likert Scale
	Interdependency	Likert Scale
	Retailer's share of manufacturer's sales	Ratio
	Brand portfolio traded	Ratio/Labels
	Manufacturer specific assets	Likert Scale
	Retailer specific assets	Likert Scale
	Joint Effort	Likert Scale
	Inter-firm integration • Flexibility/Joint planning/ Information transfer/Communication	Likert Scale
	Expected continuity and relationship attractiveness	Likert Scale

Two issues are of concern, given that many of the variables were constructed from individual items. The first is one of internal consistency and that the individual items actually measure the same variable. To measure internal consistency Chronbach's α was used. This is commonly used to measure reliability for a set of construct indicators with higher values indicating higher reliability. By reliability one means that the construct indicators are consistent in their measurements, where indicators of highly reliable constructs are strongly

intercorrelated indicating that they are measuring the same latent construct (Hair et al 1995). In this way one can assess the danger of variable error in the development of our constructs. Values for Chronbach's α can range from 0 to 1.0. Nunally (1981) argues that for the purpose of construct reliability, α of 0.70 or higher will suffice. However, earlier studies have used considerably lower results. Noordewier et al (1990) and Gilbert et al (1994) employ constructs with α as low as 0.64 while Ganesan (1994) uses constructs with measures as low as 0.56 and Klien et al (1990) use constructs with α as low as 0.54

Three factors determined the number of items used to measure a construct. The first was the limited size of the pretest and the limited number of observations with which to ascertain the merits of individual items. This was most notable in the case of industry characteristics where only eight observations were available. To account for the relative uncertainty some additional items were included. The second was the breadth of the construct in question. Specific investments, by definition, may be broad, ranging across human, physical and learning capital amongst others. Thus, the number of items were necessarily large to ensure sufficient representation and appropriate coverage. Third, a number of the constructs are very similar but for the purpose at hand need to be clearly separated. For instance, one would expect a close association between manufacturer and retailer specific investments in their relationship but, for the current analysis, the two constructs must be clearly separated. Finally, it should be pointed out that not all of the items in research instrument are employed in the subsequent analysis. Due to the relatively small sample in the pretest a number of items did not load clearly on expected dimensions. Consequently, these items were not used in the final measures.

While Chronbach's α can be used to demonstrate reliability, that is, that the individual items

are measuring the same construct and would do so in repeated samples, one has to be confident that what is being measured is actually that which one seeks to measure. In other words systematic error needs to be accounted for in our analysis. To achieve this the analysis needs to demonstrate both convergent and discriminant validity. Convergent validity is the extent to which multiple attempts to measure the same construct are in agreement and covary highly. Discriminant validity on the other hand is the degree to which different constructs are distinct and do not covary highly (Bagozzi et al 1991). In other words, discriminant validity establishes construct separability.

To establish convergent and discriminant validity among our constructs exploratory factor analysis was used. In factor analysis, each item (question on the instrument) is a dependent variable that is a function of some underlying factors, which in turn are composed of all the original items. Under factor analysis, the factors are determined by maximizing the explanatory power of the entire set of items. Exploratory factor analysis provides a means of identifying items that group together under a particular factor, establishing convergent validity. Where the analysis identifies a number of items with high loadings on a particular factor, a summed scale or average may be derived for use as a surrogate variable to carry out the analysis (Hair et al 1995). By generating a series of such factors, and when meeting goodness of fit criteria, the analysis establishes discriminant validity among the constructs.

To assist interpretation of the factors, varimax rotations are carried out. This method is only one of a series of orthogonal rotation procedures that have the advantage of ensuring that the factors are mathematically independent and uncorrelated, highlighting the patterning of the variables into the underlying factors. Consequently, orthogonal solutions are optimal if the purpose is to generate a reduced number of uncorrelated variables for further use in regression

analysis (Hair et al 1995). This strengthens the use of varimax rotations asmuch of the subsequent analysis will use regression techniques.

The varimax rotation method minimizes the number of items that have high loadings on a particular factor. In doing so, it eases interpretation by generating as simple a structure as possible to fit the data. However, to interpret the factors, one has to decide which factor loadings merit consideration. The factor loading is the correlation between the factor and the item. Consequently, those items with high loading are given more weight in the interpretation of the factor than those with low loadings. Factor loadings greater than |.3| are considered to meet the minimal level of merit for sample sizes of 100 or more (Hair et al, 1995; Child, 1990; Comrey and Lee 1992).

Having identified a series of items that constitute a factor, the next problem is to derive a measure of the construct. Three methods may be used to derive the constructs to be used in the subsequent analysis. The first is to select the highest loading item on the factor and to use it as a single surrogate. Clearly, relying on one single item subjects any further analysis to potentially severe measurement error. The second method is to estimate factor scores. As each factor is a linear combination of the original items, composite measures for each factor can be derived. Items that are highly correlated with a particular factor will contribute more to the factor score than items with low correlations. However, some items are likely to be correlated in some fashion (but not significantly different from zero) with the factor, and consequently, the factor scores are error prone indicators of the underlying factor. As a compromise, a summated or averaged scale can employed . High loading items are identified and either summed or averaged generating a measure of the construct. The main drawback of this method is that the resultant constructs may not be entirely uncorrelated. However, the

primary advantage of this method, is that the construct is more meaningful and " if the scale is well-constructed, valid and reliable instrument, the summated scale is probably the best alternative" (Hair et al 1995:391). This method has most intuitive appeal and, to compensate for any potential shortcomings, significant effort was placed on using or modifying scales already tested in the literature.

In the following analysis, either principal component analysis or generalized least squares (GLS) is used to extract our factors. In cases where exploratory factor analysis is being used to prove convergent validity and point towards discriminant validity, principal components will be used as the method of factor extraction. This is justified by the fact that the resulting factors are clearer and more easily interpreted as a greater number of items are utilized and maintained in the creation of the constructs. Where the specific number of factors has implications for the hypotheses, as against the construction of measures, GLS will be used. This is considered appropriate where specific hypotheses are dependent on the particular number of factors (k) e.g. the dimensions of power and retail monitoring. For instance, where a uni-dimensional measure of power is required or where a two factor model is specified, the goodness of fit measures provided by GLS[7] which tests the adequacy of the k-factor model will assume particular importance.

While principal component analysis does not provide a measure of goodness of fit of the factor model, the appropriateness of applying the analysis will be tested using Bartlett's test of sphericity and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. Bartlett's test examines whether or not the population correlation coefficient is an identity. In circumstances where it is, factor analysis is not advised (Norusis 1994). The KMO test examines the relationship between the correlation coefficients among the variables and their partial

coefficients. The correlation coefficient is a measure of the linear association among two variables. Where a factor analysis is appropriate, one would expect these to be high where variables load highly along a given factor. The partial correlation coefficient eliminates the linear effects of all other variables. Consequently, when factor analysis is appropriate the partial correlation coefficients should be low between variables that load highly. By comparing these relative magnitudes, a measure of sampling adequacy is obtained. Where the KMO approaches 1, factor analysis is appropriate. Scores below 0.5 are considered unacceptable (Norusis 1994).

The output of the principal component method of factor extraction also provides the percentage of total variation explained. This is the sum of the variances explained by each of the factors. Thus high values for a given number of factors is preferred to low values as more of the variation in the data is explained by the given factors.

5.3.2 Dependent Variables: Retail Influence and Exercised Power

Central to any study of power is the measure of the dependent variable itself. We have seen that power has been broadly defined as the ability to influence the strategy variables of another member in the channel. Dawson and Shaw (1990:30) define the basis of retailer power as the "ability to influence other channel members to make decisions which otherwise would not have been made" or "to alter the strategic direction of others". Krishnan and Sona (1997:37) define power as "the ability of one channel member to get another channel member to do what the latter would not have done, affecting him adversely". Thus, power refers to influence in a particular direction. In this study, power is aligned with French and Raven's (1959) definition of "positive control", that is, influence in the direction favoured by the influencer.

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7 Principal Components does not provide a goodness of fit statistic.

Following earlier studies power is measured as the extent of the retailer's influence over the manufacturer's activities, weighted by the strategic importance of activity, as perceived by the manufacturer. This use of attributed influence as an appropriate measuring methodology is generally accepted in the literature (Etgar 1978; El-Ansary and Stern 1972; Hunt and Nevin 1974; Butaney and Wortzel 1988; Brown, Lusch et al. 1995).

However, Gaski (1984) raises a particular concern that is central to the current research. In his review, he asks whether or not earlier studies actually measured power in the first place. He argues that the use of attributed power over manufacturing activities clearly captures exercised power and is not necessarily closely aligned with power if defined as the ability to influence or alter behaviour. Such an ability or potential may exist unexercised. However, it is argued here that even Gaski (1984) underestimated the difficulty of deriving an appropriate measure. Gaski suggests that Wilkinson's (1974) measure of "maximum possible effect" on policies was heading in the right direction. However, while an informant's scoring of perceived retail control over a series of activities should implicitly account for interdependencies among the activities, scoring on the basis of maximum possible effect is unlikely to do so in any kind of precise manner. For example, take the case of three activities, pricing, product specifications and promotional activity. It should be relatively straightforward for an informant to score perceived retail influence on each of these activities. More importantly, the scores are likely to reflect interdependencies and possible tradeoffs that exist among the variables. If the retailer exerts considerable influence on price and promotional activity, one consequence might be less influence on product specifications. This interdependency is likely to be captured by the attributed measure if the informant's perceptions are accurate. If, on the other hand, an informant is required to assess "the

maximum possible effect" these interdependencies are likely to be neglected and the resulting measure suffers error. Thus, in this study, actual influence as perceived by the manufacturer rather than the ability to influence is measured on the grounds that the latter would be extremely difficult to capture if at all possible[8].

The distinction between power and exercised power must be set down clearly. An overview of the literature suggests that exercised power is an appropriate proxy for power. For instance, Butaney and Wortzel (1988:54) argue that "power can be measured either as the ability to alter one's behaviour or actual alteration of one's behaviour". It is argued here that this is not necessarily the case and cannot be asserted as there is a temporal dimension to each measure. Exercised power is an ex post measure and may be, at best, an appropriate measure for power in the past. Power, when defined as the ability to influence, is an ex ante construct representing the potential to influencee. Clearly, in the case of a given relationship the former may indeed be a poor proxy for the latter and is highly likely to result in bias. Once the potential is exercised the potential may be exhausted. For instance, a retailer's ability to extract additional margin from a manufacturer will, in part, be dependent on the margin available to the manufacturer which is likely to be partly determined by the outcomes of earlier retail influence attempts. In such circumstances, a manufacturer may score exercised power highly (*we've been squeezed in the past*) but low in terms of potential to influence (*any further price reductions and we're out of business*). Thus, the two constructs may indeed be negatively related under certain conditions or possibly display a positive relationship but at a diminishing rate.

[8]One possibility would be to use a matrix where the maximum possible effect on one activity is measured against varying levels of influence on the remaining activities. This would then be repeated for each activity in turn. Such a procedure would be extremely unweildly and almost certainly beyond the endurance of the informant.

However, by establishing relationships between the three factors (*industry structure, firm and product characteristics, and relationship characteristics*) set out in the last chapter and exercised power, the basis for understanding power as a potential is provided. In measuring exercised power, the outcome of successful power attempts is measured. However, that the influence attempts were successful indicates that the capability or potential had existed. In this way, relationships between power as a potential and the three sets of factors are established. Thus, while deciding not to measure power as a potential directly, the measurement of exercised power provides the basis for our analysis.

The measure of exercised power is also important from a strategic perspective as it provides a clear insight into the level of retail involvement that can be expected in manufacturing operations under different circumstances. In gaining a deeper appreciation of the dimensions of retail power, that is, product or margin related, one can anticipate the circumstances under which different strategic variables are exposed to retail influence. As one manufacturer put it, "retail influence is simply the cost of dialogue". Accurate estimation of this cost is likely to prove fruitful.

The other issue which must be addressed is the use of a unidimensional measure of power. Clearly, power is multidimensional and extends across a wide range of activities. Many of these activities are distinct, e.g. product related activities from margin related activities, and represent different dimensions over which power is frequently be exerted. In addition to being distinct, they may be related. For instance, the exercise of product related power may diminish an agent's margin related power. Despite this, in much of the power literature (El-Ansary and Stern 1972; Hunt and Nevin 1974; Butaney and Wortzel 1988) power has been

implicitly assumed to be unidimensional through the measures employed. This implicit assumption is made by failing to test for the unidimensionality of the dependent variable. Consequently, bias may be introduced into the analysis in favour of one activity over others, e.g. product related power over margin related power.

To derive our measure of exercised power, eleven activities were chosen based on a review of the literature, direct experience of the retail sector as a former buyer and a series of manufacturer visits prior to pre-testing the research instrument. These were production process development, new product development, supplier (input) selection, production processes, product specifications, inventories/stockholdings, delivery conditions (amounts/frequency), promotional activity, customer portfolio, price to the retailer and credit terms to the retailer.

The extent of retail influence was captured using a five point Likert scale, anchored by 1 (no influence) to 5 (major influence) applied to each activity. To derive an index of power, a weight, derived from the emphasis the manufacturer placed on each activity as a source of its competitive advantage, was employed. This was also measured using a five point Likert scale (1, no emphasis to 5, major emphasis). This procedure was used by El-Ansary and Stern (1972), Frazier (1983) and Butaney and Wortzel (1988).

There are two issues that must be raised in relation to the use of a weight. First, the definition of power taken from the literature, defines power as influence in a particular direction, that is, in the direction intended by the influencer but in a direction that the influencee would not wish to tend. Consequently, one can exert influence without exerting power. Manufacturers are unlikely to willingly cede control over those strategic variables that serve as the basis of

their competitive advantage. Thus, the use of the weight introduces the directional element and provides a measure of power rather than influence alone. Second, using a weight provides one method of aggregation. Omission of a weighting mechanism, and summing scores over a series of activities, implicitly assumes that each of the manufacturing activities is of equal importance. Clearly, such an assumption is both unnecessary and potentially misleading. However, the use of a weight does imply that the measure of influence on a particular variable and the strategic importance of that variable are given equal weight in the measure of exercised power.

Aggregation across all the strategy variables outlined above, weighted by the emphasis manufacturers' place on them to derive a measure of power, is likely to be problematic. The use of the procedure to form an overall index of power may be unsatisfactory as it does assume that the items are different and consequently equally weighted. This assumption is implicitly made and untested in most of the literature reviewed. However, interdependencies among strategy variables make variable selection a potential source of bias. If variables are orthogonal to each other and weighted using some measure of importance, the issue of bias is less likely. However, if the variables are highly correlated and cannot be differentiated from each other a potential problem, akin to double counting, emerges.

One means of reducing this problem is to construct a measure of power that is unidimensional. Brown et al's (1983; 1995) works represent the only cases reviewed where the measure of power is actually tested for unidimensionality. To ensure unidimensionality, factor analysis using the GLS method was applied to all eleven items. A one dimensional (that is, . a one factor solution) measure of overall influence was specified, while ensuring that the model achieved a sufficient degree of fit. When all the strategy variables were considered, the initial

one factor solution did not fit the data satisfactorily (χ^2= 122.463: df=44; p<.000)[9]. After several iterations and dropping a number of items, an acceptable one factor solution was derived (χ^2= 9.929: df=9; p=.356). The items retained were retail influence over production processes, new product development, price, inventories, delivery conditions and customer portfolio. Bartlett's test of sphericity (χ^2= 67.48: df=15; p<.000) and the KMO measure of sampling adequacy (.70) also indicate that factor analysis is appropriate. The one factor solution accounted for 25% of variation in the data. The rotated factor solution is given in table 5.6. Face validation suggests that these variables cover a substantial range of manufacturing activities, minimizing the potential problem of double counting and providing a meaningful one dimensional measure of retail power. To measure internal consistency, Chronbach's α was derived, and the result, while at the lower range of our tolerance range, is considered acceptable based on earlier studies (Ganesan 1994; Klien et al 1990). Applying weights, based on the strategic importance of the strategy variables, to the items yielded our unidimensional measure of exercised power.

Table 5.6

Uni-dimensional Measure of Retail Influence

	F1
(α = .64)	
Retail influence on production processes	.632
Retail influence on inventories	.513
Retail influence on new product development	.520
Retail influence on delivery conditions	.319
Retail influence on price	.404
Retail influence on customer portfolio	.526

The review of the literature suggested that retailer influence and power were exercised over sets of different strategy variables. Two dimensions stood out in particular, product and margin related. Earlier it was argued, that retail influence appears to be increasingly more

[9] The null hypothesis is that the k factor model model fits the data appropriately. Thus we do not want to reject the null hypothesis. Here the p value <.05 indicates that we have to reject the hypothesis. The k fator model

product directed with regard to own brand suppliers but more price orientated in the case of branded manufacturers. It is proposed that these underlying dimensions of retail influence and power provide a strategically rich focus for analysis. To examine retail influence and power over these dimensions a two factor model is required. An initial model based on all strategy variables failed to provide an appropriate fit. Reducing the number of items yielded a two factor solution (χ^2= 7.798: df=8; p=.453). The factor loadings are given in table 5.7. All display clear loadings and are well in excess of those recommended by Hair et al (1995), Child (1990) and Comrey and Lee (1992).

Factor 1 (F1) represents retailers' influence on product-related activities, covering supplier (input) selection, production processes, new process development, and product specifications. Factor 2 (F2) represents retailers' influence on margin related activities through pricing, promotional activities and credit. Once again, applying the relevant weights to each of the items and averaging, yields the measures of product and margin related power.

Table 5.7

Internal Reliability (α) and Exploratory Factor Analysis:

Product and Margin Dimensions of Influence

Item	α	F1[1]	F2
Product Related Influence[1]	.77		
Retail influence on supplier selection		**.562**	
Retail influence on production processes		**.855**	
Retail influence on new production processes development		**.833**	
Retail influence on product specifications		**.516**	
Margin Related Influence	.57		
Retail influence on promotional activity			**.441**
Retail influence on price			**.679**
Retail influence on credit			**.528**

Notes: Extraction Method: Generalized Least Squares.
Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 3 iterations
[1]Factor titles given in bold.

does not fit the data sufficiently well.

5.3.3 Characteristics of Industry Structure

This section is concerned with developing measures for the constructs, availability of alternative capacity, the importance of economies of scale, retail and manufacturer concentration and own brand penetration. Clearly, one possibility would be to derive ratios as measures for each of the constructs. For instance, concentration levels are frequently expressed in this form using concentration ratios and market share information.

However, these measures are critically dependent on a precise definition of the market and, as a consequence, raise a series of potential problems. Chapter two showed that Irish food manufacturers displayed a high propensity to export their products to the British market in particular. However, some manufacturers do not export. Clearly, informants could have been restricted in their choice of retailer to a specific market. However, to do so would be to defeat the aim of capturing variations in relationships with retailers. Consequently one could have two firms producing a very similar product but trading in two different markets (for example, one firm's definition of their market could be Ireland while the other firm's could include Britain) and the relevant definition of market would vary. Expressing concentration in a ratio format would be impracticable, as market share data for all possible combinations of markets and products is unavailable. The same problem emerges for own brand penetration.

A similar problem exists on the supply side in terms of industry definition and manufacturer concentration. However, in this case, the problem is greater as there are no concentration indices available for the Irish food manufacturing sector. Furthermore, while it may be possible to construct a measure of unused capacity, it is likely to be fraught with difficulties and certainly beyond the scope of this research. Measures of excess capacity at product level

do not exist and issues such as the homogeneity of capacity would prove difficult to establish if an objective measure was required for the analysis. Finally, there are no objective measures of the importance of economies of scale available to the researcher.

To redress these issues recourse is taken to perceived retailer and manufacturer concentration, which incorporate the relevant definition of market from the manufacturer's perspective. A similar procedure was tested to measure own brand penetration, but during the pretest period comments indicated that informants judged this figure by market as defined by the retailer under investigation. Consequently, the market relevant to the measure of own brand penetration is defined by the location of the retailer. A Likert scale method of measuring the availability of alternative capacity and the importance of economies of scale was also adopted.

Measures of the internal consistency, using Chronbach's α for both industry structure and firm characteristics, are provided in table 5.8. It shows the items composing the measure of manufacturer concentration, retail concentration, own brand penetration, the importance of economies of scale and availability of alternative capacity. In the case of two constructs, economies of scale and retail concentration, only two items were used. The use of two items is not unusual in the literature (O'Callaghan et al 1992; Kumar et al 1995b). The items discarded from the analysis were removed because of low item-construct correlations. In the case of economies of scale, the link with competitiveness was also considered important in ensuring a complete understanding of the construct actually measured. All the α scores for each of the five constructs are very satisfactory and indicate a sufficient degree of reliability to proceed.

To test for convergent and divergent validity, exploratory factor analysis was applied.

Principal component analysis was employed as the method of factor extraction as it yielded more meaningful results. In effect, the principal components method transforms a set of correlated variables into a set of uncorrelated principal components or factors. While it is possible to extract as many factors as there are items, it was decided to extract only those factors that accounted for variances greater than one. In other words, when both factors and items are standardized, only factors which explain at least 1/N of the total variance are extracted, where N is the total number of items (i.e. where the eigenvalue exceeds or is equal to one). The resulting analysis generated five factors to explain the structure of the data, accounting for over 70% of the total variance.

The factors are provided in table 5.8. Bartlett's test of sphericity (χ^2= 588 : df=105; P<.000) and the KMO test for sampling adequacy (0.65) support the appropriateness of factor analysis. The factor loadings clearly display convergent validity, with the expected items grouping together under common factors. The results also point to divergent validity with distinct and meaningful factors emerging. These are concentration in manufacturing and retailing, own brand market penetration, the importance of scale economies in manufacturing and alternative capacity. Items with high loadings on a particular factor were averaged to provide a measure of the required constructs.

Table 5.8

Internal Reliability (α) and Exploratory Factor Analysis:

Industry Structure Characteristics

	α	F1[1]	F2	F3	F4	F5
Manufacturer Concentration[1]	.76					
Most output in this industry is attributable to a few firms.		.697				
Our industry is controlled by a small number of large manufacturing enterprises.		.772				
Our industry is dominated by a few manufacturers.		.778				
Our industry consists of a large number of similarly sized manufacturers (Reversed).		.666				
Retail Concentration	.71					
A few retailers dominate our industry.						.840
Our market is controlled by a small number of large retailers.						.882
Own Brand Penetration	.73					
Own brands dominate this retailer's market.				.846		
Own brand products account for a large proportion of their total grocery industry's sales.				.756		
They and their competitors have an own brand alternative for almost all products.				.524		
Most of this retailer's competitors have substantial own brand sales.				.743		
Importance of Scale Economies	.66					
Scale economies play a significant role in maintaining competitiveness in this industry.					.779	
In our industry, long production runs are necessary for cost competitiveness.					.703	
Availability of Alternative Capacity	.84					
If we were to cease trading, our competitors could easily supply sufficient volumes to meet our customers' needs.			.909			
Retailers can find other manufacturers with unused capacity to supply their needs.			.845			
Our customers would have considerable difficulty in finding alternative suppliers if we were to stop doing business with them (Reversed).			.850			

Notes
Extraction Method: Principal Components Analysis. Rotation Method: Varimax with Kaiser Normalisation.
[1]Factor titles given in bold in column 1

5.3.4 Firm and Product Characteristics

The review of the literature identified a number of firm characteristics, both retail and manufacturer, which could be expected to act as determinants of retail power. These were manufacturer brand franchise, the strategic use of own brands and manufacturer emphasis on innovation. To derive appropriate measures, a series of items relating to the strength of these characteristics were scored on a 1-7 scale (strongly disagree – strongly agree). Product shelf-life was taken as a proxy for the variables product complexity and contribution to the retailer's positioning. It was measured in terms of days life post production[10]. Using an adaptation of Stump and Heide (1996), supplier monitoring was measured using a seven point Likert scale "no monitoring of our performance" to "extensive monitoring of our performance" over a range of manufacturing activities.

Once again, to test for convergent and divergent validity, exploratory factor analysis was applied. Principal component analysis was employed as the method of factor extraction. The number of factors to be extracted was determined by requiring that the eigenvalue equal or exceed unity. The resulting factor matrix is given in table 5.9. Bartlett's test of sphericity (χ^2= 1052: df=190; P<.000) and the KMO test for sampling adequacy (0.74) indicate that one can comfortably proceed with the analysis. The five factors explained 70% of the variance in the data. The measures of internal consistency for the constructs are also provided.

[10] The argument linking retailer's positioning, product complexity and product shelf-life is discussed in substantial detail in chapter six under hypothesis H4.

Table 5.9

Internal Reliability (α) and Exploratory Factor Analysis:

Firm Characteristics

	α	F1[1]	F2	F3	F4	F5
Manufacturer Brand Franchise[1]	**.82**					
Delisting our brand is likely to reduce their sales.				**.812**		
Our brand is important to their category.				**.876**		
Our brand is the market leader in their category.				**.855**		
Strategic Use of Own Brands	**.87**					
They market their own brand as quality brand in its own right.		**.786**				
Their own brand is comparable to the best manufacturer brand.		**.653**				
They perceive their own brand to be a quality brand.		**.884**				
The image of their own brand is important to them.		**.886**				
Own brands account for a large share of their category sales.		**.489**				
Their own brand products are becoming much more complex and sophisticated.		**.718**				
Manufacturer Emphasis on Innovation	**.79**					
Investment in NPD is essential for continued success.			**.808**			
Product innovation is an important source of our competitive advantage.			**.842**			
A constant stream of new products is necessary to maintain one's place in the marketplace.			**.834**			
We allocate significant resources to new product development.			**.866**			
Product Related Retail Monitoring	**.88**					
Production processes					**.890**	
Raw material quality					**.843**	
Product quality					**.856**	
Commercial Performance (Margin Related Retail Monitoring	**.58**					
Delivery accuracy						**.558**
Price competitiveness						**.526**
Product sales						**.836**
Promotion effectiveness						**.666**

Extraction method: Pr4incipal Components Analysis. Rotation method: Varimax with Kaiser Normalisation
[1]Factor titles given in bold

5.3.5 Relationship Characteristics

The earlier review suggested that a series of relationship characteristics exist, which are likely to vary at relationship level with implications for retailer power. Of these, the more important were both manufacturer and retailer dependency and their specific investments or assets in the immediate relationship. These constructs were measured using a seven point Likert scale (1-strongly agree – 7 strongly disagree) on a series of items. Where possible, items measuring specific investments were adapted from Stump and Heide (1996) and Fein and Anderson (1997).

Two measures of dependency are required, one for perceived manufacturer dependency on the retailer and another for perceived retailer dependency on the manufacturer. Following Heide (1994), Buchanan (1992) and Kumar et al (1995) an operational measure of dependency was defined in terms of replaceability. Kumar et al (1998), drawing on Emerson (1962), argue that both replaceability and the value received by a firm through the relationship, should be incorporated into the measure of dependency. Consequently, they devise a composite dependence scale incorporating share of sales and profits. However, while a measure of share of sales was available on the manufacturers' side, it was unavailable on the retail side. A measure of share of profits was even more problematic as few manufacturers had measures of account profitability that allocated fixed costs across their trading partners. Thus, for consistency across the dyad and for simplicity, sales or profits are excluded from the construction of our dependency measure.

The other motive for ensuring consistency across the dyad is to provide the basis for measuring interdependency. Increasing levels of dependency are a necessary but insufficient

condition for increasing interdependency. To derive a measure of interdependency both dependency measures were multiplied, where higher scores represent higher levels of interdependency than lower scores. A similar measure, used to capture the symmetricity of dependency, was employed by Heide (1994).

Chapter two demonstrated that the composition of the brand portfolio traded may also vary among a given manufacturer's trading relationships. Two ways of identifying the brand portfolio have been identified. The first is to calculate as a ratio , that is, the proportion of sales to a retailer in an own brand format. The second is to use a label, which can take the value of own brand supplier only, branded supplier only or a mixed portfolio supplier.

Principal component analysis was employed to explore the underlying structure of the data. The measure of interdependence was omitted as it was constructed using our measures of manufacturer and retailer dependence. Once again, the number of factors was determined by the data. The only restriction imposed was that the eigenvalue for the final factor extracted equaled or exceeded one. The resulting factors are given in table 5.10. Bartlett's test of sphericity (χ^2= 1245 :df=253; P<.000) and the KMO test for sampling adequacy (0.76) support the appropriateness of factor analysis. The factors point strongly towards convergent validity with the expected items converging along the same factors. The exception is retail dependency. This falls across two factors and the distinguishing feature appears to be the perceived role of competitors. However it is proposed that, for the purpose of construction, both factors should be used in the composition of our retail dependency measure by averaging the item scores across the six high loading items on both factors.

Table 5.10

Internal Reliability and Exploratory Factor Analysis: Relationship Specific Characteristics

	α	F1[1]	F2	F3	F4	F5
Manufacturer Dependency[1]	**.87**					
The loss of their business would be a serious blow to our future profitability.		**.85**				
The volume of business we do with them helps us to be cost competitive vis-à-vis other manufacturers.		**.60**				
The loss of their business would increase our unit costs as a result of lost economies of scale.		**.74**				
The loss of their account would significantly reduce our short-term profits.		**.86**				
We would find it very difficult to replace their business if we were to lose it.		**.66**				
Our business would be in jeopardy if we lost their business.		**.81**				
Retail Dependency	**.70**					
Few of our competitors could easily meet their quantity requirements.						**.84**
Few of our competitors could meet their quality requirements.						**.81**
If we discontinued supplying to them, they would have difficulty making up the sales volume in our product category.					**.68**	
If we were to stop doing business with them, they would find it hard to source products quickly with similar customer appeal.					**.64**	
If our product is out of stock, their customers are unlikely to purchase a substitute.					**.71**	
If they were to stop doing business with us, their customers would quickly notice.					**.78**	
Manufacturer Specific Assets	**.85**					
Their delivery conditions are particularly demanding.			**.60**			
We spent considerable effort training our staff to deal with their specific requirements.			**.54**			
We spent considerable effort establishing procedures and routines to cater to their specific needs.			**.75**			
If we were to cease trading with them, we would waste a lot of knowledge that's tailored to their method of operations.			**.78**			
We have strong personal relationships with them.			**.59**			
We spent considerable resources tailoring our production processes to meet their product specifications.			**.61**			
Integrating our information systems to cater to their specific needs proved difficult.			**.66**			
Retailer Specific Assets	**.80**					
They carry out a very time consuming due diligence before approving a new supplier.				**.58**		
Their buyers and technologists have spent a lot of time and effort providing us with advice and information.				**.69**		
They have allocated a lot of shelf space to our products.				**.76**		
Their product specifications are particularly demanding.				**.67**		

Notes
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization
[1] Factor titles given in bold

Drawing Heide and John (1990), a measure of joint effort is derived based on joint activities undertaken by the firm. A seven point Likert scale, minimal joint effort to extensive joint effort, was employed. This construct is excluded from the factor analysis above, as the range of activities assessed suggest that it is likely to fall across a number of those factors. The items used were new product development, production process development, new delivery procedures, information systems, sales forecasting, retailer's range (assortment) management, promotions planning, and product merchandising. The measure of internal reliability was sufficiently high at 0.78.

5.3.6 Inter-firm Integration

The final set of constructs measures the degree of integration and consists of a series of items designed to capture the closeness of the firms. The mode of governance may be measured by recourse to the degree of integration in evidence between the firms. According to Crocker and Masten (1991), relational contracting provides a "structure that encourages rent increasing adjustments (flexibility) but discourages rent dissipating efforts to redistribute existing surpluses (opportunism)". Macneil (1981:1205) argues that "discrete transactions differ from contractual relations respecting many key characteristics. Among the most important for economic analysis are commencement, duration and termination, measurement and specificity, planning, sharing versus dividing benefits and burdens, interdependence, future cooperation and solidarity; personal relations among and number of participants, and power". For this study, the expected duration of the relationship, and planning, supported by information transfer and communication, are the more important. The items chosen were adapted from Gilbert et al (1994) to capture inter-firm symmetry in communication, Mohr et al (1996) to capture inter-firm information transfer, Heide (1994) to capture flexibility and inter-firm planning, Heide and John(1990), Kumar et al (1995b) and Ganesan (1994) for

expectations of relationship continuity while Monczka et al (1995) was adapted to measure future relationship attractiveness. The series of items were scored on a 1-7 point scale (1- completely inaccurate description of our relationship, to 7- completely accurate description).

Applying exploratory factor analysis to our items yielded the results below (table 5.11). Principal component analysis extracted a four factor model. Both Bartlet's test of sphericity (χ^2= 689.524: df=91; P<.000)and the KMO test of sampling adequacy (KMO = .826) provide evidence of the appropriateness of the application. The model explained 69% of the variation in the data. The factors identified are flexibility and planning, information transfer, expectations of relationship continuity and potential, and inter-firm communication. While Chronbach's α is low for information transfer, following Ganesan (1994) and Klien et al (1990) it is considered sufficient. All remaining scores, and expected continuity and relationship potential in particular, are high indicating a substantial degree of reliability.

Table 5.11

Internal Reliability and Exploratory Factor Analysis: Inter Firm Integration

	α	F1[1]	F2	F3	F4
Flexibility and Planning	**.83**				
The nature of our relationship enables both of us to manage changing circumstances well.		**.658**			
Flexibility by both parties in response to requests for changes is a characteristic of this relationship.		**.669**			
Both parties expect to be able to make adjustments in the on-going relationship to cope with changing circumstances.		**.794**			
When some unexpected situation arises, both parties would rather work out a compromise rather than hold each other to the original deal.		**.760**			
Both parties make joint plans for the future development of our businesses.		**.671**			
Information Transfer	**.57**				
We provide them with a lot of sensitive information about our operations (costs, product specifications, etc).					**.711**
They provide us with sensitive information (sales, market shares, performance results, etc).					**.499**
Expected Continuity and Potential of the Relationship	**.83**				
Both parties expect this relationship to last a long time.			**.576**		
We expect to be working with this retailer for the foreseeable future.			**.770**		
We expect them to become more important to our success in the future.			**.833**		
We expect them to become a greater source of profits in the future.			**.715**		
I expect them to be or continue to be one of our most important customers.			**.813**		
Communication	**.80**				
Communication between our companies is such that any member of their team can easily contact any of ours.				**.777**	
Communication between our companies is such that any member of our team can easily contact any of theirs.				**.895**	

Notes
Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
[1] Factor titles given in bold

In the confidence that the items provide an appropriate coverage of all the aspects of inter-firm integration, one can now proceed to generate a one dimensional measure of integration. GLS was applied to extract a single factor model. The items relating to relationship continuity and attractiveness were excluded as these were considered antecedents of high levels of inter-firm integration. In other words, expectation of relationship continuity and attractiveness is a determinant of inter-firm integration. The initial one factor solution did not fit the data

satisfactorily. However, after several iterations and dropping a number of items, an acceptable one factor solution was derived (χ^2= 26.239: df=20; P=.158). Bartlett's test of sphericity (χ^2= 281.5219: df=28; P<.000) and the KMO measure of sampling adequacy (.861) also support the application of factor analysis. The model explained 42% of variance in the data. The results are given in table 5.12 and incorporate the important attributes of flexibility, planning, communication and information transfer. Chronbach's α is also high yielding a sufficient degree of construct reliability.

Table 5.12

Uni-dimensional Measure of Inter-Firm Integration

Item (α=.84)	F1
The nature of our relationship enables both of us to manage changing circumstances well.	**.756**
Flexibility by both parties in response to requests for changes is a characteristic of this relationship.	**.704**
Both parties expect to be able to make adjustments in the on-going relationship to cope with changing circumstances.	**.738**
When some unexpected situation arises, both parties would rather work out a compromise rather than hold each other to the original deal.	**.720**
Both parties make joint plans for the future development of our businesses.	**.679**
They provide us with sensitive information (sales, market shares, performance results, etc).	**.520**
We provide them with a lot of sensitive information about our operations (costs, product specifications, etc).	**.449**
Communication between our companies is such that any member of their team can easily contact any of ours	**.554**
Extraction Method: Generalized Least Squares. 1 factors extracted. 5 iterations required.	

5.4 Construct Validation: Discriminant Validity

While the factor analysis goes some way in pointing towards discriminant validity, further evidence is required. One requires a more precise test. To do this we examine the correlation coefficients among the variables. Following Kumar et al (1995) and Molla and Sanchez (1997), who employed this method of proving discriminant validity, it is argued that if variables are distinct, their correlation coefficient should be significantly different from unity.

The correlation coefficient matrix is given in table 5.13. The correlation coefficient measures the linear association between two variables. It can take a value from -1 to +1. The sign indicates the slope of the line. It can be positive or negative. A correlation of +1 indicates that the variables lie along an exactly straight line with a positive slope. However the correlation coefficient is a point estimate. It has a distribution, and different samples are likely to yield different coefficient values. Consequently, one needs to establish whether or not the sample results can support the hypotheses that the correlation coefficients among the constructs are significantly different from unity. Thus the null and alternate hypotheses can be given as:

H0: $r = 1$

H1: $r < 1$

The correlation coefficient matrices and t-test values are given in table 5.13,

where,

Variable Name	Description
Capacity	The perceived availability of alternative capacity
Scale	The importance of economies of scale in manufacturing
Retcon	Perceived retail concentration
Mancon	Perceived manufacturer concentration
Obstrat	Perceived strategic use of own brand by the retailer
Obmkt	Perceived own brand penetration of the market
Innovat	Importance of innovation to the manufacturer
Manspec	Manufacturer specific investments in the relationship with the retailer
Retspec	Retailer specific investments in the relationship with the manufacturer
Manbrand	Manufacturer brand franchise
Retdep	Perceived retail dependency on the manufacturer
Mandep	Perceived manufacturer dependency on the retailer
Conattr	Expected continuity and attractiveness of the relationship
Integrat	The perceived degree of inter-firm integration
Interdep	The perceived degree of interdependency

All the t-test statistics are significant at the .005% level enabling us to reject the null hypothesis and claim discriminant validity.

Table 5.13

Discriminant Validity

Pearson Correlation Coefficients														
	Capacity	Scale	Retcon	Mancon	Obstrat	Obmkt2	Innovat	Manspec	Retspec	Manbrand	Retdep	Mandep	Conattr	Integrat2
Capacity	1.00													
Scale	0.05	1.00												
Retcon	0.09	0.10	1.00											
Mancon	-0.15	0.45	-0.08	1.00										
Obstrat	0.04	0.22	0.32	0.17	1.00									
Obmkt	0.10	0.29	0.01	0.10	0.76	1.00								
Innovat	0.04	0.22	0.32	0.17	0.38	0.30	1.00							
Manspec	0.05	0.36	0.11	0.16	0.32	0.35	0.13	1.00						
Retspec	-0.03	0.12	0.26	0.04	0.41	0.37	0.05	0.65	1.00					
Manbrand	0.05	-0.09	0.02	-0.14	-0.08	-0.13	0.05	0.04	-0.08	1.00				
Retdep	-0.48	-0.14	-0.10	-0.17	0.07	-0.04	-0.03	0.27	0.23	0.40	1.00			
Mandep	0.11	0.23	0.30	-0.00	0.30	0.19	0.17	0.45	0.32	0.16	0.24	1.00		
Conattr	0.24	0.05	0.23	0.04	0.21	0.09	0.36	0.25	0.20	-0.03	0.09	0.45	1.00	
Integrat	0.00	0.08	0.14	-0.13	0.22	0.13	0.06	0.50	0.52	-0.13	0.20	0.18	0.43	1.00
Interdep	-0.26	0.04	0.10	-0.12	0.17	0.04	0.06	0.42	0.35	0.35	0.83	0.70	0.30	0.27
H0: r = 1 **H1: r < 1**														
						Values for T-test (absolute value)								
	Capacity	**Scale**	**Retcon**	**Mancon**	**Obstrat**	**Obmkt**	**Innovat**	**Manspec**	**Retspec**	**Manbrand**	**Retdep**	**Mandep**	**Conattr**	**Integrat**
Capacity														
Scale	9.80													
Retcon	9.57	9.42												
Mancon	12.13	6.41	11.27											
Obstrat	9.99	8.36	7.50	8.76										
Obmkt	9.45	7.77	10.35	9.44	3.89									
Innovat	9.99	8.36	7.50	8.76	7.01	7.64								
Manspec	9.92	7.19	9.34	8.90	7.52	7.27	9.12							
Retspec	10.70	9.14	7.95	9.97	6.68	7.03	9.84	4.78						
Manbrand	9.92	11.36	10.19	11.92	11.24	11.86	9.90	9.99	11.12					
Retdep	17.66	11.96	11.51	12.36	9.76	10.86	10.76	7.91	8.17	6.79				
Mandep	9.34	8.30	7.69	10.46	7.69	8.61	8.79	6.47	7.42	8.87	8.21			
Conattr	8.14	9.82	8.15	9.93	8.36	9.47	7.10	7.99	8.35	10.59	9.49	6.40		
Integrat	10.32	9.58	9.01	11.76	8.31	9.05	9.71	5.95	5.74	11.72	8.47	8.67	6.53	
Interdep	13.62	10.04	9.42	11.74	8.80	10.07	9.83	6.69	7.19	7.20	3.22	4.37	7.56	7.81

5.5 Conclusion

This chapter has developed and validated the series of constructs necessary to test the hypotheses which will be derived in the next chapter. Internal consistency of each of the variables has been established using Chronbach's α, and convergent and discriminant validity have been demonstrated using a combination of exploratory factor analysis and Kumar et al's (1995) criterion[11]. Thus it is now possible to proceed with confidence and test the specific hypothesis established in the next chapter using the measures derived here.

11 Note also that in no case is the correlation between each of the measures and any other as high as its Chronbach's α, providing further evidence of discriminant validity (Gaski 1986).

Chapter Six

Hypotheses and Results

6.1 Introduction

This investigation's concern is to cast light on grocers' power over food manufacturers' activities. It seeks to identify the determinants of grocers' power over and the range and extent of retailers' involvement in these activities. There is considerable evidence to indicate that retailer power is pervasive and can extend across many manufacturing activities. The perspective employed in this study, emerging from the earlier review of the literature, suggests that retail power and influence is determined by three sets of factors. These are industry related, firm and product related and relationship related. This research attempts to identify the role of these factors in the determination of retail power.

The review of the literature pointed to the factors presented in table 6.1. The table specifies what is believed to be the determinants of retail power. These are operationalised through a number of key characteristics or variables. However, much of this work is unsupported by empirical evidence. It is argued here that much of the literature, by failing to account for possible interrelationships among these factors and characteristics, fails to provide an adequate perspective on the determinants of retailer power.

Table 6.1

The Determinants of Retail Power

Factor Group	Characteristic
Industry Structure Characteristics	Availability of alternative Capacity in Manufacturing
	Importance of Economies of Scale in Manufacturing
	Concentration
	• Retail
	• Manufacturer
	Own Brand Market Penetration
Firm and Product Characteristics	Product Characteristics
	• Complexity
	• Contribution to Retailer's Positioning
	Retailer Characteristics
	• Strategic Use of Own Brands
	• Extent of Monitoring Activities
	Manufacturer Characteristics
	• Emphasis on Innovation
	• Brand Franchise
Relationship Characteristics	Dependency
	• Manufacturer Dependency
	• Retailer Dependency
	Interdependency
	Brand Portfolio
	Specific Investments
	• Retailer
	• Manufacturer
	Mode of Governance or Degree of Integration
	• Flexibility • Joint planning • Information transfer and communication
	Expected continuity and attractiveness of the relationship

The lack of clarity on the side of the "determinants" is matched by a lack of perspective on the dependant variable. Some studies of retail power have focused on manufacturers' margin related activities (Office of Fair Trading 1985; Grant 1987; Restrictive Practices Commission 1987), while others have focused on product related activities (Hughes 1994; McGrath 1995). This study adopts the view that the dynamics and determinants of retail power over product related activities can differ significantly from margin related activities. However, none of the earlier studies have empirically examined these differences and, in doing so, fail to offer a sufficiently broad examination of retail power as a phenomenon.

In response to these criticisms, the current study seeks to achieve the following;

- To specify the relationships among the structural, firm, product and relationship variables and retailer power, accounting for possible interdependencies;
- To empirically test the hypothesized relationships.

The immediate task, and the aim of this chapter, is to establish and test a series of hypotheses that will form the basis for the inquiry. Hypotheses will be developed along the following line of inquiry. First, the dimensions of power will be investigated. Then, a series of hypotheses will be developed, building on each other to establish a clearer insight between power and structural characteristics. Next the chapter will investigate the role of firm and product characteristics as determinants of retail power. Concerted attention will be given to the relationship between retail monitoring activities, the strategic use of own brands and power. The justification for this is that retail monitoring and specific investments form the bridge between firm characteristics and relationship characteristics. At this stage, attention will turn to the determinants of inter-firm integration, the degree to which transactions between retailers and their manufacturers become domesticated, and the consequences for retailer power. The final issue to be addressed will be the role of brand portfolio within retailer-manufacturer power relations.

It was argued in chapter four that the existing literature was fragmented and, consequently, fails to offer a sufficiently specified model of retailer power either as individual studies or as a body of work. Possible relationships among the dimensions of retail power are neglected or implicitly assumed not to exist. Consequently, some relationships are presumed to be causal, whereas deeper investigation may show other more fundamental relationships to be

operative. To correct this limitation, the current study will seek to use individual hypotheses as building blocks, each of which will contribute to our understanding of the underlying determinants of retailer power. It is only having tested these hypotheses and considered the findings that the study can progress and be in a position to specify a more complete model of retail power.

In this way each hypothesis adds incrementally to our understanding of retail power. A brief discussion will follow our analysis of each of our three factor groupings. The next chapter will provide a more detailed consideration of all our findings when taken together, culminating in a more informed modeling of retail power.

6.2 Conceptual Framework and Hypotheses

The conceptual framework underlying this research proposes that differences in retail power over food manufacturers may be explained by three groups of factors. These are operationalised using a series of variables to capture variations in industry structure characteristics, firm and product characteristics, and relationship specific characteristics (Table 6.1). By structural characteristics, industry features, both retailing and manufacturing, are considered. These may be expected to influence retail power over supplying firms. By firm characteristics, individual retailer, manufacturer and product characteristics are considered. By relationship specific characteristics, the way the individual trading relationship is organized, supported by specific investments, the distribution of dependency and other characteristics that may vary among a given manufacturer's trading relationships with its customers, will be taken into account.

In this way, the framework considers variations in retail power within a product category, where product and structural characteristics may be considered homogenous but where the mode of governance may vary. It also facilitates analysis of similar relationship characteristics or mode of governance but across different structural conditions, brand portfolios, and firm and product characteristics. The review of the literature has shown that, in an attempt to explain retail power, considerable explanatory power has been attributed to structural and firm characteristics. Little work has focused on the way relationships are organized and the impact on power differentials. This may be due to the view that governance structures are an outcome of a particular power balance (Doel 1996). This contrasts with the view that efficiency determines governance and takes precedence to power considerations (Williamson and Ouchi 1991). Furthermore, the literature has largely failed to account for the interrelationships between these factor groupings or their constituents and, in doing so, fails to provide an adequate explanation of the dynamics of retail power.

As a phenomenon, the balance of power resides within a relationship. Consequently, to discuss the balance of power between sectors is somewhat misleading. To accommodate this, the study will take the individual retailer-manufacturer relationship as our basic unit of analysis. By examining a series of such relationships, it is intended to separate out and assess the effects of variations in structural conditions, firm and product characteristics and relationship specific characteristics on retail power.

6.2.1 Power and Influence

One of the issues emerging from the review of the power literature was the distinction between power and influence. While French and Raven (1959) define power in terms of influence, they make a number of clear distinctions. First " the "influence" of O must be clearly distinguished from O's "control" of P". " The influence exerted by an act need not be in the direction intended by O" and consequently, O does not control P" (French and Raven 1959:151). This may result from the fact that O's influence may, for instance, mobilize other forces that have a countervailing effect. French and Raven (1959:152) define "positive control" as the situation where induced change is consistent with intended change. Consequently, for the purpose at hand, this research distinguishes power from influence in terms of direction, that is, power involves change "in favour of the objectives of the channel member exerting influence" (Wilemon 1972:71). Thus, in this study, the term "power" could be used interchangeably with the term "control". As shall be seen, this distinction becomes implicit in many of the earlier works when designing measurement scales.

Also, French and Raven (1959) define power in terms of potential. It was argued in the last chapter that defining power in this way creates a number of operational difficulties from an empirical perspective. This study's concern is to establish a clearer understanding of the determinants and dynamics of exercised power exerted by food retailers over food manufacturing operations. Thus,the study focused on power as an ex post phenomenon, a force that has been exerted over manufacturing activities. It does not seek to directly measure power as a potential.

6.2.2 Dimensions of Power

The framework also augments the existing literature in the way it views power. It has been demonstrated that much of the earlier work, through the measures employed, viewed power as a unidimensional construct. The dependent variable, power, was measured over a series of strategic variables, which were in some cases weighted, and then aggregated to form an overall index. Indeed, little attempt was made to test the assumption of unidimensionality (El-Ansary and Stern 1972; Hunt and Nevin 1974; Etgar 1976; Wilkinson 1981; Butaney and Wortzel 1988). Exceptions include Brown et al (1983, 1995). Following the discussion on measurement in the methodology chapter, it is proposed that, at best, much of the strategic richness of the study of power is lost and at worst, significant bias is entered into the body of work.

While no particular piece of work offers an integrative framework, the literature on retailer-manufacturer relations clearly demonstrates a distinction between power exercised over product related activities and power exercised over margin components. The extent of retail power over product related activities is well documented by numerous authors (Fearne 1996; McGrath 1995; Brookes 1995; Hughes 1994; Senker 1986). Other work indicates growing retail power on supply chain activities, with particular emphasis on logistics and the growing retail control of the physical movement of products (Collins et al 1999; Collins 1999b; Bence 1995; McKinnon 1985, 1990; Smith and Sparks 1993).

On the margin side, there has also been considerable evidence to support discriminatory discounts available to retailers of different sizes (Fair trade Commission 1972; Office of Fair Trading 1985; Grant 1987). The ways in which these discounts have been extracted vary

considerably. For instances, Davies (1994a) argues that retailers have up to 40 ways of extracting margin from manufacturers. This study proposes that a distinction between product and margin related power is appropriate and of considerable strategic importance, emerging in parallel with the greater sophisticated use of own brand as a retail phenomenon. Consequently, the investigation of retail power over these dimensions, and the extent to which the dynamics of power differ, will be fundamental to the research.

It should be noted that while much of this research focuses on the margin and product dimensions of retail power, other dimensions could also have been identified. Our unidimensional measure of power incorporates aspects of vertical restraints by measuring retailer's influence on manufacturers' customer portfolios. Retailers' influence on delivery conditions were also included. However, these are not considered in the two dimensions that will be analyzed. Consequently, retail power is not simply an aggregation of product and margin related power as retail power extends beyond these.

6.3 Industry Structure and Retail Power

A given trading relationship operates within the context of two industries, a supplying industry (manufacturing) and a demanding industry (retail). At any point in time, these industries' structures will impose varying constraints on both parties' behaviours and the extent to which retailers exercise power over manufacturing activities. Following the review, the essential characteristics of the manufacturing industry which act as determinants of retail power are:

- excess capacity in manufacturing and the availability of alternative production capacity to the retailer;
- the importance of economies of scale in manufacturing and the extent to which variations

in output influence marginal costs and horizontal competitiveness;

- manufacturer concentration.

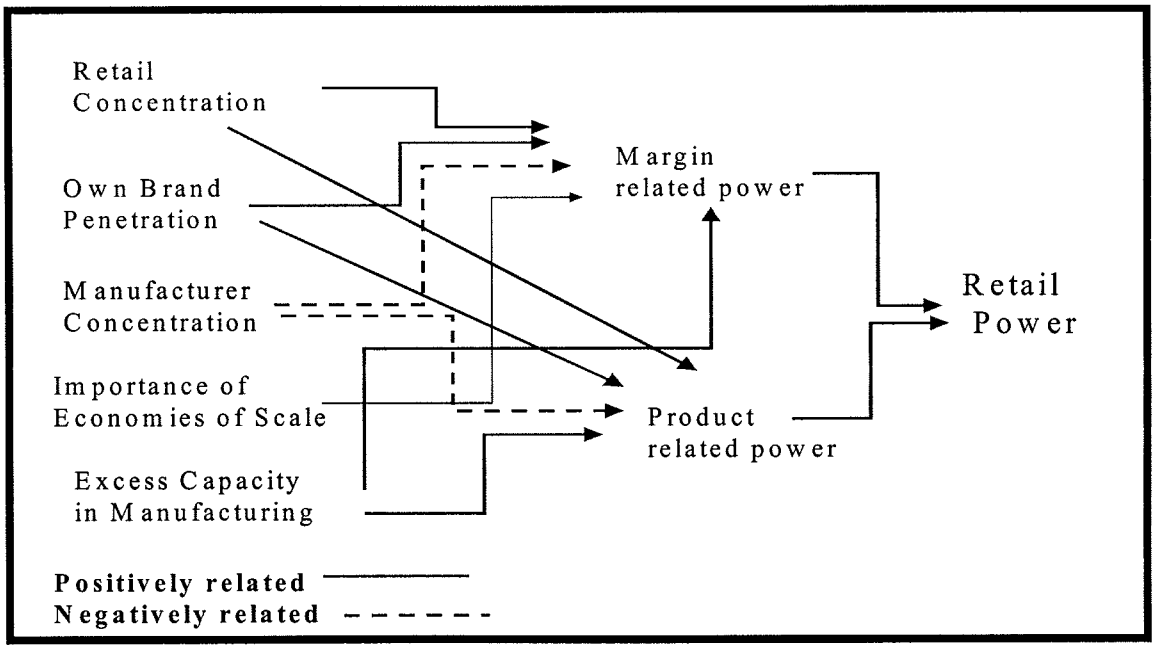
On the retail side, the literature suggests that the more important aspects of industry structure in the determination of retail power are:

- retail concentration;
- own brand penetration.

The expected relationships between both industries' characteristics and the underlying dimensions of power are demonstrated in figure 6.1. Each will be discussed over the course of our argument.

Figure 6.1

Industry Characteristics and Retail Power



6.3.1 Industry Structure and Retail Power Over Margin Related Activities

The existence of excess capacity in manufacturing has been posited to be an important determinant of retail power. The availability of alternative production capacity to retailers heightens the degree of horizontal competition among manufacturers. According to Davies et al (1985), high levels of over-capacity during the 1970's and 1980's led manufacturers to fight furiously for the available trade. Consequently, margin is competed away to the retail stage of the marketing channel.

Davies et al (1985) and Doel (1996) also highlight the link between excess capacity and own brand. One of the arguments reviewed, was that excess capacity facilitated increasing retail power by promoting own brand production. By appealing directly to the retailer rather than the consumer, own brand production provided manufacturers with a faster and less risky means of utilizing any shortfalls in capacity utilization. This is supported by De Chernatony (1989), who provides a number of reasons why successful branded manufacturers undertake own brand production, two of the more important being the achievement of economies of scale and utilization of excess capacity. Ogbanna and Wilkinson (1998) found that capacity utilization was the main reason why large manufacturers engaged in own brand production and that this only took place in product areas that would not threaten their branded products. Nevertheless, increasing own brand production would be expected to have two immediate effects. First, it could extend a given retailer's supplier base, increasing competition among actual and potential manufacturers. Second, own brand would increase the demand for the given shelf-space, increasing the price of access to the shelf, thereby reducing manufacturers' margins.

These arguments suggest that own brand sourcing by retailers is price orientated, with retailers switching suppliers as free capacity and the potential for lower prices emerge elsewhere. This is clearly at odds with the more recent evolution of the own brand market with greater emphasis on higher value products and relationship stability (Dawson and Shaw 1989;1989b). The strategic use of own brands to position the overall retail brand and the necessary idiosyncratic investments made by the retailer are likely to have the effect of reducing the substitutability of physical plant and equipment. This increases switching costs to the retailer, thereby promoting relationship stability. However, when switching costs are low, and manufacturers perceive a high level of substitutability among rival firms' capacity, retail power over manufacturers' margin is likely to be considerable.

It is proposed in this study that the dynamic of excess capacity on retail power is margin related rather than product related. Retail power over product related variables is more likely to promote stability due to increased switching costs and the need for specific investments. However, as excess capacity increases, manufacturers may be more willing to reduce prices to maintain their customers' business and cover overheads. Even manufacturers within stable relationships with their retail customers cannot afford their pricing to vary much from that available on the open market.

The source of excess capacity is also likely to have changed. Manufacturer concentration has increased in the Irish food sector over recent years through merger and acquisition activity. A similar process occurred in the UK during the 1970's and 1980's. The subsequent rationalization would be expected to reduce the problem of excess capacity on the supply side. While some sectors are characterized by structural capacity problems, for example, beef, it is proposed that temporary variations in demand are more likely to be the source of excess

capacity. The temporary nature of these variations is unlikely to threaten relationship stability but may influence pricing to a limited extent. This suggests that perceived alternative capacity will be more correlated with the exercise of retail power on margin than on the product dimension[1].

Another notion that underlies much of the literature is that variances in relative concentration in the retailing and manufacturing sectors influence retail power. High retail concentration increases the importance of a given retail account by reducing the number of alternative customers, thereby increasing retailer power (Duke 1989).

A similar argument is made on the manufacturing side as high manufacturing concentration reduces alternative sources of supply. However, concentration in manufacturing is insufficient to insulate against retail power, particularly when economies of scale are important (Burns and Henson 1995). Where economies of scale are important, reductions in output can result in significant increases in unit costs. Consequently, large-scale manufacturers can compete vigorously on the basis of price. Burns and Henson (1995) argue their case based on their observation of the bread industry. However, there is a strong theoretical argument for a close correlation between the importance of economies of scale and concentration in manufacturing. For a given market, the greater the minimum optimal scale in manufacturing, the fewer the plants that can operate in the long run in a competitive industry. As Martin (1994:238) points out "the more important are economies of scale, the greater will be long-run market concentration". Thus, one needs more substantial evidence to de-couple the roles played by manufacturing concentration and economies of scale as determinants of retail power.

[1] See A6.1, H1 for statistical testing

According to Grant (1987), the main effect of retail power is the ability to induce discriminatory discounts. Evidence of large retailers' ability to extract such discounts was provided by the OFT (1985). However, to suggest that retail power was simply a function of retail size would be naïve. Grant (1987) proposes that retailer power, effective through margin and discriminatory discounts, will be positively and linearly related to the share of business going through the national multiples (concentration), negatively related to manufacturing industry growth (a proxy for excess capacity) and negatively related to seller concentration.

Expanding on Grant's (1987) work, this research proposes that there is another aspect to retail concentration and retail power over manufacturers' margin related activities. As retail concentration increases, manufacturers' ability to price discriminate diminishes as the discriminated-against market is reduced in size. Until recently, Irish manufacturers had the strategic option of discriminating between the Irish and UK markets. The Irish market was largely brand orientated while the UK market was characterized by a substantially greater penetration of own brand products. This variation across markets would be expected to facilitate discrimination by promoting different elasticities of demand while simultaneously reducing the likelihood of arbitrage. Furthermore, own brand products are not directly comparable in costless fashion due to variations in specifications and by the fact that the manufacturer usually remains anonymous. Both these factors would be expected to enhance discriminatory possibilities. Under these conditions, larger British multiples would be expected to be in a better position than Irish retailers to extract discounts from the common supplier base. However, the takeover of Power Supermarkets by Tesco, representing an increase in retail concentration when taking the two markets from a supply perspective, reduced Irish manufacturers' ability to discriminate. Indeed, the net effect is likely to have

been a reduction in manufacturers' prices to the retail stage across markets and greater retail power over manufacturers' margins.

There is considerable evidence to indicate that manufacturers' ability to maintain prices above long run marginal cost is, in part, a function of manufacturer concentration (Martin 1994). The ability to "coordinate" prices to retailers, avoiding direct price competition, will be positively related to manufacturer concentration (Ogbanna and Wilkinson 1998). Consequently, manufacturer concentration counters retail power over margin related activities.

As discussed earlier with respect to excess capacity, increasing own brand penetration has the potential to increase retail power over margin related activities. On the margin side, own brand penetration, by increasing horizontal competition among food manufacturers and placing greater demands on the given shelf-space, has the potential to increase the flow of margin to the retail level of the food channel.

Drawing the arguments above together leads to a modification of Grant's (1987) hypothesis and the following proposal:

H1 *Retail power over margin will be positively related to retail concentration, negatively related to manufacturer concentration, positively related to alternative capacity and positively related to the importance of economies of scale and the market penetration of own brand.*

To examine this hypothesis, the model below was tested, regressing retail power over margin on the variables postulated. The analysis was carried out using Shazame.

1. Marpower = Const + β1 retcon + β2 mancon + β3 altcap + β4 ecscale + β5 obmkt + U

Where:
const, is the constant,
retcon is perceived retail concentration,
mancon is perceived concentration in manufacturing
altcap is perceived availability of alternative capacity,
ecscale is the perceived importance of economies of scale in manufacturing,
obmkt is the perceived market penetration of own brand
and where β1 to β5 are the variable coefficients and U is a random disturbance term.

The ordinary least squares results are given below in table 6.2. As the data is cross-sectional, the potential problem of hetroscedasticity has to be accounted for. Thus, White's hetroscedasticity corrective procedure is employed in all regression analysis[2]. Ramsey's reset test is used to test for model specification.

The regression yielded an adjusted R^2 of approximately .26[3], indicating that about 26% of the variation in the dependent variable is explained by the model. The F statistic indicates that the regression is significant and that at least one of the postulated variables is significantly different from zero. The low F statistics for the reset test indicate that the model is properly specified.

[2] For a more complete discussion of White's procedure and Ramsey's reset test see Appendix A6.2
[3] The adjusted R^2 provides a measure of goodness of fit. In cross-sectional analysis low values are common. Examples include Heide (1994) where the adjusted R^2 =.14, and Klien (1989) where adjusted R^2 = .20.

Table 6.2

Structural Conditions as Determinants of Retail Power over Margin

Ordinary Least Squares Estimation

****

Dependent variable is Retail Power over Margin

97 observations [4]

	Coefficient	Standard Error	[Prob]	St. Coefficient
CONST	-3.4224	3.027	.261	0.0000
Retail Concentration	.85608	.2983	.005	.2175
Manufacturer Concentration	-.19105	.2265	.401	-.0539
Alternative Capacity	.44822	.2677	.097	.1643
Importance of Economies of Scale	1.0260	.2799	.000	.3110
Own Brand Market Penetration	.80757	.2826	.005	.2652

R-Squared .2989 F-statistic F(5, 91) 7.760[.000]
R-Bar-Squared .2604

Using hetroscedastic-consistent covariance matrix

Ramsey Reset Specification Test using powers of yhat
Reset (2) = 1.6048 - F with DF1=1 and DF 2 =90
Reset (3) = 1.3908 - F with DF1=2 and DF 2 =89
Reset (4) = 1.7026 - F with DF1=3 and DF 2 =88

The results above support the relationships between perceived retail power over margin, and perceived own brand penetration, retail concentration and the importance of economies of scale. The level of confidence with respect to the perceived availability of alternative capacity is below the 95% confidence level at 90.3%. The results do not support the hypothesized relationship between manufacturer concentration and retailers' power over manufacturers' margins.

6.3.2 Industry Structure and Retail Power Over Product Related Activities

Burt (1992) argues that a "simple correlation between growth of retailer market share and retailer brand penetration is naive. Rather it is the retailer's strategy and attitude to retailer brands that is the important determinant". However, while retailer strategy and attitude are

[4] Due to a number of missing responses for different items a common sample of 97 observations is used in

necessary conditions for increasing levels of own brand penetration, they alone are insufficient. The size and distribution of shares within the market are likely to be key determinants of the number of products worthwhile to produce as own brand variants. In a small market, it may be economical to produce the top 100 lines in an own brand format, while in a larger market more own brand products may be possible. For a given market, and particularly for small markets where volumes are relatively low, the extent of retail concentration is likely to be of considerable importance. As a retailer's share of the given market increases, own brand extension into new product categories becomes more feasible. Consequently, more of the food supplier base is likely to be affected, working to retail specifications and thereby establishing a tentative relationship between retail concentration and retail power on the product side.

In many instances, and particularly within new relationships, established manufacturers may be unwilling to invest in capital equipment dedicated to own brand production. However, where and when excess capacity exists, manufacturers may be more likely to supply own brand products subject to retailers' specifications (Doel 1996). Under this condition, the cost and risk associated with own brand production may be expected to be relatively low on the manufacturer side, while the potential benefits both immediately, through greater capacity utilization, and over time as relationships evolve, may be considerable. Thus,one expects there to be a positive relationship between product related retailer power and excess capacity.

De Chernatony (1989) and McGoldrick (1990) argue that where economies of scale are important, manufacturers are more likely to engage in own brand production and cede control of certain decisions to the retailer. However, as increasing retail control is required and

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all regressions.

product specifications become more idiosyncratic, the scale benefits of own brand production are reduced. Consequently, it is proposed that scale motivations are considerably less important than the need to utilize excess capacity in explaining the extent of retail product related power.

Chapter three demonstrated that the decision to produce own brand products can be viewed as a prisoner's dilemma (Galizzi et al 1997). From the manufacturing industry's perspective, the optimal situation is where no manufacturer produces own brands, thereby removing one source of inter-manufacturer competition. However, there may be an incentive for at least one firm to cheat at the expense of the remaining firms. Where concentration is high and manufacturing capacity is controlled by a few firms, the ability to prevent cheating is likely to be greater. This is due to the fact that an individual firm's actions are more observable to rivals and subject to more rapid competitive reactions. Thus, "understood but unspoken agreements to resist price cutting or supply own label exist between oligopolistic manufacturers" come into effect (Ogbanna and Wilkinson 1998:82). Consequently, one would expect manufacturer concentration to be negatively related to retail power both on the product and, as argued earlier, margin sides.

The argument relating structural conditions to retail power on product related activities is notably weaker than that on the margin side. The dominant structural conditions favouring retail product power are likely to be retail concentration and own brand penetration. However, developing on Burt (1992), the extent of product related power is more likely to be related to the nature of the strategic use of the own brand products. Retailers' requirements for control over product related activities are likely to be related to the positioning of those products. However, this is a retail characteristic and will be dealt with later. Nevertheless, while the

nature of the relationship between structural conditions and product related power is likely to be weak, it is postulated that:

H2 *Retail power over product related activities will be positively related to retail concentration, positively related to own brand penetration, positively related to availability of capacity but negatively related to manufacturer concentration.*

To test this hypothesis the model below was employed:

2. Prodpower = Const + α1 retcon + α2 obmkt + α3 mancon + α4 altcap + U

Where:
const is the constant
retcon is perceived retail concentration
obmkt is perceived market penetration of own brand,
mancon is perceived concentration in manufacturing
altcap is perceived availability of alternative capacity and
where α1 to α4 are the variable coefficients and U is a random disturbance term.

The results are provided in table 6.3. The first feature to note is that the F-statistic is significant, indicating that at least one of the independent variables is significantly different from zero. Second, the adjusted R^2 indicates that the model explains over 17% of the variation in the dependent variable. The results of the reset test support an appropriate model specification. An investigation of the coefficient values and their significance levels highlights that both retail concentration (95%) and own brand penetration (99%) are both significant and positively related to retail product related power. Manufacturer concentration is also found to be significant at the 95% confidence level and displays the expected negative relationship.

Table 6.3

Structural Conditions and Retail Power over Product Related Activities

Ordinary Least Squares Estimation
****

Dependent variable is Retail Power over Margin
97 observations [5]

	Coefficient	Standard Error	[Prob]	St. Coefficient
CONST	3.4359	2.574	.185	0.000
Retail Concentration	.88558	.2593	.001	.2336
Own Brand Market Penetration	1.0750	.2737	.000	.3666
Manufacturer Concentration	-.58045	.2818	.042	-.1700
Alternative Capacity	-.26588	.2514	.293	-.1012

R-Squared	.2070	F-statistic F (4, 92)	6.003[.000]
R-Bar-Squared	.1725		

Using hetroscedastic-consistent covariance matrix

Ramsey Reset Specification Test using powers of yhat
Reset (2) = 0.25634 - F with DF1=1 and DF 2 =91
Reset (3) = 0.42066 - F with DF1=2 and DF 2 =90
Reset (4) = 0.66429 - F with DF1=3 and DF 2 =89

6.3.3 Structural Conditions and Retail Power

So far, our analysis has tested a series of relationships between retail power on both product and margin related dimensions and a number of structural characteristics in both the retailing and manufacturing industries. Retail power, measured as a unidimensional construct embodies both dimensions amongst others. Consequently, it can be hypothesized that:

H3 *Retail power will be positively related to retail concentration, negatively related to manufacturer concentration, positively related to excess capacity and the importance of economies of scale and positively related to the market penetration of own brand.*

[5] Due to a number of missing observations for various items, regression analysis is carried out on a sample of 97 observations to ensure consistency across the analysis.

To test this hypothesis the model below was regressed.

3. Retpower = Const + γ1 retcon + γ2 mancon + γ3 altcap + γ4 ecscale + γ5 obmkt + U

Where:
const is our constant
retcon is perceived retail concentration
mancon is perceived concentration in manufacturing
altcap is perceived availability of alternative capacity
ecscale is perceived importance of economies of scale
obmkt is perceived market penetration of own brand and
where γ1 to γ5 are the variable coefficients and U is a random disturbance term.

The results are presented in table 6.4. The adjusted R^2 indicates that approximately 22% of the total variation in the dependent variable is explained by the model. The results of the reset tests suggest that the model is correctly specified. The results are of considerable interest. They indicate that the perceived own brand penetration of the marketplace is significant at the 99% level and retail concentration is significant at the 95% level. The importance of economies of scale is significant at the 94% level.

Table 6.4

Retail Power and Industry Structure

Ordinary Least Squares Estimation

****

Dependent variable is Retail Power over Margin
97 observations

	Coefficient	Standard Error	[Prob]	St. Coefficient
CONST	1.2019	2.543	.638	0.000
Retail Concentration	.60870	.2489	.016	.1803
Own Brand Market Penetration	1.0365	.2595	.000	.3969
Manufacturer Concentration	-.27705	.2843	.332	-.0911
Importance of Economies of Scale	.56395	.2934	.058	.1994
Alternative Capacity	-.07552	.2603	.772	-.0323

R-Squared .2606 F-statistic F(5, 91) 6.415[.000]
R-Bar-Squared .220

Using hetroscedastic-consistent covariance matrix

Ramsey Reset Specification Test using powers of yhat
Reset (2) = 0.72871 - F with DF1=1 and DF 2 =90
Reset (3) = 0.54555 - F with DF1=2 and DF 2 =89
Reset (4) = 0.37283 - F with DF1=3 and DF 2 =88

6.3.4 Discussion – Structural Characteristics

From the above, it is clear that the analysis of retail power over margin and product related activities has proved particularly useful. While structural conditions on the manufacturing side do not appear to be significant determinants of our unidimensional measure of retail power, they play an important role in the vertical flow of margin to the retail sector. In particular, the high standardised coefficient value on the importance of economies of scale indicates that this is likely to be the most important structural characteristic in the determination of margin related power. Evidence, albeit somewhat weaker, also suggests that retail power over margin is positively related to manufacturers' perception of the availability of alternative capacity.

The findings relating to manufacturer concentration are also noteworthy. No evidence has been found to support the view that concentration in the manufacturing sector is negatively related to retail power over margin. Rather, the results found that the importance of economies of scale in manufacturing is highly significant in the determination of margin flow to the retailer, having taken variations in manufacturer concentration into consideration. This supports the work of Burns and Henson (1995) but provides stronger evidence as our result is more general. The findings above also demonstrate that manufacturer concentration is negatively related to retail product related power. This provides partial support Ogbanna and Wilkinson's (1998) view that, where oligopolistic conditions prevail, manufacturers can resist retail control to a greater extent.

As expected on the retail side, perceived own brand penetration and perceived retail concentration were found to be positively related to retail power over margin and product related activities. The important feature to note here is that both variables are significant, having accounted for variations explained by the other.

The results so far suggest that structural characteristics of the retail sector act as the chief determinants of retailer power when measured as a unidimensional construct. An examination of the standardised coefficient values shows own brand penetration to have the largest effect on retail power. Retail concentration is also highly significant even having accounted for the variation due to own brand penetration. However, the importance of economies of scale in manufacturing is also significant and displays a large standardised coefficient value.

The dominance of structural conditions on the retail side may be explained as follows. Own brand is likely to affect both the product and margin dimension simultaneously. In both large

and small markets, increasing retail concentration is likely to promote further own brand production. This is because economies of scale come into play for the retailer encouraging own brand range extension into new products and categories. As own brand production increases, it is likely that more manufacturers become involved in producing these products subject to retail direction and specification. Consequently, retail power increases by way of extension across a wider the supplier base.

On the other hand, as own brand penetration increases and as the extent of horizontal competition among suppliers grows, manufacturers that are not engaged in own brand production may find that their existing brands face a greater threat of delisting to make way for more own brand variants. Finding alternative markets becomes more difficult as retail concentration increases. Under these circumstances, branded manufacturers are more likely to succumb to retailers' demand for greater margin terms through lower prices, more below the line promotional activity and possibly better credit terms. Own brand manufacturers are also likely to experience similar demands for better margin terms.

Consequently, one expects to see a positive relationship between own brand penetration and retail power over product related activities when controlling for power over margin and vice versa. This is supported by the partial correlation coefficients given below (table 6.5). The partial correlation coefficient measures the linear association between two variables, while controlling for the effects of one or more other variables. The results are both positive and significant at the 95% and 99% levels respectively.

Table 6.5

Own Brand Penetration and the Dimensions of Power

(Partial Correlation Coefficients)

Controlling for Power over Margin			Controlling for Power over Product		
		Own Brand Penetration			Own Brand Penetration
Retail Power over Product	Coefficient[1]	.1997	Retail Power over Margin	Coefficient[1]	.2673
	N[2]	105		N[2]	105
	P[3]	.039		P[3]	.000
[1] Partial Correlation Coefficient [2] Number of Observations [3] Probability level					

To conclude this section, substantial evidence has been found to indicate that structural conditions on both the retail and manufacturing sectors are positively related to retail power on margin and product related activities. In decoupling the relationship between manufacturer concentration and economies of scale, it has been shown that the importance of economies of scale outweigh the countervailing influence of manufacturer concentration with regard to margin related power. Indeed, as retail concentration increases and as individual retail accounts become of greater importance to a manufacturer, this relationship is likely to become even more pronounced.

6.4 Firm and Product Characteristics and Retail Power

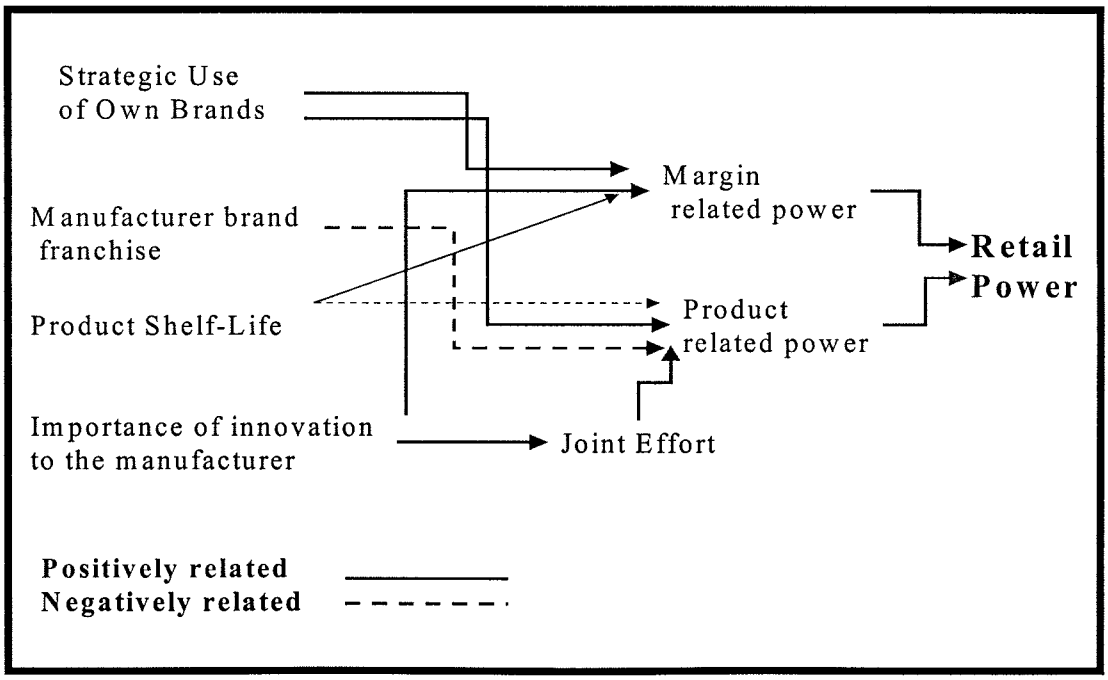
This section moves beyond structural conditions as determinants of retailer power to investigate those characteristics that may vary at firm level. It is concerned with firm attributes, product attributes and the role of both the manufacturer's and retailer's own brand franchise as determinants of retail power. The analysis then proceeds to examine the determinants and implications of retail monitoring activities and the implications for power relations. The literature suggests the following characteristics as determinants of retail power:

- the nature of the product exchanged in terms of complexity, measured in terms of product shelf life, and its contribution to the retailer's market positioning;
- the strength of the manufacturer's brand franchise and the importance of innovation to the manufacturer;
- the strategic use of own brands;
- the extent of retailer monitoring activities.

The hypothesized relationships are demonstrated in figures 6.2 and later in figure 6.3, which examines the determinants of retail monitoring activities. Each relationship will be discussed in turn.

Figure 6.2

Firm and Product Characteristics and Retail Power



6.4.1 Product Characteristics and Contribution to the Retailer's Positioning

In chapter two, it was argued that marketing channels compete, in part, by providing better channel outputs measured in terms of lot size, spatial convenience, delivery time and assortment width and depth. However, in the food marketing channel, there is a growing argument that food safety represents a further dimension of channel output (Food Safety Authority of Ireland 1999). Until relatively recently, the assumption that food consumed in moderation was intrinsically safe, appears to have been made by most consumers. However, this trusting behaviour appears to have ceased. Heightened consumer concerns have emerged from an almost continuous flow of well-publicized scares including salmonella, BSE, CJD, E.coli 0157, Belgian dioxin and even genetically modified organisms. Consequently, allaying consumer concerns about food safety plays a growing role in retail strategy and offers a very real point of horizontal differentiation.

The risk of product failure, is to a considerable extent, dependent on shelf-life. Shorter-shelf life products run greater risks of temperature abuse. Many short shelf-life products are prone to particular hazardous agents such as E-Coli 0157, and some are subject to more direct handling. Consequently, it is proposed that short shelf-life products pose greater safety hazards than long shelf-life products. To minimize the risks associated with these products, some retailers have sought to implement enhanced traceability systems and make greater demands of their suppliers with regard to due diligence. In doing so, the provision of the product to the consumer has become considerably more complex. This complexity has been added in the form of processes and procedures at the point of production and throughout the physical distribution process, to reduce the likelihood of product failure.

Earlier it was argued that the contribution made by a product category to a retailer's image and positioning can vary and as such may be expected to influence retail dependency. This appears to be the case with regard to fresh foods in particular (Brookes 1995; Knox and White 1990; Dawson and Shaw 1989b). Food products have a limited shelf-life, which has to be distributed throughout the supply chain. The longer a product spends in processes and inventory post production, the less shelf-life is available to the consumer ceteris paribus. However, within a given temperature regime, for example, fresh, frozen or ambient, consumers value longer product shelf-life. To maximize shelf-life and product availability to consumers while simultaneously reducing stock costs, some retailers are streamlining their supply chains. Products are spending less time in the supply chain yielding more shelf-life to the consumer. To achieve this, inventories are being pushed back up the chain with manufacturers being made more responsible for the inventory function (Collins 1997). In many instances, fresh products such as meat and mushrooms, are cross-docked at retail controlled regional distribution centres. In these cases, retail stockholdings are minimal and any unforeseen problems in the chain are quickly reflected by out of stocks at store level resulting in lost sales, tarnishing of retail image and possible devaluation of the retail brand. Consequently, one would expect retailers to exert greater power in these categories through the use of tight specifications and delivery terms and conditions. Thus,it is proposed that:

H4 *Retail power over product related activities is negatively related to product shelf-life*[6].

To test this hypothesis the correlation between retail power over product related activities and

[6] Given the arguments above, it is proposed that product shelf-life may serve as an appropriate proxy for a product's contribution to the retailer's positioning. Clearly, product complexity can vary at different stages of the supply chain. Chilled ready meals are more complex than fresh meat in terms of research and development and production processes However, post production, the level of complexity for these products are similar but significantly greater than tinned peas. Consequently, it is proposed that shelf-life may also serve as a suitable

product shelf-life is examined. The results are presented in table 6.6 below. They support a significant relationship between retail power over the product dimension and product shelf-life. The relationship is as predicted, with shorter shelf-life associated with increasing retail power.

Table 6.6

The Relationship between Power, Retailer, Manufacturer and Product Characteristics (Pearson Correlation Coefficients)

		Product Shelf-life	Manufacturer Brand Franchise	Strategic Use of Own Brand	Manufacturer Emphasis on Innovation
Retail Power	Coefficient[1]	-.103	.040	**.419**	.184[a]
	P[2]	.299	.681	**.000**	.057
	N[3]	104	107	**108**	108
Power over Product	Coefficient	**-.244**	-.048	**.324**	.097
	P	**.013**	.625	**.001**	.317
	N	**104**	107	**108**	108
Power over Margin	Coefficient	**.185[a]**	.144	**.318**	**.202**
	P	**.060**	.138	**.001**	**.036**
	N	**104**	107	**108**	**108**

[a] Significant at 94% level
[1] Pearson Correlation Coefficient [2] Probability Level [3] Number of observations
Significant relationships at 95% confidence level or above are in bold.

On the margin side, however , one would expect the dynamic of retail power to differ. While the retailer may require greater control over product related activities, excessive influence on margin may induce undesirable behaviour on the part of the manufacturer. Faced with very tight margins, the manufacturer may not see any viable course of action other than cheating. Product which, under normal circumstances should be wasted, may be repacked and delivered to the retailer. Alternatively, the manufacturer may fail to deliver the required quantities of product or, under extreme circumstances, refuse to deliver. Given the limited safety stock in the retail controlled component of the supply chain, either of these situations is likely to result

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proxy for the relevant aspects of product complexity.

in out of stocks and risk tarnishing the retailer's desired market positioning. Consequently,it is proposed that:

H5 *Retail power over margin related activities is positively related to product shelf-life.*

The correlation between product shelf-life and retail power over margin is also noteworthy (table 6.6). Its sign is positive and significant at the 94% level supporting the hypothesis and indicating that retailers' power over margin related activities diminishes with shorter product shelf-life.

6.4.2 Manufacturer Brand Franchise and Manufacturer Emphasis on Innovation

The role of brand franchise as a means of reducing retailer power is stressed in the literature. Manufacturers' investment in advertising, by supporting their brands and maintaining customer franchise, is seen as one of the few ways of insulating against retail power (Porter 1974; Davies et al 1985; Duke 1989; de Chernatony 1989a; Ogbanna and Wilkinson 1996). By establishing brand preferences, manufacturers increase the likelihood of consumers switching stores within brand rather than switching brands within stores. The strength of the brand and its impact on customers' patronage decisions increases the manufacturer's ability to resist retail control. This is imperative, particularly on the product side. If manufacturers were to become subject to retail control on the product side, their ability to maintain a clear point of differentiation between the branded product and own brands is reduced and both sets of products become more substitutable in the store. In this circumstance, the ability to establish points of differentiation among the products rests almost entirely with the retailer through in-store activities. Consequently, manufacturers with strong brands, by necessity, have to limit retailers' product orientated influence and control. Thus, one would expect a

negative relationship between retail power on the product side and manufacturer brand franchise and propose that:

H6 *Retail power over the product dimension is negatively related to manufacturers' brand franchise.*

The correlation coefficient between manufacturer brand franchise and retail power over manufacturer product related activities is given above (table 6.6). The result does not support any relationship between manufacturer brand franchise and retail product related power. It should be noted that this does not indicate that such a relationship does not exist, but rather that this study cannot find any support for it. However, the result is somewhat surprising but may be due to the composition of the sample and the particular product mix of Irish food manufacturers.

The review of the literature on retailer-manufacturer relationships pointed to manufacturers' emphasis on innovation as a determinant of retail power. With shortening product lifecycles and rapid imitation of new products, manufacturers, who are heavily dependent on innovation as a source of competitive advantage, are subject to hold-ups. Up to 80% of products fail to maintain shelf-space two years after launch (Viner 1996), highlighting the need for rapid access to the shelf if investment costs are to be recouped. Drawing on Steiner (1984), Pellegrini and Zanderighi (1991) argue that, in the absence of a strong brand franchise, retailers' discretionary power is at its highest when the manufacturer is seeking shelf space for a new product. As the consumer is unaware of the product, store choice will not be influenced by its unavailability. However, in this study it is argued that, under these circumstances, the outcome of the retailer's discretionary power is to subject the manufacturer

to hold-ups. In particular, the retailer, in threatening to deny the manufacturer immediate access to the shelf, can appropriate some of the rents generated through innovation by demanding better margin related terms. A strong brand franchise serves to diminish this discretionary power by increasing the possibility of generating adverse customer perceptions and even store switching among consumers if the product is not stocked. Thus, it is proposed that in the absence of a strong brand franchise, the manufacturer dependent on innovation and new product introductions is particularly prone to hold-ups.

H7 *Retail power over margin is positively related to manufacturer emphasis on innovation when controlling for brand franchise.*

Table 6.6 above supports the existence of significant relationships between retail power over margin and manufacturer emphasis on innovation at the 96% confidence level. Following Pellegrini and Zanderighi (1991), the results below (table 6.7), showing the partial correlation coefficient, support the hypothesis that retailers' power over the margin dimension is positively related to manufacturer emphasis on innovation when controlling for variations in manufacturer brand franchise.

Table 6.7

Partial Correlation Coefficients: Innovation

Controlling for Manufacturer Brand Franchise		
		Power over Margin
Manufacturer emphasis on Innovation	Coefficient[1]	**1986**
	P[2]	**.041**
	N[3]	**104**

[1] Partial Correlation Coefficient [2] Probability Level [3] Number of observations
Significant relationships at 95% confidence level or above are in bold.

This result appears strange, because it suggests that manufacturers who do not have a strong brand franchise would be advised to refrain from innovation. However, there is increasing evidence of retailers relying on their suppliers to provide the innovative content of their new and existing products (Omar 1995; Fearne 1996; Doel 1996). Manufacturers provide retailers with access to capital equipment and expertise that are, in many cases, unavailable to retailers in other circumstances. In tandem with these developments, there is also growing evidence of greater retail willingness to collaborate with their suppliers. Retailers are more ready to engage in joint activities with their suppliers bringing their expertise and knowledge to bear within the manufacturing process (Senker 1986; Hughes 1994; McGrath 1995). In this way, a retailer's ability to compete horizontally is partly determined by its ability to harness innovative resources from its suppliers.

This study proposes that a retailer's ability to compete with other retailers is, to a large extent, governed by the resources it can extract from its supplier base. These resources may be composed of margin, which is then available to the retailer to compete away, invest internally or appropriate as profit. Alternatively, these resources may be made up of expertise and access to other scarce resources, which enhance the retailer's ability to compete on a non-price basis. The quality of these resources, and the retailer's ability to avail of them in a dedicated fashion, will be positively associated with the retailer's ability to compete (Wileman and Jary 1997). Hence, one would expect a relationship between manufacturers' innovative resources and retail dependency but also a selection process whereby retailers chose the more innovative suppliers for collaborative activities. Consequently,it is proposed that:

H8 *There will be a positive relationship between joint effort and manufacturer emphasis on innovation.*

Table 6.8

Manufacturer Emphasis on Innovation and Joint Effort

		Joint Effort
Own Brand Relationships	Manufacturer Innovation	
	Coefficient[1]	**.253**
	P[2]	**.054**
	N[3]	**59**
Branded Only Relationships	Manufacturer Innovation	
	Correlation Coefficient[1]	-.028
	P[2]	.850
	N[3]	47

[1] Pearson Correlation Coefficient [2] Probability Level [3] Number of observations
Significant relationships at 95% confidence level or above are in bold.

The results in table 6.8 above provide evidence of a significant and positive relationship between manufacturer emphasis on innovation and joint effort within own brand relationships. However, no similar evidence is found with regard to branded relationships.

6.4.3 The Strategic Use of Own Brand

One of the most notable features of the recent evolution of the retail market has been the emergence of the retailer as the brand. Central to the establishment of the retail brand has been the exploitation of the opportunities provided by own brand products (Leahy 1987; 1994). Wileman and Jary (1997:135) propose that "there are five stages in the development of store brands, roughly matching the stages of maturity and power of own brand". These stages extend from generics, cheap, re-engineered cheap, par quality, through to leadership with increasing quality versus manufacturer brands and increasing retail investments in terms of time and resources. Greater strategic use of these products is also displayed by the fact that retailers are proving themselves increasingly adept at developing ranges of own brand products targeted at different segments of the market and using the products to build the retail

brand. Some authors have argued that the increasing sophistication and more strategic use of own brands increases retail power by providing consumers with a credible alternative to manufacturers' brands (Segal-Horne and McGee 1989). In doing so, retailers' own brands restricted the premia available to brand leaders ensuring a greater vertical flow of margin to the retailer. In addition to increasing retail power over branded manufacturers' margin related strategy variables, the increasing sophistication of own brand necessitated further retail involvement in their supplier bases' product related activities (McGrath 1995). As shall be demonstrated, much of this involvement relates to retail specific investments bringing retail expertise to the manufacturing process. This increases the likelihood that the resultant product will help the retailer differentiate itself from its rivals in the marketplace (Senker 1986; Omar 1995). Consequently,the following hypothesis is established:

H9 *The strategic use of own brands is positively related to retail power on both the margin and product dimensions.*

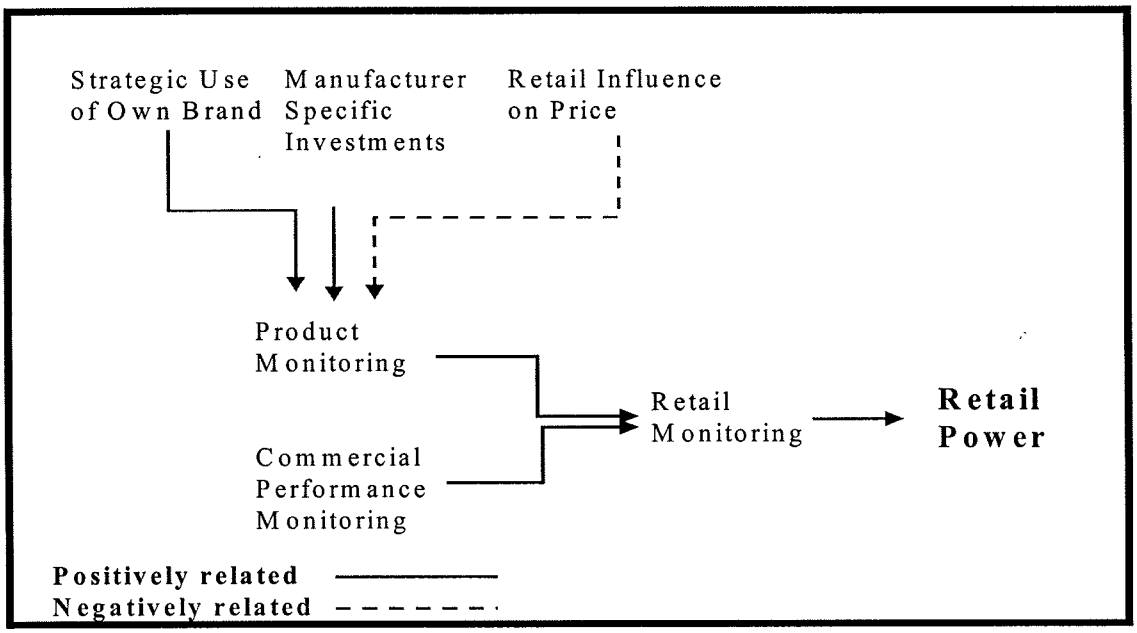
The results of the correlation analysis above (table 6.6) provide strong support for positive relationships between the strategic use of own brand and all measures of retail power. The signs of the correlation coefficients are relatively large suggesting that the strategic use of own brand may act as a key determinant of retail power. However, greater strategic use of own brand necessitates that retailers embrace additional functions. For the purposes at hand, the most important of these is product monitoring to protect brand investments. Consequently, the role of monitoring in the determination of retail power must be investigated.

6.4.4 Retailer Monitoring Activities

To assist the reader, an overview of the hypothesized interaction between the strategic use of own brand, retail monitoring and retail power is demonstrated in figure 6.3.

Figure 6.3

Retail Monitoring, Retail Power and Strategic Use of Own Brand.



Throughout much of the retailer-manufacturer literature, the move to relational contracting appears to be the result of retailers' growing power and their desire for flexible and accommodating business relationships (Doel 1996; Foord et al 1996). Rather than accept this perspective, it is proposed that one can view the nature of vertical relationships and the rise to dominance of relational contracting within the grocery sector as a means of protecting retailers' specific investments. Brands may be considered specific investments. For instance, the value of the Tesco brand in its next best alternative use, that is, outside grocery retailing,

is likely to be considerably lower than its current value. The strategic use of own brands and the emergence of the retail brand as one of the more potent forces in many contemporary retailers' marketing mix is a considerable specific investment in the retailer-consumer relationship. This is particularly so in the case of British retailers. However, maintaining the value and integrity of the retail brand is partly determined by suppliers' activities. Clearly, gaps can emerge between manufacturers' actual behaviour and the behaviour required and specified by their retail customers. These gaps in behaviour may be due to opportunistic actions on the part of the supplier. Consequently, retail brand investments are subject to quasi-rent seeking behaviour on the part of unscrupulous manufacturers. To reduce the incentive to engage in such behaviour and promote greater alignment between specified and actual behaviour, theory suggests that retailers can engage in monitoring activities. Following French and Raven (1959) this study argues that monitoring activities facilitate greater control of the manufacturer's behaviour. Thus,it is proposed that:

H10 *Retail power is positively correlated with retail monitoring activities.*

The results in table 6.9 highlight a significant and positive association between retail power and the extent of retail monitoring activities. The measure of retail monitoring used here is the average over all the variables monitored. The correlation is large, suggesting that a strong relationship exists.

Table 6.9

Retail Monitoring and Power

		Retail Monitoring
Retail Power	Correlation Coefficient[1]	**.544**
	P[2]	**.000**
	N[3]	**106**

[1] Pearson Correlation Coefficient [2] Probability Level [3] Number of observations
Significant relationships at 95% confidence level or above are in bold.

In the above, and in much of the existing literature, the dynamics of the power relationship have not been clearly exposed. This investigation proposes the existence of two dominant dimensions, margin and product related. The exercise of power along these dimensions may be correlated. However, there is no a priori reasoning to suggest why this should be the case. The initial evolution of own brands was largely based on price differentials vis-a-vis manufacturers' branded products. Such differentials were usually in the region of 10-20 per cent (de Chernatony 1989). In addition to providing savings to consumers, retailers also viewed own brand products as a means of enhancing their own financial performance through margin contribution (Davis, Gilligan et al 1985). The need to provide customers with a discount while simultaneously enhancing margin was likely to result in a margin orientation in dealings with suppliers supported by rigorous monitoring of supplier margin performance.

However, one would expect that as greater strategic use is made of own brands for positioning purposes and as retailers' products and requirements become more sophisticated, relatively less emphasis would be placed on margin. This is not to say that manufacturers are permitted to become uncompetitive, but rather that some limited leeway exists. As the strategic importance of own brands increases, more retail focus will be placed on product performance in terms of quality, consistency and availability. Therefore, one expects to see product monitoring emerging as a distinct activity from margin or commercial performance related monitoring.

Drawing both issues together, it is proposes that the monitoring activities undertaken by the retailer will reflect the dimensions of power. Thus, it is postulated that

H11 *Retailers' monitoring activities may be decomposed into two distinct dimensions, product related and margin (commercial performance) related.*

To test this hypothesis, the seven variables measuring retailers' monitoring activities were subjected to factor analysis using the generalized least squares algorithm. The results are presented below in table 6.10. The low value of the Chi-square indicates a good fit. Using a cut-off point of eignvalue = 1, the analysis generated a two factor model, explaining 61% of the variation in the data. In much of the literature, factor loadings in excess of .4 are considered significant. The results below provide two items with the highest factor loadings in the region of .37 to .38. However, these load clearly on the margin dimension. The factor loadings on the product monitoring dimension are particularly strong. Thus, it is proposed that monitoring may be decomposed into an intrinsic product related dimension (factor 1) and a commercial performance (margin) dimension (factor 2).

Table 6.10

Factor Analysis: The Dimensions of Retail Monitoring

Goodness of Fit Test		
Chi-Square	Df	Sig.
5.508	8	.702
Rotated factor Matrix		
Retail Monitoring of:	Factor 1: Product Monitoring	Factor 2: Margin Monitoring
Production Processes	**.866**	.004
Raw Material Quality	**.871**	.115
Product Quality	**.761**	.009
Delivery Accuracy	.281	**.369**
Price Competitiveness	-.006	**.458**
Product Sales	.187	**.881**
Promotion Effectiveness	.005	**.378**
Extraction Method: Generalized Least Squares Rotation Method: Varimax with Kaisir Normalization		

At this stage the analysis will proceed to investigate the determinants of retailers' product

monitoring activities. A retailer's exposure to the risk of quasi-rent seeking behaviour by a manufacturer will, in part, be determined by the amount of rent available. The available rent will be a function of the retailer's strategic use of own brand and its investments in the manufacturer to support these brands. For instance, retailers frequently invest their own expertise in their suppliers to enhance production capabilities and bring suppliers up to the standard required for own brand production (Fearne 1996; Omar 1995; McGrath 1995; Senker 1986). In the absence of retail monitoring, these improved capabilities could be used by unscrupulous manufacturers to serve competing retailers. As a result, the retailer's investments may fail to provide the intended horizontal differentiation at the retail stage of the food marketing channel.

The rent stream will also depend on the manufacturer's specific investments. In many instances, retailers require dedicated procedures and equipment to be used in the production of their own brands. To promote manufacturers' willingness to undertake such investments, the retailer is likely to agree a certain price terms for the resulting output. However, the manufacturer may decide to engage in opportunistic behaviour and fail either to maintain specific equipment to the standard required by the retailer or operate the procedures as specified by the retailer. Consequently, in the absence of monitoring, the stream of returns to the opportunistic manufacturer would be higher than that to a compliant supplier.

The risk of quasi-rent seeking behaviour on the part of the manufacturer by either of the above will be positively related to the manufacturer's expected gain from cheating, weighted by the probability of being caught. The gain from cheating will be partly related to the rents generated by both parties' specific investments. As argued above, to reduce the likelihood of such cheating, the retailer may engage in monitoring activities and incur the associated costs.

Alternatively, the retailer may choose to reduce the extent of monitoring activities but pay the manufacturer a premium, which serves to increase the manufacturer's loss associated with the detection of cheating (Klien et al 1978). It is suggested in this study that the premium is likely to come in the form of the retailer's reduced influence on price.

Finally, it is argued that the retailer's incentive to engage in product monitoring costs will be a function of the brand traded. In the case of a manufacturer's brand, the retailer has relatively little incentive to engage in such activities as a product failure would only serve to reduce the manufacturer's brand franchise. However, a failure on an own brand product would be expected to have a negative impact on the retailer's brand image. This leads to the hypothesis that:

H12 *For own brand suppliers, a retailer's monitoring of the product dimension will be a positive function of the strategic use of the own brand, a positive function of manufacturer specific investments but a negative function of retail influence on price to the retailer.*

This hypothesis was tested using the model below and the sample of trading relationships involving either own brand only or mixed brand product portfolios.

4. $Monprod = Const + \beta 1\ iprice + \beta 2\ manspec + \beta 3\ obstrat + U$

Where :
const is the constant
iprice is perceived retail influence on the manufacturer's price
manspec is perceived manufacturer specific investments in the relationship with the retailer
obstrat is the retailer's strategic use of own brand as perceived by the manufacturer
and where $\beta 1$ to $\beta 3$ are the variable coefficients and U is a random disturbance term.

The results below (table 6.11) confirm the hypothesis, with significant coefficient values for the strategic use of own brand and retail influence over price. The significance of the manufacturer specific investments is marginally outside the 95% confidence level at 94.5%. The signs of the coefficients are all in the hypothesized directions.

Table 6.11

The Determinants of the Extent of Product Monitoring

Ordinary Least Squares Estimation

Dependent variable is Monprod
57 observations

Regressor	Coefficient	Standard Error	[Prob]
CONST	1.8780	1.083	[.089]
Iprice	-.36255	.1436	[.015]
Manspec	.36339	.1853	[.055]
Obstrat	.47217	.1678	[.007]

R-Squared	.1943	F-statistic F(3, 53)	4.26[.009]
R-Bar-Squared	.1487		

Using hetroscedastic-consistent covariance matrix

Ramsey Reset Specification Test using powers of yhat
Reset (2) = 0.023288 - F with DF1=1 and DF 2 =52
Reset (3) = 0.36595 - F with DF1=2 and DF 2 =51
Reset (4) = 0.35150 - F with DF1=3 and DF 2 =50

6.4.5 Discussion: Firm and Product Characteristics

It is clear that the analysis above has added to the understanding of the dynamics of retail power. The findings on the relationship between retail power and product shelf-life was particularly instructive as it highlighted the importance of analysis at dimension level and the trade-offs that exist between product and margin related power. The analysis also provided some support for the positive relationship between manufacturer emphasis on innovation and retail influence on margin. While this result had support from earlier work (Pellegrini and Zanderighi 1991), it appears counter-intuitive. However, our finding of the positive

relationship between joint effort between the retailer and the manufacturer and manufacturer emphasis on innovation provides a more sensible rationale. It suggests that the benefit to the manufacturer may be through the influence on the retailer's supplier selection process for its own brand products and the associated flow of retail resources through collaboration.

The analysis of brand franchise indicates that it is the rise of the retailer as the brand that dominates the balance of power. Also the results provide trong support for positive relationships between retail power over both margin and product related activities and the strategic use of own brand. However, by establishing themselves as brands, retailers have had to embrace new responsibilities in the areas of both brand development and brand protection. The need to protect the brand name introduces monitoring activities. Drawing on the transaction cost literature helped identify the determinants of retailers' product monitoring activities. Developing on the importance attached by French and Raven (1959) to observability, led to the finding that product monitoring acts as a key determinant of product related power.

This finding is important as it establishes a link with relationship characteristics and the mode of governance employed to facilitate transactions between the retailer and the manufacturer. It was demonstrated in chapter three that the transaction cost framework proposes a discriminating alignment such that the mode of governance chosen, minimises transaction costs ceteris paribus. The main components of transaction costs are those concerned with the monitoring of partner performance to ensure that specific investments are protected. Consequently, the analysis will now proceed to examine relationship characteristics, the determinants of inter-firm integration and the implications for retail power.

6.5 Relationship Characteristics and Retail Power

When concerned with relationship specific factors we witness variations in the mode of governance (Hughes 1994; Barnes 1995 al 1995), brand portfolio (Collins and Burt 1999) interdependency and the length of the trading relationship (Knox and White 1990). Variations in the degree to which parties to a relationship have formed vertical relations and the extent to which relationships are supported by specific assets are observed (Senker 1986; Fearne 1996). We have seen that the nature of the relational form between trading partners can vary significantly. Indeed, Anderson and Narus (1991) support firms' management of a portfolio of differentiated relationships. Retailers are increasingly forming more collaborative relationships with some suppliers but not necessarily all suppliers (Hughes 1994; Barnes et al 1995; Doel 1996). Thus, a given retailer may operate a number of modes of governance both within and across product categories. A supplier may also organize its customer relationships in different ways and these relationships may vary over time (Knox and White 1990).

Central to the management of a portfolio of relationships is the notion of dependence balancing (Buchanan 1992; Feldman 1998). In the review of the power literature, the link between dependence and power was clearly established (Emerson 1962; Hunt and Nevin 1974; Frazier 1983). The following sections examine the relationship characteristics which, by varying across relationships, influence the extent and distribution of dependency together with the institutional arrangements established to govern the relationship. Thus, the sections are concerned with:

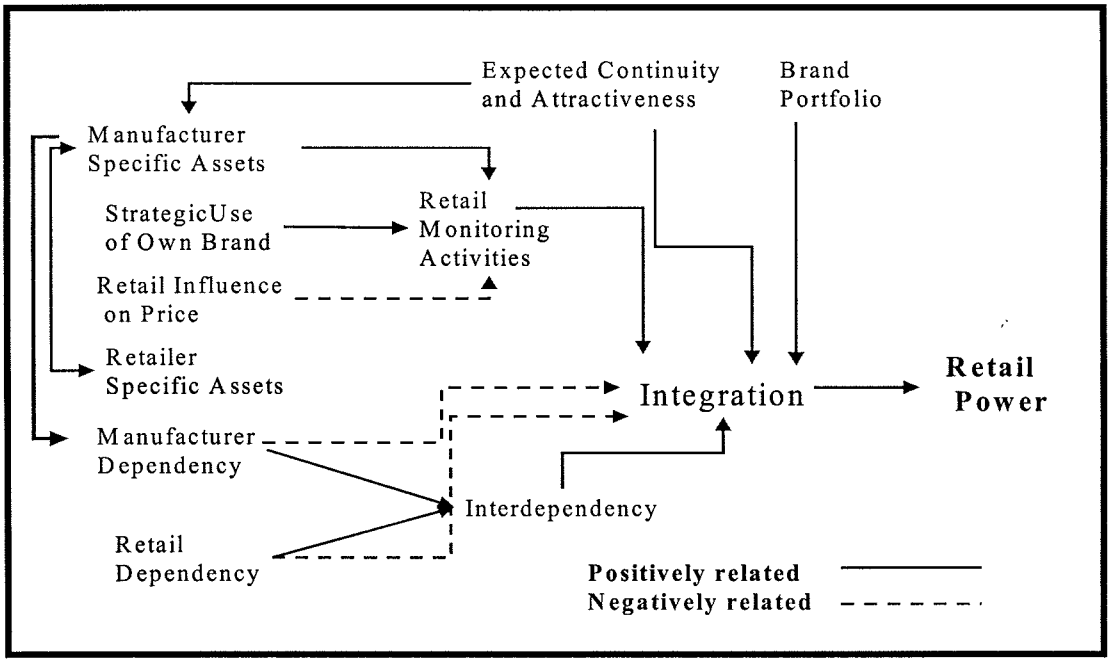
- Specific Investments

- Dependency
- Brand portfolio traded

These act as important determinants of the degree of inter-firm integration or mode of governance, which can also be expected to vary across trading relationships. The hypothesized interrelationships among these variables are given in figure 6.4.

Figure 6.4.

Inter-firm Integration and Retail Power



6.5.1 The Determinants of Inter-firm Integration: Specific Investments

A considerable body of work has emerged highlighting the management of vertical relations by retailers to enhance their horizontal competitiveness (Dawson and Shaw 1989; 1989b; Fearne 1986; Boon 1986; GEA 1994). In line with this work, it is proposed that retail

emphasis on vertical relations is intended to promote appropriate investments in specific assets by manufacturers. This is particularly so in the case of own brands where the manufacturer's specific investments[7] (or assets) in the relationship enhances the retailer's ability to compete vis-a-vis other retailers.

In a market environment, such idiosyncratic investments are unlikely to take place, irrespective of the level of retail power due to moral hazard risks. To promote these investments the review suggests that retailers adopt an appropriate mode of governance coupled with offsetting or credible commitments (Williamson 1983). These commitments may take the form of retail specific investments in the relationship. This study proposes that these investments have a dual effect. First, one would expect that in most instances the application of these resources is retail dedicated and to own brand production in particular. By bringing these retail resources to complement those of the manufacturer, risk is shared, the final product is enhanced and the retailer's competitiveness improves ceteris paribus (Wileman and Jary 1996). Indeed, one would expect retailers to make more specific investments as the strategic use of own brand increases in importance as a means of achieving competitive advantage.

Second, as they are irretrievable, they act as a form of hostage. In this way, these retail commitments promote the manufacturer's view that the relationship will endure. As the retailer's specific investments increase, the cost of terminating the relationship rises. The manufacturer's expectation of incurring the risk of quasi-rent seeking behaviour on the part

[7] To restate, a specific investment or asset is one which loses much of its value outside the particular relationship. Manufacturers make such investments in their relationships with different retailers e.g. specialist production equipment, investments in time and effort learning a particular retailer's procedures etc. Retailers also make specific investments in their relationships with manufacturers. These include time spent vetting plants, passing on know-how to suppliers etc.

of the retailer is reduced as the potential for retaliatory behaviour by the manufacturer increases. In this way, the investments provide the basis for a relatively stable planning horizon, giving the manufacturer greater confidence of earning the required return on its own specific investments. Consequently, one expects to see retail specific investments to be positively correlated with both the strategic use of own brand and manufacturer specific investments[8].

However, relationship endurance alone is likely to be insufficient. Manufacturers are unlikely to enter into such relations unless it is part of a focused strategy to ensure future benefits. The return on specific investments can be represented as a flow over time. Consequently, manufacturer specific investments are expected to be positively correlated with the expected continuity and attractiveness of the relationship[9].

6.5.2 The Determinants of Inter-firm Integration: Manufacturer Dependency

The literature reviewed earlier clearly establishes a link between power and dependency (Emerson 1962). Given the findings in chapter two, which examined trading patterns, one expects to see considerable variations in the extent of retailer and manufacturer dependency. Dependency emerges from the differentials that exist in trading partners' available resources and needs. It emanates from resource shortages and the uncertainty associated with the lack of control over resource flows (Heide 1994). The primary resource held by the retailer and required by the manufacturer is shelf space and access to the consumer. The extent to which a given retailer controls a manufacturer's access to the customer is likely to be a key determinant of manufacturer dependency. Thus, a manufacturer is likely to be dependent on

[8] These relationships are supported. See H2 and H3 Appendix A6.1.
[9] This relationship is supported. See H4 Appendix A6.1.

a particular retailer in proportion to its volume of business. This has been supported by earlier work (El-Ansary and Stern 1972).

However, a crucial determinant of manufacturer dependency is the amount of manufacturer specific investments (Feldman 1998). The size of the value stream emanating from these investments is contingent upon both trading partners maintaining the relationship. The return from these investments is significantly lower in alternative trading relationships. Consequently, if the relationship is terminated, the loss to the manufacturer exceeds the lost sales associated with lack of access to the retailer's customers as the manufacturer is likely to find itself holding assets with very low salvage value. Thus, manufacturer dependency on a retailer is proposed to be positively related to its specific investments in the relationship having accounted for the retailer's share of the manufacturer's sales[10]. Linking power to dependency, it follows that retail power will also be positively related to its specific investments in the relationship having accounted for the retailer's share of the manufacturer's sales[11].

6.5.3 The Determinants of Inter-firm Integration:- Interdependency

Dependency, although an intrinsic element of any relationship, is essentially a one-sided representation of that relationship. The notion of interdependency on the other hand is a two-sided representation. Increasing levels of dependency is a necessary but insufficient condition for increasing interdependency. Thus, the two concepts, while clearly related, are conceptually distinct. As discussed earlier, dependency emanates from uncertainty of resource

[10] This relationship is supported. See H5 Appendix A6.1.
[11] This is also supported. Manufacturer specific investments are found to be positively related to all measures of retail power having controlled for the retailer's share of sales. See H6 Appendix A6.1.

flows in a unilateral fashion. It is concerned with partner substitutability and alternative sources of resources. Interdependency, on the other hand, may be viewed as uncertainty of resource flows in a bilateral fashion and has been measured as a function of both partners' dependence on the relationship (Kumar et al 1995). Asymmetric dependency exists where differences in dependency among partners occur. Thus, while uncertainty underlies dependency, the distribution of dependency will be governed by the relative evaluation of resource endowments (Buchanan 1992).

One means whereby firms can manage environmental uncertainty is by establishing particular modes of governance (Pfeffer and Salancik 1978). Williamson (1991), following Macneil (1981), supports a continuum of modes of governance and argues that bilateral dependency relationships are supported by a variety of specialized governance features. At one extreme there is the autonomous market transaction while at the other there is hierarchy. The need to adapt, an outcome of uncertainty, is achieved in markets due to incentive intensity resulting from independence. Adaptation in the case of the hierarchy is as a result of internal co-ordination and co-operation supported by administrative controls. The intermediate forms of governance are termed hybrids by Williamson (1991) or bilateral governance by Macneil (1981). The hybrid possesses intermediate values of both intensity and control and displays middling adaptive capabilities. The appropriate mode of governance is a function of discriminating alignment where the need to economize on transaction costs are positively correlated with the degree of integration or closeness.

The review of the literature suggests that the dominant source of transaction costs within retailer-manufacturer relationships are specific assets. The potential costs of uncertainty will be positively related to the extent of these investments and the costs of re-deploying these

assets should circumstances require. Increasing amounts of specific investments generate bilateral dependency, the costs of which can be minimized through the appropriate mode of governance. While bilateral dependency may exist, there is no expectation that it is symmetric. Retailers may, for instance, have other rent streams available to them. Under these conditions, the manufacturer faces increasing safeguarding problems. In these circumstances it is proposed that any such asymmetry in dependency is likely to be negatively related to the degree of inter-firm integration. This is due to the fact that the less dependent party is less likely to invest in the administrative controls and coordinating mechanisms.

The review of the transaction cost literature supports the argument that increasing amounts of specific investments generate a safeguarding problem. In doing so, transaction costs increase due to the greater need for monitoring activities. This is particularly so in the case of retailers and their own brand suppliers. By arguing for discriminating alignment, the transaction cost perspective proposes that the mode of governance to emerge should be that which minimizes these costs ceteris paribus. It supports the view that the need for increased monitoring activities would promote an organizational form which would minimize the associated costs, thus tending towards greater inter-firm integration and ultimately hierarchy.

Increasing the extent of inter-firm integration is not costless. Administrative controls and mechanisms need to be established and maintained to ensure the smooth workings of the arrangement. More importantly, these investment costs, being largely irretrievable by nature, must be recouped over the duration of the relationship. Consequently, it is argued that the mode of governance or the degree of inter-firm integration is likely to be influenced by the expected continuity and attractiveness of the relationship. Thus, we hypothesize that:

H13 *In the case of own brand suppliers, the degree of inter-firm integration will be positively related to product monitoring activities, positively related to the extent of perceived interdependency and expected continuity and attractiveness of the relationship but negatively related to both retailer and manufacturer dependency.*

To test this hypothesis the model below was estimated:

5. Integrat = Const + α1 monprod + α2 conattr + α3 interdep + α4 retdep + α5 mandep + U

Where
const is the constant
monprod is the retailer's product monitoring activities as perceived by the manufacturer
conattr is the manufacturer's expectation of relationship continuity and attractiveness
interdep is the perceived degree of interdependency
retdep is perceived retail dependency on the manufacturer
mandep is perceived manufacturer dependency on the retailer
and where α1 to α5 are the variable coefficients and U is a random disturbance term.

The results are given in table 6.12. The F-statistic indicates that at least one of the specified variables is significantly different from zero. The adjusted R^2 indicates that almost 23% of the variation in the dependent variable is explained by the model. The reset test supports the choice of model used. The results provide support for the hypothesized relationships between monitoring activities, retailer and manufacturer dependency, interdependency, and the expected continuity and attractiveness of the relationship. It is noteworthy that both manufacturer and retail dependency are negatively related to inter-firm integration, while the measure of interdependency is positively related to the dependent variable.

Table 6.12

The Determinants of Inter-firm Integration (1)

Ordinary Least Squares Estimation

Dependent variable is Inter-firm Integration
57 observations used

Regressor	Coefficient	Standard Error	[Prob]
CONST	4.5117	1.281	[.001]
Product Monitoring	.23618	.09951	[.021]
Expected Continuity and Attractiveness	.37590	.1347	[.007]
Interdependency	.15423	.0600	[.013]
Retail Dependency	-.73130	.3267	[.030]
Manufacturer Dependency	-.63926	.2576	[.016]

R-Squared .2973 F-statistic F (6, 51) 4.316 [.002]
R-Bar-Squared .2284

Using hetroscedastic-consistent covariance matrix

Ramsey Reset Specification Test using powers of yhat
Reset (2) = 1.1266 - F with DF1=1 and DF 2 =50
Reset (3) = 0.80874 - F with DF1=2 and DF 2 =49
Reset (4) = 0.54287 - F with DF1=3 and DF 2 =48

In formulating H12, it was argued that, in the case of own brand suppliers, the extent of product monitoring was positively related to manufacturer specific investments, positively related to the strategic use of own brand but negatively related to the retailer's influence on the product's price. To generalize the results a dummy variable to represent own brand suppliers is included. Substituting this into H13 yields:

H14 *The degree of inter-firm integration will be positively related to manufacturer specific investments, positively related to the strategic use of own brand, positively related to the extent of perceived interdependency, and expected continuity and attractiveness of the relationship but negatively related to both retail and manufacturer dependency and the retailer's influence on price. The degree of inter-firm integration will be greater for suppliers of own brand.*

This was estimated using the revised model below:

6. Integrat = Const + β1 manspec + β2 obstrat + β3 interdep + β4 conattr + β5 retdep + β6 mandep + β7 iprice + obβ8 supp + U

Where;

const is the constant
manspec is perceived manufacturer specific investments in the relationship with the retailer
obstrat is the retailer's strategic use of own brand as perceived by the manufacturer
interdep is the perceived degree of interdependency
conattr is the manufacturer's expectation of relationship continuity and attractiveness
retdep is perceived retail dependency on the manufacturer
mandep is perceived manufacturer dependency on the retailer
iprice is the perceived retail influence on the manufacturer's price
opsupp is a dummy variable for own brand suppliers
and where β1 to β8 are the variable coefficients and U is a random disturbance term.

The results are given below (table 6.13). The adjusted R^2 indicates that almost 49% of the variation in the dependent variable is explained. All variables, with one exception, are significant at the 95% level and have signs as hypothesized. The exception is the strategic use of own brand. A possible explanation may be the inclusion of the dummy for own brand suppliers. This was considered necessary to make the results more general and because of the argument that integration was more likely where the relationship was dedicated in some fashion.

Table 6.13

The Determinants of Inter-firm Integration (2)

Ordinary Least Squares Estimation

****

Dependent variable is Inter-firm Integration

97 observations used for estimation

****

Regressor	Coefficient	Standard Error	Prob	St. Coefficient
CONST	3.2882	1.08800	.003	0.000
Manufacturer Specific Investments	.36053	.07311	.000	.3850
Strategic Use of Own Brand	.01873	.08736	.831	.0227
Interdependency	.17976	.05258	.001	1.2723
Expected Continuity and Attractiveness	.61515	.07391	.000	.4963
Retail Dependency	-.85475	.26060	.001	-.8795
Manufacturer Dependency	-.78477	.21000	.000	-.8991
Retail Influence on Price	-.18998	.09328	.045	-.1812
Dummy for Own Brand Supplier	.61081	.21850	.006	.2514

R-Squared .5284 F-statistic F (8, 88) 12.325 [.000]
R-Bar-Squared .4855

Using hetroscedastic-consistent covariance matrix

Ramsey Reset Specification Test using powers of yhat
Reset (2) = 0.19988 - F with DF1=1 and DF 2 =94
Reset (3) = 0.10495 - F with DF1=2 and DF 2 =93
Reset (4) = 0.23008 - F with DF1=3 and DF 2 =92

6.5.4 Inter-firm Integration and Retail Power

Drawing on the arguments relating to the interplay between specific investments, manufacturer dependency, and inter-firm integration, it is proposed that retailer power will be positively related to inter-firm integration. Specific investments, by promoting greater inter-firm integration, encourage greater joint decision-making and facilitate greater influence across firms' boundaries. In this way, manufacturer specific investments in a particular relationship are more likely to promote retail influence rather than power per se, that is, yield retailers more influence rather than control. However, a shift from retail influence to retail control is likely to emerge for two reasons:

- The establishment of particular information flows;
- Increase in manufacturer dependency.

Because of the retailer's exposure to quasi-rent seeking behaviour, manufacturer specific investments in the relationship are likely to be coupled with the establishment of particular information flows resulting from the retailer's monitoring activities. These information flows are likely to emerge from the use of retail technologists for site visits and plant audits etc (Howe 1998). Following earlier arguments, it is proposed that it is these monitoring activities that ensure greater alignment between expected behaviour and actual behaviour and, ultimately, greater retail control.

However, there is another aspect to the use of retail technologists. In many instances, this form of retail specific investment in the relationship is the conduit for retail expertise to the manufacturer. The nature of this expertise can be advice on technologies, processes or information available to the retailer resulting from its proximity to the consumer. Indeed, these retail specific investments in the relationship may enhance the manufacturer's competitiveness vis-à-vis rival firms, thereby increasing manufacturer dependency on the retailer.

Consequently, it is proposed that both retail specific investments and manufacturer specific investments, by increasing manufacturer dependency and establishing new information flows, help establish the conduits for the exercise of retail power. The power exercised is more likely to be product rather than margin related. The exercise of product related power, on the other hand, may be expected to enhance the retailer's horizontal competitiveness and, ultimately, the joint competitiveness of both firms. Consequently, it is hypothesized that:

H15 *Retail power over product related activities is positively related to the degree of inter-firm integration*

The results in table 6.14 provide support for a positive and significant relationship between retail power over product related activities and the degree of inter-firm integration.

Table 6.14

Inter-firm Integration and Retail Power over Product and Margin Related Activities

		Degree of Inter-Firm Integration
Retail Power over Product	Coefficient[1]	**.468**
	N[2]	**.000**
	P[3]	**106**
Retail Power over Margin		
	Coefficient[1]	**.231**
	N[2]	**.017**
	P[3]	**106**

[1] Pearson Correlation Coefficient [2] Number of Observations [3] Probability level

In contrast to product related power, the exercise of power over the margin dimension may be more likely to be perceived to be zero-sum in nature and possibly compromise the workings of the partnership. However, it is not suggested that the degree of integration is negatively related to power over margin but merely that is likely to be less than product related power. Evidence of retailers and manufacturers working together to remove costs from the supply chain has already been found (Collins 1997; Boitoult 1997). This suggests a considerable margin orientated interaction[12]. Thus, it is hypothesized that:

H16 *The degree of inter-firm integration is more closely related to retail power over product related activities than over margin related activities.*

[12] Earlier, a negative relationship between the degree of inter-firm integration and the retailer's influence on the manufacturer's price was proposed. The rationale for this was that by reducing influence on price, the retailer provided the manufacturer with an incentive not to cheat and could reduce monitoring activities and costs. However, where price is an important source of the manufacturer's competitive advantage, one would expect to see a stronger association between integration and retail power over margin. This is because the difference between power and influence is related to the weights on the relevant manufacturing strategy variable. In some cases, passing on margin to the retailer may be a source of the manufacturer's competitive advantage. For instance, this may be more likely to be the case where open book dealings with the retailer apply. Here retail

The results in table 6.14 provide support for positive and significant relationships between the degree of inter-firm integration and both retail power over product and margin related activities. However, the linear association is considerably greater with respect to product related power. Consequently, the hypothesis is accepted.

6.5.5 Brand Portfolio

The final characteristic that may vary at trading relationship level is the brand portfolio. Ogbanna and Wilkinson (1998) highlight the importance of brand portfolio as a determinant of differentiated power relations among retailers and manufacturers. Three possibilities exist within a given trading relationship. These are a brand only product portfolio, an own brands only portfolio, or a mixed portfolio made up of a combination of brands and own brands. Some of the debate on the impact of brand franchise on the balance of power and the extent of retail power has already been reviewed. However, the nature of that debate has been to view branding as a firm characteristic, which has already been examined. Here consideration is given to the brand portfolio as a relationship decision.

The effect of brand portfolio within a trading relationship on the balance of power has not been addressed in a systematic fashion to date. Chapter two found a relationship between firm size and brand portfolio, with larger manufacturers displaying a greater propensity to produce a mixed portfolio of brands and own brands. There are many reasons why strong branded manufacturers may desist from producing own brand products. Such activity could lead to the dissemination of new technologies to retailers who are in effect competitors. A dual

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power may be expected to exceed influence.

branding strategy might also generate consumer confusion and devalue the manufacturer's brand. However, there are reasons why strong branded manufacturers might also produce own brands. Protection against loss in volumes with consequences for economies of scale and competitiveness and reductions in barriers to new entry are but two possible reasons. Gallizzi et al (1997), in their study of the Italian distribution system, find some empirical evidence that the willingness to engage in dual branding increases as own brand penetration grows. Indeed they postulate that the negative relationship they found between the willingness to produce own brand products and manufacturers' competitive strengths in terms of non price strategies would collapse where own brand penetration is high.

The above gives some reasons why a given manufacturer may or may not decide to supply a particular brand portfolio. It does not explain why retail power might vary across portfolios. It is proposed that one reason why retail power is likely to vary by brand portfolio is through the effect of specific investments. Own brands offer retailers the opportunity to differentiate themselves horizontally from other retailers and, in doing so, gives the retailer a greater incentive to exercise more control over the product. However, the retailer will seek that the outcome of these activities is dedicated to enhancing its performance and not those of its rivals (Doel 1996). One of the ways by which the retailer can be more confident of achieving this is to ensure that the control is exercised through specific investments on the part of the manufacturer. Under this condition, the retailer enjoys the benefits of dedicated assets which cannot be costlessly redeployed to serve rivals. However, branded manufacturers are volume driven. All things being equal, they are less likely to make specific investments in a relationship with a particular retailer. To do so may place some of their other customers at a disadvantage and, over the longer term, undermine their own customer base. This suggests that differentials exist in terms of specific investments with subsequent implications for power

relations.

Strong brands, either manufacturers' or retailers', represent specific assets in the manufacturer-consumer relationship or retailer-consumer relationship. As we have seen, these assets are subject to quasi-rent seeking behaviour. In the case of the former, retailers can engage in quasi-rent seeking behaviour by demanding better margin terms and reducing the manufacturer's return on the branding activity. Alternatively, the retailer may attempt to appropriate the returns on innovation by demanding that product enhancements on the branded business be incorporated into own brand specifications. In the case of the latter, it has been shown that retailers seek to protect against quasi-rent seeking behaviour on the part of their manufacturers. These variations in brand portfolios present an interesting mix of potential quasi-rent seeking activities.

In the case of the own brand supplier, where monitoring of both product and cost activities are likely, the retailer may have considerable access to cost information through open book dealings (Collins 1997). However, in this case, the retail imperative will be to ensure competitiveness but in a context where the supplier's likelihood of engaging in quasi-rent seeking behaviour is reduced to acceptable levels. Therefore, while retail power may be expected to be high on product related issues, retailers are unlikely to squeeze suppliers excessively on margin.

In the case of the mixed brand supplier, the need to prevent opportunistic behaviour on the part of the supplier remains. Thus, it is likely that the retailer will have less power over product related activities but similar power over margin related issues. Following Ogbanna and Wilkinson (1998), in the case of brand only suppliers, retailers will have little if any

power on product issues and, in the absence of cost information, less power over margin related activities. Consequently, it is proposed that:

H17 *Retail power will vary by brand portfolio. It will be greatest in the case of own brand only suppliers and least in brand only suppliers.*

One-way anova analysis was used to compare the means in our unidimensional measure of retail power and power over product and margin related activities by product portfolio. Having tested for equality of the variances, Bonferroni's test was applied to identify significant differences in the means at the 95% level. The differences in means and the significance levels are given in table 6.15[13].

The analysis of the unidimensional measure of power supports a significant difference at the 95% confidence level between power exerted over brand only suppliers and those that supply either own brand only or a mixed portfolio of brands. Less power is exerted over brand only suppliers than over those who supply own brand products. No significant difference exists among own brand only or mixed portfolio suppliers.

[13] The means are presented in table A6.5 in appendix A6.1.

Table 6.15

Mean Differences in Retail Power by Brand Portfolio

	Brand Portfolio (i)	Brand Portfolio (j)	Mean Difference (i-j)	Sig
Retail Power	Own Brand Only	Brands Only	**4.1253***	.001
		Mixed Portfolio	2.0246	.233
	Brands Only	Own Brand Only	**-4.1253***	.001
		Mixed Portfolio	**-2.1007***	.033
	Mixed Portfolio	Own Brand Only	-2.0246	.233
		Brands Only	**2.1007***	.033
Retail Margin Related Power	Own Brand Only	Brands Only	1.5034	.813
		Mixed Portfolio	-.7442	1.000
	Brands Only	Own Brand Only	-1.5034	.813
		Mixed Portfolio	-.2.2476	.074
	Mixed Portfolio	Own Brand Only	.7442	1.00
		Brands Only	2.2476	.074
Retail Product Related Power	Own Brand Only	Brands Only	**6.9765***	.000
		Mixed Portfolio	**4.2443***	.002
	Brands Only	Own Brand Only	**-.69765***	.000
		Mixed Portfolio	**-.27322***	.007
	Mixed Portfolio	Own Brand Only	**-.42443***	.002
		Brands Only	**2.7322***	.007

* indicates a significant difference at the 95% level

Examining power over product related activities reveals that retailers exert significantly more power over own brand only suppliers than either brand only suppliers or mixed portfolio suppliers. The results also reveal that retailers also exert more product related power over mixed portfolio suppliers than brand only suppliers.

Finally, the results do not support any differences in retail power over margin related activities among any of the brand portfolios traded.

6.5.6 Discussion: Relationship Characteristics

The foregoing analysis of relationship specific characteristics has highlighted a number of notable power dynamics which would have been neglected if the analysis had been restricted to industry, firm and product characteristics. One of the key findings has been the determinants of inter-firm integration. Convincing evidence has been found that both retailer (i.e. retail brands) and manufacturer specific investments play important roles in the determination of the appropriate mode of governance. Where these investments are high, integration is promoted. Further progress and insight was gained by operationalising Williamson's (1979) notion of bilateral dependency. In doing so the distribution of perceived dependency was isolated as a critical determinant of the appropriate mode of governance. Individual agents' perception of asymmetric dependency reduces the incentive to integrate. Partners who perceive themselves to be more dependent are less likely to want to integrate, while those who are less dependent face the question as to why bother integrate. Through dependency, the mode of governance is related to power.

The finding of the positive relationship between the degree of inter-firm integration and retail power may seem surprising at first and merits further discussion. Why, after all would a manufacturer choose to form closer bonds with a retailer if the outcome was simply to increase the retailer's power over the manufacturer's activities? It is proposed that the answer lies in French and Raven's (1959) observation that power is system specific. "It is necessary to define power with respect to a specified system because the power of O/P may vary greatly from one system to another" (French and Raven 1959:153). Consistent with this line of thought is the view that the existence of retail power over certain aspects (systems) of manufacturing activities does not exclude the possibility of manufacturer power over certain

aspects of retail activities. That agent A can control certain aspects of agent B's behaviour does not rule out the possibility that agent B can control certain aspects of agent A's activities. It should be noted this does not relate to countervailing power acting to reduce retail power but power operating on a different agent. Symmetricity of dependency was found to be necessary to promote increasing degrees of inter-firm integration. Given the relationship between dependency and power, increasing retail power emanating from greater manufacturer dependency can only be sustained through increased retailer dependency and manufacturer power if greater inter-firm integration is to take place. Consequently, it is proposed that the observed positive relationship between retail power and inter-firm integration is matched, as distinct from offset, by increasing manufacturer power.

The analysis of the relationship between retail power and brand portfolio demonstrated that retail product related power was significantly greater in the case of own brand only suppliers than in either branded or mixed portfolio suppliers. It was argued earlier, that the application of product related power is more likely to be motivated by the retailer's need for products to promote its horizontal competitiveness. However, the direct link between the application of power and horizontal competitiveness can only occur where the outcomes (superior products) are dedicated to the retailer. It is suggested that this is less likely to be the case where the manufacturer produces branded products. Finally, the lack of evidence to support differences in retail power over margin related activities is somewhat surprising but lends support to the view that retailers expect all their suppliers to be equally competitive.

6.6 Conclusion

This chapter has set out the series of hypotheses that form the basis of the study under review. The results emerging from each of the hypotheses add incrementally to the understanding of the dynamics of retailer power. It has been argued that, while power resides within a relationship, the determinants of retail power over manufacturing operations have their origins in industry structure, firm and product characteristics and finally relationship specific factors. The chapter argues that while power may be measured as an unidimensional construct, an understanding of its underlying dimensions adds to the strategic richness of the analysis. The results indicate that the dynamics of retail power differ according to whether or not the focus is margin or product related. In some instances, the exercise of power along these dimensions may be positively correlated but that under certain conditions the relationship may be negative. The arguments underlying the hypotheses generally support the view that industry structure characteristics are more likely to determine the extent of retail power over margin activities. The determinants of product related influence are more likely to lie in firm and product characteristics and the way in which the trading relationship is organized. In this case, the roles played by specific investments, together with the constraints they impose on individual agents and trading relationships come to the fore.

The review of the retailer-manufacturer literature in chapter four demonstrated the sophisticated contractual and institutional arrangements in the grocery sector. It is proposed that to suggest that an understanding of retail power within such a context can be attained by recourse to only one of the three factors discussed here is naïve. In testing the hypotheses developed in this chapter, the analysis sought to highlight both the complexity of power relations within the manufacturer-retailer relationships and the dynamics of retailer power.

The findings emerging from this chapter provide a more solid foundation for a more complete understanding of retailer power. Various interdependencies have been explored and in the next chapter the findings will be considered in more detail, culminating in a more complete model of retailer power.

Chapter Seven

Discussion and Conclusions

7.1 Introduction

The last chapter was based on a series of hypotheses specified to add incrementally to the understanding of the determinants of retail power. Consequently, the first aim of this chapter is to consider these results in greater detail to yield a more complete and holistic understanding of the determinants of retailer power in the grocery sector. This understanding will be achieved through a greater awareness of the interconnections among the variables used in this study. In this fashion, the discussion of the findings should result in a more complete model of retailer power leading to the formulation and estimation of three separate models of retail product related power, retail margin related power and our unidimensional measure of retail power. The strategic implications emerging from the findings will then be discussed.

The chapter also integrates the findings into the existing literature, highlighting its contributions and pointing to issues that require further investigation. Throughout much of this thesis, it has been argued that the existing literature is fragmented. Consequently, one of its chief aims is to redress this limitation. This chapter's task is to demonstrate that this fundamental objective has been achieved to a sufficient degree.

The overriding goal of this research is to provide a more complete understanding of the determinants of retailer power by applying an integrative perspective to the existing

fragmented literature. However, to achieve this a number of assumptions and methodological decisions were made. While facilitating our ultimate task by simplifying the research problem, these decisions resulted in certain limitations that must be addressed.

7.2 The Findings

7.2.1 Retail Power and Industry Structure

One of the more notable features emerging from the last chapter was the richness of the analysis of the dimensions of retail power. The benefit of exploring the dimensions of retail power became clear when examining retail power over manufacturers' margin related variables. In addition to confirming the expected relationships between retail concentration, own brand penetration and retail power over margin, the results indicate that structural conditions on the supply side also play an important role as determinants of the vertical flow of margin to the retailer. In particular, the importance of economies of scale in manufacturing was highlighted. The findings provide empirical evidence that the need to exploit economies of scale, and enjoy the associated cost competitiveness, outweighs any of the countervailing power that increasing manufacturer concentration might have been expected to bring. The results also yield weaker evidence to suggest that the perceived availability of alternative capacity increases retailer's margin related power.

This series of relationships suggests the following. First, the technology underpinning the manufacturing sector, by determining the minimum efficient scale, governs the required share of the market to maintain competitiveness. The intensity of competition among manufacturers is likely to be partly determined by this relationship between costs and volumes. Where economies of scale are important, lost volumes increase average costs and

reduce the manufacturer's competitiveness. This problem is compounded by high levels of retail concentration. Under this condition, the loss of a given retail account is more likely to result in greater reductions in volume sales. The effect of such a loss on an individual firm's horizontal competitiveness is likely to be immediate and substantial. Consequently, there is more intense competition among manufacturers, ensuring that a larger share of the cost reductions are passed to the retail stage of the marketing channel reflecting greater retail power over margin related variables.

This is compounded by the perception that retailers have access to alternative production capacity, which increases the degree of horizontal competition among manufacturers for the available volumes. In this way, the need to defend against actual competitors or potential entrants ensures a greater vertical flow of margin to the retailer. The existence of an own brand supplier base is likely to generate such a perception. Own brand, by hiding the identity of the manufacturer, can make suppliers more substitutable. Consequently, some suppliers may feel relatively unsure of their futures, placing greater pressure on the need to be price competitive.

The existence of own brand variants on the market also increases competitive pressures on branded manufacturers for two reasons. Both sets of products compete for the same shelf space and consumers' loyalty. First, as consumers become less willing to switch stores within brand and more willing to switch brand within stores, the price of retail shelf-space increases to the manufacturer. Consequently, the return to the retailer, who controls the way space is allocated, increases. Second, own brands have, over time, become credible substitutes to manufacturers' brands. This is particularly so in the case of secondary and

tertiary brands where manufacturers' brand franchise is relatively weak. Devoid of large volume sales and customer franchise, the only means of maintaining presence on the shelf is through improved margin contribution to the retailer.

The findings also support the view that retail concentration and the penetration of own brand are both positively related to retail power over manufacturers' product activities. On the other hand, manufacturer concentration was found to act in a countervailing fashion to structural characteristics on the retail side. It has been argued that manufacturers have an incentive to desist from engaging in own brand production, thereby reducing competition on the supply side. High levels of concentration were expected to make this easier by encouraging unspoken agreements with respect to pricing and not to supply own brands to retailers (Ogbanna and Wilkinson 1998). Such collusion was considered to be more feasible as potential cheaters, that is, manufacturers who produced own brand, could be more easily identified and retaliatory actions undertaken. However, while the expected relationship between manufacturer concentration and retail product related power was upheld, no support was found on the margin side.

On the retail side, both retail concentration and own brand penetration were identified as significant determinants of retail product related power. In the case of the Irish market, retail concentration was expected to be important, as a large share of a relatively small market was considered necessary before a retailer would consider producing an own brand variant. Also, as own brand penetration increases, more suppliers are likely to become involved in own brand production and subject to retailers' product requirements, thereby increasing retail power across a larger supplier base as against more power over a given

supplier base. However, from a strategic perspective, these findings add relatively little to the understanding of the implications of retail power.

To summarise this section, evidence has been found to support the view that retail concentration, own brand penetration, the importance of economies of scale in manufacturing and the perceived availability of alternative capacity, will be positively related to retail power over margin related activities. On the product side, the evidence demonstrates a positive relationship between retail concentration and own brand penetration but a negative relationship with respect to manufacturer concentration.

7.2.2 Retail Power, Product and Firm Characteristics

Extending the analysis beyond structural conditions to examine the role of product characteristics proved particularly fruitful. On the one hand, strong empirical evidence was found to support a positive relationship between retail power over margin variables and product shelf-life. Shorter shelf-life is associated with less retail power over margin. The review earlier demonstrated that some product categories are more important to some retailers than others in terms of their image generating effects. In general, fresh and chilled products appear to contribute more to retailers' positioning than other products. Because of their limited shelf-life, supply chains are likely to contain less inventory, placing the retailer in a position subject to hold-ups. Suppliers are likely to be less substitutable in the short term and the impact on out of stocks at store level, if a supplier terminates supplies, is likely to be immediate. The findings suggest that retailers have to pay for these image

contributions and the guarantee of availability by exerting less demands on their manufacturers' margins.

On the other hand, the analysis of the relationship between retail power over the product dimension and product shelf-life found significant support for a negative relationship. Retail power on the product dimension increases with shortening product shelf-life. The argument supporting this finding relates to retailers' need to control all aspects of the product that contributes to the positioning of their brand. This need is likely to be demonstrated in the use and enforcement of stringent and detailed product specifications.

Both these findings highlight the merit of carrying out an analysis of the dimensions of power because of the inherent trade-offs that may exist. Little of the existing literature makes this explicit. The analysis of the unidimensional measure of retail power does not provide any support for a relationship between retail power and product shelf-life. However, this finding obscures the strategic richness of the underlying relationships - that retail power over product related attributed is negatively related to product shelf-life but that retail power over margin related variables is positively related to product shelf-life. In effect, both relationships tend to obscure each other when analysis is restricted to power measured as a unidimensional construct.

Turning to the manufacturer's characteristics, the results failed to support the expected negative relationship between manufacturer brand franchise and retail power. This was surprising given the importance attached to branding throughout the literature. There are two possible explanations for this finding. The first explanation lies in the composition of

the sample and the restriction of the analysis to Irish food manufacturers and their trading relationships with British and Irish retailers. The Irish market is small by international standards and Irish food manufacturers have few strong international brands. The British market demonstrates a very high own brand orientation. As discussed in chapter two, a considerable effort has been made by the Irish food sector to target the own brand sector in the British market. Consequently, any relationships with British retailers used in this analysis were unlikely to highlight the role of manufacturer brand franchise.

Second, the Irish retail market has, up to recently, displayed relatively little interest in own brand products. Own brand penetration was relatively low, and for reasons of scale economies, retailers appeared to display little interest in developing the market (Pratt 1994[1]). Thus, manufacturers with strong brands had little incentive to produce own brand variants for Irish retailers, given the apparent low growth prospects and the potential to damage existing brands. During the mid 1990's, circumstances had changed to a considerable degree. The launch of Power Supermarkets' "Premium Choice" range and Dunnes Stores' attempt to reposition the St. Bernard brand would have encouraged indigenous branded manufacturers to reconsider their brand portfolio strategies. In this fashion, strong brands could be coupled with retail influence on the own brand business. The arrival of Tesco in 1997 would have accelerated this revaluation of the attractiveness of own brand products. Due to Power Supermarkets' existing product portfolio, some manufacturers who had been producing branded products for the Irish market now had the opportunity to extend their business into the British market (and possibly increase their business in the Irish market) through own brand products for Tesco. This market opportunity may have proved sufficient for manufacturers with strong brands in the Irish

market to engage in own brand production for Tesco. The coupling of own brand production and strong brand franchise, although for different markets but for the same retailer, would provide another reason why the expected negative relationship between brand franchise and retail power, or any of its dimensions, might not be supported.

The analysis also highlighted a positive correlation between retail power over margin and the manufacturer's emphasis on innovation. This is suggestive of the hold-up argument as presented by Pellegrini and Zanderighi (1991). Nevertheless, the hold-up argument does not appear to be particularly rigorous for it provides manufacturers with an incentive to refrain from engaging in innovative activity. Why invest in a particular activity if the benefits are appropriated by another channel member? It also doesn't make sense from the retailer's perspective. If a retailer's horizontal competitiveness is partly determined by its access to manufacturers committed to innovation, it is in its interest to ensure that the manufacturers have a flow of returns to ensure future innovation. Surely, the last thing that the retailer wants to do is to put these suppliers out of business. Consequently an alternative explanation is required.

The finding of the relationship between joint effort and manufacturer emphasis on innovation within different brand portfolios supports the view that retailers seek out, or possibly even assist the emergence of manufacturers who place more emphasis on innovation to engage in joint own brand development activities (McGrath 1995; Hughes 1996). While retailers may formerly have been content to imitate branded manufacturers' branded products and enjoy higher margins, they are now concerned with the vertical flow of resources other than purely margin related, to differentiate themselves from their

[1] Maurice Pratt was marketing director for Power Supermarkets at the time.

competitors. Supporting this view, evidence was found that manufacturers, who place greater emphasis on innovation, are more likely to enjoy retail provided resources through joint projects. The return to the manufacturer is likely to be partly through access to retail controlled resources on which it is dependent for continued success. It should be noted that the finding that the retailer has more power over the innovative manufacturer's margin does not rule out the likelihood that the margin resulting from greater joint effort exceeds that which would have been achieved by working in isolation. However, this hypothesis is beyond the scope of the current study but merits further investigation. Consequently, it is suggested that manufacturer emphasis on innovation acts as an indirect determinant of retail product related power as it partly governs the retailer's selection of collaborators.

Extending the analysis to retail characteristics, the chief determinant of retail power was found to be the retailer's strategic use of own brand and the associated monitoring activities. A strong theoretical case was made for a link between the strategic use of own brand, rent seeking behaviour and monitoring activities. The greater the strategic use of own brands, the greater the stream of rents generated by the retailer and the greater the risk of manufacturer opportunism. Consequently, there is a greater need for monitoring activities by the retailer. From the manufacturer's perspective, the extent of monitoring activities determines retail power. It brings about adherence to the desired behaviour. Following French and Raven (1959), it is the degree to which behaviour is observed that determines the degree to which actual behaviour conforms to desired behaviour.

To summarise, the findings emerging from the analysis of firm and product characteristics suggest that our unidimensional measure of retail power will be positively related to the

retailer's monitoring activities. Also, the retailer's monitoring of product related activities, tied directly to the retailer's strategic use of own brand, will act as a determinant of retail product related power. Product shelf-life is expected to be negatively related to retail product power. Finally, the findings on margin related power suggest that it will be positively related to product shelf-life.

7.2.3 Retail Power and Relationship Characteristics

Following the resource dependency framework (Pfeffer and Salancik 1978), a retailer exerts power over manufacturers' operations to enhance its horizontal competitiveness. To achieve this, the retailer needs to ensure that beneficial outcome of the exercise of power is unique to that particular relationship. A retailer's exercise of power over margin is a case in point. In this instance, there is a zero sum characteristic to the exercise of retail power. The margin gained by the retailer is unavailable to other retailers. However, with regard to product related power, an opportunity may exist for the manufacturer to bring any learning, that was gained through a retailer's exercise of power, to bear in other retail relationships. To prevent this situation from occurring one would expect retailers to exert more product related power through relationship specific investments which cannot be easily or costlessly used in alternative relationships. The finding that retail power over product related strategy variables is more strongly correlated with manufacturer specific investments than retail power over margin supports this view. The findings also support the view that these specific investments are retail dedicated through to own brand related activities.

Examining relationship specific factors in the last chapter, manufacturer dependency on a given retailer was found to be related to its specific investments in the relationship, having accounted for its share of the manufacturer's sales. Also, the retailer's power over margin was found to be positively related to the manufacturer's specific investments[2]. This result seems surprising at first. Retail power over margin is unlikely to be the outcome of opportunistic behaviour on the part of the retailer. A partial explanation may be found in the strong positive correlation between manufacturer and retailer specific investments. This suggests that, to elicit specific investments by their suppliers, retailers balanced the relationship by making offsetting investments or credible commitments. Thus, if the retailer was to behave opportunistically, retaliation would be possible by the manufacturer. Furthermore, any additional investments on the part of the immediate manufacturer and possibly other manufacturers would be unlikely due to the damage to the retailer's reputation. Consequently, an important means of achieving competitive advantage in the retail market would be compromised.

Given the above, an alternative to opportunistic behaviour is required to explain the positive relationship between manufacturer specific investments and retail power over margin. The existence of retail and manufacturer specific investments in the relationship changes the very nature of the relationship, by promoting efficiency in the organisation of vertical relations. One witnesses administrative controls and information transfer among the firms. These identify and help exploit transaction cost savings. These efficiencies generate a stream of returns through superior performance. However, evidence has been found, demonstrating that the extent of manufacturer specific investments is strongly correlated with the manufacturer's perception of dependency on the retailer. Thus, the view

[2] See the results of hypothesis H6 in appendix A6.1

taken here is that manufacturer specific investments, by acting as partial determinants of dependency, are positively associated with margin related power.

It was also argued in chapter six, that one of the outcomes of retail specific investments in the relationship was greater retail knowledge of manufacturing operations. Open book dealings and the use of technologists in both collaborative and monitoring activities can highlight margin opportunities, some of which the retailer may appropriate. This does not imply that the retailer behaves opportunistically. Greater collaboration and the application of retail expertise across the boundaries of both firms may help identify cost reductions, which can improve margin to both parties. Consequently it is proposed that retail specific investments are positively related to margin related power[3].

However, while the retailer may claim much of the benefit emanating from the new organisational form and its associated efficiencies, sufficient rewards must exist to encourage manufacturers to participate. Mutual gain does not suggest an equal division of the gains. It merely suggests that both parties gain. Power determines the precise division of the gain among the participants.

Finally the analysis examined retail power by brand portfolio where a clear hierarchy of product related power was found to exist. In the case of product related power, suppliers who supplied only own brands were subject to most retail power. Mixed brand portfolio suppliers were subject to less retail power than own brand only suppliers but more retail

[3] Clearly, there will also be an association between retail specific investments and product related power. However, some of these investments in the form of technologists' time and effort etc, will be highly correlated with monitoring activities. Thus we argue that, with regard to product related power, it is the product monitoring activities that is the determinant rather than the investments per se.

power than brand only suppliers. The other noteworthy and unexpected outcome was that no evidence was found to support any variation in power over margin across the different brand portfolios. This suggests that retailers demand their entire supplier base to be equally competitive and that the measures applied to own brand suppliers are applied to branded manufacturers as well. Finally, when considering the unidimensional measure of power, evidence was found of greater retail power in the case of own brand only suppliers compared with either mixed or branded suppliers.

To summarise, evidence has been found to suggest that retail product related power will be positively related to manufacturer specific investments and the brand portfolio supplied by the manufacturer. On the margin side retail power will be positively related to manufacturer specific investments through its effect on perceived dependency. When considering power measured as a unidimensional construct, manufacturer specific investments and brand portfolio are likely to be the key determinants among relationship characteristics.

7.2.4 Retail Product Related Power

Drawing the findings on product related power together suggests that:

H18 *Retail power over product related activities is positively related to retail concentration and own brand penetration of the market-place, negatively related to product shelf-life and manufacturer concentration but positively related to retailers' product monitoring activities and manufacturer's specific investments. It will be higher in the case of own brand only suppliers.*

This was tested using the model:

1. Prodpower = Const + β1 retcon + β2 obmkt + β3 mancon+ β4 slife + β5 monprod + β6 manspec + β7 obonly + U

Where
const is the constant
retcon is the measure of perceived retail concentration
obmkt is the perceived market penetration of own brand
mancon is the measure of perceived retail concentration
slife is product shelf-life
monprod is the retailer's product monitoring activities
manspec is the manufacturer's specific investments
obonly is a dummy to indicate an own brand only supplier
and where β1 to β7 are the variable coefficients and U is a random disturbance term.

Table 7.1

Retail Power over Product Related Activities

Ordinary Least Squares Estimation
****

Dependent variable is Retail Power over Product
97 observations

	Coefficient	**Standard Error**	**[Prob]**	**St. Coefficient**
CONST	-.71780	1.994	.720	0.000
Retail Concentration	.49860	.2508	.050	.1315
Own Brand Market Penetration	.34624	.2485	.167	.1181
Manufacturer Concentration	-.40014	.2595	.127	-.1172
Product Shelf-Life	-.00428	.0019	.027	-.1509
Manufacturer Specific Assets	1.0594	.2707	.000	.3088
Product Monitoring	.79346	.1927	.000	.3270
Own Brand Supplier only	2.2077	1.331	.101	.1636

R-Squared	.5780	F-statistic F (7, 89)	17.414[.000]
R-Bar-Squared	.5448		

Ramsey Reset Specification Test using powers of yhat
Reset (2) = 2.8373 - F with DF1=1 and DF 2 =88
Reset (3) = 1.4127 - F with DF1=2 and DF 2 =87
Reset (4) = 1.0498 - F with DF1=3 and DF 2 =86

The results above in table 7.1 provide strong support for the significance and signs of all the hypothesised variables, with the exceptions of the market penetration of own brand products and manufacturer concentration. The results of the reset test support the model selected, with the F values falling below the critical value at the 99% confidence level. The contribution to the understanding of product related power, by extending the analysis from structural features to include product, firm and relationship characteristics, is to be found in the observation that all of the additional variables are significant. The adjusted R^2 indicates that the model explains approximately 55% of the variation in the dependent variable.

The role of product monitoring as the chief determinant of product related power is demonstrated by its high standardised coefficient value. Manufacturer specific investments feature next, supporting the view that retailers exercise product related power through investments that are dedicated to their relationship. The negative relationship between product shelf-life and retail product related power provides evidence of more retail involvement in product categories, which are likely to play a greater role in determining the retailer's positioning. The results also indicate that brand portfolio is significant at the 90% level.

These results are notable as they support the organising framework used throughout this research, and confirm the view that a more complete understanding of retailer power can be obtained by considering industry structure, firm, product and relationship characteristics simultaneously. The results also indicate that, with regard to product related power, it is the strategic decisions made by the retailer and manufacturer that assume the greater importance. It is the strategic use of own brand, reflected in the retailer's product

monitoring activities, and the manufacturer's decision to make specific investments in the relationship together with the product portfolio supplied to the retailer, that play the more important roles in determining retail product related power.

The analysis above suggests that structural characteristics play a limited role. Retail concentration was the only structural characteristic found to be significant. In chapter six, when considering structural conditions in isolation, a negative relationship was found between retail product related power and manufacturer concentration. However, when the analysis was extended to include firm, product and relationship characteristics the significance of manufacturing concentration diminished. One possible explanation is that when considering manufacturing concentration, one implicitly assumes that production facilities are homogenous. However, specific investments explicitly acknowledge that capacity is heterogeneous and that it is defined, in part, by both parties' identities. It is likely that this heterogeneity acts to overshadow manufacturing concentration.

The negative relationship identified between product shelf-life and product related power supports the argument that retailers exert greater control over food products which are more likely to play a greater role in positioning the outlet. Recent and ongoing events in the consumer market suggest that food related issues such as health and safety will provide retailers with more opportunities to differentiate themselves from their competitors. However, if retailers pursue these opportunities, the outcome for manufacturers will be more vertical co-ordination and the exercise of more retail product related control.

Manufacturer specific investments were also found to be significant determinants of product related power. The relationship was found to be linear. More specific investments are associated with increasing product related power. It is proposed that these specific investments act as the conduits for retail control for two reasons. First, given the idiosyncratic nature of the investments, it is plausible to assume that the retailer participated in the investment decision. This is not to suggest that financial contributions were made, but rather that the projected use of the investments were evaluated and agreed prior to the investment taking place. Second, it was also found that manufacturers' specific investments were complemented by similar investments by the retailer. In this way the retailer can, by directing product related power through these complementary sets of assets, ensure that the benefits of the investments are dedicated to itself, thereby enhancing its performance vis-à-vis its competitors.

The implications for manufacturers are considerable. Manufacturer specific investments represent considerable commitments in terms of resources allocated to a particular business relationship. In addition to resource allocation, the findings indicate that manufacturers cede control of some of their product related activities to the retailer. Thus, manufacturers reduce the latitude of discretion and further undermine their autonomy. While off-setting retail specific investments in the relationship may appear to be sufficient compensation, increasing manufacturer dependency raises questions about the ability of the manufacturer to stay in business outside the immediate trading relationship.

Finally, the positive relationship between retailers' product monitoring activities and product related power underscores the importance of French and Raven's (1959) argument

that observability plays a critical role in the determination of power. It was established earlier that the strategic use of own brands acted as an important determinant of retailers' product monitoring activities. In chapter four, it became evident that retailers were increasingly relying on the retail brand as a means of achieving competitive advantage (Davies 1992; Leahy 1994, 1987; Laaksonen 1994). Consequently, manufacturers can expect greater retail involvement in their product related activities.

7.3.5 Retail Margin Related Power

Drawing together the arguments outlined on margin related power suggests that:

Retail power over manufacturers' margin related activities will be positively related to retail concentration, the market penetration of own brands, the importance of economies of scale, the availability of alternative capacity, product shelf-life, manufacturer specific investments, but negatively related to manufacturer concentration[4] *and the retailer's specific investments.*

This was tested using the model:

2. Marpower = Const + α1 retcon + α2 obmkt + α3 mancon + α4 ecscale + α5 altcap + α6 slife + α7 manspec + α8 manspec^2 + α9 retspec + U

[4] Manufacturer concentration is included as the literature provides considerable evidence that it should act as a determinant of countervailing power. For regression purposes omission of a relevant variable would result in biased estimates. The inclusion of an irrelevant variable on the other hand, while resulting in loss of efficiency, would not risk bias (Kennedy 1996).

Where
const is the constant
retcon is the measure of perceived retail concentration
obmkt is the perceived market penetration of own brand
mancon is perceived manufacturer concentration
ecscale is the importance of economies of scale
altcap is the availability of alternative capacity
slife is product shelf-life
manspec is the manufacturer's specific investments
manspec^2 is the squared value of manufacturer's specific investments
retspec is the retailer's specific investments
and where $\alpha 1$ to $\alpha 9$ are the variable coefficients and U is a random disturbance term.

Table 7.2

Retail Power over Margin Related Activities

Ordinary Least Squares Estimation
****

Dependent variable is Retail Power over Margin
97 observations

	Coefficient	Standard Error	[Prob]	St. Coefficient
CONST	5.7110	3.882	.145	.000
Retail Concentration	.54296	.2680	.046	.1379
Own Brand Market Penetration	.56525	.2742	.042	.1856
Manufacturer Concentration	-.34334	.2072	.101	-.0968
Importance of Economies of Scale	.93818	.2484	.000	.2844
Alternative Capacity	.23031	.2345	.329	.0844
Product Shelf-Life	.00490	.0022	.030	.1662
Retailer Specific Investments	-.44065	.3404	.199	-.1447
Manufacturer Specific Investments	-.34097	1.522	.028	-.9571
Manufacturer Specific Investments ^{2}	.58445	.1931	.003	1.3590

R-Squared	.4247	F-statistic F (9, 87)	7.135[.000]
R-Bar-Squared	.3651		

Using hetroscedastic-consistent covariance matrix

Ramsey Reset Specification Test using powers of yhat
Reset (2) = 0.007851 - F with DF1=1 and DF 2 =86
Reset (3) = 0.29957 - F with DF1=2 and DF 2 =85
Reset (4) = 0.77321 - F with DF1=3 and DF 2 =84

The results presented in table 7.2 above indicate that the variables, with the exceptions of alternative capacity and retail specific investments, are significant and in the hypothesised directions. Manufacturer concentration displays the expected sign but is significant at the

90% level. It should be noted that the standardised value of the importance of economies of scale is substantially larger than the corresponding value for manufacturer concentration. This indicates that the influence of economies of scale is substantially greater than manufacturer concentration in determining retailer margin related power.

The results above indicate that structural conditions are considerably more influential on retail margin related power than on product related control. Structural conditions, by promoting horizontal competition among manufacturers, promote the flow of margin to the retail stage of the marketing channel. The extent of competition at the manufacturing stage of the marketing channel is governed by the interplay between costs and volumes, which is partly determined by the importance of economies of scale. Retail concentration, by reducing the availability of alternative customers, increases the cost of losing a client over and above lost sales. Lost customers increases unit costs and risks making the manufacturer less competitive in its other business arrangements. The market penetration of own brands increases the demand for shelf-space and, in doing so, increases margin contributions to the retailer.

Nevertheless, while structural conditions may be unfavourable, product characteristics may act in a countervailing fashion. Certain product categories contribute more to the retailer's desired positioning than others. Currently fresh food categories appear to be of particular importance. Thus product shelf-life was used as a proxy. Porter (1974:421) suggests that "as the retailer's influence on product differentiation increases, the bargaining power of the retail stage vis-à-vis the manufacturer stage increases". The positive relationship between power over margin and shelf-life simply presents the corollary. The manufacturer's

bargaining power increases as its contributions to the retailer's ability to differentiate itself increases.

The result on the relationship between manufacturer specific investments and retail power over margin is particularly interesting. The non-linear relationship indicates that, at low levels of investments retail, power over margin is negative but, as further investments take place, becomes positive. One possibility is that the relationship is the direct result of retail strategy: promote specific investments by reducing power over margin initially but increase pressure on margin when such investments are high and the manufacturer is tied to the relationship. Theory suggests that post-contractual opportunism on the part of the retailer is an implausible explanation for the relationship specified, as relational forms would arise to reduce the likelihood of such behaviour. The evidence highlights that this is the case. It was found that manufacturer specific investments are protected from opportunistic behaviour, in part, by the degree of firm integration supported by countervailing retail investments. This suggests that it is the perception of dependency, tied to specific investments as against other sources of dependency, which determines the non-linear relationship identified.

The benefit of merging an understanding of structural, product and relationship specific characteristics is supported by the finding that all the structural variables which were significant at the 95% level remain significant[5] but the new model incorporates two new significant variables in product shelf-life and manufacturer specific investments. The arguments set out provide a strong justification for the inclusion of these variables and the finding of the non-linear relationship between retail margin related power and

manufacturer specific investments seems highly plausible.

The managerial implications emerging from the above are clear. Any rationalisation on the supply side and the associated increase in manufacturer concentration is unlikely to reduce retailer power over manufacturers' margin related activities. Indeed, where rationalisation is driven by the relationship between costs and volumes, retailer power is likely to increase over these activities. On the other hand, the evidence finds that increasing retail concentration, driven largely by the need to achieve greater cost efficiency through scale economies (Dawson and Shaw 1989), is positively related to retail power over manufacturers' margin related activities. Consequently, recent and ongoing events across international markets, with continuing consolidation of the retail sector, appear ominous for manufacturers.

However, the nature of the product and its contribution to the retailers positioning may provide some reduction in the pressure on manufacturers' margin activities. Recent years have seen certain food categories transformed, where the defining differential is in terms of product shelf-life. Examples include chilled soups and juices. In other instances, new categories have been developed such as chilled ready-meals and prepared salads. While these categories offer retailers an opportunity to differentiate themselves from their competitors, they offer manufacturers a means of reducing retail power over margin.

[5] The availability of alternative capacity was significant at the 90% level.

7.2.6 Retail Power

In the last chapter, both the perceived penetration of own brand and perceived retail concentration were found to be related to the unidimensional measure of retail power. On the manufacturing side, the need to achieve economies of scale was also positively related to retail power.

Examining product and firm characteristics, product shelf-life, while positively related to retail control over margin, was found to be negatively related to retail control over product related activities. Consequently, when considering the unidimensional measure of retail power, shelf-life is unlikely to be significant as the dynamics operate in different directions.

At relationship level, there was very strong evidence to indicate that retail monitoring of both commercial performance and product activities was positively related to retail power. Product related power was positively related to retail product monitoring activities. Manufacturer specific investments were found to be significant determinants of both margin and product related power. On the margin side, the relationship was non-linear. Brand portfolio was found to be significant with own brand only portfolios subject to greater retail power, primarily through product related activities.

The above suggests the following hypothesis:

Retail power over manufacturing activities is positively related to retail concentration, own brand penetration in the market, the importance of economies of scale in manufacturing, manufacturer specific investments, retail monitoring activities and brand portfolio.

This was tested using the model:

Retpower = Const + β1 retcon + β2 obmkt + β3 mancon + β4 escale + β5 manspec + β6 manspec^2 + β7 monall + β8 obonly + U

Where,

const is the constant
retcon is the measure of perceived retail concentration
obmkt is the perceived market penetration of own brand
mancon is perceived manufacturer concentration
manspec is the manufacturer's specific investments
manspec^2 is the manufacturer's specific investments
monall is the retailer's monitoring activities
obonly is a dummy for own brand only suppliers
and where β1 to β8 are the variable coefficients and U is a random disturbance term.

Table 7.3

Retail Power over Manufacturing Activities

Ordinary Least Squares Estimation

****

Dependent variable is Retail Power
97 observations

	Coefficient	Standard Error	[Prob]	St. Coefficient
CONST	6.34240	2.326	.008	.0000
Retail Concentration	.07645	.2372	.748	.0227
Own Brand Market Penetration	.56365	.2406	.021	.2159
Manufacturer Concentration	-.27464	.2124	.199	-.0903
Importance of Economies of Scale	.59798	.2759	.033	.2114
Manufacturer Specific Investments	-3.78950	1.313	.005	-1.2407
Manufacturer Specific Investments ^{2}	.58739	.1535	.000	1.5931
Retail Monitoring Activities	.83767	.4009	.040	.2413
Own Brand Supplier Only	-.12501	1.172	.915	-.0104

R-Squared .5507 F-statistic F(8, 88) 13.481[.000]
R-Bar-Squared .5098

Using hetroscedastic-consistent covariance matrix

Ramsey Reset Specification Test using powers of yhat
Reset (2) = 0.15678 - F with DF1=1 and DF 2 =87
Reset (3) = 0.09776 - F with DF1=2 and DF 2 =86
Reset (4) = 1.7213 - F with DF1=3 and DF 2 =85

The results are presented in table 7.3 above. The F-test is significant, indicating that at least one of the independent variables is significantly different from zero. The results of the reset tests suggest an appropriate model specification. The adjusted R-square indicates that the model explains 51% of the variation in the dependent variable.

The results are interesting as they provide evidence that only one of the structural features of the retail sector, own brand penetration, is significantly related to retail power. No evidence is found to support the significance of retail concentration. On the manufacturing side, the evidence supports the view that economies of scale is a significant determinant of retail power, having accounted for variations in manufacturer concentration.

Examining firm characteristics, the importance of retailers' monitoring activities as a determinant of retail power is supported, providing further evidence to promote the role of observability within the power literature.

Finally, an examination of relationship characteristics reveals that, once again, manufacturer specific investments display a non-linear relationship with retail power. At low levels the relationship is negative, but becomes positive as investments increase. The relatively high standardised values indicate that manufacturer specific investments play the largest role in the determination of retail power.

Our dummy variable, used to identify own brand only suppliers, is not found to be significant.

7.3 Discussion

The findings above and the results emerging from the hypotheses tested in chapter six highlight a number of relatively clear issues:

- Analysis of retail power must explicitly consider the underlying dimensions;
- An understanding of the dynamics of retail power can only be gained by a simultaneous understanding of structure, product, firm and relationship characteristics;
- While the mode of governance results through discriminating alignment, the degree of inter-firm integration will partly determine the extent of retail power.

During the review of the power literature it was noted that investigations of power within marketing channels treated the phenomenon under review as unidimensional. Indeed, in most instances, this assumption was made implicitly through the measures used to capture the construct and was not explicitly tested. The review of the retailer-manufacturer relationship literature suggested that retail power extended across a range of dimensions of manufacturing activities. It identified two particular dimensions which were considered to merit more detailed investigation. These were product related (Davies 1994; Dawson and Shaw 1989; 1989b; Galizzi et al 1997; Omar 1995; Segal-Horne and McGee 1989; de Chernatony 1989; Senker 1986) and margin related (Porter 1974; Grant 1987; Akehurst 1983; Davies et al 1985). Adopting this perspective facilitated the development of a series of hypotheses that were used to build up a greater understanding of the dynamics of retail power at dimension level. One of the key strengths of the forgoing analysis is that, by devising a unidimensional measure of power together with parallel analysis of some its

underlying dimensions, the relative richness of viewing power at dimension level was clearly demonstrated.

The second issue emerging from the analysis of the retail power literature was that many of the earlier authors attempted to explain the dynamics of power by recourse to one of a number of possible sets of factors. Some focused mainly on industry characteristics (Grant 1987; Akehurst 1983; Davies et al 1985; Duke 1989) while others considered firm and product characteristics (Dawson and Shaw 1989; 1989b; de Chernatony 1989; Brookes 1995) while even others focused on the relationship (Collins and Burt 1999; Hogarth-Scott and Dapiran 1996; Bowlby and Foord 1995; Davies 1994). While each perspective makes its own unique contribution, interdependencies among the three sets of factors and their underlying characteristics are ignored. Consequently, some variables may appear to be more significant than they actually are, simply because related variables have not been considered.

This point is driven home by the variation uncovered in the dynamics of retail power over margin and product related activities and over the unidimensional measure of power. When focusing on margin related power the structural characteristics, retail concentration, own brand market penetration and the importance of economies of scale were found to be important determinants. However, product shelf-life and manufacturer specific investments were also found to be significant. Consequently, if the focus of the analysis had been restricted to any one set of characteristics it would have been flawed to a considerable degree.

A similar difficulty would have emerged in the analysis of product related power. Here retail concentration, product monitoring, specific investments, brand portfolio and product shelf life were found to be determinants of product power. While determinants of margin and product related power share some variables in common, others do not and, in the case of product shelf-life, the nature of the relationship is different.

The strategic richness of the study is enhanced by the identification of the variations highlighted above. This was made possible by stratifying the hypotheses into product and margin related power. In comparison, the findings emerging from the analysis of our unidimensional measure of power offered considerably less from a strategic perspective.

In considering the results, four issues stand out:

- The role of industry structure as a determinant of margin related power;
- Observability as a determinant of retail power;
- The impact of manufacturer specific investments on all dimensions of retail power;
- The consequence of inter-firm integration on retail and manufacturer power.

From the analysis it is evident that structural characteristics act as determinants of retail power on the margin rather than product side. Currently one can observe considerable structural change in both the retailing and manufacturing sectors. On the manufacturing side, consolidation is observed throughout the Irish food industry. This is most noticeable in the dairy and meat sectors. However, much of the impetus towards consolidation appears to be cost driven in search of operational efficiencies through scale. The findings suggest that the need for scale in manufacturing increases retailers' ability to extract margin

from their suppliers. Consequently, consolidation taken by itself, may not generate the improved returns that cost savings might have been expected to yield.

However, scale also appears to be a determinant on the retail side. Dawson and Shaw (1989) highlight the potential efficiencies that can be achieved through scale in retailing. Current events in the international arena appear to bear this out, with increasing concentration becoming evident both within and across national markets. However, as retail concentration increases, the results suggest that further retail control will be brought to bear on manufacturing margins. In tandem with increasing retail concentration we have the growth in own brand penetration. This was also found to increase retail margin related power over and above that explained by variations in retail concentration. Consequently, current trends in both the manufacturing and retailing sectors do not augur well for suppliers to the grocery market.

As part of the analysis, retailers' motives underlying their product monitoring activities were investigated. The role of observability, although stressed by French and Raven (1959), had been neglected throughout the power literature. In the review of the retailer-manufacturer relations literature, it became increasingly evident that one of the more dramatic features of the recent evolution of the supply chain was the increasing degree of transparency from the retailer's perspective. Hughes (1994) suggests that the repositioning of the Tesco brand would not have been possible without the physical transformation of the supply chain and the establishment of regional distribution centres, which facilitated monitoring activities. This research has found empirical support for this relationship between product monitoring and the strategic use of own brand. But this was only the first

stage because, as we progressed, further evidence was found to support the relationships between monitoring activities and both product related power and our unidimensional measure of power. Observability promotes partner compliance and ensures that retailers do not suffer from quasi-rent seeking behaviour on the part of their suppliers.

The finding of the negative relationship between product monitoring activities and retail influence on the price to the manufacturer also supports earlier work (Klien et al 1978), which suggested that monitoring activities could be traded-off against an insurance premium paid to agents. This may be of particular interest to retailers that do not have sufficient scale to impose high levels of monitoring activities yet suffer the risk of supplier opportunism. However, it also suggests that as monitoring activities become more easily implemented, retail power over manufacturers' margins is likely to increase.

One of the more interesting issue emerging from the study is the role of manufacturer specific investments. These investments were found to be positively related to all our measures of retail power. The linear relationship on the product side appears highly plausible and is supported in the literature (Fearne 1996; McGrath 1995).

However, as pointed to earlier, the results on the margin side appear contradictory. The non-linear nature of the relationship is notable as it suggests that the dynamics of specific investments varies according to the level of investments. It is likely that specific investments are made incrementally. Past behaviour sets expectations of future conduct. Thus, a retailer's proven ability to restrain opportunistic behaviour is necessary but insufficient to generate enough manufacturer confidence to engage in further investments.

Following earlier theoretical work by Williamson (1983), evidence was found to support the hypothesis that compensating retail specific investments are required to act as credible commitments. Despite this, however, the findings suggest that a level of specific investments is reached where retailer power over margin becomes positive. Why manufacturers are willing to invest beyond this point remains unclear.

To make sense of this finding, consideration must be given to the rationale underlying the move towards integration. Inter-firm integration enhances vertical co-ordination between trading partners. In doing so, the costs of transacting are reduced and, in many cases, performance-enhancing investments are made, which in other circumstances would not occur. The nature of competition within the food chain appears to be where chains of vertically aligned firms compete (Collins 1997; Hughes 1994; Dawson and Shaw 1989b). Efficiencies within the boundaries of firms is now being supplanted by the achievement of efficiencies across firms (Collins 1997; 1999b). The identification of potential efficiencies on the boundaries between firms and the attainment of these cost reductions increasingly depends on the relationships between both parties. In this manner, the efficiency of the chain determines to a considerable degree each individual firm's competitiveness. The adaptive strengths of the hybrid ensures that the move away from market contracting yields better returns. However, the distribution of these rewards favours the retailer due to favourable structural conditions, its access to better information channels and its role of brand guarantor in the grocery channel.

The move to greater inter-firm integration reduces incentive intensity, which can be restored through greater administrative controls and/or reward systems (Williamson 1991).

This explains the negative relationship between inter-firm integration and retail influence over price to the retailer. Thus the findings support the proposition that relational contracting, that is, increasing degrees of inter-firm integration, can moderate the exercise of dependence based power (Provan and Gassenheimer 1994). Consequently, while retail power over margin increases with manufacturer specific investments, the superior performance resulting from these investments ensures that both parties achieve a better return than would be possible under other circumstances.

7.4 Theoretical Contributions

The foregoing has made at least five important theoretical contributions. First, through its review of the French and Raven's (1959) pioneering work, and by emphasising the importance they placed on observability, the current work has filled a crucial gap in the power literature. In placing observability as a critical determinant of power, French and Raven implicitly allow for the behavioural assumption of bounded rationality and the possibility of agent's engaging in cheating behaviours. These possibilities are not considered elsewhere in the evolution of the power literature.

The power literature argues that power, invested in channel members, acts as the co-ordinating mechanism within the marketing channel. "Unguided channel activity, with each channel member independently seeking its own self interest, is therefore apt to lead to sub-optimal performance. Only through the exertion of channel power can the actions of disparate channel members be co-ordinated" (Stern et al 1996:286). The transaction cost framework offers a competing model of channel co-ordination. It proposes that, in the

absence of transaction costs, markets are sufficient to optimally co-ordinate channel activity. However, where markets fail, different modes of governance emerge such that the cost of establishing, monitoring, adapting and completing contracts are minimised. Power is considered secondary to efficiency in the co-ordination of economic activity.

The question as to which is the more useful framework in the analysis of the organisation of economic activity is beyond the scope of this work. However, it is clear that, within the power literature both empirical and theoretical, the concept of observability is notable by its absence. However, the concept of observability, through monitoring, has evolved within the transaction cost literature. By incorporating monitoring activities into the study of power relations, the existing deficit in the power literature has been rectified to a degree thereby strengthening the analysis.

The second contribution made in this research is to reassert the importance of specifying the dimensions of retail power. French and Raven (1959) propose that power is system specific. "It is necessary to define power with respect to a specified system because the power of O/P may vary greatly from one system to another" (French and Raven 1959:153). However, in the power literature reviewed, power is not explicitly defined by system but rather by the agents, for example retailer-manufacturer (Brown et al 1983; Butaney and Wortzel 1988; Ogbanna and Wilkinson 1996; 1998). This study explicitly acknowledged that power was system specific by focusing on specific dimensions. The rewards are clear. It found that the determinants of power over product related activities were different from those over margin related activities. This suggests that much of the former literature may have lost its strategic value because of an inappropriate level of analysis and the failure to

treat power as system specific. This research has shown that analysis at dimension level is substantially more rewarding and meaningful than analysis of power as a unidimensional construct.

The third contribution made was specifying the determinants of retailers' product monitoring activities. By measuring retailers' monitoring activities rather than costs, which would have been extremely difficult and impracticable, the analysis could test and provide empirical evidence to support one of the more interesting hypotheses emerging from the transaction cost literature. The resulting empirical evidence, that retailers trade-off monitoring activities against a form of insurance premium, is of considerable strategic merit. Assuming that monitoring activities are undertaken as long as the expected benefits exceed the expected costs, it is proposed that, as monitoring activities become more easily applied and as the associated costs fall, retail influence on manufacturers' prices will increase. Thus, moves to centralised distribution and greater transparency of the supply chain, may be expected to increase the pressures on manufacturers' prices ceteris paribus. However, the greater strategic use of own brand and the associated increase in specific investments will act in a countervailing fashion.

The fourth contribution was to improve our understanding of the role of specific investments in the determination of retailer power. Earlier work, emerging from the transaction cost literature, examined the role of specific investments in determining the mode of governance (Williamson 1979; 1985: Klien et al 1990). Other authors have incorporated specific investments into the dependency literature (Heide and John 1988). However, the findings above extend our understanding of the role of specific investments

by uncovering their role as determinants of power. It is also notable that the analysis has found that specific investments increase retail power, having accounted for retailers' monitoring activities. This indicates that there is an associated compound effect in process.

The fifth, and possibly most important contribution, was to improve our understanding of the determinants of inter-firm integration. It is clear that the organisation of inter-firm relations in the grocery channel is evolving dramatically. Transactions are moving from the market to domesticated arrangements as described by Arndt (1979). However, most of the literature examining this phenomenon is descriptive (Fearne 1996; Senker 1986; Hogarth-Scott and Parkinson 1993a; Hughes 1994; Shaw and Gibbs 1995) and does not claim to offer a complete understanding of the factors underlying the organisational form decision. While the work of Williamson (1975; 1979; 1991; 1994; 1996) Klien et al (1978) provided the starting point for the analysis, the contributions from the dependency balancing literature (Buchanan 1992; Feldman 1998) and the work of Heide and John (1990) proved particularly important. The transaction cost literature while signalling the importance of bilateral dependency as a determinant of inter-firm integration implicitly assumed that the dependency was symmetric. By incorporating the ideas expressed by Buchanan (1992) and Feldman (1998), the current study proceeded and provided empirical evidence to show that integration was positively related to perceived interdependency but negatively related to perceived dependency. In this manner the findings build substantially on earlier work (Heide 1994), which examined the relationship between interdependency and certain limited aspects of inter-firm integration (i.e. flexible adjustment processes).

Recent authors suggest that "the relative power of retailers and manufacturers in the supplier relationship is demonstrated in the form and process of contracting" (Foord et al (1996:79). Doel (1996: 52) acknowledges "that transaction specific investments have certainly been made by both parties in the context of intensive product development and exclusivity agreements" but ignores the role of retail brands as specific investments. Nevertheless Doel (1996: 64) proceeds to argue that "the impact of power differentials for instance is thoroughly implicated in the governance structures that currently dominate the food manufacturer interface". Both these arguments suggest that power determines the relational form and that the current position of the retailer as the most powerful agent in the food channel has led to the dominance of relational contracting. The findings on inter-firm integration suggest that this is not the case and provides support for the discriminating alignment perspective. Retailers' specific investments in their brands necessitated that they form particular relationships with their suppliers. In doing so, retailers could ensure, to a greater extent, that the costs of opportunism were reduced while further value adding specific investments by both parties were more likely to emerge. This suggests that retail power is not the determinant of relational form but may be a consequence of the way in which firms decide to organise their trading relationships.

Finally, the analysis has explored retail power in the context of retailers' and manufacturers' brands competing for the position of guarantor within the food marketing channel. Integrating both brand formats into the analysis of power has extended the existing literature. Research by Hughes (1996) and Fernie and Pierrel (1996) suggest that, while French and US retailers' own label products are not as developed from a strategic perspective as their UK counterparts, they are likely to follow a similar evolutionary path.

Wileman and Jary (1997:97) propose that "there are no innate structural reasons why the UK model cannot be replicated and ... that the retail brand-building achieved by UK grocers should be a strategic imperative for grocers in other countries". If this is so, then the current research points to some of the likely implications for both food retailers and manufacturers trading in these markets. However, this convergence in evolutionary paths may not necessarily occur. Nevertheless, the framework used in this study, by embracing variations in structural, firm, product and relationship characteristics, will continue to offer a useful tool in the analysis of retail power irrespective of the precise market conditions and prevailing manufacturer and retailer strategies.

7.5 Limitations of the Study

Despite its strengths, there are a number of limitations to the study. The first is that the work focuses on only one side of the dyad. This limitation is of little consequence for much of the analysis when considering retail power over manufacturing activities but assumes greater significance when considering the determinants of inter-firm integration. Clearly, basing the study on perceptions from both sides of the dyad would have added to the analysis and given even greater confidence to our measures of perceived dependency and interdependency.

The second limitation of the study is that it ignores the social dimension of power relations and the norms that govern the exercise of power. Variations in organisational factors and corporate culture, as alluded to by Hogarth-Scott and Parkinson (1993a), are not considered. There is a substantial body of work that emphasises the role of negotiation

strategies and personal characteristics as determinants of retail power. For instance, Davies (1994) points to the higher educational qualifications of retail buyers as a determinant of retail power. Campbell (1985), Wren and Simpson (1996) and Fairhurst and Fiorito (1990) highlight the importance of the individual buyer's characteristics as a determinant of the interaction process. While clearly relevant to the study of power relations such a micro focus was considered beyond the scope of the current work.

A third limitation is that the analysis is category specific. Over the course of the pre-test stage, it became clear that a retailer's power over a given company could vary across product categories. This presented considerable data collection difficulties if aggregate power was to be measured. Consequently, underlying the study is the assumption that the power dynamics at category level are the same as at corporate level and the only variation is caused by aggregation. While such an assumption is plausible, and certainly fits with the view that power is system specific, it remains untested. It is quite possible that scope effects may come into play.

7.6 Direction for Future Research

One of the more notable features emerging from the review of the sources of power literature in chapter three is that the topic has, by and large, fallen off the research agenda. One possible reason is that reliance on the concepts of "power sources" meant that the findings were of a limited value from a strategic perspective. Furthermore, difficulties raised by Gaski (1984) with regard to the distinctions among power sources have yet to be satisfactorily resolved. Future research may be more rewarding if focused on selected

dimensions of power and when the independent variables relate to factors that enable an agent to reward or apply sanctions on trading partners. In this study, the chosen dimensions of power were margin and product related. In future work, the components of these dimensions could be refined and greater emphasis placed on more precise performance measures. This would be of considerable benefit in the assessment of the findings relating to organisational form. For instance, do manufacturers achieve higher rates of return in relationships characterised by higher levels of inter-firm integration yet subject to more retail power than those displaying a more market contracting orientation ceteris paribus?

Second, this research has highlighted the critical role played by manufacturer specific investments in the determination of all aspects of retail power considered in this study. However, retail power over manufacturers' investment decisions has not been dealt with in this research. In a trading environment where the retail brand is assuming greater strategic importance, a retailer's ability to influence manufacturers' specific investment decisions represents an important source of competitive advantage. Also, these investments have important implications for a manufacturer's ability to manage a balanced customer portfolio. The decision-making processes underlying these investment decisions is worthy of investigation particularly in a retail trading environment characterised by continuing consolidation and where trading relationships can be severed by a third party's actions, for example, through retail internationalisation (Collins and Burt 1999).

The importance of specific investments also points to another area worth of investigation. This concerns the role of trust within retailer-manufacturer relationships. Although not

incorporated into this research, a growing body of work is emerging examining the role of trust within exchange relationships (Selnes 1996; Andaleeb 1996; Zaheer and Venkatraman 1995). According to Luhmann (1979:42) "one fundamental condition of trust is that it must be possible for the partner to abuse the trust; indeed it must not be merely be possible for him to do so but he must also have a considerable interest in doing so". Clearly, the existence of specific investments meets these conditions. However, the existence of offsetting hostages or credible commitments reduces the motivation to abuse and the need for trust as they make opportunistic behaviour irrational due to the expected loss associated with being caught. Nevertheless, making offsetting investments can impose significant costs. Consequently, "trust may be applied because it is the only option available, or it may be employed because it is a cost efficient mechanism" (Selnes1998:308). Thus, trust would also appear to be part of the optimisation problem.

Third, the argument relating to manufacturer brand franchise, points to an area worthy of investigation. In the literature, it appears that the negative relationship between retail power and manufacturer brand franchise is based on the assumption of like-for-like markets. Retail power is implicitly assumed to range over manufacturing activities addressing the needs of the market where the manufacturer's brand franchise is strong. This may be due to the fact that much of the current research on retailer-manufacturer relationships tends to be retail market specific with a focus on British retailers in particular and their relationship with suppliers supplying the British market. However, given the internationalisation of retailing this assumption is becoming increasingly less plausible. Many firms with strong national brands may decide to produce brands for a given retailer in one market but own brands for the same retailer in its other markets. Thus, brand power is

market specific but retailer power is not. It is relationship specific. The managerial implications of this product mix decision could be worthy of further investigation.

Finally, the determinants of retail power were examined by focusing on manufacturing activities over which retailers exercised control. Countervailing power is defined as manufacturers' ability to resist this control. However, the findings on the determinants of inter-firm integration and the symmetry of dependency suggests that there are two power relations in operation. These are retail power over the manufacturer and, alternatively, there is manufacturer power over retail operations. No recent work has investigated this phenomenon in the UK where retail power is arguably strongest. This is peculiar given that manufacturers have as much incentive to control aspects of retail operations as retailers have to control manufacturing operations. Power is exercised to gain control over resources outside the firm but on which the firm is dependent. To suggest that manufacturers are passive players in the food chain would be naïve. Because power is system specific both sets of power relations are not mutually exclusive. Indeed, a symmetric investigation of power relations, examining both sides of the dyad, may show this to be the case.

Appendix A2.1

Table A2.1

Retailers' Percentage Share of Suppliers' Trade for 1990 and 1986 Where Available

Supplier No.	Dunnes 1990	Dunnes 1986	Musgrave 1990	PSL 1990	PSL 1986	Superquinn 1990	Superquinn 1986
1	19	17	17	22	21	6	6
2	17		7	18		4	
3	21	18	18	21	19	6	7
4	13		12	21		8	
5	21	27	17	13	15	3	2
6	5		7	5		2	
7	9	0	3	24	15	5	4
8	18	14	21	27	18	7	10
9	6		13	16		5	
10	10		18	20		6	
11	9		0		32		7
12	24		4	0		1	
13	30	28	16	20	13	5	5
14	3		4	41		0	
15	9		43	7		4	
16	14		13	16		4	
17	3	2	2	4	2	2	1
18	17		16	24		6	
19	6	4	12	8	8	2	2
20	17		10	31		7	
21	13	26	17	17	16	5	7
22	5		8	16		5	
23	10		16	17		4	
24	23		14	21		5	
25	19		40	26		13	
26	14	14	16	12	9	2	2
27	13	12	17	22	22	6	7
28	14	14	13	22	21	7	8
29	20		12	24		5	
30	13		2	27		7	
31	13		12	19		5	
32	19	24	17	19	18	5	6
33	9	7	12	12	8	3	3
34	7		6	22		7	
35	20		14	19		8	
36	6		22	22		6	
37	8	3	7	14	5	4	2
38	16		16	14		3	
39	57		0	38		0	
40	16	15	14	26	25	6	8
41	12		45	16		7	
42	4		11	8		5	
43	12		11	16		5	
44	40		5	0		0	

Supplier No.	Dunnes 1990	Dunnes 1986	Musgrave 1990	PSL 1990	PSL 1986	Superquinn 1990	Superquinn 1986
45	17		19	22		4	
46	16		10	14		4	
47	17		16	32		8	
48	0		0	0		0	
49	12		10	2		2	
50	79		0	21		0	
51	17		12	17		4	
52	7		12	16		4	
53	18		3	1		0	
54	10		12	17		9	
55	8		5	2		20	
56	5		20	35		20	
57	0		16	53		19	

Source: Fair Trade Commission 1991

Appendix A5.1 The Instrument

Q1

Your Company Details **Company Name** _____

Age of Company _____ Turnover for last 12 months £ _____ Number of Employees _____

Principal product category sold to retail to customers _____

Approximate shelf life (day of production to use by date) of your main products _____ (days)

Do you supply branded products to any retailer? (Please tick ✓) Yes ____ No ____

Do you supply own brand (private label) products to any retailer? (Please tick ✓) Yes ____ No ____

How many retailers do you currently trade with? ____

What % of your sales are accounted for by the retail grocery trade? _____

Q2

No Emphasis	Very Limited Emphasis	Some Emphasis	Considerable Emphasis	Major Emphasis
1	2	3	4	5

Using the scale above please indicate how much emphasis your company places on each of the following strategy variables to gain competitive advantage. Please ensure that your scores reflect any variations in emphasis on the variables.

Strategy Variable	Score
Production Process Development[1]	
New Product Development	
Supplier (input) Selection	
Production Processes[2]	
Product Specifications	
Inventories/Stockholding[3]	
Delivery conditions (amounts, frequency)	
Promotional Activity	
Customer Portfolio	
Price to the Retailer	
Credit Terms to the Retailer	

[1] Refers to the development of new production processes by your company

[2] Refers to the use of particular production processes as a means of achieving competitive advantage.

[3] Refers to the strategic management of inventories as a source of competitive advantage.

Q3

Strongly Disagree			Neither Agree or Disagree			Strongly Agree
1	2	3	4	5	6	7

Using the scale above please indicate to what extent you agree with each of the following statements.

General Component	Score
A few retailers dominate our industry	
We are more innovative than our competitors.	
Most output in this industry is attributable to a few large firms.	
Scale economies play a significant role in maintaining competitiveness in this industry.	
In this industry larger firms do not enjoy substantially lower unit costs than smaller ones.	
Few, if any, firms in this industry are operating at full capacity.	
Investment in new product development is essential for continued success.	
Rapid imitation of new products by competitors is a feature of our category.	
If we were to cease trading, our competitors could easily supply sufficient volumes to meet our customers' needs.	
Retailers can find other manufacturers with unused capacity to supply their needs.	
Our industry is dominated by a few manufacturers.	
There is too much capacity in our industry.	
Our customers would have considerable difficulty in finding alternative suppliers if we were to stop doing business with them.	
In our industry long production runs are necessary for cost competitiveness.	
Product innovation is an important source of our competitive advantage.	
In our industry higher volume throughput results in considerably lower unit costs.	
Our industry is characterised by long product life-cycles.	
Smaller firms are not at a significant cost disadvantage to large firms in this industry.	
A constant stream of new products is necessary to maintain one's place in the marketplace.	
There is excess capacity in our industry.	
We allocate significant resources to new product development.	
Our industry consists of a large number of similarily sized manufacturers.	
Our market is controlled by a small number of large retailers	
Retailers recognise our expertise in product innovation.	
Our industry is controlled by a small number of large manufacturing enterprises.	

Q4

Retailer Details	How long have you been trading with this retailer? (Years)	Retailer's share of your sales (%)	Own brand share of your sales to this retailer (%)	Expected growth/decline in sales in the coming year (+/-) %
Retailer 1				
Retailer 2				

Q5

No Influence	Very Limited Influence	Some Influence	Considerable Influence	Major Influence
1	2	3	4	5

Using the scale above please indicate how much influence each retailer has over the following strategy variables? Please ensure that your scores reflect any differences between the retailers.

Strategy Variable	Retailer1	Retailer2
Production Process Development		
New Product Development		
Supplier (input) Selection		
Production Processes		
Product Specifications		
Inventories/Stockholding		
Delivery conditions (amounts, frequency)		
Promotional Activity		
Customer Portfolio		
Price to the Retailer		
Credit Terms to the Retailer		

Q6

Strongly Disagree			Neither Agree or Disagree			Strongly Agree
1	2	3	4	5	6	7

Using the scale above please indicate to what extent you agree with each of the following statements for each retailer. Please ensure that your scores reflect any differences between the retailers.

Retail Specific Component	Retailer1	Retailer2
Our brand is the market leader in their category.		
They market their own brand as quality brand in its own right.		
The loss of their business would be a serious blow to our future profitability.		
Our brand is coming under increasing pressure from other manufacturers' brands.		
Most of this retailer's competitors have substantial own brand sales.		
The volume of business we do with them helps us to be cost competitive vis a vis other manufacturers.		
Few of our competitors could easily meet their quantity requirements.		
We spent considerable effort training our staff to deal with their specific requirements.		
They and their competitors have an own brand alternative for almost all products.		
Our brand is coming under increasing pressure from their own brand.		
The loss of their business would increase our unit costs as a result of lost economies of scale.		
Own brands dominate this retailer's market.		
Their own brand is comparable to the best manufacturer brand.		
The loss of their account would significantly reduce our short term profits.		
They perceive their own brand to be a quality brand.		
Few of our competitors could meet their quality requirements.		
We are a major supplier to them in our product category.		
The image of their own brand is important to them.		
Delisting our brand is likely to reduce their sales.		
We would find it very difficult to replace their business if we were to lose it.		
Own brands account for a large share of their category sales.		
If we discontinued supplying to them, they would have difficulty making up the sales volume in our product category.		

Strongly Disagree			Neither Agree or Disagree			Strongly Agree
1	2	3	4	5	6	7

Retail Specific Component	Retailer1	Retailer2
Their own brand products are becoming much more complex and sophisticated.		
Own brand products account for a large proportion of their total grocery industry's sales		
Our business would be in jeoprady if we lost their business.		
Brief supply problems of our product would adversely affect their image.		
Their delivery conditions are particularly demanding.		
If our product is out of stock their customers are unlikely to purchase a substitute.		
Their product specifications are particularly demanding.		
Our brand is important to their category.		
We spent considerable effort establishing procedures and routines to cater to their specific needs.		
If we were to cease trading with them we would waste a lot of knowledge that's tailored to their method of operations.		
We have strong personal relationships with them.		
They carry-out a very time consuming due diligence before approving a new supplier.		
We spent considerable resources tailoring our production processes to meet their product specifications.		
Integrating our information systems to cater to their specific needs proved difficult.		
Their buyers and technologists have spent a lot of time and effort providing us with advice and information.		
If we were to stop doing business with them they would find it hard to source products quickly with similar customer appeal.		
They have allocated a lot of shelf space to our products.		
All the equipment we use for their account could be easily adapted to our other customers' needs.		
Their reputation for fairness with their suppliers is very important to them.		
They have invested so much time and effort in us that they could not just walk away.		
If they were to stop doing business with us, their customers would quickly notice.		

Q7

No Monitoring of our Performnce						Extensive Monitoring of our Performance
1	2	3	4	5	6	7

Using the scale above please score the extent to which each retailer monitors your company's performance on each of the following activities. Please ensure you scores reflect any differences between the retailers.

Retail Specific	Retailer1	Retailer2
Production processes		
Raw material quality		
Product quality		
Delivery accuracy		
Price competitiveness		
Product sales		
Promotion effectiveness		

Q8

Minimal Joint Effort						Extensive Joint Effort
1	2	3	4	5	6	7

Using the scale above please score each retailer in terms of joint effort in the following activities with your company. Please ensure you scores reflect any differences between the retailers.

Retail Specific	Retailer1	Retailer2
New Product Development		
Production Process Development		
New Delivery Procedures		
Information Systems		
Sales Forecasting		
Retailer's Range (Assortment) Management		
Promotions Planning		
Product Merchandising		

Q9

Completely Inaccurate Description			Neither Accurate nor Inaccurate			Completely Accurate Description
1	2	3	4	5	6	7

Using the scale above please indicate to what extent the following statements are accurate descriptions of your relationship with each retailer. Please ensure you scores reflect any differences between the retailers.

Retail Specific	Retailer1	Retailer2
Providing them with sensitive information helps support our relationship with them.		
The nature of our relationship enables both of us to manage changing circumstances well.		
We find written contracts very useful in sorting out disagreements with them.		
Termination of our relationship is very unlikely.		
Both parties make joint plans for the future development of our businesses.		
We expect them to become a greater source of our profits in the future.		
Flexibility by both parties in response to requests for change is a characteristic of this relationship		
Communication between our companies is such that any member of their team can easily contact any of ours.		
They provide us with sensitive information (sales, market shares, performance results etc).		
Our top level management visit them infrequently.		
We provide them with a lot of sensitive information about our operations (costs, product specifications etc).		
I expect them to be (or continue to be) one of our most important customers.		
Communication between our companies is such that any member of our team can easily contact any of theirs.		
We provide them with a lot of sensitive information about our markets.		
We expect to be working with this retailer for the foreseeable future		
Both parties expect to be able to make adjustments in the ongoing relationship to cope with changing circumstances.		
Both parties expect this relationship to last a long time.		
When some unexpected situation arises both parties would rather work out a compromise rather than hold each other to the original deal.		
We expect them to become more important to our success in the future		

Appendix A6.1

Additional hypotheses

H1 *Perceived alternative capacity will be more correlated with the exercise of retail power on margin than on the product dimension.*

Correlations between perceived retail power along the product and margin dimensions and alternative capacity are given in table A6.1. The Pearson correlation coefficient measures the linear association among the variables. The hypotheses being tested is whether or not the correlation coefficient among the variables is significantly different from zero. Consequently we are looking for "p" values below the critical value of 0.05 for a 95% confidence level.

The results support a positive and significant relationship between retail power over margin and the perception of alternative capacity in manufacturing. This suggests that manufacturers' perception of retailers access to alternative production capacity increases retailers' power over manufacturers' margin. The results do not support any relationship between the availability of alternative capacity and retail influence on the product dimension. Consequently, the hypothesis may be accepted.

Table A6.1

The Relationship between Retailer Power and Industry Structure

(Pearson Correlation Coefficients)

Variable		Alternative Capacity	Economies of Scale	Retail Concentration	Manufacturer Concentration	Own Brand Penetration
Retail Power	Coefficient[1] P[2] N[3]	.040 .682 108	**.187** .052 108	.151 .119 108	.051 .601 108	**.397** .000 108
Power over Product	Coefficient P N	-.055 .572 108	.002 .984 108	.162 .094 108	-.119 .220 108	**.280** .003 108
Power over Margin	Coefficient P N	**.225** .019 108	**.307** .001 108	**.212** .028 108	.069 .478 108	**.330** .000 108
Alternative Capacity	Coefficient P N		.054 .577 109	.087 .369 109	-.149 .123 109	.099 .305 109
Economies of Scale	Coefficient P N			.103 .286 109	**.453** .000 109	**.287** .003 109
Retail Concentration	Coefficient P N				-.076 .433 109	.009 .929 109
Manufacturer Concentration	Coefficient P N					.100 .300 109

[1] Pearson Correlation Coefficient
[2] Probability Level
[3] Number of Observations
Correlations in bold are significant at the 95% level

H2 *Retail specific investments will be positively correlated with the strategic use of own brand.*

H3 *Retail specific investments will be positively correlated with manufacturer specific investments.*

The results below (table A6.2) also support positive and significant associations between retailer specific investments and both the strategic use of own brands and manufacturer specific investments. Consequently, both hypotheses may be accepted.

Table A6.2

Retail Specific Investments, Manufacturer Specific Investments and the Strategic use of Own Brand

		Strategic Use of Own brand	Manufacturer Specific Investments
Retailer Specific Investments	Coefficient[1]	**.411**	**.648**
	P[2]	.000	.000
	N[3]	107	107

[1] Pearson Correlations Coefficient
[2] Probability Level
[3] Number of Observations
Correlations in bold are significant at the 99% level

H4 *Manufacturer specific investments will be positively correlated with the expected continuity and attractiveness of the relationship.*

The results in table A6.3 support a significant association between manufacturer specific investments and expected continuity and attractiveness of the relationship. The association is positive and significant at the 99% level.

Table A6.3

Manufacturer Specific Investments and Relationship Expectations

		Expected Continuity and relationship Attractiveness
Manufacturer Specific Investments	Coefficient[1]	**.253**
	P[2]	.008
	N[3]	107

[1] Pearson Correlation Coefficient
[2] Probability Level
[3] Number of Observations
Correlations in bold are significant at the 99% level

H5 *Manufacturer dependency on a retailer is positively related to its specific investments in the relationship having accounted for the retailer's share of the manufacturer's sales.*

To test this hypothesis, the partial correlation coefficient is used. The results are given in table A6.4. These support a positive and significant relationship between manufacturer dependency and manufacturer specific investments having controlled for the retailer's share of sales.

H6 *Retailer power is positively related to the manufacturer's specific investments in the*

relationship having accounted for the retailer's share of the manufacturer's sales.

Table A6.4 also provides strong evidence of associations between manufacturer specific investments and all aspects of retail power, having accounted for the retailer's share of the manufacturer's sales. Consequently the hypothesis is accepted.

Table A6.4

Manufacturer Specific Investments, Manufacturer Dependency and Retail Power (Partial Correlation Coefficients)

Controlling for Retailer's Share of Sales			Controlling for Retailer's Share of Sales				
		Manufacturer Dependency			Retail Power	Product Related Power	Margin Related Power
Manufacturer Specific Investments	Partial Coeff	.3738	Manufacturer Specific Investments	Partial Coeff	**.5539**	**.5537**	**.3861**
	N[1]	101		N	101	101	101
	P[2]	.000		P	.000	.000	.000

[1]Number of Observations
[2] Probability Level

Table A6.5

Retail Power and Brand Portfolio

		N	Mean	Std. Deviation	Std. Error
Retail Power	Own Brand Only	16	13.41	5.40	1.35
	Brands Only	49	9.28	3.59	.51
	Mixed Portfolio	43	11.38	3.54	.54
	Total	108	10.73	4.12	.40
Retail Product Related Power	Own Brand Only	16	14.10	6.68	1.67
	Brands Only	49	7.12	3.60	.51
	Mixed Portfolio	43	9.85	3.54	.54
	Total	108	9.24	4.77	.46
Retail Margin Related Power	Own Brand Only	16	12.33	5.16	1.29
	Brands Only	49	10.83	4.61	.66
	Mixed Portfolio	43	13.08	4.67	.71
	Total	108	11.95	4.79	.46

Appendix A6.2

Hetroscedasticity and White's Corrective Procedure

Underlying the classical linear model is the assumption that the variance of the disturbance terms in the model is the homoscedastic, that is, have equal variances. Given the nature of the research, such an assumption is questionable. For instance, more mature firms may enjoy some benefit of past experience leading to a type of error learning model resulting in differences in variances (Gujarati 1995). The consequences of such a violation are that the estimates, while unbiased, are not efficient i.e. do not have minimum variance. In other words, if a series of samples were taken the mean coefficient value would equate to the population mean. However, the large variance means that one could be less confident in the sample results. Thus the null hypothesis could be accepted when it should, in fact, be rejected. In some circumstances, where knowledge of the structure of the disturbances is known, procedures can be employed to remove the problem. However, in the current study such knowledge is unavailable. Consequently, an alternative solution must be found.

There is a series of tests for the presence of hetroscedasticity such as the Goldfield Quandt test, the Breusch-Pagan test, the Park test, Glesjser test and the White test (Kennedy 1996) (Gujarati 1995) (Pindyck 1991). However Hsieh (1983) argues that these tests for the presence of hetroscedasticity are weak particularly at the 95% confidence levels. He asserts that given the inherent weakness of the tests, the most appropriate approach is to employ a hetroscedasticity-consistent covariance matrix for ordinary least squares. In other words, assume the presence of hetroscedasticity and correct for it. The strength of this approach is

that there is little loss of power even if the original disturbance terms are homoscedastic, while the potential pitfall of accepting homoscedasticity in cases where the disturbance terms are hetroscedastic is avoided. Also no knowledge of the structure of the disturbance terms is required to proceed (White 1980). Consequently, in all the ordinary least squares regressions we will apply White's hetroscedasticity corrective procedure.

Ramsey's Reset Test

Ramsey's reset test is used to test for model mis-specification errors. In particular, one needs to test for omitted variables or incorrect functional form. The reset test is based on the argument that, in the case of an omitted variable, a relationship should exist between the predicted values of the dependent variable and the observed residuals (Gujarati 1995). Consequently, by incorporating the predicted value of the dependent variable into the regression, the overall R^2 should increase i.e. the percentage of the total variation in the dependent variable explained by the model should increase. Thus, the test examines the change in the R^2. If the R^2 displays a statistically significant improvement, having incorporated the predicted values of the dependent variable, mis-specification is likely. The test statistic is the F-statistic displayed under the reset output. The null hypothesis is that the difference in R^2 results are not significantly different from zero. Consequently, the null hypothesis will be accepted for values of the F-Statistic below the critical level.

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