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Power in distribution channels — Supplier assortment strategy for balancing power

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A B S T R A C T

This paper focuses on the move from buyer dominance toward interdependence between buyers and suppliers in a distribution channel. The paper introduces a case study collected through in-depth interviews and participative observations. It examines the relationships between a timber supplier and its customers in the builders' merchants sector. We stress the relevance of considering actions intended to change the power balance, rather than focusing only on trust. The power balance in a dyadic relationship is dynamic, and power positions need to be constantly re-evaluated. An important power resource is information asymmetry, manifested in the supplier's information about: products, regional and local demand, and the usage of the products. For practitioners, we highlight the possibility of exerting a non-coercive power resource, such as information asymmetry, in order to increase the relative power. Furthermore, being open about the power position between a buyer and a seller can foster a more efficient collaboration.

1. Introduction

This paper explores the possibility for a supplier to change the power situation in a distribution channel by adjusting the amount of resource utility and scarcity brought to the table. Several researchers recognize the importance of understanding the power situation in terms of the dependency between buyer and supplier in a business relationship (e.g. Campbell & Cunningham, 1983; Caniëls & Gelderman, 2007; El-Ansary & Stern, 1972; Emerson, 1962; Frazier & Antia, 1995; Hingley, 2005; Pfeffer & Salancik, 1978; Provan & Gassenheimer, 1994). They often argue that the relative power is a result of the amount of utility and scarcity of resources that the buyer and seller respectively bring to a business exchange (also cf. Cox, Sanderson, and Watson (2000); Cox (2007)). A stronger power position is seen to enable a firm to appropriate more of the available value in a business relationship (Cox, Watson, Lonsdale, & Sanderson, 2004). The power position is consequently expected to be related to firm performance (e.g. Ailawadi, 2001; Ailawadi, Borin, & Farris, 1995; Farris & Ailawadi, 1992; Messinger & Narasimhan, 1995). Others argue that the result of a power situation also induces non-financial changes, such as altering actors' behaviors (French & Raven, 1968; Leonidou, Talias, & Leonidou, 2008; Wilkinson, 1996).

Assortment and its connection to power have received attention in literature about category captainship, where the control over assortment selection is discussed (Kurtuluş & Nakkas, 2011). Assortment management based on collaboration between suppliers and retailers has also been studied in literature about efficient consumer response (ECR), vendor managed inventories (VMI) and collaborative category management (e.g. Barratt & Oliveira, 2001; Dussart, 1998; Harris & McPartland, 1993; Kracklauer, Passenheim, & Seifert, 2001; Subramanian, Raju, Dhar, & Wang, 2010). One assumption is that suppliers have product knowledge and marketing responsibility, whereas retailers have an understanding of shopper behavior (Kracklauer et al., 2001). Moreover, the retailers are assumed to have control of assortment planning, pricing and in-store activities, generally having a stronger power position vis-à-vis their suppliers (Lindblom & Olkkonen, 2006). Other authors maintain that there are tendencies toward the outsourcing of category captainship to the suppliers, in effect altering the power balance in favor of the supplier (Kurtulus & Toktay, 2005; Kurtulus & Toktay, 2007).

This paper will address the effect of a move toward more supplier managed assortment and the resulting power balance between supplier and its merchants. This study focuses on a product category in a sector with limited market research and shopper behavior analysis. Instead, the store assortment has developed based on tradition and product availability. The empirical context is the relationship between a timber supplier and its customers in the builders' merchants (BMs) sector. The main purpose of this paper is to understand how supplier assortment strategies can affect the degree of dependence in a buyer–seller dyad, and how this can alter the power position therein.

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This paper makes a contribution to the general field of industrial marketing research by increasing understanding of how power can be changed in a buyer–seller relationship. Few theories on power and dependence in buyer–supplier relationships address the question of how dependence can be used to change the relative power between two actors (some exceptions are Chicksand (2009); Cox, Ireland, Lonsdale, Sanderson, and Watson (2003); and Cox et al. (2004)). This paper extends the work on power regimes of Cox et al. (2000), with a particular focus on the movement from buyer dominance toward interdependence between buyer and supplier (cf. the power-regime framework defined by Cox et al. (2004)). Explorations of power balance and its consequences for supplier–retailer relationships often describe power balance or imbalance at a certain point in time (e.g. Ailawadi et al., 1995; Hingley, 2005). Our study draws from this, but also considers the dynamic effects on the change in the power balance between a supplier and a retailer. It also uses the power-regime framework to reason about resource dependency (cf. Cox, Lonsdale, Watson, and Qiao (2003); and Cox et al. (2004)) in the context of a market with commodity-type products when suppliers have difficulty increasing buyer dependence based on differentiating product utility. In this study we are looking at a situation where the supplier takes more responsibility over assortment management, and consequently how this changes the relative power between the actors. For practitioners, this paper highlights how managers could exert non-coercive power bases to increase a firm's relative power in a buyer–supplier dyad. Understanding how non-coercive power can be used helps managers in decision-making and in the analyses of negotiating situations.

2. Theoretical background

It is necessary to review the theories on power to understand how it can be used in a buyer–seller relationship. In addition to the research about power conducted within the field of inter-organizational relationships, this paper includes literature on the subject of power from disciplines such as sociology (Cook & Emerson, 1978; Emerson, 1962), behavioral science (Dahl, 1957; French & Raven, 1968) and economics (Ailawadi et al., 1995; Bowles & Gintis, 1993).

2.1. Defining power

There has been a long-lasting confusion concerning the definition of power, and an ambiguity in the interpretation of the power construct (Emerson, 1962; see also definitions by Bowles and Gintis (1993); Dahl (1957); and French and Raven (1968)). Some researchers (e.g. Cook & Emerson, 1978; Gaski, 1984) refer to Dahl's definition of power as: *A has power over B to the extent that he can get B to do something that B would not otherwise do* (Dahl, 1957, p. 202–203). French and Raven (1968) use influence and control to further define power. They describe influence as a force to change, induced by actor A on actor B. Influence is distinguished from control, because if B is exposed to a stronger force from another actor, A will not be able to control B. Power is defined as the maximum potential influence that A can induce upon B. French and Raven (1968) also stress that actor A often chooses to exert less than full power, meaning that the exerted influence is often less than the maximum.

Dahl's (1957) definition of power is also commonly used as a starting point in resource-dependence theory. Emerson (1962, p. 32) defines power as follows: *The power of actor A over actor B is the amount of resistance on the part of B which can be potentially overcome by A.* Overcoming resistance is stronger than Dahl's definition of getting someone to do something they would not otherwise do, as it implies that B is unwilling to change. B might be willing to do something, but is unable to do so without the aid of A. In this case, no resistance is overcome, but A has still induced a change in B's behavior. While this would not be an exercise of power according to Emerson (1962), it would be so, according to French and Raven (1968).

In economics, the concept of power is primarily used to understand the share of value gained from a business relationship. Relative profitability is sometimes used as a substitute for relative power. Bowles and Gintis (1993, p. 88) defined power as: *The ability of furthering one's interests by imposing (or credibly threatening to impose) sanctions on another agent when the converse is not also true.* Therefore, when economists define the exercise of power as the imposition of sanctions, they imply the unwillingness of the influencee. The focus is on the effects, or the potential effects, of power in monetary terms.

For a distribution channel, El-Ansary and Stern (1972, p. 47) define the power of a channel member as: *his ability to control his decision variables in the marketing strategy of another member in a given channel at a different level of distribution*. This definition of power is also referenced by Hunt and Nevin (1974), Etgar (1976), and Gaski (1984). This perspective often connects the aspect of changing behavior with the aspect of value appropriation. A behavioral change is related to a company's decision variables, and the effects these decisions may have on the financial performance of the individual firm and the marketing channel. Based on the distinction between control and influence made by French and Raven (1968), the present paper defines power in a marketing channel as: *the ability to influence the decision variables of another channel member*. This definition of power is distinct from Emerson's, as it does not require resistance to be overcome when exercising power. Furthermore, the power balance between the buyer and supplier is based on power bases that result in behavioral change related to a business setting, and potentially has economic consequences.

French and Raven's (1968) definition of power bases is frequently used in the literature to differentiate types of power, although they are often referred to as 'power sources' rather than 'power bases'. French and Raven (1968, p. 263) define the five most common and important power bases: *reward power, based on B's perception that A has the ability to bestow rewards on him; coercive power, based on B's perception that A has the ability to mete out punishments on him; legitimate power, based on the perception by B that A has a legitimate right to prescribe behavior for him; referent power, based on B's identification with A; and expert power, based on the perception that A has some special knowledge or expertise*.

The quotation shows that the power bases mainly express B's perception of A's ability to influence them. Having a coercive power base does not mean that coercive power is used. In fact, it does not even say that coercive power can be used. It only says that B perceives A as able to use coercive power should they feel like doing so. An interesting case occurs when A can punish B, or has some special knowledge of which B is not aware. According to French and Raven (1968), this would not qualify as a power base. In one way, this makes sense, because as long as B is not aware of A's punishments, rewards, legitimacy, or knowledge, A cannot influence B's decision variables. However, as soon as the punishment is dealt or the knowledge is revealed, B will be aware of A's power to influence their decision variables. Thus, the power base will come into existence.

2.2. Power and dependence

In distribution-channel power literature, efforts to operationalize dependence have used different indicators of the attractiveness and availability of resources (see e.g. El-Ansary and Stern (1972); Etgar (1976); and Provan and Gassenheimer (1994)). The indicators often measure the percentage of a channel member's business that is placed with another channel member, indicating the utility (or the attractiveness) of the resources, and the difficulty of replacing a channel member, indicating the scarcity (or the availability) of the resources. We use the terms *utility* and *scarcity* to describe the constructs of dependence.

It is important to distinguish between relative dependence and one actor's dependence on another actor. Ramsay (1994) defines power in a buyer–supplier relationship as the ability to modify purchase or product specifications, which implies that power is used for bargaining a