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RELATIONSHIP MARKETING STRATEGIES FOR DOMINANT BRANDS

James E. Coleman*, Donna T. Mayo**

Abstract

One of the benefits of being the first firm to market is the opportunity to establish a dominant position that allows the producer to earn above average profits by extracting concessions from downstream channel members eager to add the popular new product to their offering. Unfortunately, this approach not only attracts competitors, but also provides them a mechanism for attack. Absent a positive relationship among channel members, retailers and distributors may decide to shift emphasis to competing lines to reduce their dependence on the dominant brand. This study quantifies the potential loss of market share that may result from poor relationship quality. The attitudes of retailers are examined to determine the extent to which their perceptions of positive/negative supplier relationships affect key marketing actions. Outcomes measured in this research include the retailer's desired share of purchases for a brand and the percent of occasions the retailer recommends the producer's brand to end consumers. The brands' relative profitability as well as the brands' performance level on expected marketing variables are taken into consideration.

Key words: Relationship Quality, Dependence, Supplier, Buyer.

Introduction

One of the benefits of being the first firm to market is the opportunity to establish a dominant position that allows the producer to earn above average profits. By extracting concessions from downstream channel members eager to add a popular new product to their offering, the supplier is able to leverage its initial advantage into a commanding market position. Unfortunately, this approach may not only attract competitors, but also provide them a mechanism for attack if the supplier has not developed a positive relationship with its channel members. As retailers and distributors become increasingly resentful of the pressure exerted by a powerful supplier, they may decide to shift emphasis to competing lines to reduce their dependence on the dominant brand. This paper seeks to employ key findings from the relationship marketing research stream to determine the conditions and extent of retailer reactions under varying levels of dependence on their suppliers.

The concepts of relationship quality and relationship marketing have become central to marketing literature as evidenced by the redefinition of 'marketing' by the AMA to include the phrase 'managing customer relationships' (http://www.marketingpower.com/mg-dictionary.php?SearchFor=marketing&Searched=1), and by a continuing emphasis on this line of research by numerous authors for more than a decade (Ulaga & Eggert, 2006; de Burca, Fynes & Roche, 2004; Reinartz & Kumar, 2003; Sirdeshmukh, Singh & Sabol, 2001; Achrol & Kotler, 1999; Day & Montgomery, 1999; Cannon & Perreault, 1999; Malhotra, Peterson & Kleiser, 1999; Robicheaux & Coleman, 1994; Morgan & Hunt, 1994). However, little empirical research has been performed to determine the relative significance of microeconomic and supplier performance factors versus relationship quality factors to downstream channel member actions. This overemphasis on the 'soft' factors of buyer-seller relationships has led to mixed results regarding the effects of customer dependence on a dominant supplier and a call by several authors for more research regarding the role of supplier performance quality as it relates to relationship quality (Ulaga & Eggert, 2006; Palmatier, Dant, Grewal & Evans, 2006; Doney & Cannon, 1997).

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Roemer (2006) describes four possible conditions that might exist between channel members in this regard and notes that the risk of opportunism arises because the less dependent party may exploit the more dependent partner.

Type 1: Symmetric Dependence – the dependence of both parties is high because both lack valuable outside alternatives.

Type 2: Buyer's Dependence – the buyer is heavily reliant upon the seller, but the seller has valuable outside alternatives.

Type 3: Supplier's Dependence – the seller is heavily reliant upon the seller, but the buyer has valuable outside alternatives.

Type 4: Symmetric Independence – neither party is dependent on the other and could easily switch to another partner in the event of conflicts.

This study employs a contingency theory based on the concept of dependence balancing that examines the behavior of downstream channel members under varying conditions of relationship quality and level of dependence on suppliers (Type 2 compared to Type 4). In other words, which is more important to a retailer, a supplier's product and support performance, the relative profitability of competing product lines, or the nature of the relationship between the retailer and the supplier? Even more important, what is the potential market share loss that can result from negative perceptions of relationship quality?

Review of Relevant Research

While transaction cost analysis (Williamson, 1975), argues that asset specificity, uncertainty and transaction frequency are critical factors in a channel relationship, this theory "is incomplete in several respects" (Heide & John, 1988, p. 21). Several key extensions have been proposed to address these omissions.

Klein, Frazier and Roth (1990) and Anderson, Lodish and Weitz (1987) have demonstrated the need to focus more specifically on microeconomic factors other than transaction costs. The latter study also indicated that the perceived quality of the relationship affects performance. Ouchi (1980), Wilkins and Ouchi (1983) and Jarillo (1988) have theorized that adoption of a clannish approach to decision making in intra and interorganizational relationships can precipitate improved relationship quality and promote more efficient operations. Kasulis, Morgan, Griffith & Kenderdine (1999) propose that the type and degree of trade promotions used in a channel should be varied depending on the level of power asymmetry among channel members.

Heide and John (1988) have shown that when vertical integration is not feasible, channel members may opt to build stronger customer relationships in order to offset imbalances in the power and dependence structure in their relationships with suppliers. Their results also suggest that "dependence balancing enhances performance ... [by allowing] the positive consequences of power ... to occur" (Heide & John, 1988, p. 34) and indicate that the contingent effects of dependence upon performance would be a promising area for future research. In a later study, Heide and John (1990) offer evidence that the existence of relational norms constitutes an additional vehicle for preventing opportunistic behavior by channel members. One implication of this finding is that in channel dyads that exhibit high levels of positive relationship quality, weaker channel members may be less concerned about offsetting an imbalance in the dependence structure between the parties. Joshi and Stump (1999) have shown that joint action arrangements also play an important role in structuring the dependence balancing relationship between suppliers and manufacturers.

Collectively, these studies imply that the economic performance of distribution channels (e.g. profit margins, market share, etc.) is greatly influenced by economic factors, dependence relations between channel members and the quality of the relationships within the channel dyad. However, the relative significance of these components under various conditions has received only slight attention. In a study that included elements of all three of these factors, Anderson, Lodish and Weitz (1987) found that short-run profit maximization motives had the strongest impact on agency

behavior, but that relationship quality also had a significant influence. Dependence, on the other hand, resulted in a relatively minor impact on agency behavior. They speculated that in the particular dyads studied, the existence of a balanced power and dependence structure may have negated the expected influence of relative dependence. Other studies have found that in situations where an imbalanced dependence relationship exists, the weaker channel member may attempt to reduce its dependence even at the expense of lower profits (Anderson and Weitz, 1989) and less satisfactory supplier performance (Sterling & Lambert, 1987; Gassenheimer, Robicheaux & Calantone, 1991).

In an excellent recent meta-analysis of the relationship marketing research stream, the authors note that "The literature is mixed regarding the effect of a customer's dependence, or relative dependence, ….which indicates that its impact may be contingent on the context" (Palmatier, Dant, Grewal & Evans, 2006). Thus, a contingency theory explaining the interactive effects of economic factors, dependence balance and relationship quality on the economic performance of distribution channels would represent a significant contribution. Such a theory is advanced in the following section. For purposes of simplicity of explanation, the discussion is centered on a supplier-retailer dyad. However, the hypothesized effects should apply equally well in other channel relationships.

Hypotheses

The three hypothesized relationships tested in this study are detailed below. They are also depicted graphically in Figure 1.

> ***H1:*** *Under conditions of low dependence, retailers' preferred share of purchases from suppliers will be driven primarily by microeconomic considerations.*

This hypothesis is based primarily upon the results of the Anderson, Lodish and Weitz (1987) study which indicated a much larger influence for microeconomic factors than either relationship quality or dependence on agency resource allocation behavior. In other words, microeconomic logic would argue that when retailers are unconcerned about potential opportunistic behavior by suppliers, as would be the case in low and balanced dependence situations, the retailer would seek to maximize profits by focusing resources on those products offering the best supplier support and profit margin.

> ***H2:*** *Under conditions of high dependence, retailers' preferred share of purchases from suppliers will be driven primarily by the desire to engage in dependence balancing, but this tendency will be mediated by relationship quality considerations.*

Anderson and Weitz (1989) offered evidence that weaker channel members may opt for lowering dependence at the expense of profits. Sterling and Lambert (1987) and Gassenheimer, Robicheaux and Calantone (1990) provide support for a similar lack of emphasis on supplier role performance in imbalanced dependence relationships. The assumption that relationship quality will play a more important role in these situations is drawn from the findings of Anderson, Lodish and Weitz (1987) where relationship quality was shown to have an effect on agency performance distinct from economic and dependence factors, and from Heide and John (1992) where the establishment of relational norms (i.e., higher relationship quality) was shown to offer protection from opportunistic behavior by the more powerful channel member.

> ***H3:*** *In situations where a retailer has a relatively high level of dependence on a supplier, the more favorable the quality of the relationship between the supplier and the retailer, the higher the supplier's marketing effectiveness will be.*

While the Anderson, Lodish and Weitz (1987) results provide some empirical support for this hypothesis, it should be recalled that the supplier-dealer relationships in their study were presumed to represent balanced dependence situations. Therefore, the primary support for this line of reasoning lies with the theories advanced by Ouchi (1980), Wilkins & Ouchi (1983), and Jarillo (1988). Although no empirical results are available, they hypothesize that relationships governed by a more

clannish approach will evidence higher levels of relationship quality, and as a result, performance will improve.

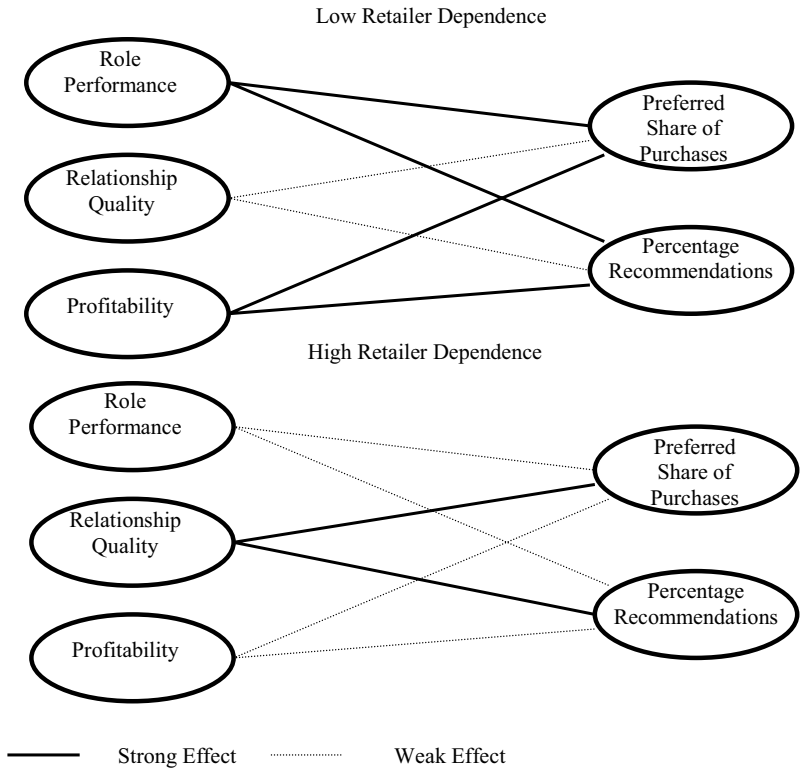

Fig. 1. Hypothesized Relationships

Research Setting

Empirical data used to test these hypotheses were gathered via a mail survey of premium pet food retailers. A six page self-administered questionnaire was sent to 1500 retailers, with a usable response of 530 or 35%. The relationships between suppliers of premium brands of pet foods and pet supply retailers were chosen for this study for several reasons. First, the selection of a retail setting represents an extension of the dependence balancing phenomenon. The only prior study was conducted in a manufacturer-agency setting where agencies generally do not carry competing lines (Heide & John, 1988). Retailers, on the other hand, have the ability to directly contrast the relative role performance, profitability, and relationship quality of competing suppliers. Thus, in a retail setting the primary means of dependence balancing is adjusting the relative emphasis placed upon the competing brands carried. Restricting the sample to retailers within a single industry reduces the extraneous variation that might result from measuring the variables of interest across different industries. For example, environmental uncertainty factors, which have been shown to influence channel structure, relationship quality and performance (Dwyer & Welsh, 1985; Dwyer & Oh 1987; Anderson, Lodish & Weitz, 1987) are less likely to exhibit significant variation across the brands and suppliers within a single industry.

Also, preliminary interviews with retailers and suppliers in this industry suggest that the level of transaction specific investments by retailers for any particular brand is minimal. Physical assets purchased to accommodate one brand (floor space, display racks, materials handling equipment, etc.) are equally valuable for other brands. Product knowledge and retail personnel training costs might vary to some degree, but are also readily transferable from supplier to supplier and from brand to brand.

Construct Measurement

Construct measurement scales were developed in the following manner: (1) The literature was reviewed for appropriate scales that had been validated in previous studies. In those cases where no appropriate scales could be located, items were developed based on construct domain descriptions. Also, sales and management personnel of a major premium pet food manufacturer and distributor provided significant input regarding individual items requiring consideration. (2) All measures were reviewed for face validity and ease of comprehension via personal interviews with large and small retailers. In addition, sales and management employees in a variety of functions and regions of a major manufacturer and distributor were interviewed to improve the face validity of the scale items. (3) A pretest of the questionnaire was conducted using a sample of 100 retailers in four geographically dispersed states. Total response rate to this initial survey (which employed qualifying phone calls and a $5 incentive) was 59%, with 50% usable responses. Items which respondents identified as unimportant or confusing were deleted in the final version of the questionnaire. The constructs used to test the hypotheses are discussed below.

Role Performance

Designed to be a comprehensive and industry specific measure of a supplier's total package of marketing services (product, price, promotion and physical distribution), the scale for role performance is formative in nature. The initial items used to evaluate the importance and performance of suppliers on 152 specific aspects of product and marketing services were based on a similar study of the distribution of premium pet foods through veterinarians. Following preliminary interviews with retailers and a pretest of the questionnaire, these were modified and reduced to 99 items designed to represent all important aspects of product, price, promotion and distribution performance to retail pet stores. Each respondent was asked to provide importance and performance ratings of all items for their two major brands/suppliers. Given the depth of information this created, the items were split into four equivalent measures of role performance, each containing approximately 25 items. After segregation into the categories of product, price, promotion and physical distribution, the items were allocated across the scales based on the importance ratings so that each measure contains similar items of comparable importance for each category. The resulting multi-item scales are formative in nature since each defines the construct of role performance by the supplier in the categories of product, price, promotion and physical distribution. Each of these four scales was summed for use as an equivalent reflective indicant of supplier role performance in a structural equation model.

Profitability

Based on discussions with retailers, the gross margin of a product line is the most important economic factor to retailers in this industry, a relatively straight-forward calculation of gross profit divided by cost. Measurement is based on a single item for each of the two major brands carried by a retailer.

Relationship Quality

The retailer's perception of the quality of the relationship with their two major distributors is measured by multiple item reflective scales for each of four dimensions: flexibility, solidarity, duration expectations and goal compatibility, which combine to form the relationship quality construct. The original items for the first three dimensions are adaptations of scales used by Simpson (1990) and Kaufmann and Dant (1992). Scale items for goal compatibility were developed for this industry based on the sample items described in Reve and Stern (1986).

Economic Dependence

For each of their two major suppliers, respondents were asked to provide the current share of their annual pet food purchases. This information was used to divide the respondent-supplier dyads into low and high dependence categories using a mean-split approach under the assumption that retailers with a significant imbalance in the relative share of their major brands will have essentially no short-run alternative available for their top selling brand. However, retailers with a more balanced

share between major brands will be more readily able to compensate for any single brand and are, therefore, less dependent upon the primary supplier.

The sample was divided into low and high dependence groups by subtracting the current market share of Vendor B from the current market share of Vendor A. The higher the result of this operation, the more imbalanced the share between major brands and, therefore, the higher the level of dependence of that retailer upon the major brand.

Supplier's Marketing Effectiveness

One of the key statistics used by suppliers to evaluate the overall long-term effectiveness of their marketing efforts is market share. Thus, as the effectiveness of supplier/brand role performance and product line profitability improves, retailers would be expected to place relatively more emphasis on the brand. However, the primary means available to retailers for achieving a balanced level of dependence is by shifting emphasis from one brand/supplier to another. Thus, the retailers' preferences for ideal future share of pet food purchases of their major brands becomes the focal variable of the performance effects of relationship quality, role performance and product line profitability. This dependent construct is represented by a single item variable wherein respondents allocate their preferred share of purchases across the brands currently carried by the retailer.

One of the primary means that the premium pet food retailer has available to actually fulfill his/her stated desires with regard to share of purchases is to redirect purchases by the end consumer. This is accomplished primarily by offering an endorsement for a particular brand. The endorsement activity was measured by a single item wherein the respondent is asked to indicate the percentage of times they recommend each of their current brands.

Tests of Hypotheses

Hypotheses 1 and 2 were evaluated by splitting the sample based on the level of dependence. A LISREL model was used to evaluate the relative strength of the role performance, product profitability and relationship quality constructs on preferred share of purchases and the endorsement percentage. Those supplier-retailer dyads with relatively high levels of retailer economic dependence would be expected to exhibit stronger effects of relationship quality than either role performance or product profitability as the retailer attempts to gain protection from potential opportunistic behavior on the part of the more powerful channel member. The opposite (i.e., stronger effects for the paths from role performance and product profitability to preferred share of purchases and endorsement percentage) is expected for those dyads exhibiting low or balanced levels of dependence. Since microeconomic logic would argue that when retailers are unconcerned about potential opportunistic behavior by suppliers, the retailer would seek to maximize profits by focusing resources on those products offering the best supplier support and profit margin.

The measures of the key constructs were evaluated using structural equation modeling. It was determined that the scale designed to measure relationship quality suffered from some statistical weaknesses and, therefore, the hypotheses were not testable with the apriori scales. Exploratory research was undertaken to determine if a significantly revised set of relationship quality indicants could provide any guidance for future research in this area.

The final model was then run against both the high and low dependence data subsets as was originally intended in the study. Appendix 1 shows the statistical results of this analysis, which are displayed graphically in Figure 2. The model provides a reasonably good fit to the data in both circumstances. In the low dependence condition, none of the predicted effects upon preferred share of purchases are significant. The retailers' preferred share of purchases does exhibit a strong influence over the percentage of time they recommend a brand to a customer. In the high dependence condition, the results are much closer to those predicted by the hypotheses. Relationship quality of both the primary and secondary vendors exerts a strong influence upon the retailers' preferred share of purchases. As in the low dependence condition, the preferred share of purchases has a strong effect upon the retailers' recommendations to customers. While relationship quality affects recommendations only indirectly, role performance has a slight direct influence on recommendations to cus-

tomers. Thus, the exploratory analysis does offer some encouragement that the effects of relationship quality will vary as expected under conditions of low versus high levels of retailer dependence. This suggests that future studies designed to test the study hypotheses should stress scale development efforts of the relationship quality construct for both the primary and secondary vendors in such situations.

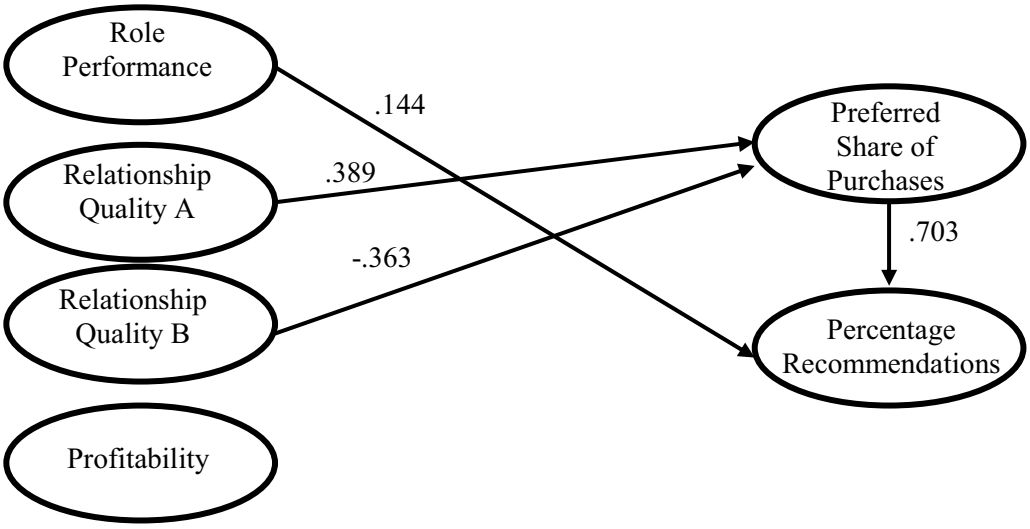

Fig. 2. Results of Exploratory Analysis: High Retailer Dependence

Hypothesis 3 called for an analysis of variance test to determine whether suppliers can expect positive levels of relationship quality to affect the share of retailer's preferred share of purchases under high dependence conditions. This analysis was conducted using the exploratory redefinition of relationship quality for the primary vendor. Figure 3 shows the difference between current market share and preferred share of purchases of the primary brand of premium pet food for the four potential situations. See Appendix 2 for the statistical significance of the ANOVA.

	High Level of Dependence	Low Level of Dependence
High Relationship Quality	**Group 1: -7.6%**	Group 2: +0.9%
Low Relationship Quality	**Group 3: -12.6%**	Group 4: -1.0%

Fig. 3. Market Share Impact of Relationship Quality

Although the results must be interpreted with caution due to the exploratory redefinition of the relationship quality construct, the retailers' actions are in the expected direction. No predictions were made regarding the effect of relationship quality in a low dependence situation. Thus, it is not surprising that there was no significant difference between the two low dependence groups (2 and 4). A high level of retailer dependence was expected to induce retailers to engage in dependence balancing, in this case, to shift the emphasis to competing brands. Both of the high dependence groups (1 and 3) show a significant reduction in preferred versus current market share compared to the low dependence groups. Perhaps most importantly, a high level of perceived relationship quality was expected to moderate the inclination of retailers to engage in dependence balancing. Al-

though the preferred versus current market share for the high dependence/high relationship quality group (1) declined, the magnitude of the drop was significantly lower than for the high dependence/low relationship quality group (3). So, in this study, the suppliers who had built a positive long-term relationship with retailers are likely to retain an additional five percent market share compared with negatively perceived suppliers.

Conclusions

The study provided exploratory evidence regarding the application of dependence balancing in a retail environment, an extension to past marketing channels research, and how dependence balancing can be mediated through the development of improved relationship quality between suppliers and retailers.

From a managerial perspective, two clear strategic guidelines may be derived from the study. First, brands that enjoy the luxury of a dominant position in their industry should focus significant attention on their relationships with those who retail their products. Retailers in such a highly dependent environment are very likely to perceive that they are at risk in their dealings with suppliers, and will attempt to reduce this perceived vulnerability by shifting consumers' purchases to the non-dominant competing brands. To mitigate the loss of market share, the dominant brands should concentrate on developing positive long-term relationships with the retailers. Conversely, a second strategic directive applies to companies attempting to garner share from a long dominant competitor. If the company's product, promotion, distribution and pricing are competitive with the dominant competitor's, a promising approach for attack may be to develop an improved relationship with industry retailers. Attention should be focused on identifying relational weaknesses of the dominant player and marketing themselves as the positive alternative for intermediate and retail channel members.

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Appendix 1

EXPLORATORY STRUCTURAL EQUATION MODELS HIGH VERSUS LOW DEPENDENCE

LOW DEPENDENCE PARAMETER	HIGH DEPENDENCE EST./T VALUE	EST./T VALUE
BETA		
PSP->PREC	**.622/11.0**	.703/10.2
GAMMA		
RP->PSP	.129/1.5	.147/1.8
RP->PREC	.058/0.8	**.144/2.2**
RQA->PSP	.100/0.8	**.389/3.4**
RQA->PREC	-.044/-0.4	-.158/-1.6
RQB->PSP	-.126/-1.2	**-.363/-3.4**
RQB->PREC	.056/0.6	.000/0.0
PM->PSP	-.065/-0.9	-.090/-1.1
PM->PREC	-.063/-1.1	-.026/-0.4
PHI		
RP<->RQA	**.489/6.7**	**.426/7.7**
RP<->RQB	**.359/5.2**	**.318/6.0**
RP<->PM	-.036/-0.5	.037/0.7
RQA<->RQB	**.529/6.3**	**.484/7.8**
RQA<->PM	.128/1.5	.110/1.8
RQB<->PM	-.074/-1.0	-.110/-1.9
PSI		
PSP	.968/10.1	.824/8.0
PREC	.595/9.6	.503/8.2
X2/DF	63.54/66(p=.563)	80.78/66(p=.104)
GFI	.963	.945
AGFI	.941	.912
RMSR	.031	.044

Note: Significant paths (T value >2) are in bold type.

Appendix 2

Statistical Significance of Analysis of Variance Preferred Versus Current Share of Purchases

F ratio: 28.99 (p = .000)

Groups 2 and 4 were not statistically different at the .05 level.