

*Power Shift and Retailer Value in the Swedish FMCG Industry*  
*Maria Adolfsson & Diana Solarz*

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 <b>LINKÖPINGS UNIVERSITET</b>	<b>Avdelning, Institution</b> Division, Department  Ekonomiska institutionen 581 83 LINKÖPING	<b>Datum</b> Date 2005-01-21
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<b>Språk</b> Language Svenska/Swedish <input checked="" type="checkbox"/> Engelska/English	<b>Rapporttyp</b> Report category Licentiatavhandling Examensarbete C-uppsats <input checked="" type="checkbox"/> D-uppsats  Övrig rapport _____	<b>ISBN</b>  <b>ISRN</b> LIU-EKI/IEP-D--05/019--SE  <b>Serietitel och serienummer</b> <b>ISSN</b> Title of series, numbering      _____
<b>URL för elektronisk version</b> <a href="http://www.ep.liu.se/exjobb/eki/2005/iep/019/">http://www.ep.liu.se/exjobb/eki/2005/iep/019/</a>		

<b>Titel</b> Title	Power Shift and Retailer Value in the Swedish FMCG Industry
<b>Författare</b> Author	Maria Adolfsson & Diana Solarz

<b>Sammanfattning / Abstract</b>  <b>Background:</b> The recent years in the Swedish Fast Moving Consumer Goods industry have been characterized by a palpable shift in power balance, favouring the retailers. Since the shift in power balance has strengthened the negotiation position of the retailers, the suppliers now have to, to a greater extent than before, accommodate to the retailers' goals, whether they be financial or strategic.  <b>Purpose:</b> The aim of this study was to investigate how this recent power shift has affected the relationships of suppliers and retailers. This development has resulted in the rather new and unexplored area of retailer value, which this study further aimed to explore.  <b>Research method:</b> Interviews were conducted with representatives from the leading retailer chains and market leading suppliers.
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**Results:** The increased use of information and control on behalf of the retailers has led to the suppliers, to a greater extent than before, having to adjust to the retailers' different store concepts. However, in order to create retailer value, the suppliers also need to focus on the consumers' needs and preferences, since the way to the retailer's shelves is through creating consumer demand. They also have to stay innovative and make use of the experience and in-depth knowledge they possess within their product segments, as that is where they still have the upper hand.

**Nyckelord / Keyword**  
retailer value, FMCG, supplier-retailer relationships, retailer power, Su Mi Park Dahlgaard

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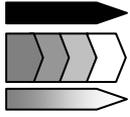
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# Chapter 1.

# Introduction



The aim with the first chapter is to give the reader an insight into the problems of investigation. Furthermore, the chapter will give the reader a general overview of the disposition of this thesis.



# 1. Introduction

*This chapter starts with a background with the aim to raise curiosity and give the reader a perspective on the following problem discussion narrowing down to the purpose of this thesis and our questions of investigation. We also clarify our delimitations and present a disposition which hopefully will give the reader a clear overview of the study.*

## 1.1 Background

During many years the suppliers in the *Fast Moving Consumer Goods* (FMCG) industry were, relative to the retailers, more powerful and had control of all the marketing variables including price, promotions and presence on the shelves. The suppliers also had a stronger relationship with the consumers who chose the retailer according to who was selling the best brands at the lowest price (Corstjens & Corstjens, 1995).

In recent years the picture has changed dramatically and there has been an increase in the control the retailers have over large parts of the marketing mix, which used to be controlled by the suppliers. The structure of the FMCG industry is now characterized by greater store size, an increase in retailer concentration, the presence of private labels<sup>1</sup>, strong demand for one stop shopping, and loyalty cards. Concentration of retailers is a critical factor since only a few powerful retailers control almost the entire direct contact with the consumers. The presence of private labels has proved that the attributes of the most popular brands can be copied. All this has resulted in a scenario where delisting<sup>2</sup> as well as reduced shelf-space<sup>3</sup> are real threats to all suppliers of FMCG (Hogarth-Scott, 1999).

Despite of the increase in concentration regarding traditional retailers, one has to recognise the appearance of hard and soft discounters<sup>4</sup> in the Swedish FMCG industry. The German retail group Lidl has already established 70 stores in Sweden ([www.lidl.se](http://www.lidl.se)), and Netto, a joint venture between ICA AB and Dansk

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<sup>1</sup> Product brands developed and owned by the retailer chains.

<sup>2</sup> When a product is excluded from the range of a retailer.

<sup>3</sup> The in-store space where the products are made accessible to the customers.

<sup>4</sup> A store that sells merchandise, especially consumer goods at a discount from the manufacturers' suggested retail price.

Supermarked, currently have 56 stores in Sweden ([www.netto.se](http://www.netto.se)). These store concepts may constitute competition for the traditional retailers, although indirectly since they focus on a segment of extremely price sensitive consumers and usually carry a different and more limited range of brands and products. However, Axfood has specifically focused on the same segment with their store chains Willys and Willys hemma ([www.axfood.se](http://www.axfood.se)). The increased focus on price decreases the margins of both retailers and suppliers and makes it harder for both parties to differentiate through providing higher levels of service. Other aspects affecting the margins of both retailers and suppliers are that they are operating in a mature market where growth is difficult and where the consumers are becoming increasingly informed and demanding (Hallström, 2004).

An expected reaction to the changed marketplace by many retailers and suppliers is the recognition that they are both better off by moving away from conflictual relationships to collaborative relationships that have the potential to offer win-win benefits to both parties (Hogarth-Scott, 1999). The suppliers and retailers can benefit from collaborating in facing mutual threats such as hard discount stores (Corstjens & Corstjens, 1995) and other international retailer chains lurking outside our national borders. Retailers and suppliers within the FMCG industry can also benefit from challenging fast-food chains and lunch restaurants by offering own ready meals (Ågren, 2004). However, because of the shift in power balance it is likely that the suppliers have a greater interest in the collaboration than the retailers, and therefore the creation of the base for the collaboration is dependent on their efforts.

## **1.2 Problem discussion**

Today, four major retailers are dominating the Swedish FMCG market; ICA, Coop, Axfood and Bergendahls. Practically all suppliers have to negotiate with these retailers to get their products listed and get shelf space in order to reach the final customers.

The private labels are advancing and their share has nearly duplicated during the past four years. Only during the last year, the share of private labels in confectionery has increased by 50 percent and by 36 and 30 percent in fresh grocery and dairy products respectively (Larsson, 2004). Even though this trend might have hit harder on smaller suppliers than leading suppliers, the latter ones also find themselves in a difficult situation. For example, Coop has decided to

eliminate Kellogg's from its shelves since they could not reach an agreement in their negotiations regarding prices. Instead, Coop's private label Signum, soon to be substituted by the label Coop ([www.coop.se](http://www.coop.se)), will take the shelf space previously occupied by Kellogg's (Fri Köpenskap, 2004).

Consumer loyalty is not only in the interest of the suppliers anymore as the retailers are emphasising their own brands and creating store loyalty by offering loyalty programs and loyalty cards. An illustration of the strong focus on the retailers as brands are the investments made by ICA and Coop in 2003. Both ICA and Coop invested approximately 800 millions (SEK) respectively in advertisement which can be compared to the sum of approximately 155 millions (SEK) invested by Volvo and Saab respectively during the same year (Fri Köpenskap, 2004). This development of consumer and store loyalty has resulted in two major implications. (1) Thanks to the loyalty programs the retailers have more information than before about the consumers and their behaviour and (2) store loyalty and the profiling of different store concepts has led to a situation where products might fit in at one store concept but not in another. Keeping all these aspects of the power shift in mind, suppliers that understand and support retailers' goals and differentiation strategies have a higher likelihood of success (Chain store age, 2003).

How the changed marketplace has affected the relationship between retailers and suppliers is something that we find very interesting, and Hansen and Skytte (1998) point out in their study, *Retailer buying behaviour: a review*, that if the retailers have gained negotiation power in recent years, it would be interesting to learn how this specifically manifests itself and is made tangible in the negotiations between suppliers and retailers.

### **1.3 Questions of investigation and purpose**

The main overall purpose is to study and explain what the shift in power balance in the Swedish FMCG industry has implied both for retailers as well as suppliers, along with the attempt to define the concept of retailer value. In order to be operational we divide the purpose into the following questions of investigation:

- How has the shift in power balance affected the relationship between retailers and suppliers within the Swedish FMCG industry?

- What is *retailer value* and how can it be generated by the suppliers in the Swedish FMCG industry?

Emphasis is given to the first question of investigation since we believe that it is necessary to fully comprehend the different aspects of the relationship between the actors in order to understand the context in which we approach retailer value. Due to this, the greater part of the frame of reference and analysis will be dedicated to the first question of investigation.

## **1.4 Delimitations/Scope**

We have limited the empirical study to cover only retailers and suppliers of food products within the Swedish FMCG industry. The perceptions of the consumers have not been investigated and are therefore not taken into consideration in this study. Instead interviews were conducted with representatives of the four leading retailers; ICA, Coop, Axfood and Bergendahls, and with representatives from four of the, on a national level, leading FMCG suppliers; Unilever/GB Glace, Kraft Foods, Arlafoods and Cloetta Fazer. This study hereby only focuses on how the shift in power balance has affected the leading retailers and not smaller or individual grocery stores. In the same way the study only takes into consideration the effects that the power shift has had on suppliers that are market leaders of at least one segment and not what implications it has had on smaller or local suppliers, or suppliers of less known brands.

## **1.5 Target Audience**

This report is primarily directed to our principal at Casma AB<sup>5</sup> and to other readers that have already acquired some previous knowledge of marketing such as students of business administration, researchers active in the field of consumer goods, and practitioners working in the FMCG industry. The terminology has been adapted and explained to the extent where it should not pose an accessibility issue regarding these target groups. However, we also hope that the study will be of some value to anyone with an interest for the area of investigation regardless of background and previous experience.

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<sup>5</sup> Trade marketing bureau located in Stockholm, specialized in store development.

## 1.6 Disposition

The thesis begins with an introduction, followed by method, empirical study, frame of reference, analysis and conclusions. The empirical study is presented before the frame of reference since the latter has to a large extent been influenced by the former. One should also note that the placing of the introduction and the method in figure 1 below is supposed to reflect that these chapters are to permeate the entire report.

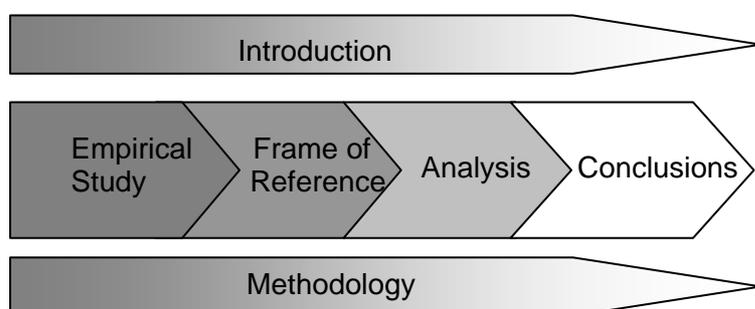


Figure 1: Own Disposition Model

**Introduction:** The first chapter introduces the reader to the background of the study, the questions of investigation and the purpose. This chapter will hopefully provide the reader with a perspective useful when reading the rest of the study.

**Methodology:** In this chapter we present the methodological point of departure we had while conducting the study. We discuss our view on science and how it has affected the study in terms of approach and mode of procedure.

**Empirical Study:** In this chapter we present our empirical material, consisting of both primary and secondary data. The chapter is divided into two main parts focusing on the empirical results from the retailers and suppliers respectively.

**Frame of Reference:** Based on our pre-understanding of the problem area and partly on the findings from the previous chapter indicating what areas would be relevant, we selected the theories considered in this chapter. The first part of the frame of reference consists of several different but interrelated theories concerning fields such as *power*, *supplier-retailer relationship theory*,

*information, and retailer brands.* The second part regards *retailer value* and consists both of *buying behaviour theory* and a summary of the *value* aspects of the theories in the first part. The chapter ends with our own model illustrating the theoretical aspects of retailer value.

**Analysis:** In this chapter we apply the frame of reference on the empirical data and discuss and reflect upon the findings. In order to make the analysis easier to follow its design is similar to that of chapter four, Frame of Reference.

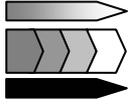
**Conclusions:** In the last chapter we answer our questions of investigation and purpose. We also propose some areas that would be interesting to study in the future.

## Chapter 2.

# Methodology



By giving the reader an insight into the mode of procedure and the implications of the method used as well as sources consulted, we hope to clarify the reasons behind the decisions made regarding the realization of this investigation.



## **2. Methodology**

*We have now presented the area of investigation to the reader and as a natural continuation we will proceed by explaining how the problem has been investigated. The first part of the chapter begins with a general description of our view on science and our scientific approach. Next, we will describe whether our approach is qualitative or quantitative and how we have collected the empirical data. Further, we explain the methodological approach regarding the relation between the empirical data and the frame of reference. We end the first part of the chapter by summarising our lines of thought. The second part of this chapter embraces criticism and reflections regarding the mode of procedure.*

### **2.1 Views on science**

*Science is an intellectual activity carried on by humans that is designed to discover information about the natural world in which humans live and to discover the ways in which this information can be organized into meaningful patterns.*

Dr. Sheldon Gottlieb, University of South Alabama, April 3<sup>rd</sup> 1997

What science is, and is not, has been discussed for many years and different people contribute with different views on science. What many explanations have in common is the opinion that science is an effort made by humans to understand, or to understand better, the world and how the world works. The basis for this understanding is usually some kind of evidence, whether it be qualitative or quantitative. The evidence can further be the result of an observation or experimentation. Another commonly expressed opinion about science is that everyone should be able to recover and control science and therefore science should not depend on the individual (Hansson, 1995).

Science does not necessarily have to equal knowledge but there are some criteria that have to be fulfilled when it comes to determining what science is and is not. According to Lundahl and Skärvad (1999) the collecting of data is essential to scientific research. The collecting of data has to be made in a scientific manner, with the aim to develop, verify or falsify theories. In other words, in order to conduct a scientific investigation, one has to base its analyses, interpretations

and conclusions on empirical data and further, one has to be able to show in an explicit manner how the results have been obtained.

As explained in the previous chapter, the purpose of this study is to explain and understand how the shift in power balance has affected the relationship between retailers and suppliers within the Swedish FMCG industry, and how the suppliers can contribute in creating retailer value. In order to fulfil this purpose we have collected empirical data, chiefly by conducting interviews with key persons within the FMCG industry. We intend to use the data with the purpose of *contributing* to the current theories within the area of retailer value and create a broader theoretical perspective regarding the effects of the power shift. As a consequence, the conclusions we make will be based on the empirical findings and therefore this study fulfils the demand of being based on empirical data. Hopefully the remaining parts of this chapter, together with the following chapters, will satisfy the demand of explicitly showing how, and on the basis of what information, the conclusions have been drawn.

## **2.2 Hermeneutics**

In order to fulfil the purpose of this study we need to interpret and analyse the situation of both retailers and suppliers. Since we aim to interpret a situation which most likely is perceived differently by different persons we will not find one single truth, or one common view of the situation. Nor can we maintain an, in a strict sense, objective approach since we are of the opinion that our previous experiences and acquired knowledge will influence our mode of procedure. For example, at an early stage we briefly reviewed some theories and also discussed the problem of investigation with our principal at Casma AB, and we argue that this so-called pre-understanding has influenced decisions made regarding our way of working. Keeping this in mind, we found that our perspective had much in common with hermeneutics.

Hermeneutic researchers use qualitative methods to establish context and meaning for what people do, and they construct reality based on the interpretations they have made of empirical data (Patton, 2002). Thereby, an important part of hermeneutics is to interpret texts and relate parts to wholes and vice versa in order to construct a deeper meaning. This is usually referred to as *the hermeneutic circle*, although it is sometimes described as a spiral (Radnitzky, 1970 in Alvesson & Sköldbberg, 1994) since a profound

understanding is obtained whilst alternating between the parts and the whole. For example, after conducting the interviews and transcribing them we got a broader perspective of the problem of investigation, whilst, at the same time, getting a deeper understanding for specific parts of the interviews and theories considered. Another hermeneutic circle is advocated by Ricoeur (1981 in Alvesson & Sköldberg, 1994), and it combines pre-understanding and understanding. As mentioned in the previous paragraph, our pre-understanding consists of discussions with our principal at Casma AB and the theories we briefly reviewed at an early stage of the study, but we had also acquired pre-understanding from own experiences and studies. Patton (2002) argues that investigators with different backgrounds, methods and purposes are likely to focus on different aspects and develop different reactions and scenarios. This is why we believe that it is important to explain our pre-understanding to the reader, because hopefully that will help the reader to understand the reasoning behind the mode of procedure. This is in accordance with the argument of Bjereld et al. (1999) which implies that one important aspect of defining perspective on and approach to the problem is to avoid the risk of the reader applying his or her own criteria to the area of investigation and hereby misinterpreting its results.

We believe that our line of action involves both of the described hermeneutic circles, as seen below in figure 4. It may seem like the hermeneutical circle, or spiral, is infinite. However, Kvale (1997 in Patton, 2002:114) suggests that “...it ends in practice when a sensible meaning, a coherent understanding, free of inner contradictions has been reached”.

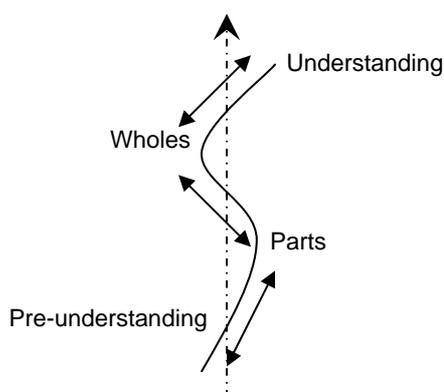


Figure 2: Own model combining both hermeneutic circles inspired by Radnitzky (1970, in Alvesson & Sköldberg, 1994) and Ricoeur (1981 in Alvesson & Sköldberg, 1994)

## **2.3 Qualitative method**

As our investigation is limited to the market leaders of the industry, the sample of our study is also limited to a rather small number of individuals. For this reason a quantitative study in the form of a survey with a larger sample would not be appropriate as it would not in a relevant way capture the necessary information. It is also our opinion that the number of individuals in the sample is too small for a quantitative approach to be pertinent. Based on this, and since we also aimed to obtain a deeper understanding of the situation of the interviewees', we chose to use a qualitative method. A qualitative method is, according to Bjereld et al. (2002), a term used for all methods that only have in common that they are not quantitative, and cannot be used to obtain statistical results. In accordance with the type of data we wish to collect, qualitative methods permit the researcher to study selected issues, cases, or events in depth and detail and have the advantage of producing a wealth of detailed data about a small number of persons (Patton, 1987).

### **2.3.1 Primary and Secondary Sources**

Sources of data are generally categorized as primary and secondary data. In this study, we have used data sources that are both primary and secondary. According to Christensen et al. (2001) primary data sources are distinguished by not existing until they are collected by the researcher himself. Our primary data consists of the interviews conducted with suppliers and retailers.

Our secondary sources, those not produced for the same purpose as that of this study, consist of printed sources as well as Internet sources used both prior to the designing of the study as inspiration, and during its realization. We find it hard to designate our secondary data as purely empirical or theoretical since in many articles the author or researcher makes empirical studies which then are used in combination with existing theories in order to create new theories. When choosing what sources to take into consideration we have tried to maintain a critical attitude, using only those sources which we, in our subjective judgement, perceived as being reliable. The articles used were found in databases, such as Business Source Elite and Emerald, magazines, trade press and daily papers. The keywords that we have searched have been, among others, *retailer value*, *FMCG*, *private labels*, *food industry*, *organizational buying behaviour*, *shelf*

*space, slotting fees, new products, supplier and retailer relationships, information sharing* etc. After reading some articles, we used the references in them to find more articles about the same subject. The Internet sources that we have referred to have primarily been the homepages of the companies considered in the study where we have looked for mission statements, brands and products, and organizational charts.

### **2.3.2 Interviews**

According to Patton (1987) there are three kinds of data collection that correspond to qualitative methods; in-depth, open-ended interviews, direct observation and written documents. He also states that open-ended questions permit the interviewer to understand the world as seen by the interviewee (Patton, 2002). Therefore, and since we are primarily interested in how key persons in the FMCG industry *perceive* and *describe* how the power shift between suppliers and retailers has affected their relations and negotiations, we have chosen the method of in depth-interviews.

Ekholm and Fransson (1994) describe different methods of collecting empirical data; direct and indirect modes and high- and low structured modes. Direct collecting of data refers to when the collector himself is observing a course, whereas the indirect method implies taking part of observations already made by someone else. Hence, a planned interview is an indirect method. The interviews we conducted were semi-structured, but not highly structured, since the questions were open-ended. However, they were neither low structured, because we did have some prepared questions and specified areas of investigation. These characteristics are summarised by what Svenning (1997) denominates an informal in-depth interview. One important principle he mentions is that the interviewer should explore each area as deeply as possibly before moving on to the next.

It is our belief that letting relevant representatives of market leaders in the FMCG industry freely answer open ended questions regarding power shift, retailer value and other related areas, has allowed us to capture the valid and necessary information in order to in depth study and describe the determined problem of this study. In the next section we will describe how we chose the interviewees.

### 2.3.3 The interviewees

Because of the limited amount of written material produced in the specific area of post-power shift supplier-retailer relations in the Swedish FMCG industry, it is our belief that the valid information is held primarily by persons in positions that are directly related to the problem area. It was rather easy to sort out which retailers we were to interview, since there are only four retailers in the Swedish FMCG market that have a considerable market share; ICA, Coop, Axfood and Bergendahls (see figure 3 below). Bergendahls have a particularly strong position in the southern parts of Sweden where they have a market share of ten per cent ([www.bergendahls.se](http://www.bergendahls.se)). When choosing the suppliers we considered those who are market leaders in at least one segment. Four market leaders, Unilever/GB Glace, Cloetta Fazer, Kraft Foods and Arlafoods, were interested in participating in an interview.

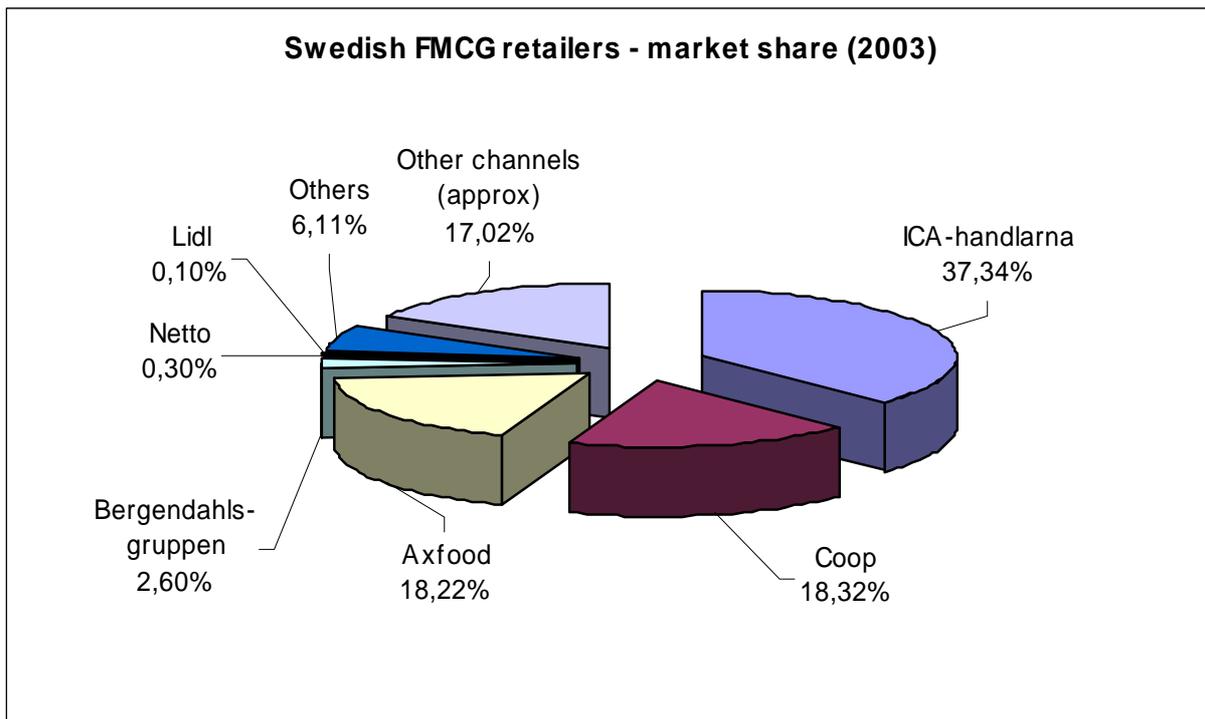


Figure 3: Swedish FMCG retailers - Market Share (2003), source: Supermarket, 4-5:31, 2004

The interviewees were chosen on the basis of relevancy. It was our desire to interview persons within the FMCG industry holding positions directly related to our problem area. When we contacted the manufacturing companies we asked for the department of trade-marketing and when contacting the retailers we asked for category managers or responsables of store-development. This way of

selecting interviewees is what Patton (2002) would call *Purposeful Sampling*. According to Patton, purposeful sampling is focused on selecting interviewees which are rich in information, and whose insights will illuminate the questions of investigation. Since the interviewees had to meet the criterion of working within relevant departments and within relevant positions, the interviewees were also chosen according to a subcategory of purposeful sampling, which Patton (2002) refers to as *Criterion Sampling*. Sometimes, the person who we first got in contact with directed us to another person who knew more about the area of interest, an approach called *Snowball* or *Chain sampling* by Patton (2002).

The interviewees were first contacted by telephone and were informed of the purpose of the study and were then asked to participate in an interview. Those who agreed were sent an e-mail with the details of the scheduled meeting, date and place etc., and a list of questions representing the areas that the interview was to consider. We also asked them for permission to use tape-recorder during the interview and all interviewees but one agreed to this. Most interviews were conducted in the facilities of the company where the interviewees worked, except for two, which were done over telephone because of difficulties in finding a convenient time for a meeting in person. The interviews lasted between 45 minutes to an hour and a half depending on the interviewee's availability and willingness to "spin off" when answering the questions. We got the permission from all interviewees to refer to them by name and position in the thesis.

#### **2.3.4 Structure**

The interviews with the retailers and suppliers were designed in such a way that the questions went from general areas to becoming increasingly specific as the interviews went on. Previous to the interviews we showed the interview guide (see appendix) to our supervisor and to our principal at Casma AB in order for us to have an idea of whether the areas about to be covered in the interviews were relevant or not. The same interview guide was used for both retailers and suppliers, however, the questions per se differed somewhat depending on whether the interviewee was a supplier or a retailer representative. The interview guide included the following areas of investigation (see next page):

- General information (which are the clients/customers of the company?)

We wanted the interviewees to define who their customers were in order for the answers to the following questions to be clear.

- Communication (what does the company want to communicate to the clients/customers/consumers?)

This area was covered because we wanted to find out what the companies want to stand for and how they wish to be perceived by their customers.

- Value (how is value defined by the company?)

Since the term *value* can mean a number of different things depending on the perspective and the context, we asked this question in order for the interviewees to specify and define it when speaking of value creation between suppliers, retailers and consumers.

- Competition

The interviewees were asked to define their companies' competition so that we would have a clear picture of who they compare themselves to and how they differentiate from their competition.

- Information (how does the company acquire information?)

An important part of leverage in negotiation comes from the possession of information which is why we wanted to find out what channels of information both retailers and suppliers have and how they use them. We asked for own databases, studies such as AC Nielsen's,<sup>6</sup> and information regarding consumer behaviour and preferences.

- Power balance (retailers vs. suppliers)

This is a central area in our study and our aim was to find out if the interviewees had a perception of the current situation and also if they had

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<sup>6</sup> AC Nielsen is a global provider of marketing research information services, analytical systems and tools, and client service. Their clients include leading manufacturers and retailers of consumer packaged goods, as well as companies that market many other types of consumer products and services.

noticed a shift. When stating that there had in fact occurred a shift in the power balance between the negotiating parties we asked them what they thought had brought about this shift and how it had affected their relationships.

- New products

We wanted to understand how the launching of new products is handled both from the suppliers' as well as the retailers' perspective to know if they sometimes develop products together, if the suppliers are guaranteed entry before they create consumer demand, what products fit into the retailers' already filled shelves and what attributes would make a retailer allow as well as deny it entry.

- Listing, Shelf space

A central issue in suppliers' negotiations with the retailers is the battle for shelf space. For this reason we wished to find out how the space is divided between products and brands in the store. We also wanted to know if the suppliers are able to buy space by simply offering cash to the store managers or distribution centrals, or if the retailers have an established strategy of category management.

- Negotiations

In this area we asked primarily about how the interviewees viewed the relation between themselves and their counterparties, as negotiations or collaborations. We also added a dynamic aspect in asking them if there had been a change in this perception lately and if this was the case, why this was.

- Hard discounters

We asked about hard discounters because they suppose a relatively new entry on the Swedish FMCG market and according to Corstjens and Corstjens (1995) they are competitors to the traditional retailers but also to the suppliers as the hard discounters usually carry brands that are very competitive in price.

- Private Labels

One of the factors that may have been an instigator to the supposed power shift between some retailers and suppliers is the development of the retailers' private labels. We wanted to understand how the retailers who carry their own private labels treat them regarding shelf space, price, consumer focused communication etc. compared to other brands and how this was perceived by the brand suppliers.

An important remark on the interviews is that the first interview influenced the following and so forth, since our pre-understanding continuously changed as we conducted the interviews and acquired new knowledge within the areas of investigation. Hopefully, this has only improved the interviews and encouraged us to ask more questions. It is common to use focus groups in order to find out what the most important areas of investigation are. Because of lack of time we could not use focus groups, but we are of the opinion that our conversations with the principal as well as the interviews to some extent could compensate for this, since especially the first ones served as a source of information concerning the areas of investigation.

## **2.4 Inductive study**

When beginning to search for theories we soon realized that the available theories concerning our area of investigation were rather limited and did not approach the problem in the same way as we wished to do. We also realized that our problem of investigation was relatively new and unexplored. In specific, there are no theories describing the consequences of a power in shift in the FMCG industry and although a few authors have briefly approached the concept of retailer value, there is no model or theory explaining what retailer value really is and how suppliers can create it.

Therefore, we decided that by using our pre-understanding in combination with our empirical study, we would get a hint on which theoretical areas that could be important for this study. For example, the importance of information for the shift in power balance was much greater than we had expected and without the interviews we would probably not have included an entire section on information in the frame of reference. The interviews were also of importance

for the frame of reference as they revealed how many theoretical areas were and could be interrelated.

This approach to the relation between empirical data and the frame of reference is referred to as inductive by Bjereld et al. (2002). The initial focus of the inductive method is on understanding individual cases before they are combined or aggregated and therefore the method begins with specific observations and builds toward general patterns (Patton, 1987). However, the second part of the frame of reference is partly based on the theories in the first part of the frame of reference and therefore has a deductive approach. The analysis is structured according to the frame of reference and can therefore also be considered to have a deductive touch, however we argue that it is mainly abductive as there is a continuous interplay of the empirical study and the frame of reference. This abductive method has much in common with the hermeneutical perspective we have as the interplay of the empirical study and the frame of reference can be compared to the hermeneutical circle (Alvesson & Sköldbberg, 1994).

## **2.5 Methodology summary**

As seen in figure 4 (next page), we have depicted the choices we have made regarding the methodology of this study. We have begun in the very top of the pyramid and sequentially moved down the remaining steps. The frame around the pyramid symbolises our hermeneutical approach which influences all levels of the pyramid. We first framed the purpose of the study, as illustrated in the highest level of the pyramid, and then we decided to use the qualitative technique to collect the necessary data. As a consequence, the chosen technique would to some extent limit the possible ways to obtain the empirical findings, and as illustrated in the middle part of the pyramid we decided to use interviews since it was our belief that this method would give us a deeper understanding of the situation of the interviewees. As a last step we decided that the study would have an inductive approach because of the limitation in current theories regarding our problem.

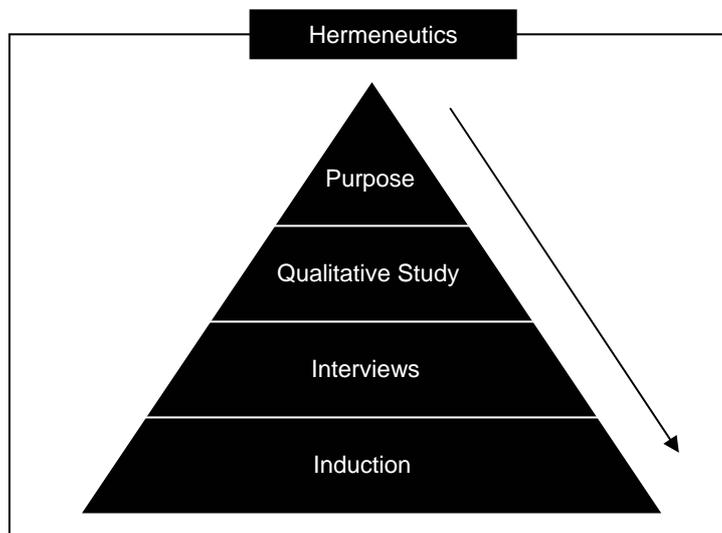


Figure 4: Own methodological model

## **2.6 Criticism of method**

In this section we aim to clarify the most important risks with our choice of method and mode of conduct and what they may have implied for the results of the study. We also try to make the reader aware of our own weaknesses regarding the execution of the investigation and the reliability of the results.

### **2.6.1 Validity**

The validity of a study is a term used to define how well it manages to capture and measure what it is meant to measure (Svenning, 1997). The literature makes a distinction between *internal* and *external* validity, where the first refers to the generalizability and transferability of the study, and the latter to the consideration given the design of the study and the way measurements are made.

In our case the validity of the study might have been compromised by our lack of experience in conducting interviews. The interviewees were all informed of the purpose of the study in advance and were hereby aware of the fact that the information gathered would possibly be available to their counterparties and competitors in business. This may have made them reluctant to answer certain questions openly, or may even have supposed a reason for giving misleading

information. We believe however that the problem treated and the questions asked were general enough for the interviewees to feel comfortable answering them without fear for other actors taking advantage of the information. In one case where an interviewee declined to answer a question asked it considered this kind of information and the interviewee implied that the reason for not answering was because of uncertainties regarding who would read the result of the study. In this particular case the interviewee demonstrated clearly his/her reluctance to answer but there might however have been other situations where the interviewees have had reasons not to answer truthfully without making this clear to us. It has then been a matter of judgement from our side to pick up on this behaviour or anticipate conflicting interests between the participants.

In designing the guide for the interviews there is a risk of us having made assumptions regarding possible answers or outcomes due to our supposed pre-understanding of the problem area. These assumptions might have ultimately affected the answers of the interviewees. We were however aware of this possibility and made an effort in avoiding leading questions or questions that would suggest a particular answer. There is also a risk that our questions were difficult to understand or gave room for alternative interpretations. We feel however that when the interviewees did not fully understand a question they generally asked to have it clarified. Another possibility that we have considered is that the interviewees were of different positions within their companies and may have had access to different kind of information and because of this also had different views on the problem. They may also not always have had enough information to answer certain questions but in feeling uncomfortable to say so they might have invented an answer or avoided the question in order to conceal their lack of knowledge in the area. We have attempted to minimize this risk by sending the questions in advance so that the interviewees had a chance to contact us and cancel the interview or recommend another person in the same organization to interview. This was the case with one representative who, after having seen the interview guide, called and gave us the name and telephone number of a colleague who was better suited as an interviewee.

Our method of gathering information included developing the interview guide as we went along because of new information that we encountered while conducting the interviews that we did not have prior knowledge of. When we found something in one interview that we considered being of relevance we tried to include this issue in the following interviews as well in order to be able to make comparisons and identify consistencies or inconsistencies between

different parties. Because of this, the interviews were not identical and the fact that we became increasingly informed as we conducted them may have affected the outcomes of the interviews differently. However, we believe that simply asking more informed questions should not significantly have affected the validity of the study negatively since only minor adjustments were made and the same areas were considered in all of the interviews.

*Construct validity*, often used interchangeably with external validity, refers to the validity of the theoretical ground supporting the study (Svenning, 1997). Where different theories concerning the defined problem are used, the relation between them must be specified and empirically examined.

As the theoretical background of this study was founded on several different theories and prior studies in accordance with our pre-understanding, it does not consist of one holistic theory or model that directly focuses on the problem area of the study. We have chosen to take into consideration theories that in combination cover our problem area but are aware of the fact that they were not created for the purpose of constituting parts of this by us defined broader perspective. When choosing theoretical areas to study we have tried to consider several important aspects of both the relationship between suppliers and retailers and the power balance between them.

Although our primary goal was not to find a causal relationship between what has brought about the power shift in the FMCG industry, it was still our aim to attain a nuanced and in-depth understanding of what factors related to this shift are necessary to take into consideration when explaining the positions that both sides currently find themselves in. Our judgement regarding what theoretical aspects to involve in this study has been influenced by our pre-understanding in the area as well as recommendations from our principal. It is our belief that he, being part of a company with direct contact with both sides of the supplier-retailer relationship, has good insight in what areas to concentrate on. The appropriateness of our choice of theoretical references and whether or not they are relevant in the treatment of the empirical findings is what is generally referred to as *face validity* and is a form of *internal validity* (Svenning, 1997).

### **2.6.2 Reliability**

Whereas validity regards the study as a whole, reliability regards the instrument or instruments used in the study to gather information. Reliability is a prerequisite for validity, if a study is not reliable, it is not valid either. It can however be reliable without necessarily being valid (Bjereld et al., 2002). The idea is that two separately but equally conducted investigations give the same result or the method of investigation is not adequate (Svenning, 1997). One way of increasing the reliability of an investigation is to have it conducted twice by different people, so that lack of reliability due to the conductor's poor investigation skills can be excluded. Since this study is qualitative, and based on our own interpretations, subjectivity is unavoidable and rather a necessary criterion for drawing conclusions. Therefore, if the study was to be repeated by other people, they would probably not come up with exactly the same results. Another way to measure reliability is to investigate the same objects twice, in our case interview the same persons twice in order to rule out the possibility of the interviewees giving unreliable answers because they were simply having a bad day, being distracted etc. (Bjereld et al., 2002).

Unfortunately we have not had the possibility to do neither of the above mentioned recommendations due to lack of time and we are of the opinion that a qualitative interview is hard, if not impossible, to conduct twice because of the unrepeatable interaction between the interviewer and the interviewee. It is our belief however that, as the problem of our study, and hereby also the questions that were asked, does not concern issues of which the interviewees' perception ought to change with mood or state of mind, making the interviewees go through the same interviews twice would not give different answers. If anything would the hassle of having to be exposed to the same questions twice possibly be a cause of irritation and may because of this decrease the interviewees' willingness to speak openly about the problem. It would have been preferable to be able to test our skills as interviewers by having another person or couple of persons redo the interviews to see if that would give different information. This has however not been possible as we were given the impression that the interviewees were quite occupied people and because we did not dispose of any persons with substantially more experience in the field of conducting interviews. We believe that this study can be considered reliable since we believe that it is unlikely that the market situation will change in the near future and therefore the general opinions of the interviewees should not change dramatically.

### **2.6.3 Objectivity**

One may argue that the issue of objectivity does not apply to qualitative studies, as they rely on interpretations that by nature are subjective to the cognition of the interpreter. However, we still choose to include this section as we believe that regardless of methodological approach, the reasoning is necessary in order to increase the awareness of the risks involved in conducting a study.

In qualitative studies such as this one, objectivity is primarily related to the objectivity or better yet the neutrality of the persons performing it (House, 1980 in Patton, 1987). In the words of Patton (1987:167):

*The neutral evaluator is impartial, one who is not predisposed toward certain findings ahead of time.*

A central issue in the discussion around objectivity is the search for truth, presupposing that truth is absolute. In any study however, the truth that is in demand is dependent on the perspective of the evaluator, suggesting that any investigation searching for the truth is in fact subjective to the evaluator's definition of truth and purpose of the study (Patton, 1987). Instead maintaining objective in this kind of study can rather be a strive toward an awareness of the assumptions made depending on the perspective chosen as well as an awareness of the existence of perspectives not considered. The central problem in staying objective is to keep facts and values apart (Lundahl & Skärvad, 1999). In our investigation some of the facts that we have studied have been the subjective opinions and values of the interviewees. This was however our aim and does not compromise the objectivity of the study. On the other hand, have we, in the design of the study, or in the collection or treatment of information, applied our own values and bias, it would mean that the objectivity could be questioned. One can see a parallel between subjectivity related to an informed choice of perspective on the problem and the investigators' pre-understanding. Depending on previous knowledge one makes assumptions of how a problem is best investigated, meaning that lack of knowledge and lack of knowledge of in what area one lacks knowledge would also compromise the objectivity of the study. In order to avoid this and get a broad fundament of pre-understanding, we tried to consider as many theoretical areas as possible that may have direct or indirect relation to the problem area before designing the study.

## **2.7 Criticism of sources**

In this section we attempt to highlight possible weaknesses with our choice of sources. The primary sources consist of the interviews we have conducted and the secondary sources any other source of information that we have made use of.

### **2.7.1 Primary sources**

Svenning (1997) argues that the sources of incorrectness can both coincide and part in qualitative and quantitative analyses. However, he claims that there are some sources of incorrectness that are more specific to qualitative studies:

- The principal witness syndrome
- Sampling errors
- The effect of the interviewer
- False conclusions (analysis)
- False conclusions (theoretical)

The principal witness syndrome refers to the interviewer designating the interviewees the role of witnesses of the reality. This leads to a lack of analysis and a simplification of reality only based on the responses of the interviewees. We believe that we have counteracted the syndrome by interviewing both retailers and suppliers, and by combining the empirical data with the frame of reference, before drawing any conclusions. The risk of sampling errors should be minimized since we were aware of which positions in the companies that should have knowledge about the areas of investigation. Furthermore, when the person we contacted did not find himself suitable for the interview, we were directed to other persons who had more knowledge about the problem of the study.

The effect of the interviewer is probably the one source of incorrectness that is the hardest to discover and avoid. What we kept in mind was that the one who conducted the first interview, also conducted the rest of interviews, whilst the other took notes and took care of the tape-recorder. We believe that this might have standardised the mode of procedure in the interviews, but we are aware that this is no guarantee for minimizing the effect of the interviewer. Using a tape-recorder and e-mailing the quotations used in the study to the interviewees, and

in most cases transcribing the whole interview, should have toned down the risk of misinterpretations, and thereby possible false analytical conclusions. Since the interviews were conducted in Swedish we had to translate the quotations we intended to use in the study. The translations were e-mailed to the interviewees in order to minimize the risk of there being nuance differences due to our translation. The last source of incorrectness refers to when there is discrepancy between the questions of investigation and the mode of procedure. Hopefully, the discussions and meetings with the seminar group, the supervisor, and the principal at Casma AB, in combination with our pre-understanding, have resulted in an appropriate mode of procedure that is concordant with the questions of investigation.

### **2.7.2 Secondary sources**

When using sources such as articles from magazines and journals there is always a risk that the information published is incorrect or biased depending on the interests or competence of the author or the media. This is especially the case with information found on the Internet, where anyone with access can make any kind of information easily available and it can be difficult to tell objective information and propaganda apart. We have aimed to keep a critical attitude toward all sources used whether they were printed or accessed electronically. When searching for theories regarding the problem of investigation we also tried to use sources that were rather new and thereby applicable to the shift in power balance which did not begin until the end of the seventies and has not been a subject for research until the last few years. However, some theoretical sources used for the frame of reference date back to the sixties. These sources are referred to by more recently published authors and consider the phenomenon of buying power. Almost all the printed sources considered are of international origin. The reason for this is that we have not been able to encounter more written material concerning the situation in Sweden. However, we believe that the material we have found is still relevant because it regards the same general problems and therefore does not have to be considered country specific.

## **2.8 Generalizability**

This study is limited to analyzing the conditions of the Swedish FMCG industry and the results of it are hereby also not directly relevant for other markets. This

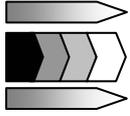
especially since one of the reasons why we were first interested in conducting this study was the fact that the Swedish industry is somewhat distinctive in the sense that almost all of the sales to the final customers lie in the hands of four distributors. We believe that parts of the results can be applicable to other markets where the conditions of this particular aspect are comparable enough for extrapolations to be possible (Patton, 1987), but the generalizability of the study as a whole is limited to the Swedish FMCG industry. Since our method is qualitative the kind of generalizability that we speak of is analytical and in no way statistically valid for making generalizations on populations (Lundahl & Skärvad, 1999).

## Chapter 3.

# Empirical Study



In this chapter we present the empirical findings from the conducted interviews. First, we present the results obtained from interviewing the retailers, and secondly, we present the results from the suppliers.



### 3. Empirical study

*This chapter is divided into two main parts; one based on the interviews with the retailers and one based on the interviews with the suppliers. The design presented in figure 5 below applies to both parts of this chapter. As illustrated, we start with some general information on the retailers and suppliers and continue with their views on communication and value, two areas that are partly interrelated since the retailers/suppliers communicate value to their customers or consumers. Next, we present how the suppliers/retailers acquire information and the importance of the information. Since information turned out to be an important factor regarding the shift in power balance, we continue with power. As power affects negotiations and listings and shelf space these are the areas to follow. The next area is new products, which is also interrelated with listing and shelf space. Because of the competitive importance of new products we continue with competition, private labels and hard discounters. At the end of both parts there is a summary presenting the findings.*

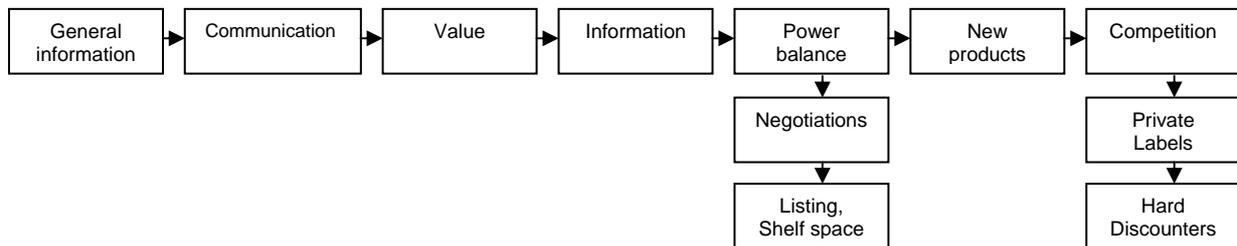


Figure 5: Empirical overview (own model)

#### 3.1 Retailers

We conducted four interviews with representatives from the four retailers with the largest market share in the Swedish FMCG industry. At Coop we interviewed Category Group Manager Kenneth Solstrand, at ICA the Marketing Manager of ICA Maxi, Henrik Cajnerud, at Axfood Business Area Manager Mats Sjö Dahl, and at Vivo Stockholm of Bergendahls Head of Purchases Andres Grosenius. Vivo Stockholm is given relatively more space because of their strategy of not carrying private labels, distinguishing them from the other retailers. For some general information on Axfood and ICA, we also consulted the web pages of the companies. When we, in this section, speak of the customers, we mean the same persons that to the suppliers constitute their final customers – the consumers.

### **3.1.1 General information**

We begin with some general information on the retailers in order to give the reader a perspective on the following parts.

Coop have two different concepts focusing on different consumers depending on their characteristics and buying behaviour. Coop Forum is a discount warehouse primarily directed to families with children who tend to grocery shop once a week or maybe even once a month. Coop Konsum is a chain of supermarkets which is supposed to offer both a full range of groceries to some customers and represent a complementary store to others.

Vivo Stockholm is a retailer chain with an organizational structure where every store is privately owned. This has certain implications for how the chain as a concept is handled since the central administration does not have full control over the stores and instead differentiate from the competition through a high level of local adjustment. However, being a chain and working under the same retailer brand, all stores that go by the name of Vivo Stockholm do have some things in common, for example a common market program.

*There is a big adjustment depending on where the store is located and what kind of customers are there...but when we look at our market program, then we look more on width and focus on families... the classical being families from 25 to 45 years, that have children living at home, for example...*

(Andres Grosenius, Vivo Stockholm, our own translation)

Axfood claim that their customers are all those who want to buy food. Axfood is the owner of the retailer chains Hemköp, Willys and Willys hemma as well as the wholesaler Dagab and Axfood Närlivs. They also hold the franchising licence for multinational retailer concept Spar and function as a wholesaler for some smaller retailers. In 2005, the majority of the Spar stores will be converted into Hemköp, a move that will more than double the number of Hemköp stores ([www.axfood.se](http://www.axfood.se)).

ICA have, just as Coop, many different store concepts and therefore their clients differ depending on each concept. The idea is however that everyone in Sweden is a potential customer. The target group of ICA Maxi in particular consists of

families with a car. As was shown in figure 3 (in section 2.3.3), ICA have the largest share of the Swedish FMCG market.

### **3.1.2 Communication**

We included this part in order to find out what the retailers emphasize in their communication with their customers and how they wish to differentiate and position themselves.

Both concepts within Coop aim to communicate a range of goods and brands that offer the customers freedom of choice but at the same time with a focus on price. They do not however wish to compete with hard discounters by being the cheapest solution in all aspects, but instead combine a certain level of service and high profile brands as well as low price alternatives. This communication strategy is very similar to the one of ICA. However, Henrik Cajnerud is of the opinion that ICA Maxi have not succeeded in communicating that their prices are about as low as those of the competitors.

As already mentioned in chapter 1, ICA invest a lot of money in commercials. Henrik Cajnerud says that ICA are aware of the current debate concerning ICA's brand being dominant over the supplier brands participating in the commercial.

Vivo Stockholm have profiled themselves as a chain that does not want to have its own private labels. Instead they wish to be a representative for known brands that the customer recognises and trusts and provide a good range of fresh food.

*Our slogan is 'good food close to you'... we are situated where people live or work and we try to communicate a profile of fresh groceries. In our range and marketing the fresh groceries dominate so there we try to profile ourselves.*

(Andres Grosenius, Vivo Stockholm, our own translation)

When asked about whether or not Vivo Stockholm communicate an environmentally friendly image the answer was rather that respect for the environment is taken for granted these days.

Regarding Willys, Axfood try to communicate the slogan *the cheapest bag of groceries in Sweden*. They want to offer a good range of products where 95 percent of the purchases should be able to be made. At Hemköp they

communicate food-fashion and low prices but not the lowest. Mats Sjö Dahl of Axfood claims that the consumers have become more updated on prices and the total market, and have also become more selective in the last two or three years. Campaigns are set up when the market plan is established, separately for each chain, and these are later presented to the suppliers.

### **3.1.3 Value**

In this section we present how the interviewees define the term value in order to clarify what they consider to be value creation on behalf of the suppliers.

Henrik Cajnerud says that ICA generate value for their customers by offering many products that are price worthy. The customers should be able to buy everything they wish to at ICA Maxi. Regarding the suppliers, Henrik Cajnerud claims that supplier brands are an important part of the offering towards the customers, which are supposed to always be able to choose between a supplier brand and a private label.

Kenneth Solstrand at Coop defines value for the customers as something that the customer demands and thereby is willing to pay for, for example better taste, easier preparation or the possibility of saving time. According to him that is primarily what you look at and try to deliver more and more in this industry, and therefore what Coop value in their suppliers is their ability to develop products that offer these functions to the final customers and represent added value.

All of the retailers considered gave the impression that the desires of the customers were in focus when talking about value creation. For example Andres Grosenius of Vivo Stockholm expressed a particular interest for the segment of immigrants on local level.

*The different ethnical groups have very different traditions at different times of the year. To be able to satisfy even these customers with that kind of food and also let them know that we have this I think could constitute an added value for that particular customer group. So that is a thing that we will focus on more.*

(Andres Grosenius, Vivo Stockholm, our own translation)

Both Andres Grosenius of Vivo Stockholm and Mats Sjö Dahl of Axfood, in the case of Hemköp, mention fresh groceries as a way of creating value for the

customers and differentiate oneself from the competition. Vivo Stockholm have a profile of fresh groceries and in their range and marketing these are the dominating categories. Value at Hemköp is defined in terms of offering fresh groceries and the best range of products on the market.

### **3.1.4 Information**

This section aims to present to the reader the findings regarding how information is obtained and used by the retailers as well as what kind of information they think the suppliers have and advantage in.

Henrik Cajnerud of ICA explains that ICA have an information sharing system called Levnet, which enables suppliers to get information from ICA, and also ICA to get information about the suppliers. Furthermore, according to ICA's homepage, the suppliers can obtain POS (Point of sales data<sup>7</sup>) by paying a fee. According to ICA's homepage ([www.ica.se](http://www.ica.se)), there also exists VMI (Vendor Managed Inventory). By the VMI system the suppliers get information via EDI (Electronic Data Interchange) from ICA regarding inventory and orderings from the stores. The suppliers are then responsible for manufacturing and delivering according to the data received. The suppliers which take part in the VMI system have a special contract with ICA.

At Axfood the suppliers get to buy information regarding detailed statistics on products sold and about how their products are doing.

*They get statistics on what they sell through the store, it is included in the total deal. It is good for the suppliers and us since it makes it easier to discuss development and future when you have access to the same information.*

(Mats Sjö Dahl, Axfood, our own translation)

When asked about customer demand on products that do not yet exist and therefore do not appear in AC Nielsen data the retailers agreed that the demand is primarily noticed in the stores since that is where the employees have personal contact with the customers.

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<sup>7</sup> The Point of sales data regards sales of the suppliers' products and the sales expressed as a percentage of the segment

*Our stores of course...We have ten thousand employees out there in the stores and it is there where the customers demand, then of course you try to ... read magazines and stay informed about what is happening... and another thing I must say... the suppliers as well, they are very good at keeping track of trends and they can naturally also affect the size of trends that are created since they are very good at marketing...*

(Kenneth Solstrand, Coop, our own translation)

*Today we are as well informed as the suppliers. Before we did business on individual store level. Today the suppliers have to motivate why a new product should enter.*

(Mats Sjö Dahl, Axfood, our own translation)

When asked about information that the retailers are aware of lacking compared to the suppliers, they all mentioned the suppliers' in depth knowledge about consumer behaviour regarding the products and categories where they are present. According to Andres Grosenius the suppliers are better on upcoming trends, especially in the case of an international company. However, they do not have the same amount of detailed sales statistics as do the retailers and instead have to rely a great deal on AC Nielsen data.

*...They go deeper in each category, the problem for us is that we can not go in depth in one hundred categories, it is not worth it, it is too costly...but look at Carlsberg for example, of course they can dive deeply into beer and sodas, that is no problem for them because it is so narrowed down...that is the difference.*

(Kenneth Solstrand, Coop, our own translation)

At Axfood, Mats Sjö Dahl mentions one information source being the so called immigrant wholesale dealers for the ethnical range at Willys. However, the collaboration with them does not have nation-wide coverage.

Regarding the possible disadvantage of smaller suppliers in not possessing the same amount of market information as their larger competitors and therefore possibly risking not having the same kind of leverage in negotiations, Andres Grosenius of Vivo Stockholm says:

*We do not include a supplier depending on the information they have but on the product. We respect that a small supplier does not possess that kind of information and can not afford to get it, in that case it burdens the product and*

*that is not right ... it is when you reach some kind of critical mass you can start to buy this and it has a value for the business development of the supplier. It is the product we evaluate, what they do out there, how they can serve our stores, the accessibility...*

(Andres Grosenius, Vivo Stockholm, our own translation)

### **3.1.5 Power Balance**

The retailers were asked about how they perceived the power balance between them and their suppliers and if there had been a recent change. Both Kenneth Solstrand of Coop and Mats Sjö Dahl of Axfood admit to negotiations with big suppliers of important brands being more difficult relative the negotiations with smaller suppliers or suppliers of not so known brands.

*...of course it is harder to negotiate with the suppliers of big brands...the problem for us is usually that many of these big brands are present in a lot of price surveys so they become products with very pressured prices... that is the dilemma... but we still have to sell them...*

(Kenneth Solstrand, Coop, our own translation)

*It is not easy to deal with big suppliers. Competition is the only thing that makes them want to discuss.*

(Mats Sjö Dahl, Axfood, our own translation)

When asked if the retailers had in fact noticed a shift in the power balance the answers vary somewhat depending on the retailer. Henrik Cajnerud of ICA says that the change has been radical in ICA's case. He believes it to be a consequence of the centralization of ICA and also of ICA taking control of their shelves. Kenneth Solstrand also claims that Coop have better control of their stores now than before and added that the climate has become harsher and this is mostly due to the retailers having more information and making better use of it today.

*Yes of course...and what it depends a lot on, really, is information...the difference today is that we have access to the same information...and that is to a great extent what has created this power shift...plus, we have the detailed information of exactly how much our stores sell*

(Kenneth Solstrand, Coop, our own translation)

Mats Sjö Dahl agrees that the climate has become harsher but adds that the attitude has become more professional. He further claims that the suppliers also make demands on the retailers keeping their promises. For example if a product is supposed to be present in all Willy's stores, Axfood have to make sure this is the case.

*The last years have been tougher than before. We make more demands on price and logistics than we did earlier. We act like chains in Europe have done before.*

(Mats Sjö Dahl, Axfood, our own translation)

Andres Grosenius at Vivo Stockholm however has not perceived such a dramatic shift in power balance but instead stresses communication as an important part of maintaining good relations with the suppliers.

*...People talk about a rougher climate between suppliers and retailers with a higher degree of confrontation, but we have really attempted to strengthen our relations because we want to represent the brand suppliers on the market. Vivo Stockholm is where you find known brands and then you can not be in conflict with the suppliers. We usually say that relations are more important than numbers...and I have not noticed a harsher climate... definitely not...I think that the suppliers have shown great understanding for what we stand for and aim for when we have negotiated... so far so good...but of course if the competition becomes more fierce then the pressure on our stores also increases and thus the pressure on the organisation's negotiations with the suppliers... so we do not really know what the future looks like... but our ambition is not to seek conflict or threaten the suppliers...I do not believe in that... I think you really have to better communicate what is our goal, what do we want to achieve...*

(Andres Grosenius, Vivo Stockholm, our own translation)

### **3.1.6 Negotiations**

In this section we present the information we got from the retailers regarding different aspects of their negotiations with the suppliers.

At ICA, the responsables of each store concept make a plan for what they want to have on their shelves and then forward it to the Merchandising department. The Merchandising department analyses the development of different categories and the market in general and then sends an order to the Buying department

which ultimately negotiates directly with the supplier of each product. At Coop all negotiations are handled centrally for all of the stores owned by the economic association, while at Vivo Stockholm, which have a different ownership structure, some negotiations are still handled locally between the store owners and suppliers, although they too have moved on to centrally coordinating an important part of their purchases. In this sense Andres Grosenius agrees that Vivo too have more strength now when making deals with their suppliers, since a party representing many stores and larger volumes is to be considered stronger than a single store negotiating only for itself.

*(Negotiations) are only done here (centrally), even if it is a local supplier we finish the deal here...so that we get everything into our system and so that we can evaluate the product in the same way as all the others and get sales statistics and so on...*

(Kenneth Solstrand, Coop, our own translation)

However, Solstrand also mentions that Coop try to maintain long term relationships with their suppliers.

*We have no aspiration to change suppliers all the time, often you see that you have to reinforce...either you have to lower the prices in the stores or boost the margins or both, and that is often the trigger to why we engage in these negotiations... but no one wants to switch suppliers every year or half year... that is no ambition, because it would create confusion among the consumers with new brands all the time, so we try to have long term relationships and sometimes it works and sometimes it does not...*

(Kenneth Solstrand, Coop, our own translation)

When asked about how Vivo Stockholm want to be perceived by their suppliers Andres Grosenius says:

*They should think of us as a partner, a customer with the same fundamental basic outlook.... who wants to drive sales and develop sales and who is a strong channel for sales on an important market...*

(Andres Grosenius, Vivo Stockholm, our own translation)

Sjödahl at Axfood admits to the relationship with the suppliers having become tougher than before but more professional, and Henrik Cajnerud of ICA especially emphasises the focus on price.

*We make higher demands on price, logistics, range ...*

(Mats Sjö Dahl, Axfood, our own translation)

*...the negotiations regarding the prices of the products have become tougher, but once you agree the collaboration is much better (than before)*

(Henrik Cajnerud, ICA, our own translation)

However, in spite of the focus on price, ICA also negotiate for example promotions with their suppliers. Usually ICA plan to focus on health, for example, during a certain week of the year and then ask some suppliers whether or not they are interested in participating. The suppliers then contribute with some ideas and this way the promotion is developed. Henrik Cajnerud claims that it is important to always put the products in a special context.

*It is because everyone states that by uniting our efforts we will both be winners, the one part cannot live without the other, it actually implies that if we decide to collaborate then 1 plus 1 equals 3 compared to the scattered showers that are of no use for anyone.*

(Henrik Cajnerud, ICA, our own translation)

### **3.1.7 Listing and Shelf Space**

Here we present the findings on the different policies and aspects regarding category management such as listing of products and how shelf space is distributed between products and brands.

All retailers have well developed programs for category and space management. Coop with a centrally controlled organizational structure have specific programs for each store depending on its size and concept, while Vivo give the impression to have a more loose control and their shelf space program is instead a support function making recommendations to the different stores. At ICA the planograms<sup>8</sup> are made centrally but each store has the possibility to adjust them. The stores are not allowed though to remove products that have to be present in all stores, but it is possible for them to add local products for example. At Axfood, Willys make their own planograms, otherwise it is handled centrally because it is one company and they own all their stores.

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<sup>8</sup> Planograms are used in order to in detail map out and plan the in-store location of where products are to be exposed

*Most of the time what you do when you build a category is to divide it into different parts...and hopefully they reflect the demand of the customers or function within a range...*

(Kenneth Solstrand, Coop, our own translation)

*We work with a space management program and we start to more and more draw up these categories...we still have some left to do but we will have different planograms adjusted to the size of the store where we draw up those products that we consider are the A-products that are supposed to be present... so that we get this core of the assortment that you are supposed to find in our stores and on which the market program is built...*

(Andres Grosenius, Vivo Stockholm, our own translation)

*...And when you create a range you easily get a lot of copies... there are many who are good at copying in the food industry ...but what we are saying then is that we do not offer the customers any alternative... then we are only offering them the brand as an alternative, not another function...*

(Kenneth Solstrand, Coop, our own translation)

According to Solstrand, Sjö Dahl, Cajnerud and Grosenius, shelf space can not be bought, however the opinions regarding listing fees and other means of indirectly paying to achieve shelf space or presence in stores differ somewhat, mostly because there seem to be a number of creative ways of getting around it, for example through important introduction discounts. Sjö Dahl points out that at Axfood not even end-of-gondolas can be bought. All products are labelled either “must” or “choice”, where the “choice” products are present only in some stores depending on local adaptation.

*Abroad you have a kind of listing fee so to say where you can control the planograms and say, okay if you want to get in it costs this and that much but you also have to generate this amount of money for us during a year or over a period... I do not know about anyone having that system in Sweden, at Vivo we definitely do not because we can not have it this way since we are not an integrated chain...*

(Andres Grosenius, Vivo Stockholm, our own translation)

### **3.1.8 New products**

We asked about how the retailers treat the appearance of entirely new products in order to understand the process that eventually earns a new product listing and shelf space and if they collaborate with the suppliers in product development. Henrik Cajnerud claims that ICA collaborate a lot with the suppliers regarding product development and that collaboration starts at an earlier stage now than before. But there is also a difference between smaller suppliers and large, global suppliers as the collaboration with the latter ones is rather scarce.

*Since ICA are the largest player in the Swedish market it can even happen that you (the suppliers) choose not to launch it (the product) if it, so to speak, is not listed at ICA, we are a part of the suppliers' launching campaign.*

(Henrik Cajnerud, ICA, own translation)

Henrik Cajnerud adds that new products cannot be listed in an existing category unless the category or the supplier is strong enough, and then usually another brand has to go because it is experiencing a decrease in value.

*...often they (suppliers) come to us and want it (the new product) on our shelves before (advertising)... a month or two or sometimes three...and that is why more and more want feedback on an earlier stage...we have suppliers that already in the hypothetical stage start to discuss a range that they want to sell... that one we believe in... that one we do not...if you know what I mean...*

(Kenneth Solstrand, Coop, our own translation)

*In connection with for example the launch of a new product you (the supplier) often present what you are going to do, it can be part of the entire launching package and you can say like; now we are visiting all the stores and we will put up material, and we will have demonstrations, we will have some kind of event, maybe we support this with some kind of marketing directed at the consumer on television or in magazines or whatever... I mean then it is included in the launching plan.... And then the sales chore of the suppliers visit our stores and their mission is really to create sales for the store and then they can make different kinds of activities that benefit their products depending on what kind of product it is and so on...*

(Andres Grosenius, Vivo Stockholm, our own translation)

Neither at Axfood nor at Vivo Stockholm there exists any collaboration within product development, instead the suppliers sometimes approach them before a possible launch and ask for their opinion. This kind of collaboration is becoming increasingly common according to Sjö Dahl. At Axfood, the new products are supposed to achieve a market share of two percent and improve the gross profit. When asked about the suppliers' suspicion of whether or not Axfood, that have private labels, could possibly come to copy new ideas and concepts, Sjö Dahl says that they are not so secretive.

*We will copy it anyway later on...*

(Mats Sjö Dahl, Axfood, our own translation)

### **3.1.9 Competition**

In order to clarify what the interviewees would mean by the term competitors, we asked them to define who they are and to define in what they think they differ compared to their competitors.

*...one of our biggest competitive advantages is that we own our stores, this way we can control them... this you should sell ... this you should not sell... it is more difficult for our competitors... mainly ICA who have an ownership structure that does not agree with this...*

(Kenneth Solstrand, Coop, our own translation)

*We do not differentiate much from our competitors... (ICA Supermarket, ICA Nära, Hemköp, Coop Konsum) I do not think we differ much in what target group we focus on...*

(Andres Grosenius, Vivo Stockholm, our own translation)

*It used to be Coop but the market has changed radically during the last years, people shop in a different way now that the so-called category killers are present...now our biggest competitor in FMCG is Willys and Citygross and in special products it consists of about 50 different category killers in different segments, for example El-Giganten, Duka, Rusta...We try to differentiate by offering a broader selection with more options and better service and staff.*

(Henrik Cajnerud, ICA, our own translation)

### **3.1.10 Private Labels**

One of the factors behind the power shift in the Swedish FMCG industry, as well as a subject of much discussion, has been the quite recent appearance of the retailers' own private labels. We were interested in finding out how they treat them compared to other brands. To give the reader a brief overview; the private labels of Coop are Coop X-tra, Änglamark and Signum, which is being replaced by Coop. ICA have the private labels ICA and Euro Shopper and at Axfood Willys have Willys and Eldorado and at Hemköp the private labels are Hemköp and Eldorado.

*...it is about finding a balance... often we over expose our private labels a bit but then if we over expose them so much that we no longer have the brand suppliers then we bite ourselves in the foot...*

(Kenneth Solstrand, Coop, our own translation)

Kenneth Solstrand also says, regarding the distribution of shelf space between the private labels and the supplier brands, that the high quality private label of Coop, Signum, is usually placed next to the leading brand.

Henrik Cajnerud of ICA claims that a consequence of the private labels is the suppliers needing to create brands with specific value in order for them to have a "raison d'être". By creating value and making the consumers want the suppliers' products, they can ensure that the consumers pressure the retailers and thereby the brand suppliers can get shelf space for their products. This has also resulted in the smaller suppliers being knocked out by the private labels whilst the market leaders work really hard to strengthen or maintain their positions. Henrik Cajnerud also says that ICA's private labels occupy more shelf space than what their market share would indicate. The reason for this is ICA earning more from selling their private labels compared to other brands. We asked whether he perceived a risk of the suppliers being dissatisfied because of this.

*No, I do not think so, they need their distribution channels and ICA is the largest one...*

(Henrik Cajnerud, ICA, our own translation)

ICA currently sell two private labels, Euro Shopper and ICA's own brand. According to Henrik Cajnerud, the difference between them is that the quality of ICA's own brand is equal to that of the market leaders but the price is ten to

fifteen percent lower, whereas the Euro Shopper brand is a response to the focus on really low prices and therefore does not have the same good quality in general.

We were especially interested in knowing what Vivo Stockholm say about private labels since they have officially stated that they will not be part of this development and recently ended their collaboration with Axfood in order to instead work with smaller Bergendahls.

*Well it is about the fact that Vivo Stockholm have always worked with known brands and we do not believe that there is any kind of added value in a private label...what we see today is that many of the private label products are less good copies of an original, a kind of me-too- products... this market has historically been developed by the suppliers of the industry.. and now it is a little bit like... 'thanks for the coffee...you have been around until now but now we remove you...' and then you can say that the big strong brands stay but the smaller ones are eliminated, but they have also contributed somewhere in this chain...*

(Andres Grosenius, Vivo Stockholm, our own translation)

*We want the suppliers to compete and drive and develop products...innovate and everything...and about competence... are we supposed to be good at developing products or are we supposed to be good at meeting the customers and their needs...*

(Andres Grosenius, Vivo Stockholm, our own translation)

According to Mats Sjö Dahl at Axfood, the customers at Willys are more perceptive to private labels than those of Hemköp, but in general the consumers are positive to the concept. Today the range is wider than ever, they are seen as another alternative to choose from, like another supplier. Sjö Dahl states however that it is important not to give the private labels too much space because it does not benefit the consumer. If something that would sell well gets too little space the consumer becomes disappointed and after two, or three visits they change to another store. Sjö Dahl also recognises the possibility that the small suppliers do not get any space now, but that the big ones have never taken their smaller colleagues into consideration. He also suggests that the phenomenon of private labels has been a subject of much discussion but that they are here to stay. He adds that the suppliers of the Swedish FMCG industry used to be accustomed to

an environment almost without competition. However, they have understood that private labels are here to stay and have to accept the competition.

### **3.1.11 Hard Discounters**

Since hard discounters suppose a recent and important change in the Swedish FMCG industry we wanted to find out how the traditional retailers perceive them.

It seems all the retailers agree that hard discounters are here to stay but that they will never appeal to all customers and will thereby only occupy a limited part of the market. Instead of tackling them head on for the same segment the traditional retailers have different strategies of maintaining their customers loyal.

*... they are here to stay on the Swedish market... that is clear... our way of answering to that is to give alternatives...it is about working with a number of private labels... X-tra is what we call a hard discount brand...*

(Kenneth Solstrand, Coop, our own translation)

*When it comes to hard discounters there are both positive and negative aspects and they kind of set the prices and that of course can be good for the consumer...*

(Andres Grosenius, Vivo Stockholm, our own translation)

*...but competition is good so we have to adjust and make sure we are clear in our business concept, what we stand for...*

(Andres Grosenius, Vivo Stockholm, our own translation)

Henrik Cajnerud says that ICA were surprised by the success of the hard discounters and that the hard discounters affect them more than they expected. Just like Coop, ICA offer a private label, Euro Shopper, which is supposed to be an option similar in price to the products of the hard discounters. He also claims that ICA have to add value in order to have a “raison d’être”, because ICA neither can nor want to win a price war since a win would only turn ICA into a hard discounter and then the values of ICA are wasted. Furthermore, the brand of ICA would be in danger in such a situation since it would threaten the quality and safety image of ICA.

According to Mats Sjö Dahl, hard discounters have to be taken seriously and within some years there will probably be around 300-400 stores. This implies that one has to stay alert so that the price difference compared to other chains does not become too great, but avoid entering in war with them. He is of the opinion that Willys stand up well to the competition but that the traditional supermarkets like Konsum, ICA and Hemköp will notice the competition from the hard discounters the most as the consumers will perceive the price difference as too great.

### **3.1.12 Summary**

Here we present a summary of the findings from the interviews with the retailers in order for the reader to bare them in mind through the rest of the study.

- The communication is different depending on the retailer, for example Willys focus on cheap groceries, Vivo Stockholm on fresh groceries and high profile brands, Coop Konsum on service and price but not on being the cheapest, Coop Forum focus on families who do weekly or monthly purchases, and Hemköp on food fashion and fresh groceries. ICA have several different concepts but want to see everyone as a potential customer.
- Value is defined in terms of what the consumers perceive as being added value, for example taste, preparation, and saving time. It is also defined as offering a wide range of price worthy products.
- The retailers get information from their in-store personnel, trade press, scanner data, and from the suppliers. They perceive the information that the suppliers have on consumer behaviour regarding their specific categories as being more in-depth.
- The retailers find it harder to negotiate with big suppliers and claim that the climate has become harsher but that they aim to have good relationships with the suppliers. Negotiations are generally conducted centrally. Vivo emphasize that they see the supplier as a partner.

- Planograms are used to optimize shelf space. According to the retailers it is not possible to buy shelf space or pay to get listed. The products have to be innovative.
- All products are classified as, for example, A or B products. Collaboration regarding product development is rare.
- All retailers, except Vivo, sell private labels. The private labels are here to stay but are not to be over exposed in the stores.
- Hard discounters are perceived as competitors and the retailers try to meet the competition by offering more alternatives, for example cheaper private labels or a focus on other attributes appreciated by the customers.

## **3.2 Suppliers**

In total, we conducted four interviews with representatives from four leading suppliers within the Swedish FMCG industry. At Arlafoods we interviewed Business Development Manager Peter Kofoed, at Kraft Foods Customer Marketing Manager Annelie Johannesson, at Unilever/GB Glace Category and Activation Manager Jacob Testén, and at Cloetta Fazer Trade Marketing Manager Peter Henriksson.

### **3.2.1 General information**

All suppliers have two main clusters as clients, one cluster consists of retailers such as ICA, Coop, Axfood, Bergendahls, whereas the other cluster consists of gas stations, kiosks etc. In general, the suppliers have at least one key account for every one of the large retailers, whereas one person can be responsible of all gas stations, for example. This is natural since the four large retailers count for an important part of the sales. The relation with the four leading retailers is rather close, for example Jakob Testén of Unilever says that the key account managers have daily contact with the retailers, whilst the responsables of the gas stations etc., have a much more diversified contact with their clients, and sometimes only meet once every two weeks. Furthermore, according to Annelie Johannesson at Kraft Foods, gas stations etc. have not had much focus on category competence in the past, and therefore have not got the same competence as the big retailers have acquired. Due to that the salesmen have a greater influence on those points of sales.

### **3.2.2 Communication**

To understand how the suppliers want to be perceived by retailers and customers we asked what they communicate. Apart from communicating the characteristics and benefits of the products, the suppliers also claim that they try to communicate variables such as service, logistics, product development and social responsibility to the retailers. All suppliers also claim that they want to be perceived as a good partner.

*We want to stand for inspiration and well-being and be perceived as a company that is innovative and successful and knows a lot about the consumer...and ecology and naturalness. We want to be perceived as businesslike and prominent and as a good partner for negotiations.*

(Peter Kofoed, Arlafoods, our own translation)

*...it is expected that we are the first ones, we are to communicate that we are news, it is we that work with innovation, it is we that inspire the development of trends in the ice-cream market, that is what we actually want to communicate, plus that we are very reliable when it comes to delivery...*

(Jakob Testén, Unilever/GB Glace, our own translation)

*We have to take responsibility for all our ranges. If we launch a product it may happen that we, unfortunately, have to realise that we have to delist a product that does not meet expectations. And it is also important that we show our customers that we take responsibility for our products if we do not think they are good enough. And that is unusual.*

(Annelie Johannesson, Kraft Foods, our own translation)

*We have to drive our strategy and our goals and clarify for the customer how they can benefit from that and how their range and decisions affect our deal, but we will not let ourselves become marked as a supplier who is only a manufacturer. We have a lot of people employed to create consumer value that is greater than just delivering crackers with chocolate...*

(Peter Henriksson, Cloetta Fazer, our own translation)

Many suppliers use trade press to communicate with the retailers. Kraft Foods also try to work with editorial text and write articles about the origin of chocolate for example, and sometimes combine it with coupons. Buying space in trade press is a way to communicate news to the store personnel and to remind them that the company exists.

Another means of communication are the so called “windows”. During certain predetermined weeks the suppliers present new products to the retailers. This is when the listings are made and therefore the communication towards the retailers usually is very concentrated during these weeks. Furthermore, suppliers that are leaders in the market meet representatives to discuss category development, prices, campaigns and discounts.

The communication towards the consumers differs from the one towards the retailers. The message is usually simpler and is more focused on image, products and news. The communication directed to the consumers is crucial for the suppliers since it may affect the sales and thereby both listing and shelf space with the retailers.

However, sometimes it might be hard to communicate new trends and habits to the consumers. Kraft Foods, agents of the Mexican food brand Old El Paso, are currently trying to reposition the brand and implement new habits regarding Mexican food.

*If we consider Mexican food for example, the range is incredible, you can do so much with Mexican food. But most people just say 'tacos'...there are huge possibilities there and I think the need for education (of the consumer) is big.*

(Annelie Johannesson, Kraft Foods, our own translation)

### **3.2.3 Value**

In order to further on define retailer value and discuss how suppliers can create it, we wanted to find out how the suppliers define value and how they currently try to create it for their customers and consumers. Sometimes the interviewees found it hard to define value, but during the interviews they usually made their answers more concrete. When asked to define how they generate value for consumers and customers, the interviewees answer in many different ways. Some answers are purely focused on profitability and sales, whereas others are more related to education, recipes, contribution to the categories, knowledge about the consumers, and comfort.

*...having fun, to allow oneself something, and that ice-cream is fun – is what we perceive as value – it is this value that we want to create for the consumers...*

(Jakob Testén, Unilever/GB Glace, our own translation)

Peter Henriksson of Cloetta Fazer has a similar approach to value for the consumers as he claims that their brands are the value they generate and that the brands represent the satisfaction of the need for pleasure in terms of chocolate and other sweets. Peter Kofoed of Arla defines value for the consumers as comfort and simplicity and the company makes these definitions concrete by creating products such as sauces and soups that are easy to prepare and save

time. The recipes Arla provide the stores with are also in line with the same definition of value. The recipes is a means for Arla to include their products in as many meals as possible, but they generate value for the stores too since they do not only contribute to increased sales for Arla, but for other brands as well.

*Our recipes on the Internet are the most sought-after ones in Sweden, and the brochures are printed in one million copies every time they are due.*

(Peter Kofoed, Arlafoods, our own translation)

Regarding the value the suppliers create for the retailers, Arla have the possibility to provide its clients with a more unique and specific value. For example Arla educate store personnel through The Arla School, established in 1975. The Arla School has had more than 30 000 students, which, according to Peter Kofoed, implies that many stores have sent personnel to the school several times over the years. Peter Kofoed claims that it is the close contact with the clients that makes Arla want to help the stores with things that one might consider as something the store can work with on its own. Arla also find it important for the stores to have dairy sections that are efficient, well working and thereby selling. A project, concerning this, which Arla have been working with, is the Dairy Square (Mejeritorget). From the beginning it was a project carried out with the purpose to create more in-store space for the dairy products. Arla came up with the idea to convert parts of the storage into a selling space. With a floodgate for air it was also possible to keep the spillage from the fridges and decrease the consumption of energy. Even though the investments are very big, Peter Kofoed claims that Arla too learn a lot from it and that the investments lead to increased sales rather quickly for both the customer and for Arla.

*...this way we favour our competitors too, but on the other hand, what choice do we have?*

(Peter Kofoed, Arlafoods, our own translation)

All suppliers agree that knowledge and competence is another kind of value. We will discuss the matter of information and knowledge more in the next section. Peter Kofoed of Arla says that Arla hope to contribute with knowledge about the consumers and about how to handle and sell Arla's products in order to help the retailers do it as efficiently as possible.

*...and knowledge, I would say it has a great value, because we have special knowledge about ice-cream that the retailers do not have.*

(Jakob Testén, Unilever/GB Glace, our own translation)

*We know a lot about our consumers and that we try to both include in our products and marketing campaigns of course, but also share with the customer, buyers at ICA, Coop and so on, through different types of category collaborations where we suggest an adjusted range, present ideas of how to best put together a range, how to expose products, what type of impulse products to use as impulse products etc. Through that we try, together with the customer, to create a value... I think the salesman create an enormous value by being a messenger, he mediates information... with focus on our products.*

(Peter Henriksson, Cloetta Fazer, our own translation)

### **3.2.4 Information**

Information turned out to be a very important subject to both suppliers and retailers, and as we will see in the next section it has been critical for the shift in power balance in the FMCG industry in Sweden. In rough lines, the suppliers have in-depth knowledge about the consumers and the retailers have more detailed scanner information which they sometimes sell to the suppliers. Buying information from AC Nielsen is another way for the suppliers to see how the sales are going and how their categories of interest are developing. Arla have direct distribution of fresh products and can therefore estimate how much they sell in each store, but Peter Kofoed adds that in order to be really sharp they would need the scanner information from the cashier registers. The only system for integrated information is the one that ICA offer their suppliers; Levnet.

*They (the retailers) have the information but no possibility to take care of it and use it.*

(Jakob Testén, Unilever/GB Glace, our own translation)

*The people inside the company are consumers too and move a lot on the market, and then we buy a number of investigations, anything from investigations regarding product development, and also trend instruments to follow the developments on other markets, and Nielsen statistics to monitor the short-term movements.*

(Peter Henriksson, Cloetta Fazer, our own translation)

All suppliers also do a lot of research and investigations about consumer behaviour, preferences etc. Kraft Foods also have International and European category managers that can contribute to the product development and spot trends earlier in other markets, such as that of USA for example. According to Annelie Johannesson of Kraft Foods, research is important to keep up the competence and watch over new trends and demographical changes as well. For example, O'boy is a product sensitive to decreases in the number of teenagers during certain periods.

*We have a lot of information about the consumer, how products are being used, on what occasions, this is the kind of information that they can get, but it will be a lot for them (the retailers) if they buy it for every product in their range, that is why they have confidence in that their suppliers have that specific knowledge.*

(Peter Kofoed, Arlafoods, our own translation)

A very important and rather new issue is the sharing of information. Due to the retailers' private labels the suppliers are not as willing as they used to be regarding the sharing of information.

*We are not very open anymore with our long term plans and as a client it would be rather naive to believe that we are, taking into consideration that today we are competitors too. Today they (the retailers) are still copying the branded suppliers, but they have the ambition to be more innovative and then we can not share our plans, it is not possible today, and we could do it before.*

(Annelie Johannesson, Kraft Foods, our own translation)

*In general, we have become more careful. We do realise that the information we give can be used. If we find a gap in the market we have to evaluate whether we should talk about it with our customers, or not...we might give some information, but we do it later on, when we are sure that we have evaluated it thoroughly, in order to prevent a situation where it is shared and then the customer could go to one of our competitors and get an offer there. We used to be able to go directly to them and tell them about and discuss new areas that we want to concentrate on. Nowadays we have to think about it, whether to do it or not. At the same time we want to show that we are prominent and are finding new areas, so it is like walking a tightrope.*

(Peter Kofoed, Arlafoods, our own translation)

Peter Henriksson of Cloetta Fazer, who expresses a desire for more collaboration and information sharing earlier on in the process of developing new products, explains the reason for this currently not being the case:

*I think that today there is a little bit of a 'we-and-them' feeling with the customers. I do not know why but it is unfortunate for Swedish trade.*

(Peter Henriksson, Cloetta Fazer, our own translation)

Furthermore, Peter Henriksson of Cloetta Fazer is also of the opinion that the uncertainty around private labels and the feeling of competing with customers affected the climate. He also claims that as every decision becomes more important, the creativity might suffer.

*It becomes more difficult for us to move. At the same time this power, that every decision becomes more important creates a tendency to 'sit still in the boat', and not bend the boarders a lot...and I think maybe the creativity gets lost a little there. That is why I also think that you take in a part of this process and hide it until it is time to launch the product, to assure that you get this advantage of maybe some months if you have found something new and good. At the same time we depend on our customers buying our thoughts so maybe they are checked along the way, but not to a great extent.*

(Peter Henriksson, Cloetta Fazer, our own translation)

### **3.2.5 Power Balance**

*The power lies more obviously in the hands of the clients today, because they use the fact that it is they who decide over their stores. It is their market place that we have to buy into.*

(Annelie Johannesson, Kraft Foods, our own translation)

All suppliers agree on that a considerable shift in the power balance has occurred, favouring the retailers and leading to the suppliers facing a new situation and position in negotiations. According to the suppliers, the shift in power balance is the result of:

- The retailers taking control over their stores
- The retailers focusing on creating their own brands and concepts

- The retailers employing well educated people or for example people with experience from brand building
- Increased usage of scanner information from the retailers' cash registers.

The suppliers have also noticed that the retailers nowadays concentrate much on their own brands and ICA in particular have succeeded in strengthening their brand very much thanks to loyalty programmes, commercials and by profiling their different concepts. Some suppliers feel that when they are participating in ICA's commercials they are strengthening ICA's brand rather than their own brand. Peter Kofoed of Arla also claims that it is hard to know whether it is the commercial that leads to an increase in sales, or if the increase is a result of the prices being better displayed in the store during the period that the commercial is broadcasted.

*Since ICA are good at making commercials they can make us, the suppliers, take part in their commercials for a large amount of money, but the effect on some products is very good so one should not only complain... Of course we are creating the ICA brand when we participate in their commercials. And that is a clever move from their side.*

(Peter Kofoed, Arlafoods, our own translation)

*The competition today is between store and store really and you (the retailers) feel the outside pressure from Carrefour, Lidl, Netto and Wal-mart. ICA sell a lot more ICA today than they did ten years ago. It is much more important that the customer goes to ICA and is part of ICA's loyalty club, it is a lot more important than it was before. In that way we have been put in a subordinate role. Our products work to create the total mix of why an ICA store is better to shop in, our perspective is that they should go there to buy Kexchoklad regardless of whether it is Coop or ICA.*

(Peter Henriksson, Cloetta Fazer, our own translation)

Another issue the suppliers mention is the special, oligopolylike, situation in Sweden, which is characterized by very few retailers controlling the market and the access to the consumers. Jacob Testén of Unilever claims that the situation between retailers and suppliers is much closer in the rest of Europe than in Sweden, and the fact that only three retailers answer for a very important market share limits the possibilities to collaborate.

*Because of the specific situation in Sweden, well, actually Sweden, Norway and the Netherlands are in same position when it comes to the number of retailers, they are so few, and somehow we get very exposed in a way that sometimes can hurt us.*

(Annelie Johannesson, Kraft Foods, our own translation)

A reason frequently mentioned for the power-shift is the retailers' improved use of information, especially their own scanner data.

*As long as the suppliers controlled a lot of the information about the consumer they could define many of the rules of the game for a category or a certain customer. The suppliers were those who bought Nielsen statistics and investigated the consumers and so on and they had an advantage regarding information. Then these big IT-investments were made at ICA, Axfood and Coop, but primarily at ICA, where today they really have better information on what the customers really buy. Through loyalty cards and data they retrieve in the store they can print product movements in an entirely different way. We measure randomly through Nielsen but they can measure the entire population in the store.*

(Peter Henriksson, Cloetta Fazer, our own translation)

### **3.2.6 Negotiations**

One of the most evident differences occurred by the shift in power balance has to do with the hard work the suppliers need to invest in negotiations when launching a new product in order for it to get listed. According to Annelie Johannesson of Kraft Foods, who used to work as a purchasing manager at Kooperationen (now Coop), the shift has been dramatic concerning this.

*In earlier years, the suppliers came to us (Kooperationen) and presented their news which captured trends and they (the suppliers) were really good at it, but not us, the retailers. Not that we accepted just any thing in the range but... Today it is not like that at all, every time we (Kraft Foods) launch a product we have to prove that we contribute to the category, if not, the product is not accepted.*

(Annelie Johannesson, Kraft Foods, our own translation)

The suppliers agree that the negotiations mainly concern price and they claim that the prices of negotiating have increased during the past years. The suppliers also express a desire for negotiating other variables and to collaborate more.

*On some occasions we have negotiated about other, softer, things too, like education and reconstruction of the stores, and those kinds of things that we can offer when negotiating. But that is not very common and it is rather the harsh variables that are negotiated.*

(Peter Kofoed, Arlafoods, our own translation)

Jacob Testén of Unilever would like to negotiate more about the development of the category, by guaranteeing a certain growth of the category. If the growth is not obtained, then one or the other of the parties would have to pay and guarantee the growth in money instead. Peter Henriksson of Cloetta Fazer has a similar perception, and when asked about how the relationships with the retailer customers have changed he also emphasises the focus on price whereas he argues that the focus on creating value has decreased. He also claims that the roles have become clearer and the space for manoeuvring has decreased. Peter Henriksson explains that Cloetta Fazer have to adjust to the different business concepts of the retailers and expresses the difference between negotiating with the larger suppliers and the smaller servicestation wholesalers:

*Fewer buyers control a greater number of stores...they have integrated several functions, or activities, that the supplier did before. If you look back some five or ten years the store had more to say in the decisions regarding range than it does today. So not only have we, the suppliers, lost freedom to negotiate, but also the stores. It is this part in the middle that the central control holds together.*

(Peter Henriksson, Cloetta Fazer, our own translation)

When asked if Cloetta Fazer have different kinds of relationships depending on the customer, Peter Henriksson agrees that this is the case but that the differences are quite small. For example it feels more safe to negotiate with Vivo Stockholm since they have declared that they concentrate on strong brands, however, this does not imply that it is *easy* to negotiate with Vivo Stockholm.

### **3.2.7 Listing and Shelf Space**

An important aspect of negotiating is listing and shelf space. Listing and shelf space are crucial for suppliers when launching new products. It is common for the retailer to have a basic assortment, which all stores must have, and an additional assortment where new products usually are listed and which all stores do not have to have. This implies that the suppliers' salesmen have to approach each store and argue for getting shelf space for the new products. As previously explained, ICA and Vivo Stockholm partly differ from this system since the store managers themselves decide what products they want to have, and centrally ICA and Vivo Stockholm can only give recommendations to the store managers.

*It is important that we know how we want the product to be positioned when we launch it, we have to have a strong opinion about it which of course is supported by concrete arguments. But we can never tell the retailers: 'do this, or else...' ...it is completely up to them to decide.*

(Annelie Johannesson, Kraft Foods, our own translation)

*Today we rather present what we think about the product concerning volume and goals and such things, what we think will sell in a chain and what kind of support we have. For us it is about presenting a credible scenario. Then it is up to them to make a decision and in that decision listing is often included. Then the planogram is redrawn, for confectionary it is done four times a year and then you redraw within the subcategories. Every two years you redo the division of subcategories. Then today it is more the task of the salesmen to assure that we get the place agreed upon in the stores and that we get it implemented in time.*

(Peter Henriksson, Cloetta Fazer, our own translation)

Jakob Testén of Unilever tells us that during many years Unilever and GB Glace could decide what products they wanted to have in the stores and how and where they were going to be placed. Nowadays they, like everyone else, have to negotiate what was previously taken for granted, and many stores own their own ice-cream boxes now and thereby have the power to decide what to put in them. From our point of view, this could benefit small suppliers that can not afford their own boxes and that probably would not get any shelf space at all if the big suppliers were the ones to decide. Jakob Testén also claims that the ice-cream

range is very interesting for the retailers since it is a high-margin category within frozen foods.

There were different opinions regarding the possibility to buy shelf space from the retailers.

*You should not be able to do it, but maybe you can. I have a feeling it is possible, but I do not know.*

(Peter Kofoed, Arlafoods, our own translation)

*No, you can not. And I have to say that I think they (the retailers) are professional regarding this. It does not make any difference if you have the money or not, it is all about the product and the consumers' expectations or if we can identify new needs. However, you can pay for faster distribution at Axfood for example.*

(Annelie Johannesson, Kraft Foods, our own translation)

*No I do not think so, not by putting money on the table, but of course you can indirectly buy space if you, in the situation where there is enough space for two suppliers and they are more (than two) then of course there are possibilities of buying space through major market contributions, better deals and better price, but I do not think you can buy shelf space by putting cash on the table. I do not know of any such case.*

(Peter Henriksson, Cloetta Fazer, our own translation)

*Yes, you can do it. You can definitely do it. Several of our competitors are doing it. However, if you do it, we see it as a sign of not being very professional as a Category Manager because then you do not see to the best of the category as a whole. And if the product is good, then you do not have to pay for it, then it sells itself so to speak, so if you buy (shelf space) then you simply do not have the right product. We never buy shelf space.*

(Jacob Testén, Unilever/GB Glace, our own translation)

The suppliers, at least the market leaders, still possess some strength when negotiating. They have money to invest in promotions and advertisements. For some consumers their strong brands might be the only alternative, they are prominent in developing new products and they have the possibility to always be well-prepared concerning tests and investigations. So, what is it that goes wrong when the suppliers are refused shelf space?

*But you can not only blame the customers and say it is their fault if we do not get listed, probably it is us that have not made our homework.*

(Annelie Johannesson, Kraft Foods, our own translation)

*It is mainly a result of us not having made a good job in advance, we have not investigated the market carefully. Usually it has to do with us not being sufficiently innovative and not having done something that really is new and then it is good that they say no, because we have not done our job.*

(Jacob Testén, Unilever/GB Glace, our own translation)

### **3.2.8 New products**

New and innovative products are important for the suppliers when they want to broaden their categories or when they want to strengthen their position in relation to their competitors. Thanks to the research and investigations the suppliers perform, they are able to capture new trends that they transform into products. The health debate and the focus on sugar have opened many doors for the suppliers but also create demands on them. For example, Unilever/GB Glace have launched Big Pack Lätt Vanilj (Vanilla Light), Kraft Foods/Estrella have launched light crisps and Arla have launched Keso Light and a coconut milk with only five percent fat. Launching new products is very costly and since there is no guarantee for shelf space and listing, the suppliers are careful when developing new products.

*It is about having an innovative product development, and also about trial and error somehow... It is difficult, we primarily develop products for our consumers, not our customers. We think that if we develop products for the consumers our customers will think they are good products to stock and include in the range.*

(Peter Henriksson, Cloetta Fazer, our own translation)

*Some clients say that the products have to prove that they can be sold before they are accepted in their range. If all clients would say so, it would not work.*

(Peter Kofoed, Arlafoods, our own translation)

Sometimes the retailers contact the suppliers if they perceive a need for a new packaging, adjusted for single households for example. Peter Henriksson of Cloetta Fazer claims that the retailers might have suggestions regarding private

labels, but he does not perceive it as collaboration within product development, according to him it is rather a strict supplier-customer relationship. Collaboration concerning new products is very rare and it is partly a consequence of the suppliers being afraid of sharing information because of the retailers' private labels. Jacob Testén of Unilever says that developing exclusive products only for one retailer is much more common in the rest of Europe, where there are many retailers, and where the retailers have more to gain from the collaboration.

*We are currently looking over the possibility to manufacture an exclusive product only for one retailer. It will not be a private label, only an exclusive collaboration.*

(Jacob Testén, Unilever/GB Glace, our own translation)

*There are examples of where the customer has driven us. ICA for example have these bags-of-joy.... It was really Masterfoods that started working with that, then ICA came up with a concept of small pieces that is really a copy of that idea and where they have encouraged us to bring products that fit, maybe adapt the size of some product. I would not say that this is product development, more an adjustment of existing products.*

(Peter Henriksson, Cloetta Fazer, our own translation)

The suppliers once again express their ambiguous attitude towards collaborating and discussing new ideas with the retailers. It would be safer for the suppliers to discuss their ideas with the retailers and thereby find out whether the product in mind has a possibility to get listed or not and this way they can also show the retailers that they are innovative and always in search for new areas and products. On the other hand, they fear that the retailers will steal their ideas and take them to a competitor producing the retailer's private labels.

*The last few years the private labels have accelerated and therefore we are competitors too, and we are more restrictive about going to a client to present long term new ideas. At the same time we want the clients to know about and have an idea about our plans in order to understand that we are an important player who contributes to the category development.*

(Annelie Johannesson, Kraft Foods, our own translation)

### **3.2.9 Competition**

Foreign players are entering the Swedish FMCG industry and the suppliers also have to accept the competition from the private labels. The interviewees agree that it is hard to create barriers, and the only things that work are taking good care of the brands and working hard. Consumer loyalty is difficult to achieve and according to Peter Kofoed of Arla it is even hard to rely on routine. However, he also claims that routine is one of Arla's strengths, that is, that people buy their products because they are used to. Annelie Johannesson of Kraft Foods has a similar line of thought when she says that there is a lot of tradition involved in Marabou and that many Swedish consumers think that chocolate should taste like Marabou. In spite of this, she claims that a lot is happening with Swedish consumers nowadays and that Kraft Foods have to work a lot with communicating why to choose Marabou and launch new exciting products. As we will explain in the following sections, the increased competition is partly a consequence of the increase in the number of private labels and appearance of hard discounters.

*We thought that ecologic, Swedish milk could be a barrier...but people are not very loyal, if something specific would happen then maybe they would be loyal again to Swedish produced goods. We have few barriers, instead we have to be good all the time, and make it that way. But there are no short cuts.*

(Peter Kofoed, Arlafoods, our own translation)

When asked what the harsher climate depends on, except for private labels, Peter Henriksson mentions the characteristics of the market being a stagnating one, which easily can be entered or exited, although volumes and economy of scale are also important factors. He also says there is a certain amount of collaboration between the different actors regarding information.

*We are three big actors on this market, strength depending on the segment. There exists some cooperation in the form of category projects where you, together with the chains, occasionally sit down with all the suppliers and agree on what the market looks like and what the customers' needs are. You do not divide the market, but if you have a snack segment then of course you can agree on certain things that should apply, how it should be exposed etc...*

*Then we agree on, at least roughly, what the quantities are on the market and that helps everybody on the market in making good decisions, regardless of whether it is a customer or a supplier. It creates value for the industry as a whole if we agree on that.*

(Peter Henriksson, Cloetta Fazer, our own translation)

### **3.2.10 Private Labels**

The private labels have grown considerably in amount and share during the past years and some retailers are selling several private labels different in quality and price level. Annelie Johannesson tells us that when she started to work at Kraft Foods there was a softer attitude regarding the private labels and most people did not believe it was possible for private labels to gain market share and they thought that they were of inferior quality. This has not been the case though, and she admits that the quality of some private label products has improved a lot. For Kraft Foods the hardest battle is in the segment of snacks. The private label salted snacks are constantly gaining market share.

*And maybe it does not make any difference for the children if their mum puts potato chips that are Coop X-tra or Estrella in the bowl. What we then did was to launch a new product with higher quality with a more adult target group, we launched Estrella Gourmet which is a potato chips with really good quality. It is about dividing the category into segments and identifying where there is a gap to fill.*

(Annelie Johannesson, Kraft Foods, our own translation)

In other categories the effect is not as palpable.

*...being a market leader gives us a relatively good position, but unfortunately some retailers do not understand that they (the private labels) are to fight with the second and third suppliers and not the market leaders, since we are the ones developing the category. But one should definitely understand that they take slices from our cake too.*

(Jacob Testén, Unilever/GB Glace, our own translation)

Peter Henriksson of Cloetta Fazer does not see the private labels in such as a major threat. Although he thinks that the private labels are here to stay he does not believe that one can criticize the retailers for working with private labels as

the competitive pressure is high for them too. He believes that private labels capture markets where there has been an ambiguity regarding where the consumer benefit really lies.

*We have a certain, very limited, production of private labels for some of the big blocks in Sweden, but it is more about putting capacity to use.*

(Peter Henriksson, Cloetta Fazer, our own translation)

Peter Kofoed of Arla says that their attitude regarding private labels has changed. They have moved from firmly saying no to producing private labels to evaluating each proposal regarding if they are able to work with the requested volumes, what they would gain from it and how they would be affected if they turned down the offer and a competitor accepted it instead. Even though the suppliers accept the private labels as competitors they find it harder to accept the way they are handled by the retailers. It has mostly to do with the shelf space the private labels get, but also because they do not find it trustworthy when retailers give themselves out as only being acting in the interest of the consumers.

*They are a competitor just like any competitor. But there is a big difference, which makes me a bit disappointed sometimes. That is when the private labels are not treated in the same way as our products, and I think that is wrong. Because the retailers really have the possibility to influence the in-store space. This disappoints me and I think the private labels sometimes get too much space without deserving it. That is not fair.*

(Annelie Johannesson, Kraft Foods, our own translation)

One might think that the suppliers of known brands feel more secure with Bergendahls since they have declared that they will not have private labels, however, Peter Henriksson of Cloetta Fazer says this is not necessarily the case, even though he earlier claimed that it is safer, but not easier, to negotiate with Bergendahls.

*Bergendahls is the group with the biggest share of what we call 'other' suppliers, so it is not like the suppliers of known brands and the big suppliers have a greater market share at Bergendahls, they are about the same, only they are called private labels at ICA, whereas six to seven small suppliers share it at Bergendahls.*

(Peter Henriksson, Cloetta Fazer, our own translation)

The suppliers claim that they do not want a price war and the only thing they can do to protect themselves is to be good at communicating the benefits of their brands. Another important issue is discussed by Peter Kofoed as he tells us that in England, where a lot of brands have disappeared in favour of the private labels, the retailers now find it hard to take care of the development by themselves and stay in contact with all consumer segments.

### **3.2.11 Hard Discounters**

In many cases the hard discounters have shown interest in buying products from the market leaders, but not to the offered price. Sometimes the hard discounters only buy a very limited range from the suppliers. It surprised us that no supplier was afraid of its image being damaged by selling products to hard discounters, on the contrary they expressed a willingness to sell to the hard discounters, but not at any price.

*We are very vulnerable, the milk Lidl is selling is something we lose - just like that - and there is nothing we can do about it. We just lose that volume.*

(Peter Kofoed, Arlafoods, our own translation)

Recently Lidl contacted Kraft Foods and asked them for an offer. Annelie Johannesson perceives that as proof of the hard discounters finding it hard to attract consumers and therefore need to approach market leaders. She also claims that retailers such as Willys usually want bigger packages and promotion packs since this prevents consumers from comparing prices. Jakob Testén of Unilever says that considering producing a special range of products for hard discounters is not impossible.

Regarding the phenomenon of hard discounters and what they represent, Peter Henriksson of Cloetta Fazer draws a parallel between them and other established retailers, and private labels and established brands.

*Hard discounters become challengers... just like private labels have put its finger on the blurriness of some of our brands, some of the brands in the industry where there was no clear customer benefit, hard discounters put the finger on stores and store concepts where there is no real benefit, that are neither nor, neither high level of service high quality, nor what the consumer*

*demands in terms of low prices... so it is a little bit like the same development in different areas.*

(Peter Henriksson, Cloetta Fazer, our own translation)

### **3.2.12 Summary**

Here we present a summary of the findings from the interviews with the suppliers in order for the reader to bare them in mind through the rest of the study.

- The communication towards the retailers is not only about products, it is about service, partnership and product development, whereas the communication towards the consumer is a simple message regarding the product and/or the brand
- Education, profitability, category contribution and knowledge is value which the suppliers can generate for retailers. Comfort and simplicity is the value directed towards the consumers.
- All suppliers use data from AC Nielsen and do a lot of research and investigations about consumer behaviour. The only integrated information system is Levnet of ICA. The suppliers have become more careful in sharing information with the retailers due to the acceleration of private labels.
- A power shift has occurred due to the retailers taking control over their stores, promoting their stores as a brand, having access to more information than before and employing skilled personnel.
- Negotiations have become tougher and mainly concern price. The suppliers would like the negotiations to concern other variables too.
- Listing and shelf space is focused on categories and innovative products. The suppliers have to be very well prepared when presenting new products to the retailers. The suppliers have different opinions about whether or not it is possible to buy shelf space.
- New products have to be innovative to be accepted by the retailers. Collaboration with the retailers regarding new products is rare and the suppliers have become more restrictive about informing the retailers about new ideas because of the risk of the retailers stealing the ideas for their private labels.
- New products are important in order to be competitive. Loyal consumers are rare.

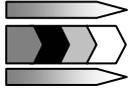
- The attitude towards private labels has changed, and the suppliers now accept them as competitors and admit that the quality of the private labels has improved. They also believe that smaller suppliers are in a worse situation than themselves since they usually compete more in price. However, the suppliers do not like that the private labels compete on different conditions and are treated differently by the retailers.
- In general the suppliers want to sell to hard discounters.

## Chapter 4.



# Frame of Reference

In this chapter we present several theoretical areas, which have been selected after carefully analysing the empirical results. It is our hope that this chapter will give the reader a theoretical insight to the problem.



## 4. Frame of reference

The frame of reference is divided into two main parts. The first, and in volume dominating part, corresponds to the first question of investigation and aims to describe concepts such as power, retailer-supplier relationships, information, and retailer brands. When deciding on the disposition of the first part of the frame of reference we soon realized that it was hard to determine its design since, according to the empirical study, two of the theories, retailer brands and information, at the same time contributed to and were affected by the shift in power balance. This reasoning is illustrated in figure 6 below. However, since our purpose is to explain how the power shift has affected the relationships between retailers and suppliers in the FMCG industry, and not to explain the causes of the power shift, we will have our point of departure in the power theories, and then continue with relationship theories and finish the first part of the frame of reference with information and retailer brands.

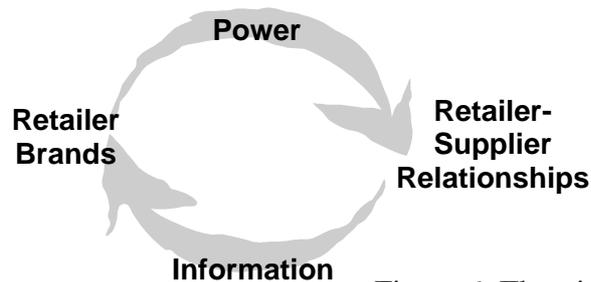


Figure 6: Theories, part one (own model)

The second part of the frame of reference is focused on the second question of investigation, retailer value. The empirical findings contributed to this part since they indicated that value theories and retailer buyer behaviour would be relevant in explaining the concept of retailer value. However, when working with the first part of the frame of reference we found some aspects that also contributed to the concept of retailer value. Hopefully, as depicted in figure 7 below, this combination of different interrelated areas will explain to the reader what retailer value is and how it can be created.

$$\text{Value} + \text{Retailer Buyer Behaviour} + \text{Aspects of other areas} = \text{Retailer Value}$$

Figure 7: Theories, part two (own model)

## **4.1 Power**

In this section we attempt to clarify what aspects of both the market structure and relationship between suppliers and retailers affect the power balance regarding their negotiations. This will help clarify how the shift in power balance is manifested and how a disadvantageous position can be improved and avoided.

Cullen and Whelan (1997) argue that one of the key factors that have changed the structure of the FMCG industry is the retail concentration which implies that fewer retailers are controlling a larger market share within the industry. In 2003, ICA, Coop and Axfood had a total market share of approximately 75 percent (Supermarket, 2004). As a consequence, the access to these retailers, and the consumers, is critical for the survival of a brand or supplier. According to Blank and Persson (2004), this indicates that the Swedish FMCG market is a highly concentrated oligopoly.

### **4.1.1 Power shift and profits**

According to the interviews we conducted, with both retailers and suppliers, and many researchers (for example Corstjens and Corstjens, 1995) there has been a shift in the power balance between retailers and suppliers in the FMCG market. As mentioned already in the background of the study, this is the point of view we hold through out the rest this study.

However, it is also argued that if there has occurred a power shift between the suppliers and the retailers in the food-industry, this should imply also a shift in profits toward the retailers. Some empirical findings (Farris & Ailawadi, 1992; Ailawadi et al., 1995; Messinger & Narasimhan, 1995 in Bloom & Perry, 2001) have shown that this has not been the case, suggesting that the all edged power shift has in fact not occurred. We believe however that there might be different reasons for a power shift not to be illustrated in profits. For example, even if there has been a shift in the power balance between the suppliers and the retailer, horizontal competition between different retailer chains, due to mergers and acquisitions making almost all of the retailers stronger, along with decreased store loyalty among the customers, may erase the potential increases in profits gained through the vertical power shift. Another possible reason to why retailers

may not earn greater relative profits compared to the suppliers is that the power shift and the harsher negotiating climate could have already erased some of the less powerful suppliers, whether they be less powerful in size, financial soundness, brand equity or market share. Thus, if the current situation only takes into account those that so far have survived the power shift, the profits of those actors still remaining on the market may not be representative for stating whether the power shift has occurred or not. Porter claims that retailers' may not earn greater profits even if they do in fact have greater power over the suppliers due to poor managerial skills, market constraints and, as we mentioned earlier, inter-retailer competition (Porter, 1976 in Farris & Ailawadi, 1992).

#### **4.1.2 Buying power**

According to the literature, power over the supplier is created through a dependency relationship, for example in the case of a supplier having one primary retailer customer that is with a difference more important than the others where sales are concerned. When a supplier becomes increasingly dependent on a retailer, the retailer increases its negotiation power over that supplier (Stern, 1969; El-Ansary & Stern, 1972; Stern & El-Ansary, 1977; Cadotte & Stern, 1979; Stern & Reve, 1980; Hunt & Nevin, 1974; Lusch, 1976; Frazier, 1983; Gaski, 1984 in Bloom & Perry, 2001). The way for the supplier to avoid this situation of dependency is to exert "countervailing power" through for example a brand name that the consumers demand (Etgar, 1976; Gaski, 1984 in Bloom & Perry, 2001).

Evidence shows that brand loyalty is still strong among consumers, who are reluctant to switch not only brands but also flavours and sizes of the same brand. They prefer to delay a purchase rather than temporarily switch to a more unknown brand (Peckham, 1963; Progressive Grocer, 1968 in Farris & Ailawadi, 1992). This argument suggests that although the retailers have the ultimate power of possibly denying a demanded product entry and thereby also denying it access to the retailer's customers, before knowing exactly how not providing this particular product will be perceived by the customers, dropping it entirely is not advisable. Other ways of defending oneself against a powerful customer retailer is by size or market knowledge (Etgar, 1976 in Bloom & Perry, 2001).

The size of the supplier becomes important as it benefits from economy of scale and volume efficiencies (Buzzel & Gale, 1987 in Bloom & Perry, 2001). It has been shown that suppliers that are relatively small suffer from less profit compared to their bigger retailer customers (Bloom & Perry, 2001). The literature often suggests that large retailers are powerful simply because they are large, without defining why this is the case. Large retailers, apart from logically being backed by financial strength, having big stores and many customers, are however also powerful because they normally carry a large range of goods and brands, making them less dependent on each one and hereby increasing their negotiation power against the suppliers. Offering a large assortment may imply logistical difficulties and complications regarding stock and shelf-space (Farris & Ailawadi, 1992), but since these possible implications do not affect the negotiation power between a supplier and a retailer, it is not something that we will consider in this study.

When retailers become stronger and grow muscles against the suppliers this is shown in their bargaining for for example price, delivery times, allowances and extra inventory (Bloom & Perry, 2001). The literature also concludes that the increased buying power on behalf of the retailers in the food-industry is partly due to the access to product movement data from scanner information and more frequent sales promotions, that because of their cost take resources away from other customer focused activities The frequent sales promotions also increase the price sensitivity of the consumers, making the short term effects of the use of promotions even greater (Farris & Ailawadi, 1992).

It is also suggested that one way to avoid a disadvantageous situation when negotiating with a powerful retailer is through the formation of closer relationships and thereby indirectly taking advantage of the retailers' otherwise aggressive strategy as well as creating entry barriers against other suppliers (Bloom & Perry, 2001). Another way for the suppliers to maintain their power intact is to continue to be better at accessing and using in depth information about consumer behaviour in their particular categories. Empirical findings do however suggest that the retailers are realizing the potential of holding information and are becoming increasingly interested in retaining and analyzing information on their own (Quelch & Farris, 1992 in Farris & Ailawadi, 1992).

### **4.1.3 Power in supply chain management**

Stannack (1996:51) defines supply chain power as *the capacity to optimize the behaviour of suppliers and subcontractors in accordance with desired performance objectives* and purchasing power as *the capacity to achieve a successful negotiated contractual outcome on behalf of an organization*. He also states that power is relational and socially embedded and is achieved in the context of supply chain management and buying behaviour in two ways; by reduction of the supplier's alternatives, or by increasing the supplier's dependence on the purchaser through asset or product specificity. It has been proven however that over dependence is not an advantage for the purchaser as it can turn out to be costly and makes the supplier lose its competitive edge. For example, a subcontractor in Japan successfully claimed compensation for its over dependence after a recession in the Japanese home electronics market. Over designed relationships are also costly since specific investments are made and, furthermore, they can hamper creativity and innovation (Stannack, 1996; Gadde & Snehota, 2000). It has also been shown that the exercising of power is most advantageous when both parties involved have the same understanding of the size and implications of the power held by the purchaser, indicating that it is best exercised in long-term relationships (Stannack, 1996).

To measure purchasing power one has to consider two dimensions. The quantitative dimension regards for example measurable quality and delivery times, whereas the qualitative dimension regards the supplier's willingness or attitude toward what is required of him (Stannack, 1996).

## **4.2 Retailer-Supplier Relationships**

In this section we describe different kinds of relationships between retailers and suppliers, with the purpose of creating a foundation for, later on, analysing how the relationship between suppliers and retailers in the Swedish FMCG industry has changed because of the shift in power balance. The area of relationship theory is vast, but we have chosen to only concentrate on theories that describe retailer and supplier relationships, preferably within the food industry.

#### **4.2.1 Collaboration vs. conflict in relationships**

According to Hogarth-Scott and Parkinson (1993) and Gadde and Snehota (2000), the increased retailer concentration and purchasing power has led to the suppliers aiming for a relationship more in terms of collaboration than conflict, whereas the individual retailer currently tends to see the relationship in terms of conflict. Hogarth-Scott (1999) claims that because of the changed marketplace, suppliers and retailers have recognised that they are better off by moving away from conflictual relationships to collaborative ones that offer win-win benefits to both parties. On the other hand, one can not disregard that the relationship risks entering in conflict, for example due to private labels.

Before explaining and describing some relationship models, which consider collaboration, we would like to try to make the term collaboration less abstract to the reader by clarifying some factors that according to Dawson and Shaw (1989 in Hansen & Skytte, 1998) facilitate cooperation between suppliers and retailers:

- High and consistent quality
- Flexible response
- Joint product development work
- Specific delivery systems
- Frequent contact through frequent ordering
- Wide product ranges required from a limited number of suppliers
- High physical degrees of product differentiation
- Strong supplier brands
- Small number of suppliers

#### **4.2.2 Relationship models**

Hogarth-Scott and Parkinson (1993) describe different levels of relationships, with pure transactions at one end and fully integrated firms at the other end (see figure 8 on next page).



Figure 8: The Evolution of Strategic Marketing Planning, Hogarth-Scott & Parkinson (1993:12)

The first two steps in the figure are characterized by basic economic transactions based on price, specification and availability. At the third step, *Long-term relationships*, a relationship exists, but, despite its name, it is of the adversarial kind and depends on market control. Not until the fourth step (*Buyer-seller partnerships*) is there a mutual partnership characterized by trust and dependence. By committing resources to the relation, this partnership may evolve to a *Strategic alliance*. *Network organizations* are corporate structures which result from multiple relationships and strategic alliances. The last step, *Vertical Integration*, is not described in Hogarth-Scott and Parkinson's (1993) article, however vertical integration is generally referred to as the incorporation of different steps of the supply-chain into one entity. Hogarth-Scott and Parkinson (1993) stress that relationships do change over time, because of environmental, technological and structural changes affecting power, co-operation and conflict. In this context, power is defined as the ability of one party to control other parties. Conflicts usually arise when the parties have different goals, when they see themselves differently compared to the way others see them or when resources are scarce. In order to achieve joint goals, parties can co-operate regarding policies, strategies and actions. One possible joint goal for retailers and suppliers could be to fight a mutual enemy. For example, according to Corstjens and Corstjens (1995), hard discounters pose a threat to both suppliers and retailers.

It is important to mention that strong relationships, or so-called high-involvement relationships, are costly because coordination, adaptation and interaction entail costs (Gadde & Snehota, 2000). However, the purpose of high-involvement relationships is to achieve cost-benefits, for example in terms of reduced costs in production and materials, improved flexibility and service levels, and revenue benefits, in terms of taking advantage of supplier skills and improved quality. As long as the benefits exceed the costs the relationship is regarded as meaningful.

Figures 9 and 10 below describe relationships in two different ways, both which we find interesting as they take different factors into consideration.

		Number of suppliers	
		Few	Many
Number of retailers	Few	Mutual Interdependence	Retailer-dominated
	Many	Supplier-dominated	Relative Independence

		Degree of conflict	
		Low	High
Degree of collaboration	High	Nice	Well-developed
	Low	Marginal	Hostile

Figure 9: Market Structure and Retailer-Manufacture relationships, Hogarth-Scott & Parkinson (1993:14)

Figure 10: Relationships with different combinations of collaboration and conflict, Gadde & Håkansson (1993:75, figure 4.3)

*Mutual interdependence*, in figure 9 above, occurs when there are a few market leading suppliers with strong brands that have a power balanced relationship with a few important retailers. Both parts depend on each other, the retailers need leading brands to attract customers and the suppliers need the access to the critical mass. According to Hogarth-Scott and Parkinson (1993) these relationships are long-term but still subject to elements of conflict, for example concerning listing of new products, and therefore we argue that this relationship corresponds to step 3 in figure 8 (page 74).

*Retailer-dominated* relationships, as seen in cell 2 in figure 9, are characterized by few retailers and many suppliers. The retailers have the advantage in power since they control the suppliers' access to the consumers. To avoid de-listing, the suppliers have to constantly prove that they add value or produce innovative products.

*Supplier-dominated* relationships can be the result of the suppliers having an advantage in information compared to the retailers. According to Hogarth-Scott and Parkinson (1993) the retailers have more information nowadays than some years ago, but the suppliers still believe that the retailers do not have the possibility to find use of it. We consider this a short-term advantage, because the

retailers surely realize the value of information, they only need to invest in making benefits from it.

In figure 9 (previous page), *Relative independence* occurs when there are many retailers and suppliers.

Figure 10 (previous page) relates to relationships in terms of collaboration and conflict. If there is a low degree of collaboration and conflict, then the relationship is not meaningful to neither party and is denominated as *Marginal*. A high degree of conflict and a low degree of collaboration tend to result in *Hostile* relationships that do not work very well. Gadde and Håkansson (1993) refer to *Nice* relationships as being the ones with a low degree of conflict and a high degree of collaboration. In these relationships there are few demands and the authors claim that a higher degree of conflict would lead to a *Well-developed* relationship. Furthermore, and to some extent in contrast to Hogarth-Scott and Parkinson (1993), Gadde and Håkansson (1993) stress that it is crucial to understand and accept that the goals of both parties will never be identical, and in order to prevent conflicts from escalating it is necessary to collaborate in achieving some kind of “mutual profits” or “mutual success”. Gadde and Snehota (2000) also claim that diversity of goals is often mentioned as a prerequisite for innovation and creativity.

#### **4.2.3 Our own relationship model**

We have distinguished some similarities, or connections, between the figures 9 and 10 in section 4.2.2. We believe that what Gadde and Håkansson (1993) call Hostile Relationships can be the result of relationships that are retailer *or* supplier dominated. Further, we argue that hostility can be both accepted and not accepted. It is accepted in the case of a supplier producing private labels for a retailer and thereby being completely dependent on the retailer, but still better off than it would be by competing with both supplier brands and private labels. However, the hostility is not accepted in the case of many strong suppliers fighting to get listed by few retailers. In this case, since they do not want to depend on the retailers more than necessary, they continue to produce their own supplier brands and attempt to make them as strong as possible. Marginal Relationships are similar to what Hogarth-Scott and Parkinson (1993) denominate Relative Independence since neither implies any considerable collaboration or relationship. Ultimately, we believe that Mutual

Interdependence can be both Nice and Well-developed, depending on the level of conflict between the supplier and the retailer. We summarize these similarities in figure 11 below in order to develop a model that also considers the degree of power balance and which therefore might be more useful in analysing the relationship from the perspective of this study. We believe that our model below illustrates the situation in the Swedish FMCG market in a clear way since it also takes private labels into consideration. The *Independent Relationship* occurs in highly competitive markets, with equally strong suppliers and retailers that do not collaborate. *Collaborative Relationships* result from retailers and suppliers that collaborate and have a high degree of power balance, for example two market leaders such as Coca Cola and ICA. A not accepted hostile relationship is denominated a *Trap*. One of the parties is trapped in an undesired situation, for example a supplier in a highly concentrated retailer market or vice versa. *Acceptance* occurs if the unbalanced relationship is between a stronger retailer and a supplier (or vice versa) who accepts its weaker position and its dependence on the retailer. This can manifest itself through the supplier agreeing to produce private labels for example.

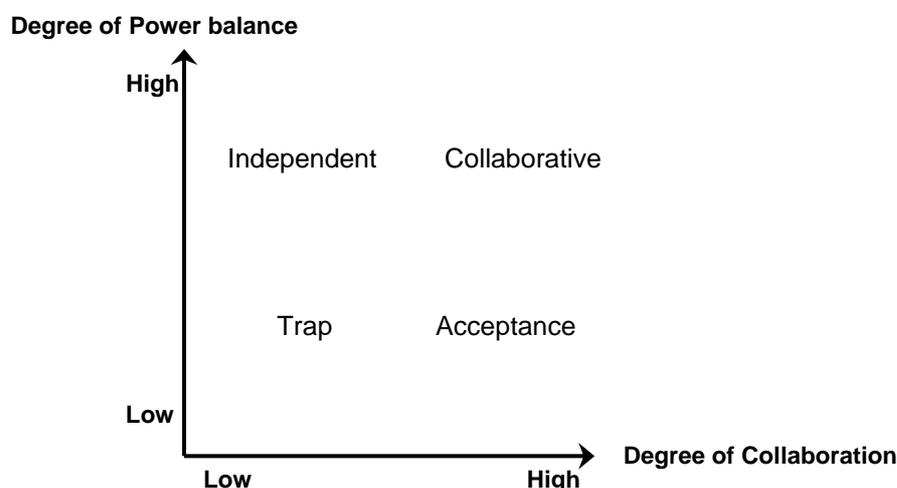


Figure 11: Our own relationship model inspired by Hogarth-Scott and Parkinson (1993:14) and Gadde and Håkansson (1993:75. figure 4.3)

#### 4.2.4 Trust

As we have seen in the models and figures, a prerequisite for successful buyer-supplier relationships beyond arm's-length contractual relationships is

collaboration (Dyer, 1996; Gietzmann, 1996; Heide & John, 1990 in Cooper & Slagmulder, 2004).

According to management literature there are five dimensions to inter-firm relationships which affect its success; the degree of commitment, the uncertainty present, the symmetry of rewards, the degree of trust between the interacting parties and the length of the relationship (Birnberg, 1998). In this section we will concentrate on the factor trust, since, based on the interviews, it is the factor that we believe is relevant to this study. Trust in this context is treated as a factor that can replace or enhance the effect of formal control mechanisms. The degree of it depends on the parties' willingness to engage in a relationship of mutual gains and losses and their perception of the risk confronted and possible benefits enjoyed by the other party.

Cooper and Slagmulder (2004) claim there are three sources of trust; *Familiarity*, *Calculation* and *Behavioural Norms*. The first develops over time through interaction between the parties, the second appears when both interacting parties have calculated that maintaining good relations is more beneficial than exploiting the other party's vulnerabilities (Adler, 2001 in Cooper & Slagmulder, 2004). Trust through behavioural norms is built as the parties show that they are consistent in their behaviour and can be considered "good" players. Relationships that build on trust run the risk of one or both parties defecting from what is expected of the relationship (Granovetter, 1985 in Cooper & Slagmulder, 2004) and a way for the parties to ensure that trust is maintained and opportunistic behaviour minimized is through the creation of mutual interdependencies.

*Goodwill trust* is when one party is willing to exceed what is expected of him for the benefit of the other, even though it might represent a disadvantage or inconvenience to himself (Sako, 1992; Sako & Helper, 1998 in Cooper & Slagmulder, 2004). *Competence trust* is when the buyer trusts in the suppliers' competence and does not feel the need to control the outcome. *Contractual trust* in a strong form of trust implies that the parties rely on the counterparties acting according to either written and formal agreements or verbal ones (Sako, 1992; Barney & Hansen, 1994 in Cooper & Slagmulder, 2004) The more the parties rely on the legal framework, where no agreement is necessary, the weaker the contractual trust. In situations of uncertainty and strong dependencies, written contracts can be expected to be revised and not stand the test of time. In these situations trust is imperative (Zaheer & Venkatraman, 1995; Chiles &

McMackin, 1996; Nooteboom et al., 1997 in Van der Meer-Kooistra & Vosselman, 2000). Trust decreases the need for written contracts as it gives the parties a lower perception of risk regarding the accuracy of the information provided (Chiles & McMackin, 1996 in Van der Meer-Kooistra & Vosselman, 2000). This however requires good judgement in the choice of parties to engage in the relationship. Having a good partner in whose competence and goodwill you trust, decreases the need for time consuming and costly control mechanisms (Ireland et al., 2002 in Dekker, 2004).

### **4.3 Information**

*The 'currency' of the next millennium is information. Competitive advantage hinges on harnessing it and figuring out how to use it*

(Rapp, 1988 in Kinsey & Ashman, 2000:92)

We have chosen to include this section because information turned out to be one of the most important factors contributing to and being affected by the shift in power balance and is regarded as a valuable element, both for retailers and suppliers. Hogarth-Scott and Parkinson (1993) support these findings as they conclude that the growing use of information technology by European food retailers has constituted a crucial change in the market place in the past years. In this section we first give a brief overview of how information has become one of the retailers' main strengths and then we enter the area of information sharing.

#### **4.3.1 From suppliers to retailers**

During many years, the suppliers had an advantage regarding information even though the retailers may have been closer to the consumer. Lack of financial and human resources resulted in the retailers falling behind the suppliers in the race for information. Chu and Messinger (1997:87) summarize the retailers' situation like this: *They were data rich and information poor*. Furthermore, it was not efficient for the retailers to conduct their own market research for all of the many product categories in-store. However, the advent of new scanner technologies has given the retailers the possibility to catch up with the suppliers (Chu & Messinger, 1997). Information about *who* and *how* customers buy can now be obtained by retailers thanks to customer loyalty programs which record information on each shopper's buying preferences and habits. Bell et al. (1997)

claim that nowadays the suppliers only have superior information regarding *why* consumers buy and therefore should maintain investment in consumer research and product performance. Corstjens and Corstjens (1995) are of the opinion that as retailers become more committed to developing their relation with the consumers, they will take tighter control of the advantages they have compared to the suppliers and use it as negotiating power.

Apart from being a fundamental tool in stock-keeping management, the information is utilized to keep track of changes in consumer demand and in decisions regarding price, promotions and category management, for example to determine product assortment and variety (Chu & Messinger, 1997). The information that is most important to retailers is about new products, terms of trade, advertising efforts, market trends, freshness concepts and space management (Lebensmittel Praxis, 1994 in Hansen & Skytte, 1998). However, it is not clarified in what context these findings were made, that is, if the investigation was focusing on retailer buyer decisions or on criteria for choosing a supplier etc.

### 4.3.2 Levels of information sharing

In this section we will explain three levels of information sharing between suppliers and retailers (Yu et al. 2001). We also want to point out that these levels mainly concern the supply-chain, however, we still believe that the reasoning is relevant for our study since it can be elaborated in the analysis and be valuable to our purpose.

Level 1)



Figure 12: Levels of information sharing (Level 1), Yu et al., Benefits of information sharing with supply chain partnerships, Industrial management & Data Systems, 101/3 (2001:116), MCB University Press

The first level (see figure 12 above) is referred to as *Decentralized Control*. At this level there is no information sharing or coordination between the retailer and the supplier. Both parties make inventory decisions independently. The

retailer uses the customer demand information and the supplier receives the ordering information.

Level 2)



Figure 13: Levels of information sharing (Level 2), Yu et al., Benefits of information sharing with supply chain partnerships, Industrial management & Data Systems, 101/3 (2001:116), MCB University Press

At the second level (see figure 13 above), *Coordinated Control*, the retailer shares the customer ordering information with the supplier and by doing so the supplier can make decisions based on both this information and the ordering information. The retailer does not obtain any improvements at this level, whereas the supplier can benefit from a decrease in the inventory level and inventory cost. Furthermore, the suppliers' uncertainty regarding the retailer ordering is reduced.

Level 3)



Figure 14: Levels of information sharing (Level 3), Yu et al., Benefits of information sharing with supply chain partnerships, Industrial management & Data Systems, 101/3 (2001:116), MCB University Press

The third level as seen in figure 14 above, *Centralized Control*, implies that the retailer and the supplier retrieve the customer's demand information via EDI. At this level, the retailer can benefit from an improvement in the supplier's performance and reliability since the retailer's lead time is reduced. Without information sharing the lead-time is the retailer's estimation of the supplier's times for order processing, manufacturing and delivering. However, at level 3, the supplier can make ordering decisions without the retailer due to the available scanner data information from the retailer.

According to Yu et al. (2001), it is obvious that the supplier is the party that gains the most from the information sharing and therefore should offer incentives to the retailer such as sharing logistics cost with the retailer or guaranteeing supply reliability.

### **4.3.3 Further research on information sharing**

In their research paper, Mason-Jones and Towill (1997) claim that the ability to rapidly respond to end consumer demands is a key competitive advantage and therefore all members in a supply-chain should work together as closely as possible. They also emphasize that many companies are overwhelmed with data today, but the competitive advantage lies in managing the information and then making use of it. Chu and Messinger (1997) found in their empirical studies that by using information, both suppliers and retailers have a better possibility to “fine tune” prices according to changes in demand which leads to a larger total channel profit. They also claim that it is a duplication of effort if both parties acquire information and that it should be collected by the party which can do it at the lowest cost.

Kinsey and Ashman (2000) mention Wal-Mart as an example to highlight the benefits of sharing information. Wal-Mart and some of its suppliers designed an information logistics system to make use of the scanned consumer and sales data. The system, similar to the one described in Yu et al.’s Level 3 (section 4.3.2), allowed Wal-Mart to transmit sales and consumer data directly to their suppliers which in turn could adjust their production and supplies to the demand in each store. Later on, an Internet based system was developed through which scanner data was transmitted to the suppliers. The main advantages of information sharing are (Kinsey & Ashman, 2000; Hughes & Merton, 1996):

- It establishes trust between retailers and suppliers
- Each party faces less risk of excess inventory or stock-out
- Sales tend to increase
- Better understanding of the consumer
- Information about buying trends that can be used to develop new packagings and products
- It enables suppliers and retailers to plan growth and sales together based on the same data

We would like to point-out the rather complicated relationship between trust and information sharing. According to Hughes and Morton (1996) and Kinsey and Ashman (2000), information sharing results in trust, but according to Chu and Messinger (1997) trust is a prerequisite for information sharing. We argue that some kind of trust must exist before sharing information, but then information sharing by itself generates trust.

Zhao and Xie (2002) develop Chu and Messinger's (1997) argument as they claim that many companies do not want to share information with their trading partners because they fail to see the benefits from it and sometimes they even fear that their trading partners will take advantage of the information and use it against them. Apart from this, there are also costs involved in setting up an appropriate system or channel for sharing information. Zhao and Xie (2002) further claim that the retailers usually do not receive any cost savings even though the supply chain as a whole usually experiences substantial savings. Instead, the costs of the retailers are often increased by the sharing of information and therefore the suppliers need to provide incentives to the retailers, which is in accordance with Yu et al.'s line of argument (in section 4.3.2). These incentives can be offered in terms of better service or lower costs according to Kinsey and Ashman (2000), who also claim that this may lead to the suppliers earning trust from the retailers.

#### **4.4 Retailer brands**

Our empirical findings suggest that the appearance of retailer brands has affected the retailer-supplier relationships due to the retailer being perceived as a competitor by the supplier. The aim of this passage is to give the reader a theoretical background to why store loyalty and private labels are important parts of retailer brands, and source of power which imply certain consequences for the suppliers. In order to avoid any misinterpretations, we would like to point out that *retailer brand* refers to, for example, Coop Forum as a brand, and it is therefore not equivalent to private label it might sell, which in the case of Coop Forum could be Signum.

*The brand on the front door is as important as the national brands on its shelves*  
(Lisanti, 2000:12)

Once, consumers chose the store that offered the biggest selection of the best brands at the lowest prices (Lisanti, 2000). Today, consumers are more loyal to a particular store and prefer switching brands to shopping at several different stores to find the brands they want, an argument somewhat contradictory to that of Peckham (1963, in Farris & Ailawadi, 1992) and Progressive Grocer (1968, in Farris & Ailawadi, 1992) who claim that consumers would rather delay a purchase than switch brands. Perhaps the difference is due to the information having been retained in different decades. Retailers too are becoming interested in promoting their store name as a brand, and when it comes to building a relationship with the consumers they have advantages in three areas; they have direct contact with the consumers, they control the marketing variables in their stores and have access to data on consumer buying behavior (Corstjens & Corstjens, 1995). In this section we examine how the retailers use these advantages when creating store loyalty and private labels, and what implications they have on the suppliers.

#### **4.4.1 Store loyalty**

Changing patterns of consumer shopping has undoubtedly increased store loyalty. Less time and an increase in car ownership, in the number of working women and in the disposable income has resulted in the consumers traveling further to the store that offers them the best possibility for one-stop shopping and spending more money on each shopping occasion (Bell et al., 1997).

Evidence for the consumer making the purchase decisions in the store is positive for the retailers since they control many variables that influence the consumer; product range, space allocation, pricing and promotional activities. The more the retailers want to run and communicate their own brands, the more they can benefit from taking control over the mentioned variables. Every time a consumer visits a store, the retailer has an opportunity to communicate with the consumer, whereas suppliers have to pay every time they want to communicate with the consumer. As we will explain more thoroughly later on, in the section about shelf space, eye-level location and end-of-gondola feature are critical factors for purchase, and even more important for the launching of new products. Compared to the suppliers, retailers have the advantage of always being able to give their own products strategic allocations on the shelves. Because the retailers already have staff in the stores and control the store space, they have another

advantage in benefiting from a low cost of sampling, which has proved to be a powerful tool in FMCG (Corstjens & Corstjens, 1995).

Loyalty programs are not only creating store loyalty, but they also provide the retailers with valuable information about the consumers. Previously, the retailers possessed scanner data, which could be used to estimate sales and comparing sales of different products. Now that the information is linked to individual shoppers through loyalty cards, many new sales building opportunities appear. By using this information, the retailers can custom-make marketing activities or spend extra effort on those consumers who do not visit the store often. (Corstjens & Corstjens, 1995)

#### **4.4.2 Private Labels**

The growth of private labels, both in number and market share, is a sign of the increased retailer power (Cullen & Whelan, 1997). For the retailers, private labels are an important tool in obtaining higher margins, managing their store brand and creating consumer loyalty (Verhoef et al., 2002). Since the private labels are only sold at a particular retailer, the consumer must go to that retailer to purchase it (Nandan & Dickinson, 1994). Another advantage of private labels is that the consumers find it difficult to compare prices and attributes of different private labels, which is not the case for supplier brands since exactly the same branded product can be found in many different stores, sometimes at different prices (Nandan & Dickinson, 1994).

Private labels have so far had most success in product fields where the consumers are not sensitive to differences in quality, and the main strategy has been imitation of already known products and brands, so called me-too private labels. Generic private labels are also common and are those that by their simple exterior give the impression to be cheap and almost be without a brand. Both are versions of the so called *Type-1* private labels (Corstjens & Corstjens, 1995). However, there is also a trend towards developing *Type-2* private labels of higher quality (Cullen & Whelan, 1997). Linn (2003) argues that this trend turns the private *labels* into private *brands*, where the word *brand* stands for quality, safety, familiarity and identification with an image. Type-2 private labels pose a threat even to leading supplier brands as consumers pay less for Type-2 private labels that are of similar quality and therefore the consumers also might question the real value added by the supplier brands. According to Corstjens and

Corstjens (1995), even though creating loyalty was not the original objective for private labels, they have proved to be a very effective means for creating shopper loyalty. However, although we agree that private labels may increase store loyalty, we do not think they usually create it. For example, ICA did not start to emphasize their own labels until they, via commercials and loyalty cards, had created a strong brand and store loyalty. The perception of ICA's private label being of a good or high quality is probably due to ICA, as a brand, signaling high quality.

According to Fernández and Gómez (1999, in Nogales & Suarez, 2004) the private labels have revolutionized the shelves. One important reason for this is that the retailers guarantee the private labels full distribution and good shelf placement. Often, in order to make price comparisons easier, private labels are placed next to the national supplier (Mangold & Faulds, 1993 in Nogales & Suarez, 2004). Another strategy in placing private labels is to give them shelf space to the right of the leading brands they are imitating or competing with since most people are right-handed and therefore more likely choose the private label (Hoch, 1996 in Nogales & Suarez, 2004). In an investigation made by Agustín and Iniesta (2001, in Nogales & Suarez, 2004) it was shown that the private labels were given shelf space that was not in accordance with the market share of the private labels, the main reason being the greater profitability.

We would like to make clear though that this investigation was made in Spain in the launch period of private labels and might not be representative for the situation today in the Swedish FMCG industry. However, we believe that this investigation could be relevant for the situation in Sweden some years ago and that the effects of such a situation might still influence the suppliers' view of private labels. Nogales and Suarez (2004) also conclude that the space occupied by private labels in 2003 was lower than that in 1998-1999 and they argue that the retailers may have reached a so-called "maximum shelf point" with the private labels. In relation to this, Nandan and Dickinson (1994) claim that the idea is not to convert retailer stores into private label palaces since variety and choice is very important to consumers and there are also some consumers that do not purchase private labels at all.

After reading many articles about private labels and understanding how they have developed and how they have affected supplier brands, we believe that the next step for private labels is to become innovative and thereby challenging one of the remaining strengths of the suppliers; product innovation.

#### **4.4.3 The suppliers' response**

According to Nandan and Dickinson (1994), suppliers need to think in terms of the needs, desires and aspirations of the consumers if they want to try to decrease the use of private labels. By creating strong brand equity, offering products with high perceived quality, and offering a greater share of profitability and higher margins to the retailer, the suppliers can strengthen their position. We are not sure if we agree with the last recommendation, since offering more profitability to the retailer, in terms of increased margins, may become praxis with continuously altering shares for the retailer and lower profits for the supplier. We believe more in a collaboration regarding development of products that the retailer needs in the range in order to respond to consumer demands or developing a better channel relationship by creating an efficient system for stock keeping for example. Another suggestion is offering a family of brands with different perceived quality, where the lowest quality is higher than that of the private labels but lower than that of the market leaders (Nandan & Dickinson, 1994).

Hoch (1996, in Verhoef et al., 2002) distinguishes six different strategies for leading suppliers to respond to the increase in private labels:

- Increase the distance from the private labels by offering new and improved products
- Increase the distance from the private labels by offering “more for the money”
- Reduce the price gap
- A me-too strategy by introducing a value-flanker<sup>9</sup> and thereby creating an entry barrier and limiting the possibilities for other brands.
- Wait and do nothing
- Produce (premium) private labels

Nogales and Suarez (2004) suggest, in accordance with Hoch's first strategy, that suppliers, by continuous and effective product innovation, should keep the quality gap as large as possible and thereby justify higher prices in relation to the private labels.

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<sup>9</sup> A supplier brand of lower price and quality targeting private labels.

Bell et al. (1997) stress that the changing structure of retailing will result in the suppliers having to choose between supplying brands or private labels. In order to successfully produce private labels the suppliers need to be able to offer the production flexibility and the prices that the retailer demands. A danger of producing private labels is that they might compete with and cannibalize on the supplier's branded products. Cullen and Whelan (1997) claim that market leading supplier brands are the ones that despite losing some share to private labels, will survive the era of private brands thanks to heavy advertising, premium pricing strategies, direct distribution, and developing new product lines.

## **4.5 Retailer value**

As explained in the beginning of the frame of reference, we have taken the stand point that there has occurred a shift in the power balance in the Swedish FMCG industry, based on both our empirical results and those of others. This new situation implies that the suppliers need to offer more added value in order to secure their position with the retailers. In this part of the frame of reference we aim to explain what retailer value is by combining different theories within the fields of value, retailer buying behaviour, and parts of the areas which have previously been explained in the frame of reference.

### **4.5.1 Value**

According to Hansen and Skytte (1998), as the retail chains grow powerful the wholesalers are usually eliminated and the suppliers sell their products directly to the retailers. Because of this, knowledge about retailers' buying behaviour, and thus what is valuable to retailers, has become important to suppliers when developing marketing strategies. In their report, where an attempt is made to define retailer value, Skytte and Bove (2004:325) define value as:

*...the degree to which the customer (i.e. food retail chains) believes that the attributes of the product or the service will contribute to fulfilling their goals.*

Although there has been a lot of research on how to create value for consumers, Skytte & Bove (2004) claim that the theories available regarding retailer value are very limited, or even nonexistent. They further stress that retailers interpret the demands and needs of the consumers, and then, keeping those in mind, they evaluate the suppliers' offers. The retailer wants to find a supplier which offers the attributes that should appeal to the consumers, but he also wants to minimize transaction costs, maximize transaction value and be competitive. These lines of thought are related to buying behaviour, and since buying behaviour theories explain the preferences of the buyers, we believe that the preferences mirror what the buyers find valuable. Thus, in order to explain how to generate retailer value, we will concentrate on retailer buying behaviour. Further on, we will identify some findings from the theories in the first part of the frame of reference and relate them to retailer value.

### 4.5.2 Sheth's model

There are many models describing buying behaviour, but fewer that explain retailer buying behaviour (Hansen & Skytte, 1998). We consider Sheth's buying behaviour model (see figure 15 below) as a good point of departure since it is broad and not based upon findings from a single retailer or product category. However, since the model is static it does not capture on-going relationships and is also difficult to apply on more specific buyer behaviour regarding re-ordering or private labels. We believe that the model is relevant since our aim is to give the reader an overview of retailer buyer behaviour with the purpose of relating it to retailer value.

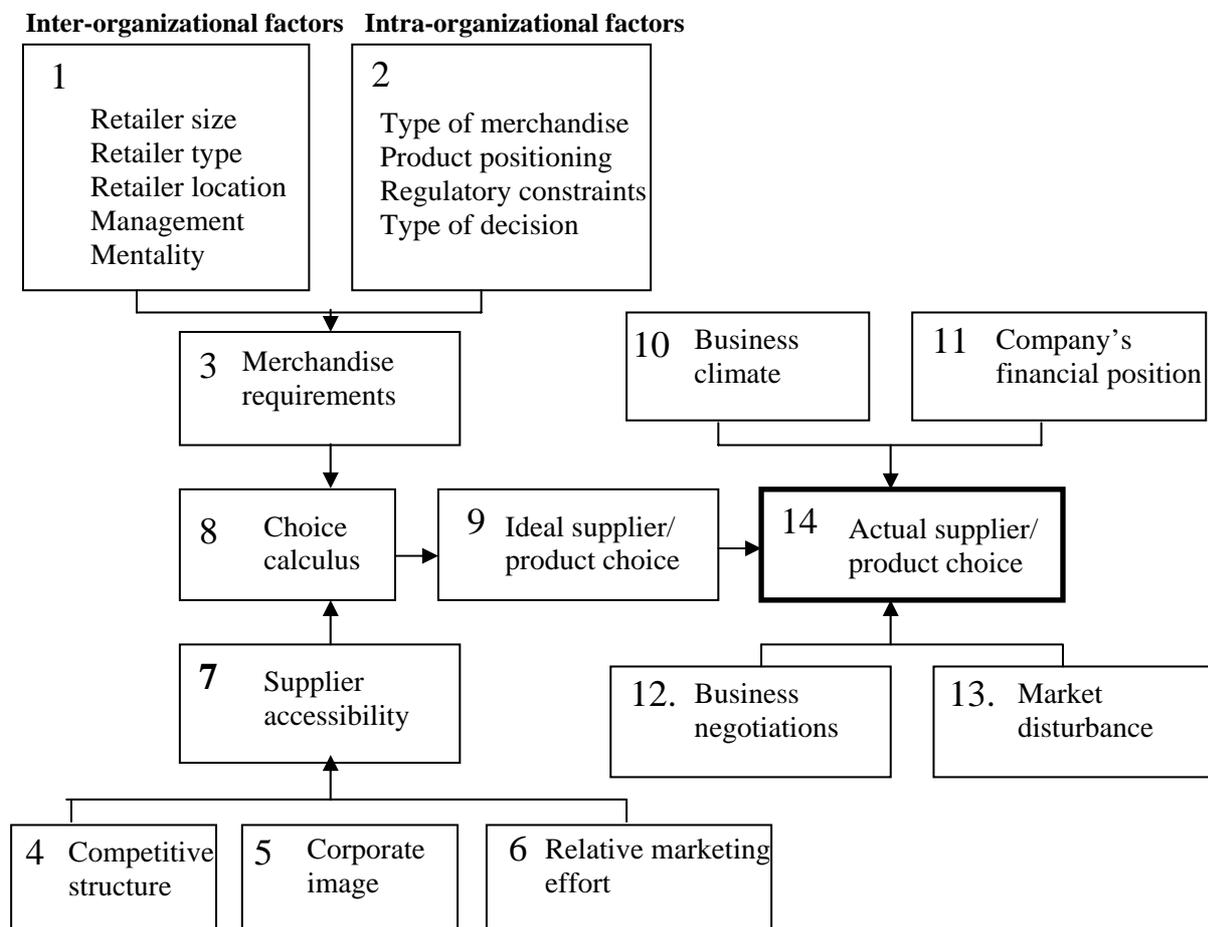


Figure 15: Sheth's model, 1981 in Holm Hansen & Skytte, Retailer buying behaviour: a review, *The International Review of Retail, Distribution and Consumer Research* 8:3 July 1998, p 280

*Inter-organizational factors* (1) are factors specific for the retailer affecting its merchandise requirements, for example size, type, location, buying organization and management mentality. *Intra-organisational factors* (2) are external factors affecting the retailers' merchandise requirements such as type of merchandise, regulatory constraints, type of decision and product positioning. In their report, Hansen and Skytte (1998) also added newness and quality since those factors were considered important when choosing the actual supplier. *Merchandise requirements* (3) are the criteria and motives, such as price, sales potential and packaging, which the retailer uses in evaluating products

Factors affecting the amount of available suppliers to the retailer are included in the *Competitive Structure* (4). For example the industry can be such where exclusive distribution is common. *Corporate Image* (5) is the image of the supplier or image factors related to it. For example the image of the country of origin may affect the accessibility of suppliers. The comparison of the marketing efforts of the suppliers available is denominated *Relative marketing effort* (6). *Supplier accessibility* (7) refers to the suppliers considered by the retailer before making a choice in who to buy from. Factors affecting could be corporate image, competition and the marketing efforts of the suppliers.

*Choice calculus* (8) refers to the retailers' decision rules, for example whether the choice calculus is trade-off, dominant or sequential. *Ideal supplier / product choice* (9) is the logical choice after having applied merchandise requirements on the choice between available suppliers. The ideal and the actual supplier or product choice do not always coincide because of business negotiations, market disturbance, business climate and the company's financial position.

Events in the macro-economic environment that will have an influence on the buying decision are a part of the *Business climate* (10). *Company's financial position* (11) are factors in the retailers' financial position that could have an effect on the buying decision. *Business negotiations* (12) regards the nature of the negotiations that are important for the terms of trade and whether there will be an agreement. Unexpected events that the parties have no control over, such as strikes, sanctions etc., are included in *Market disturbance* (13). After considering all the described factors the retailer chooses a supplier or product, that is the *Actual supplier/product choice* (14).

### **4.5.3 Value generating factors**

Apart from what we have concluded in the previous section we also want to emphasize some theoretical findings regarding retailer value that are based on the theories in the first part of the frame of reference. We are of the belief that the following factors contribute to creating retailer value since they are all important for the retailers when striving for a competitive advantage and they also facilitate collaboration between retailers and suppliers.

- High and consistent quality (Dawson & Shaw, 1989 in Hansen & Skytte, 1998)
- Flexible response (Dawson & Shaw, 1989 in Hansen & Skytte, 1998) which is also coherent with the claim of Mason-Jones and Towill (1997) that the ability to rapidly respond to end consumer demands is a key competitive advantage
- Joint product development (Dawson & Shaw, 1989 in Hansen & Skytte, 1998) which we also believe results in goodwill trust (Sako, 1992; Sako & Helper, 1998 in Cooper & Slagmulder, 2004)
- Special delivery systems (Dawson & Shaw, 1989 in Hansen & Skytte, 1998)
- Wide product ranges (Dawson & Shaw, 1989 in Hansen & Skytte, 1998)
- Product differentiation (Dawson & Shaw, 1989 in Hansen & Skytte, 1998)
- Strong supplier brands (Dawson & Shaw, 1989 in Hansen & Skytte, 1998)
- Innovative products (Hogarth-Scott & Parkinson, 1993)
- Information sharing; market trends, new products, space management, consumer buying behaviour, EDI (Lebensmittel Praxis, 1994 in Hansen & Skytte, 1998; Bell et al., 1997; Yu et al., 2001).

### **4.5.4 Our own retailer value model**

As seen in Sheth's model and in the summary above, suppliers can help create retailer value through either product specific factors or factors related to the supplier itself that can support the image or strategy of the retailer. We illustrate this relationship in figure 16 (next page). The arrow represents value creation.

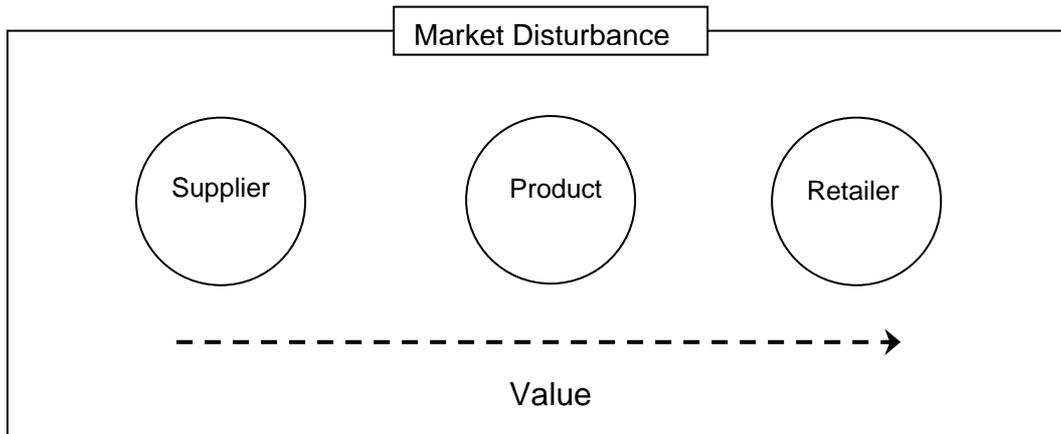


Figure 16: Our own retailer value model 1, inspired by Sheth (1981 in Holm Hansen & Skytte,1998)

Our own, slightly more elaborated model of retailer value (see figure 17 below) summarises Sheth’s model and the other theories we have discussed in this section. It shows the many different aspects on which a retailer value depends regarding the retailer, the supplier, the product and the market. Whether the supplier has the ability to generate retailer value or not, depends on the supplier’s characteristics. In our model we have included those mentioned by Sheth (1981 in Holm Hansen & Skytte, 1998) but we have also added, after carefully consulting several other theories, information sharing, joint-product development and flexible response as we argue that they are all important retailer value generators. The supplier’s product can create retailer value if, mainly, it is new, innovative and of good quality. What the retailer perceives as being valuable might depend on the characteristics mentioned by Sheth, as seen below in figure 17.

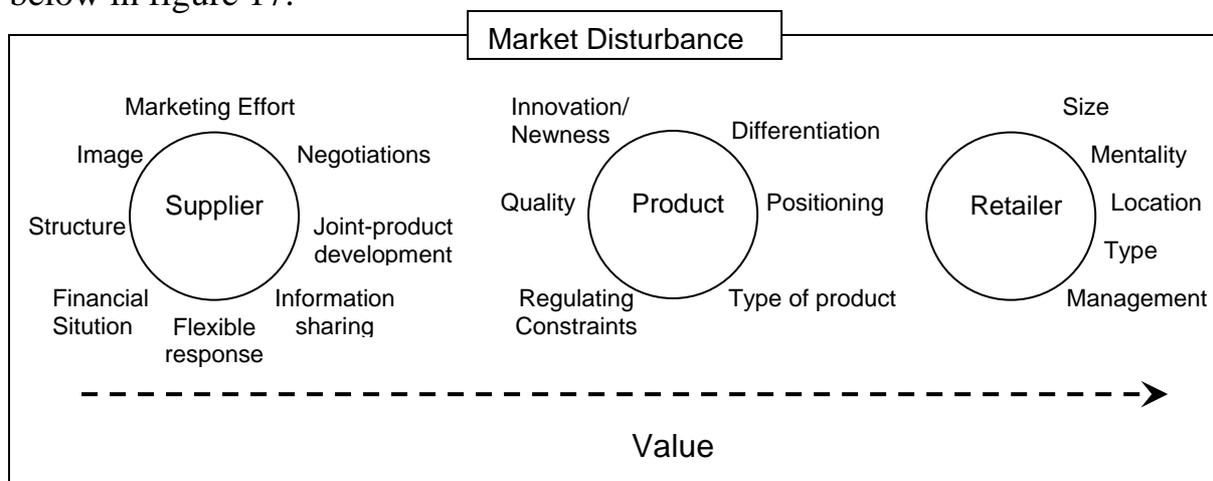


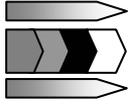
Figure 17: Our own retailer value model 2, inspired by Sheth (1981 in Holm Hansen & Skytte,1998)

## Chapter 5.

# Analysis



In this chapter we analyse the interrelated areas from the perspectives of both suppliers and retailers in order to give the reader a nuanced view of the area of investigation and create a foundation for drawing conclusions and fulfil the purpose of the study.



## **5. Analysis**

*In order to make the analysis easy to follow, its structure follows the one of the frame of reference. Hence, the first part of the analysis corresponds to the first question of investigation and considers Retailer Power, Retailer-supplier Relationships, Information and Retailer Brands, whilst the second part corresponds to the second question of investigation regarding Retailer Value. The main headlines are the same as the ones in the frame of reference whilst the subheadings sometimes differ somewhat depending on the extent to which we have found it relevant to develop each area. For example, the area of Buying power has been given separate sections concerning dependency and negotiations.*

### **5.1 Power**

Already before conducting this study our point of departure was to assume that there had in fact occurred a power shift in the Swedish FMCG industry benefiting the retailers. We had enough information to confirm this assumption. However, we still wish to analyse how the actors of the industry perceive it.

#### **5.1.1 Power shift and profits**

In accordance with Corstjens and Corstjens (1995) all our interviewees agree on that there has occurred a power shift in the Swedish FMCG industry. However, there is a rather pronounced difference between Vivo Stockholm and the other retailers. Andres Grosenius argues that since Vivo Stockholm want to represent known brands they can not be in conflict with them and therefore they have not experienced the harsher climate that the others refer to.

The suppliers considered in the study agree that the main reason behind the power shift was the retailers, to a greater extent than before, taking control over their stores, developing their own concepts, recruiting more educated personnel and improving the collection and usage of information. They also mention that the development of concepts has in turn encouraged the retailers to engage in more communication to the final customer, the consumers, and in this way also partly taking control of this aspect of the supplier-consumer relationship.

Since it is not included in the purpose of this study we have not investigated whether the power shift has resulted in increased profits for the retailers. We still find it interesting though to discuss the situation of the retailers since a clear view of it might improve the understanding for each party's goals

As seen in our empirical findings there is now an increased focus on price in the Swedish FMCG industry. We believe that this may be an effect of the awareness of there internationally existing other powerful retailer chains with an even greater negotiation power over their suppliers and hence the ability to push down prices even more. The increased development of retailer concepts and retailer brands requires, as already mentioned educated and supposedly more expensive staff, but it is also costly in terms of buying time and space in different means of communication. This along with the fear of price wise leaving room for yet another retailer giant on the Swedish market may constitute another reason for the current focus on price.

This reasoning contradicts the one of Farris and Ailawadi (1992 in Bloom & Perry, 2001), Ailawadi et al. (1995 in Bloom & Perry, 2001) and Messinger and Narasimhan (1995 in Bloom & Perry, 2001) who claim that a power shift ought to result in higher margins for the retailers. However, we argue that the relationship between power and profits is not that simple and that there are other important factors influencing the margins of the retailers. For example, Kenneth Solstrand of Coop claims that there is a lot of pressure on high-profile brands because they are included in many price surveys. Hence, the price pressure could be a reason for the retailers not experiencing an increase in their profits. Additionally, and just as Porter claims (1976 in Farris & Ailawadi, 1992), there seems to be a strong inter-retailer competition and in line with this, Andres Grosenius argues that Vivo Stockholm does not differentiate much from the competitors. This discussion we believe can explain why the argument behind the findings of Farris and Ailawadi (1992 in Bloom & Perry, 2001), Ailawadi et al. (1995 in Bloom & Perry, 2001) and Messinger and Narasimhan (1995 in Bloom & Perry, 2001) may not always apply in all situations. Our reasoning is instead more in line with Porters' argument that a power shift can in fact occur without the profits of retailers improving when there exists fierce inter-retailer competition, as is the situation in Sweden according to Peter Henriksson of Cloetta Fazer.

### **5.1.2 Buying Power**

Just as Farris and Ailawadi (1992) claim, the increased buying power that the retailers benefit from is a consequence of them having access to more information, for example in the form of scanner data, employee-consumer contact and loyalty cards. We believe that this information results in the retailers being able to take control over their stores and keep track of the sales from competing products and buying trends. This should furthermore result in the retailers not having to rely on the information previously provided by the suppliers. For example information regarding the market shares of specific products may differ depending on how the different suppliers define the market, but now, as the retailers may define the market according to their own statistics and numbers, they have a clearer view of the sales of competing products.

We found that the suppliers perceive a greater focus on price in the industry now compared to before, much in accordance with the argument of Bloom and Perry (2001) who state that increased buying power on behalf of the retailers manifests itself in, among other things, their bargaining for prices, delivery times and extra inventory. This is confirmed as Mats Sjö Dahl of Axfood states that the demands on price, logistics and range are higher now.

### **5.1.3 Dependency**

The structure of the Swedish FMCG industry as it is today, with only four retailer chains controlling a staggering 75 per cent of the total market and private labels duplicating their share during the past four years in an already saturated industry speaks for itself. As Jakob Testén of Unilever and Annelie Johannesson of Kraft Foods state, with such few retailers they feel very exposed. Adding this to the above mentioned increased control of the means of communication and the centralization of negotiations and control, it seems superfluous to state that there in fact exists a situation of dependency on behalf of the suppliers. The retailer situation in the Swedish FMCG industry is oligopolylike and the leading retailers do not only benefit from financial strength, many customers and a large range of goods (Farris & Ailawadi, 1992) but also from having many different store types (such as ICA Nära, ICA Supermarket etc.). The different store types give the retailers even more negotiation power as the suppliers, even though they get listed, can not be guaranteed shelf space in all the retailers' stores.

However, in relation to this, we believe that the increased focus on concept development and consumer segment targeting on behalf of the retailers could constitute an opportunity for the suppliers to further secure their position by customizing sizes and variations for the retailers according to their particular target segment. The different store types might open doors for the suppliers as they can negotiate for getting their so called line-extensions listed in different stores. For example, individual O'boy portions might get listed at Coop Nära, whilst O'boy in a "family-package" might get listed at Coop Forum. This way the suppliers can cover the different concepts and store types, but of course it is more expensive for them to develop and produce different packaging solutions for the same product than only producing one single variant.

Another way for the suppliers to defend themselves against a position of dependency is, according to Etgar (1976 in Bloom & Perry, 2001) and Buzzel and Gale (1987 in Bloom & Perry, 2001) by size, or according to Etgar in Bloom and Perry market knowledge. As in the case of high-profile brands, all suppliers considered are large companies with important market shares and market leaders in at least one category of products. Because of this we can not make a comparison between them and other smaller suppliers in this case either. In the case of market knowledge however, the suppliers mention their in-depth knowledge particularly about consumer behaviour regarding their product categories as a source of leverage when negotiating with the retailers. In accordance with this the retailers claim that it is impossible for them to acquire and handle the same amount of information as the suppliers because of the number of categories that have to be included. Instead the suppliers, who only have to concentrate on the categories where they are present and possible substitutes, have more detailed information and are in general perceived as being trustworthy.

In continuance, Bloom and Perry (2001) state that to avoid a disadvantageous situation when negotiating with a retailer as well as create entry barriers against the competitors, the suppliers can develop closer relationships and collaborate with the retailers in their strategy. One way of doing this is to participate in their promotional activities and communication to the consumers. For example Peter Kofoed of Arlafoods mentions their participation in ICA's advertisement as a way of temporarily increasing sales, while at the same time they are aware of the fact that through their participation for which they pay a significant amount, they are also helping ICA build their brand.

#### **5.1.4 Negotiations**

The increased dependency on the retailers leads to the retailers increasing their negotiation power over the suppliers. In the literature (Stern, 1969; El-Ansary & Stern, 1972; Stern & El-Ansary, 1977; Cadotte & Stern, 1979; Stern & Reve, 1980; Hunt & Nevin 1974; Lusch, 1976; Frazier, 1983; Gaski, 1984 in Bloom & Perry, 2001) it is commonly argued that power over the supplier is created when a supplier has one retailer which is considerably more important than the others. This increase in power can be seen when considering the launch of new products. Today, the suppliers have to back a new product with solid information on how it contributes to the product category and how it will benefit the retailer, when before the requirements used to be not so meticulous. The suppliers also all agree on that the focus on price has increased in the last years, indicating a more fierce competition between suppliers and less room for negotiating softer aspects.

However, seeing it from the point of view of the retailers, we would like to point out that the situation can also be the contrary. According to Etgar and Gaski (1984 in Bloom & Perry, 2001), one way for the suppliers to exert “countervailing power” is to develop strong brands. In this study we have only considered market leading suppliers of brands that are well established on the Swedish market and therefore we can not make a valid comparison of how the increased dependency has affected other suppliers with less strong brands. However, we can see that brands and brand development are aspects on which the suppliers considered can at least partly rely in their negotiations with the retailers since it is of value to the consumers.

As we have pointed out in the frame of reference, the opinions about brand loyalty differ. Peckham (1963 in Farris & Ailawadi, 1992) suggests that the consumers would rather delay a purchase than switch brands or even flavours and sizes, indicating that however powerful a retailer is it still needs a certain amount of high-profile brands in order to maintain its clientele. If there exists brand loyalty like Peckham argues, then the suppliers are in a fairly safe position, since the retailers will lose customers if they do not have a specific brand. The high-profile suppliers are aware of their products being important to many consumers and can make more demands than smaller suppliers can when negotiating with the retailers. In accordance with this, Kenneth Solstrand of

Coop and Mats Sjö Dahl of Axfood claim that it is harder to negotiate with big suppliers.

It is however not clear exactly how high-profile a brand has to be in order to feel safe from the risk of being delisted, as Kellogg's experienced recently when they were eliminated from Coop's range. All suppliers considered in this study have portfolios carrying high-profile brands but none of them were willing to say they feel safe with any retailer. We also believe that the trend might be moving towards less brand loyalty and more store loyalty, in accordance with Lisanti (2000). We will discuss this subject later, in the section treating Store loyalty, however we would like to state, already in this section, that the increase in store loyalty strengthens the position of the retailers since negotiating with big suppliers will be easier for them as they know that they can substitute the suppliers' brands with for example private labels and it will only have a very small effect on the consumers, if they are loyal to the retailer. This does not only strengthen the retailers' negotiation power but substituting suppliers' brands with private labels should in addition increase the retailers' margins.

We find it hard to come to a conclusion regarding the power of Vivo Stockholm in comparison to the other retailers. On the one hand Vivo Stockholm, with their emphasis on strong brands, seem to be perceived as a rather safe party to negotiate with, but on the other hand Vivo Stockholm is not easy to negotiate with according to Peter Henriksson of Cloetta Fazer, who also mentions that they are the retailer with the largest proportion of "other" brands. So where other retailers have private labels instead of high-profile brands, Vivo Stockholm have other, not as well known brands. We believe that by currently being the only large retailer without private labels Vivo Stockholm is in a position where they might be, or become, a more important retailer for the suppliers, which according to many authors (Stern, 1969; El-Ansary & Stern, 1972; Stern & El-Ansary, 1977; Cadotte & Stern, 1979; Stern & Reve, 1980; Hunt & Nevin, 1974; Lusch, 1976; Frazier, 1983; Gaski, 1984 in Bloom & Perry, 2001) results in more power. However, Vivo Stockholm is also dependent on the leading brands since they are part of their image and hence can not replace them with private labels. The question is who benefits the most from the business idea of Vivo Stockholm; the suppliers, Vivo itself, or both?

### **5.1.5 Power in supply chain management**

Stannack (1996) argues that there are two ways to achieve supply chain management power; by reducing the suppliers' alternatives or increasing the suppliers' dependence on the retailer via asset or product specificity. The first way is rather obvious in the Swedish FMCG industry since the suppliers do only have a very limited amount of alternatives in terms of retailers. They are probably all aware of that not selling products to Axfood, for example, would reduce their sales by approximately 18 per cent (see Figure 3 section 2.3.3). Increasing the suppliers' dependence can be done by having them produce private labels or by making specific product requirements.

Stannack (1996) mentions the risk of over designing the relationships especially in the case where it leads to the supplier becoming increasingly dependent on the retailer. As it is very hard for the suppliers to get new products listed we agree with Stannack (1996) and Gadde and Snehota (2000) in that an over dependent relationship might hamper creativity and innovation to some extent. The suppliers claim that they are very careful when developing new products as the costs are very high and since there are no guarantees regarding listing and shelf space. We believe that the power of the retailers does hamper the creativity somewhat, however, even if it were easy to get a product listed the costs associated with product development would be high. We argue that the suppliers would still have to investigate consumer preferences etc. since the product will not sell if the consumers do not appreciate its attributes, and then the investments are made in vain.

We did not get the impression from the suppliers that were considered in this study that the extent of their relationships with the retailers weighs heavily on their operations and should be seen as a reason for there existing a situation of dependency. On the contrary they express a desire for a closer relationship with the retailers where product development and future investments are concerned.

As we have seen, this type of collaboration already exists to some extent in various forms, as Annelie Johannesson states regarding the production of larger size products for hard discounters. An optimal situation would however require more collaboration on both parts, something that was expressed by the suppliers as a general desire. One barrier to the collaboration becoming more in-depth is

the recent development of private labels, making the suppliers less willing to share information on product specificities and development.

## **5.2 Retailer-Supplier relationships**

In this section we aim to thoroughly discuss the many different aspects of the relationship between retailers and suppliers. Our ambition is to not only describe what the situation is today, but also to add a dynamic level when analyzing how the relationship might have been affected by the introduction of private labels, and what this has done to the factor of trust.

### **5.2.1 Collaboration vs. conflict in relationships**

Hogarth-Scott (1999) claims that, due to the changed marketplace, both retailers and suppliers have recognized that they are better off by collaborating. Our empirical findings confirm this since all suppliers want to be perceived as a good partner and they desire more collaboration earlier in the process of developing new products. These findings are in accordance with those of Hogarth-Scott and Parkinson (1993) and Gadde and Snehota (2000) which indicate that the increased retailer concentration and purchasing power on behalf of the retailers has resulted in the suppliers aiming more for collaborative relationships. However, the retailers too express a desire to collaborate, but their survival is not as dependent on the collaboration as the one of the suppliers. The retailers claim that they prefer long-term relationships and Vivo Stockholm in particular also want to be perceived as a partner. Andres Grosenius emphasizes the importance of communicating values and goals of the organisation in order to create a good relationship with the suppliers.

However, the empirical findings also throw a light on some factors that obstruct this evolution. First of all, and as we will discuss more later on, there is a lack of trust due to the suppliers perceiving the retailers as competitors. The suppliers are afraid of sharing new ideas and information since they fear that the retailers will use their ideas for their private labels. This is to some extent confirmed by Mats Sjö Dahl of Axfood who says that sooner or later they will copy the suppliers' ideas. Second, and in accordance with Gadde and Snehota's (2000) argument regarding the costs of strong relationships, the suppliers consider collaboration in terms of joint advertising costly and even though it might lead

to an increase in their sales they feel like they are contributing more to the retailers' brands than their own. Third, the suppliers argue that the oligopolylike retailer situation limits the possibilities to collaborate. These three factors make it difficult to collaborate, especially within two of the areas mentioned by Dawson and Shaw (1989 in Hansen & Skytte, 1998); *Flexible response* and *Joint product development work* since these areas especially require information sharing.

### 5.2.2 Relationship models

When trying to define the characteristics of the relationship between retailers and suppliers we have identified some main points based on the empirical study:

- Negotiations chiefly concern price
- The relationships are usually long-term
- There is a lack of trust

We can already at this stage conclude that these characteristics have very much in common with the *Long-term Relationship* described in Hogarth-Scott and Parkinson's model (1993:12), as seen in figure 18 below. According to Hogarth-Scott and Parkinson (1993) this relationship, in spite of its name, is adversarial because it lacks trust and mutual dependence. We argue though, that our study indicates that there, to some extent, exists mutual dependence since the retailers need the suppliers' products due to the customers demanding them.



Figure 18: The evolution of Strategic Marketing Planning, Hogarth-Scott & Parkinson (1993:12)

We would like to add that regarding this model we do not believe that the relationship was very different before the shift in power balance, since the lack of trust then probably was from the retailers' point of view due to them being in the weaker position. On the other hand, it is possible that the mutual dependence was more pronounced then since the retailers' needed the suppliers' brands, but at the same time the suppliers needed access to the consumers. If this was the case, then the relationship touched the fourth step in figure 18 above and hence has now moved back to the third step due to the shift in power balance.

In accordance with our reasoning, Hogarth-Scott and Parkinson (1993) claim that relationships change over time because changes in the environment, technology and structure affect power, collaboration and conflict. The “we-and-them” feeling expressed by Peter Henriksson of Cloetta Fazer and the constant struggle for listings and shelf space have probably resulted in the relationship being more conflictual. Additionally, the goals of the retailers and suppliers differ somewhat since the retailers want the consumers to be loyal to the retailer brand, whereas the suppliers want them to be loyal to the supplier brand. Since Corstjens and Corstjens (1995) claim that hard discounters constitute a threat to both retailers and suppliers, they suggest that fighting the hard discounters could be a joint goal for retailers and suppliers.

Our empirical findings reveal that the situation in the Swedish FMCG parts from the one described by Corstjens and Corstjens (1995) since all suppliers want to sell their products to the hard discounters whilst the retailers perceive the hard discounters as competitors. However, we are of the opinion that when the hard discounters first appeared, they may have been perceived as a common threat by retailers and suppliers. At that time, we believe that the hard discounters focused more on their own brands which consequently were competitors of the leading brands. According to Annelie Johannesson of Kraft Foods, this strategy has proved not to work in the Swedish FMCG industry and the hard discounters are now reaching out to the leading suppliers since their customers demand the suppliers’ brand. It is this strategic change of the hard discounters that we believe has made Corstjens and Corstjens’ (1995) argument inapplicable on the Swedish FMCG market.

The conflictual factors mentioned correspond to the ones given by Hogarth-Scott and Parkinson (1993) as the “we-and-them” feeling might lead to the parties *not being perceived as they wish to*, the element of a *scarce resource* is present in terms of shelf space, and the *goals differ* to some extent. However, there are some similarities regarding the parties’ goals which should be mentioned. Category development as well as consumer satisfaction seem to be critical aspects for both retailers and suppliers.

To analyze the relationship between retailers and suppliers further we consider figure 19 (next page). Since evidence shows that the retailers’ situation is oligopolylike we can conclude that the market is dominated by a few retailers. Regarding the suppliers, it is more difficult for us to take a stand. In this study we have only focused on well-known suppliers and we can conclude that there

are more leading suppliers than leading retailers in the Swedish FMCG industry, however, the suppliers have also experienced an increase in concentration due to acquisitions and mergers. We argue that the relationship between suppliers and suppliers is to a great extent *Retailer-dominated* since, just as Hogarth-Scott and Parkinson (1993) point out, the retailers have access to the consumers and the suppliers need to focus on innovative products and value in order to keep or gain shelf space. However, if the leading suppliers that we focus on in this study in fact are few considering the whole Swedish FMCG market, then the situation is characterized by *Mutual Interdependence*. This reasoning is illustrated by the light grey circle in figure 19 below. As indicated by its name, this relationship is characterized by mutual dependence and as we have already concluded it has much in common with step 3 in figure 18 (page 103) since it is long term but still affected by elements of conflict. However, according to Hogarth-Scott and Parkinson (1993) step 3 *lacks* mutual dependence. This is an important difference which might be a consequence of the characteristics of the market that are taken into consideration in figure 19, but not in figure 18.

		Number of suppliers	
		Few	Many
Number of retailers	Few	Mutual Interdependence	Retailer-dominated
	Many	Supplier-dominated	Relative Independence

Figure 19: Market Structure and Retailer-Manufacture relationships, Hogarth-Scott & Parkinson (1993:14)

Regarding Mutual Interdependence in particular, we argue that the model has a rather significant weakness since it does not take private labels into consideration. If we only focus on the situation between the retailers and leading suppliers it has, as we previously claimed, much in common with Mutual Interdependence. However, because of the presence of private labels the relationship will not be balanced in power only because there are a few retailers and a few suppliers. Since the private labels do not have to negotiate for shelf space unlike the suppliers and since the suppliers are afraid of sharing new ideas

with the retailers due to the private labels, the relationship can not be considered as being fully balanced.

Previously in this section we concluded that there exists a desire for more collaboration, but currently the degree of it is not very high. This is due to the lack of trust, the retailers focusing on their own brands, and the oligopolylike retailer situation. However, there does not exist a pronounced conflict between the retailers and suppliers, and hence the relationship can be described as being somewhere in between Marginal and Hostile relationships as illustrated by the light grey circle in figure 20 below.

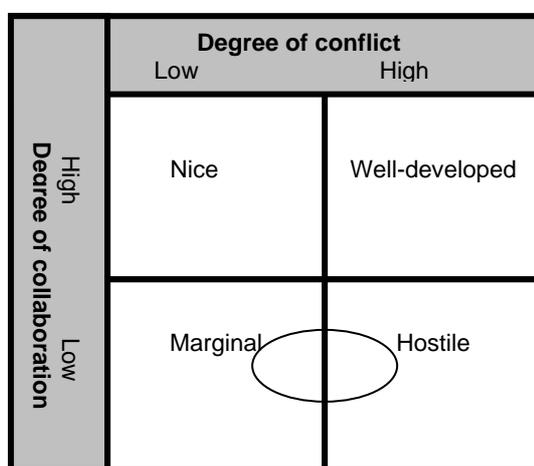


Figure 20: Relationships with different combinations of collaboration and conflict, Gadde & Håkansson (1993:75. figure 4.3)

### **5.2.3 Our own relationship model**

In order to more explicitly link together power balance with the relationship between retailers and suppliers we continue with our own model.

We have already concluded that there has occurred a shift in the power balance between retailers and suppliers and that the retailers are the stronger party due to, for example, the possession of scarce resources in terms of shelf space, access to the consumers, increased information and retailer brand loyalty. This indicates that there is a low degree of power balance in the Swedish FMCG industry. In the previous paragraph we also concluded that the degree of collaboration is rather low. The light grey circle in figure 21 (next page) illustrates the relationship existing between retailers and suppliers according to

our own model which, unlike the other models, also takes private labels into consideration.

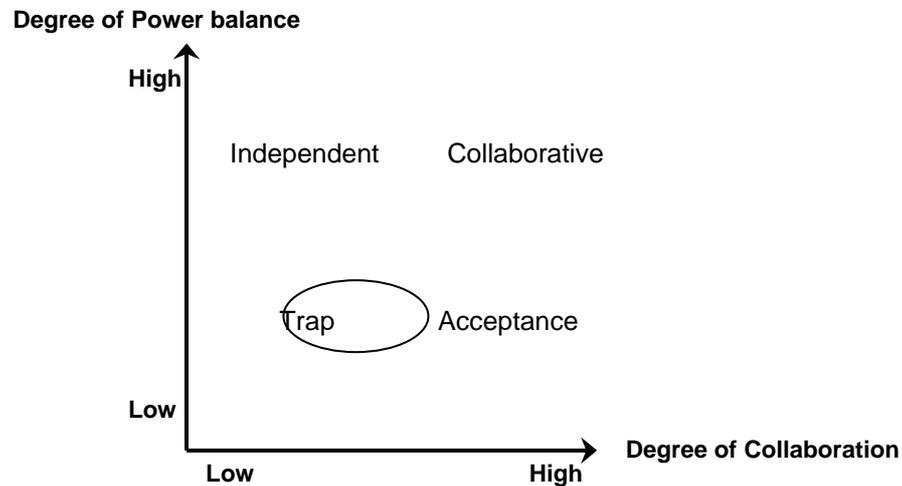


Figure 21: Our own relationship model inspired by Hogarth-Scott & Parkinson (1993:14) and Gadde & Håkansson (1993:75. figure 4.3)

As we explained in section 4.2.3, the *Trap*, where the light grey circle is mainly located in figure 21 above, is equivalent to a not accepted hostile relationship. We argue that some acceptance exists in the relationship since some of the suppliers claim that they value and consider each offering regarding private label production. Furthermore, ICA suggesting Cloetta Fazer that they manufacture products for the small pieces concept also indicates that there is some collaboration, even though it does not include any large investments or actual product development. Since the suppliers feel that the private labels to some extent compete on different conditions, especially regarding shelf space, we argue that they are not content with the current situation. The reluctance in sharing ideas also indicates that they do not accept being completely dependent on the retailers.

#### **5.2.4 Trust**

In this section we will analyze trust, or rather, the lack of trust which permeates the relationship between retailers and suppliers.

We believe that two of the three sources of trust mentioned by Cooper and Slagmulder (2004) are fulfilled by the retailer and suppliers. *Familiarity* is

developed since the retailers and the suppliers have been interacting for a long time. *Calculation*, or believing that good relations are more beneficial than exploiting the other party (Adler, 2001 in Cooper & Slagmulder, 2004), is fulfilled in the sense that both retailers and suppliers desire more collaboration. Collaboration is also mentioned by Dyer (1996 in Cooper & Slagmulder, 2004), Gietzmann (1996 in Cooper & Slagmuler, 2004), and Heide and John (1990 in Cooper & Slagmulder, 2004) as important for relationships beyond arm's length contractual relationships. However, the retailers wish to collaborate in a way which primarily benefits their own retailer brand and it can be questioned whether this is collaborating or exploiting, although one can assume all parties experiencing a situation of mutual dependency try to push development of the relationship to where it benefits them the most, suggesting that all relationships are exploitative. Granovetter (1985 in Cooper & Slagmulder, 2004) also states that relationships that build on trust run the risk of failing because of one or both parties defecting from what is expected of them in the relationship. Particularly the introduction of private labels has increased the focus on retailer brands and is perceived by the suppliers as having brought about a change in the retailer's behaviour, disturbing the trust built on *Behavioral Norms*.

When suppliers join the retailers' advertising they seem to feel that they are exceeding what is expected from them for the benefit of the other party, something that could be referred to as *Goodwill Trust* (Sako, 1992; Sako & Helper, 1998 in Cooper & Slagmulder, 2004). *Competence trust* is present since the retailers trust the suppliers' competence both regarding product development and in-depth knowledge about consumers, which manifests itself in the suppliers' concern about having their innovations copied if they share information in advance. If the retailers did not trust the information from the suppliers they would not risk investing in copying the products before having proof of them generating profits. The existence of good will trust and competence trust would indicate that both retailers and suppliers feel that they have in general chosen to collaborate with the right parties and do not need to engage in expensive control mechanisms (Ireland et al., 2002 in Dekker, 2004). However, we would like to argue that the suppliers of the Swedish FMCG industry does not have much choice but to collaborate with the retailers because of the oligopolylike situation, regardless of whether the degree of trust is high or low.

We claim that the *Contractual trust* (Sako, 1992; Barney & Hansen, 1994, in Cooper & Slagmulder, 2004) is fairly high since it seems both the suppliers and

the retailers trust that the other party will act according to agreement or general praxis, although they also rely on each other acting within the legal framework. What could indicate a low level of contractual trust currently is that the parties, especially the suppliers, sometimes give the impression to not be sure of what general praxis is since the industry is going through a change and the “rules of the game” have not yet been defined. We believe this uncertainty is what makes the relationship lack trust and the reason why the suppliers sometimes are reluctant to discuss new ideas with the retailers. As Birnberg (1998) also mentions, uncertainty is one of the five dimensions affecting the success of inter-firm relationships and other authors (Zaheer & Venkatraman, 1995; Chiles & McMackin, 1996; Nooteboom et al., 1997 in Van der Meer-Kooistra & Vosselman, 2000) also emphasize the importance of trust in situations of uncertainty where the parties can not rely on written contracts. Although it may seem that contractual trust is undergoing a downswing at the moment, we believe that once the natural uncertainties around factors of the relationship between retailers and suppliers that are currently undergoing change have settled, it will increase.

## **5.3 Information**

The effects of changes in access and employment of information was the factor which surprised us the most in conducting the investigation on which this study is based. We have already treated some aspects in the section considering Power, however here we wish to further develop some lines of thought regarding this area of the relations between retailers and suppliers.

### **5.3.1 From suppliers to retailers**

Just as Hogarth-Scott and Parkinson (1993) state, the increasing usage of information technology on behalf of the retailers has significantly changed the conditions of the business climate in Europe. According to Peter Henriksson of Cloetta Fazer the IT-investments of the retailers, primarily ICA, was what eliminated the extensive advantage the suppliers had over the retailers regarding information. Today the retailers have more detailed information than the suppliers regarding what the buying behaviour the customers of each retailer concept have. Sometimes they even have access to data on an individual customer level through loyalty cards. This information can be used when

deciding on category management, assortment or prices. This in accordance with Chu and Messinger's (1997:87) claim that the retailers used to be "*data rich and information poor*" where they today have been able to narrow down the information gap. The suppliers on the other hand only have access to their own research and more general information on how products are doing from market information reports such as those of AC Nielsen, unless they are offered to buy the information directly from the retailers, as is the case with Axfood and their suppliers. Mats Sjö Dahl of Axfood mentions this as being beneficial to both parties since it is easier to discuss development when your arguments are based on the same information.

The retailers also have an advantage in the access to information since they are the ones with the closest direct contact with the final customer, the consumers. As both Kenneth Solstrand of Coop, Henrik Cajnerud of ICA, and Andres Grosenius of Vivo Stockholm claim, they get most of the information regarding changes in demand directly from the customers in the stores. Corstjens and Corstjens (1995) claim that as a retailer becomes more committed to developing a relation with the consumers it will also take tighter control of advantages it has compared to the suppliers and convert them into negotiating power. We have seen that the retailers are committing a significant amount of resources to different means of communication, which implies that they are trying to position themselves and create a relationship with the consumers on a cognitive level. We can not however say if these efforts have been the instigating factor to the retailers becoming more determined in their negotiations with the suppliers.

On the other hand, we can conclude that the retailers do not have access to the in-depth information on trends in consumer behaviour, target groups and demands regarding specific product categories as do the high-profile brand suppliers. The advantage that the suppliers still possess as far as information is concerned is the knowledge about the narrow areas of their particular product segments. According to Jakob Testén, Unilever/GB Glace have special knowledge about ice-cream that the retailers do not have and although the retailers have access to the information they do not have the possibility to process it. This argument is made by Mason-Jones and Towill (1997) when they say that companies today are overwhelmed with data but the competitive edge lies in knowing how to use it. Peter Kofoed of Arlafoods agrees in saying that the retailers can buy the same information but it would be too much for them to purchase it for every product in their range. Kenneth Solstrand verifies this when he claims it would be too costly to go in-depth in one hundred categories.

This advantage is according to Bell et al. (1997) the only one that the suppliers have regarding information and it is therefore important to stay à jour in this area.

Andres Grosenius also mentions the international spread of some of the suppliers as being another source of information on especially trends that the retailers do not have the same access to. However concerning sales statistics he considers the parties to be equal, the suppliers with the help of AC Nielsen data and Vivo Stockholm through the “real numbers”. Annelie Johannesson of Kraft Foods confirms this by mentioning the company’s international and European category managers as sources of information regarding trends and new product development.

We distinguish between the suppliers of high-profile brands and the rest because even though they are not consulted in this study, one can imagine that smaller suppliers that lack the economy of scale of the major players also lack the resources to collect and treat the vast amount of information necessary in order to draw valuable conclusions regarding potential product developments. Andres Grosenius states that at Vivo Stockholm this difference is taken into consideration when negotiating with smaller suppliers and they are not expected to be able to back their products with the same detailed data and statistics, nor would it always be desirable in their case because of the costs incurred.

As we claimed in the frame of reference we do not know in which context the findings in *Lebensmittel Praxis* (1994 in Hansen and Skytte, 1998) were made, however, *new products* and *market trends* have proved to be important types of information in our study as well. *Terms of trade* is rather regarded as a means to exercise power than an important source of information whilst *advertising efforts* and *space management* both are important factors in general, but neither them expressed as important sources of information.

### **5.3.2 Information sharing**

In general for the Swedish FMCG industry information shared is limited to ordering and information regarding consumer demand beyond ordering aspects is rarely discussed. In connection to new product launches the suppliers sometimes contact the retailers to get an idea of what they think but the opposite is rarely done except when a retailer has specific requirements regarding product

attributes such as for example size. The retailers are however in general willing to on a yearly basis sit down and discuss with their suppliers aspects like category development and the future of the segment, at least on a superficial level. In the case of Axfood the deals with the suppliers include the access to scanner data directly from the stores. On a whole we have come to the conclusion that the industry in general can be categorized as a level 2 in Yu et al.'s (2001:116) model of information sharing with supply chain partnerships (see figure 22 below).

Level 2)



Figure 22: Levels of information sharing (Level 2), Yu et al. Benefits of information sharing with supply chain partnerships, *Industrial management & Data Systems*, 101/3 (2001:116), MCB University Press

ICA with the systems VMI and Levnet however have more developed and integrated information systems and can therefore be considered a level 3 (as seen in figure 23, below) as this allows the supplier to get detailed information on consumer demand.

Level 3)



Figure 23: Levels of information sharing (Level 3), Yu et al., Benefits of information sharing with supply chain partnerships, *Industrial management & Data Systems*, 101/3 (2001:116), MCB University Press

According to Yu et al. (2001) the access to this kind of detailed information is of great assistance to the supplier, who should in turn offer some incentives to the retailer. Xhao and Xie (2002) make the same statement as they claim information sharing increases costs for the retailer, who should therefore be offered some incentives, for example lower costs or better service as suggested by Kinsey and Ashman (2000). The retailers do receive payment for providing the information, however we believe that the reason for a retailer to share

information with a supplier is because it is in the retailer's best interest. You can for example consider the above mentioned argument made by Mats Sjö Dahl of Axfood that having the same information base facilitates negotiations. Further, we also believe that if a supplier offers some kind of incentive to a retailer it is not because of the altruistic desire to do good but simply a business strategy like any other.

One factor hampering the sharing of information from the suppliers' side is the existence of the retailers' private labels. Annelie Johannesson expresses the caution with which they at Kraft Foods share information regarding new products since they are aware of the risk concerning the retailer taking the idea to a competitor producing their private labels. Peter Henriksson of Cloetta Fazer agrees as he mentions that when launching a new and innovative product they try to hide it until the time of the launching in order to get a head start of a couple of months. Mats Sjö Dahl of Axfood however does not perceive the suppliers as being secretive, he instead is of the opinion that the suppliers know that eventually their products will be copied anyway. It seems private labels have created something of a prisoners' dilemma in the industry, where the suppliers are dependent on the retailers buying into new product concepts and innovations and aim to have a sure entry to the stores. On the other hand they fear that the retailers producing their own private labels will take advantage of the information about a new product and use it to help build their own brands.

## **5.4 Retailer brands**

In the past few years the retailers of the Swedish FMCG industry have increased their focus on positioning and differentiating their own brands. For example, ICA and Coop are dedicating a considerable amount of resources to communication toward the consumer and all the retailers in general are putting a lot of work into designing different concepts directed to different segments of consumers depending on their needs and behaviour. This is also manifested in the development of private labels, where almost all retailers carry several private labels aimed at satisfying the demands of different types of consumers and meeting the competition of different kinds of concepts or retailers, such as the hard discounters, and other supplier brands that they themselves may carry. These more or less recent developments that one can imagine to be quite costly are proof of the retailer chains' awareness of the importance building brands has, both on a company level as well as on product level. Vivo Stockholm have

instead made a point out of not carrying private labels and are differentiating themselves in this sense where they communicate the desire to be a representative for the high-profile brands.

According to Lisanti (2000), consumers used to choose the retailer only on the criteria of where they could find their product brands at the lowest price. Today however it is suggested that the consumers, apart from looking at price, also choose retailer after what the retailer represents and may even be more willing to switch product brands than retailers. This argument is contradicted by Peckham (1963 in Farris & Ailawadi, 1992) and Progressive Grocer (1968 in Farris & Ailawadi, 1992) who claim that consumers are loyal enough to their product brands to delay a purchase if the brand is not found at the retailer. We can not based on our findings draw any conclusions regarding the amount of loyalty the consumers have for a retailer brand compared to individual product brands.

We can however see that retailers today are putting a lot of emphasis on their own brands and what they represent. This constitutes an opportunity for those supplier brands that fit into the concepts of the retailers, although they are aware of the fact that the resources dedicated to for example participation in an advertisement spot in collaboration with a retailer will most likely help build the retailers' brand more than their own. For the supplier it instead represents an opportunity for additional sales and a way to make sure a competitor does not take that space. This argument is supported by Peter Kofoed as he states that ICA are clever when including Arla in their commercials since they, apart from building their own brand, charge a considerable amount of money for allowing Arla to participate. Henrik Cajnerud also mentions that there is an ongoing debate regarding the focus on the ICA brand compared to the brands of the suppliers in the commercials.

#### **5.4.1 Store loyalty**

This recent upswing in communication is a way of creating a relationship with the consumer and further taking control over the contact between the suppliers of brands and the final customers. We have already concluded with the argument made by Corstjens and Corstjens (1995) that they have the upper hand in this area because of the direct contact they have in the stores, the control they have over promotional activities and detailed scanner data. Particularly the

detailed information regarding consumer behaviour is a helpful instrument in the development of retailer concepts directed at consumer segments with certain needs. For example, ICA Maxi and Coop Forum are directed at families with children who have cars and make weekly or even monthly purchases. Coop Konsum instead is supposed to offer a full range to another segment of consumers and constitute a complementary store to others. Another way for the retailers to create customer loyalty according to Corstjens and Corstjens (1995) is through the creation of loyalty programmes in the form of loyalty cards which further increase the access to narrow and detailed information and improving the possibility to target specific individual demands and behaviours. Today all of the retailers considered in this study apply loyalty programmes including different offerings and levels of service.

The ability to profile and custom make a concept carrying one brand according to particular consumer behaviour helps creating store loyalty, while at the same time differentiating the retailer brand from others. This development is according to Bell et al. (1997) a result of the consumers changing their shopping behaviour because of changes in lifestyle and particularly the decreased amount of time they are willing to spend on making their grocery purchases, often referred to as one-stop shopping. The argument can be compared to the one made regarding how retailers evaluate products according to the added value it represents to the final customer in terms of saving time, taste, easy preparing etc. In both cases the consumers' needs are in focus since it is in the end what will make it or break it both in the case of the retailers and the suppliers.

#### **5.4.2 Private labels**

One factor complicating the relationship between suppliers and retailers in the industry is the appearance of private labels. According to Cullen and Whelan (1997), the private labels are a sign of the increased power that the retailers have relative the suppliers. Where the suppliers' brands used to compete only with other suppliers' brands, they now are forced to compete also with the private labels of the retailers. The suppliers feel that the competition with the latter is in a way unfair since they are often over represented where shelf-space and promotions are concerned. As Annelie Johannesson of Kraft Foods states, she is disappointed at the treatment the private labels get compared to the suppliers' brands. Kenneth Solstrand of Coop and Henrik Cajnerud of ICA support this comment in admitting that their private labels often become over exposed, but

Kenneth Solstrand also says that they are aware of the risk of exaggerating the exposure as they have to adjust their offering of brands to their customers' expectations. Fernández and Gómez (1999 in Nogales & Suarez, 2004) strengthen this argument when claiming that the appearance of private labels has revolutionized the distribution of shelf-space since the retailers guarantee space and full distribution, while in our study no supplier enjoys the same security. Henrik Cajnerud explains the reason behind the over exposure being a result of the private labels representing higher margins and thus increased profits for ICA. This is an argument that is also made by Verhoef et al. (2002) and is in accordance with Agustín and Iniesta's findings of the Spanish market (2001 in Nogales & Suarez, 2004). Peter Henriksson of Cloetta Fazer does not feel as strongly about the phenomenon of private labels as he states that they represent a natural response to the previous existence of supplier brand products that did not offer enough differentiated value added for the consumers in order to have their place on the market.

It is not difficult to understand that the general perception of private labels is not all that positive among the suppliers of high-profile brands, however there also seems to exist a consensus regarding the suppliers' mistake in initially failing to take the phenomenon seriously. Today they accept that the private labels are here to stay and the only thing they can do about the situation is to adjust and continue to take advantage of the information they possess in the consumers' demands in their particular categories, where they still have an advantage compared to the retailers. This ability to make use of in-depth information on the consumer and convert it into product innovation and hence drive the development of the category leads us to another argument made by Jakob Testén of Unilever/GB Glace who is of the opinion that the retailers ought to target not the market leaders but the number two or three. Henrik Cajnerud gives us the impression that this is often the case as he mentions the appearance of private labels having eliminated some of the smaller suppliers, while the market leaders are able to fight to keep their presence. The same argument is made by Corstjens and Corstjens (1995) when they claim that the private labels so far have been most successful at targeting fields where the consumers are not sensitive to differences in quality and they have primarily been of the *Type-1* category, with the purpose of imitating known brands but not constituting a brand that adds to the value perceived of the retailer by the consumers. However the retailers are becoming better at managing their private labels and some are even targeting the market leader in some categories, indicating they are *Type-2 private labels* (Cullen & Whelan, 1997) developing into private *brands* (Linn, 2003). An

example we have already mentioned is Coop's decision to exclude Kellogg's from its assortment and rely on own private label Signum. Kenneth Solstrand also mentions that the positioning of the high quality private label Signum/Coop is strategic as it is usually placed next to the leading brand of the category so that it is easy to move the hand from one to the other. This strategy is discussed by Mangold and Faulds, (1993 in Nogales & Suarez, 2004), and Hoch (1996 in Nogales & Suarez, 2004) when they argue that the private labels are usually placed close to and preferably right of the leading brand since people in general are right handed.

Nandan and Dickinson (1994) argue that when a retailer has managed to create consumer demand for a private label it helps to further increase store loyalty as the private labels are exclusive for a certain retailer. Another argument made by the same authors is that private labels are beneficial for the retailers because they are not as easy to subdue to price comparisons as the suppliers' brands that are sold at other retailers. Henrik Cajnerud of ICA describes one of ICA's private labels, ICA, as a brand that is supposed to quality wise be comparable to the leading brands but with a ten to fifteen percent lower price. However ICA's other private label Euro Shopper, is supposed to focus on price just as Coop's private label Coop X-tra which is a way for Coop to deal with the competition from hard discounters and offer an alternative for price sensitive consumers. We believe however that before creating a strong Type-2 private label with the ability to attract consumers one has to have a strong retailer brand since it is what constitutes the guarantee and security behind the private label. Also, if the retailer brand and private labels are supposed to create synergy effects where one strengthens the other, they have to successfully communicate the same values or the consumers will become confused. We believe this is the reason why the high quality private labels of ICA, Willys and Hemköp carry the same names as the retailer chains, while at Coop the lower quality brand is called Coop X-tra and the high quality one Signum, although Signum will soon cease to exist in order to leave room for Coop.

### **5.4.3 The suppliers' response**

The suppliers considered in this study are all market leaders in one or several segments and we are of the opinion that they are well equipped in the battle against the private labels. According to Nandan and Dickinson (1994), the suppliers need to concentrate on the consumers' demands and create strong

brands in order to stand up to the additional competition from the private labels. In the frame of reference we questioned the same authors' argument claiming that another way to maintain presence is to offer higher margins to the retailer because we are of the opinion that being a strong actor in the industry with market leading brands the proper way to go is through creating value for the consumers and by being in demand also create value for the retailers. This argument is supported by Nogales and Suarez (2004) who suggest that the suppliers keep the quality gap as large as possible through product innovation and thereby justify higher prices in relation to the private labels. We have seen that currently there exists a strong focus on price as well as a competition for the consumers. Emphasis is also put on differentiation through product innovation on behalf of the high-profile brand suppliers, another positive aspect from the perspective of the consumers since it constitutes a driving force for development in general. The suppliers considered all admitted to product innovation being extremely important in order to maintain position on the market.

According to the interviews conducted, the strategies of the leading suppliers to respond to the increase of private labels correspond to the first two strategies of Hoch (1996 in Verhoef et al., 2002). By focusing on product innovation and at strengthening their brands the leading suppliers differentiate themselves from the private labels. Regarding the third strategy suggested by Hoch (1996 in Verhoef et al., 2002), which is reducing the price gap, we believe it is present to some extent, but not on the suppliers' initiative. It is rather a consequence of the retailers' pressure on prices and therefore not a strategy that the suppliers have actually chosen themselves in order to fight private labels. Furthermore, regarding the last strategy, to produce private labels, we believe that it would be more beneficial for the leading suppliers to enter into an exclusive collaboration. This way they satisfy some of the retailers' demands but can still keep their own brand name and therefore have the possibility to continue strengthening their brand and communicating to the consumers through the product.

An exclusive collaboration can be regarded as a strategy somewhere in between producing own brands and private labels. Therefore, we do not fully agree with Bell et al. (1997) who claim that the evolution of private labels will result in the suppliers having to choose between supplying brands or private labels. We would rather describe the options of the suppliers according to figure 24 (next page). The arrow illustrates the degree of the accommodation of the supplier to the retailer.

Supplier Brands                  Exclusive Collaboration                  Private Labels

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Figure 24: Own model showing the suppliers' options inspired by Bell et al. (1997)

Our empirical findings further support Cullen and Whelan (1997) who claim that leading supplier brands are the ones that will survive the era of private brands. Both suppliers and retailers claim that they have noticed that the smaller suppliers are the ones that are knocked out by the private labels. However, if the private labels continue to improve their quality and image, we believe that the suppliers will be forced to invest even more in advertising etc. in order to communicate the surplus value they generate for the consumers.

## **5.5 Retailer value**

In this last part of the analysis we aim to explain the concept of retailer value by combining the models presented in section 4.5 with the empirical findings.

### **5.5.1 Value**

The interviews indicate that, in accordance with Hansen and Skytte's (1998) claim, the retailers nowadays negotiate directly with the suppliers, due to the elimination of the wholesalers. According to our empirical findings, the retailers mainly define value as something they want to generate for their customers and therefore they also define it in terms of the customers' demands and needs, just as stated by Skytte and Bove (2004). Furthermore we concluded in chapter 3 that the retailers have in common that they want to communicate a wide range of price worthy goods and brands. According to Skytte and Bove's (2004) definition of value, this can be interpreted as one of the goals they have when creating value for their customers. Kenneth Solstrand of Coop concretizes the concept of value as better taste, easier preparation or the possibility of saving time and hence relates value more to product attributes than service.

The in-depth knowledge that the suppliers have, and that the retailers are aware of lacking, could be a valuable service that the suppliers can offer the retailers. The sales criteria that Axfood have on new products are evidence of Skytte and Bove (2004) having a point when claiming that besides from finding a supplier

whose products should appeal to the customers, it is also important to minimize transaction costs, maximize transaction value and be competitive. These findings confirm what we discussed in the frame of reference, that is, that retailer buying behaviour can be regarded as a good indicator when trying to define retailer value.

### 5.5.2 Sheth's model

To give the reader an overview of retailer buying behaviour we continue with Sheth's model.

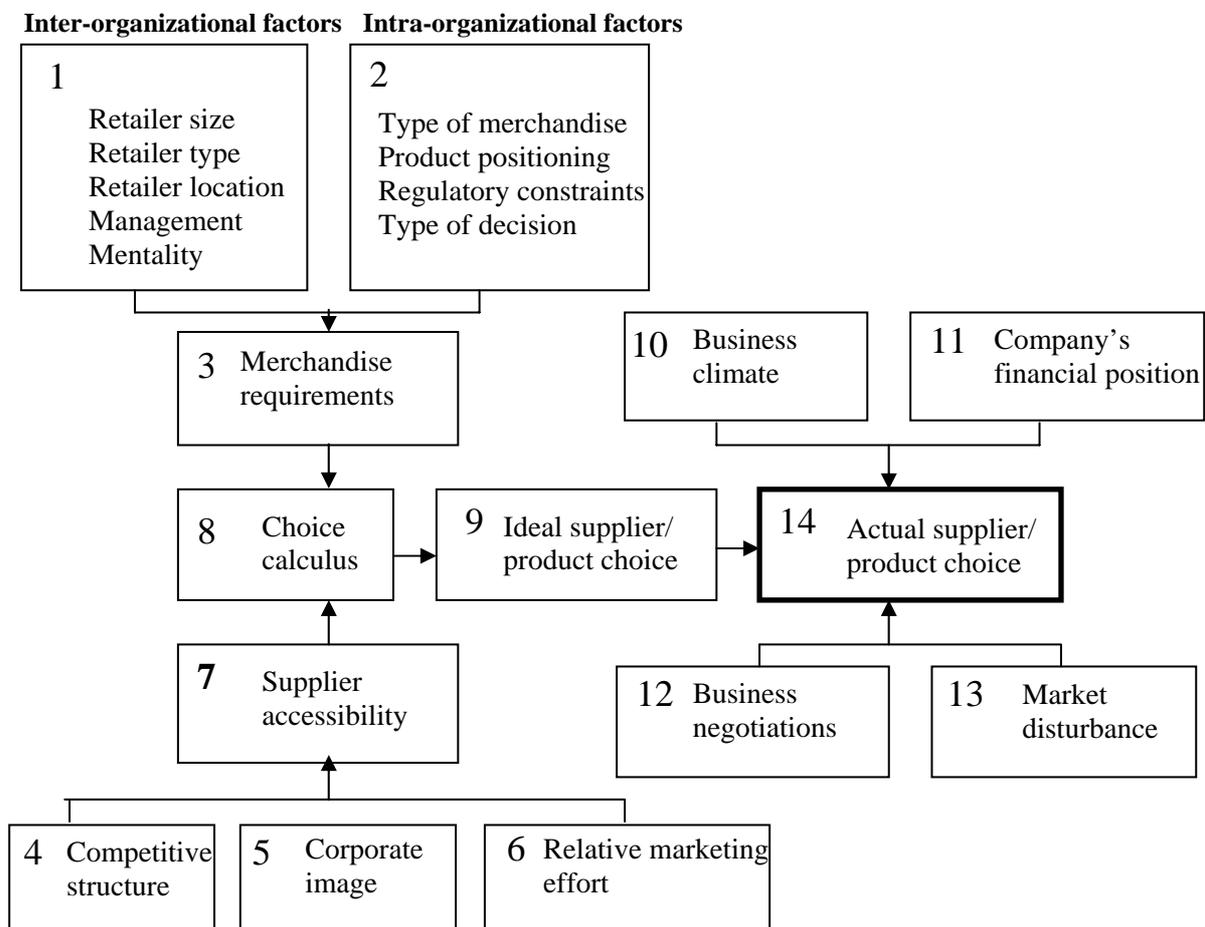


Figure 25: Sheth's model, 1981 in Holm Hansen & Skytte, Retailer buying behaviour: a review, *The International Review of Retail, Distribution and Consumer Research* 8:3 July 1998, p 280

According to our empirical findings, management mentality and buying organization in particular are *Inter-organizational Factors (1)* that affect the retailers' buying behaviour. The centralized retailers have a different buying process than the relatively more decentralized retailers, such as Vivo Stockholm, whose planograms are more considered as being recommendations and whose stores therefore have the option to include other products than those selected centrally. We believe that the management mentality is partly a consequence of the buying organization as it has to reflect the fundamentals of the company, however, we also noticed an important difference in mentality between Vivo Stockholm and the other retailers. Vivo Stockholm is the only retailer of the four ones considered in this study that does not sell private labels and we believe that this business idea affects Vivo Stockholm's buying behaviour in many ways. For example, Vivo Stockholm aim more explicitly to make a good impression on the leading suppliers and in fact they also are perceived as a safer negotiating partner by the suppliers. Their buying behaviour is also affected since they buy products from smaller suppliers to a larger extent than the other retailers, since the latter ones replace the smaller suppliers with private labels.

*Some Intra-organizational Factors (2)* which we have identified are regulatory constraints, product positioning, newness and quality. Regulatory constraints mainly concern environmental issues and product safety, however, according to Andres Grosenius of Vivo Stockholm, respect for the environment is a prerequisite today. Newness and quality, the two factors that Hansen and Skytte (1998) added to Sheth's model, are undoubtedly very important for the retailers. The retailers repudiate so called me-too products and have high demands on newness when deciding whether to list a product or not. Quality is important as most retailers want to offer their customers both market leading high quality products and cheaper options, usually of poorer quality.

Since both retailers and suppliers argue that there has been an increase in the focus on price and that the negotiations regarding price have become tougher, we conclude that price is also an important *Merchandise Requirement (3)*. Axfood also claim that the sales of new products are important and since the suppliers themselves claim that they have to present trustworthy estimations of sales during the "windows", we can further conclude that sales potential is another merchandise requirement. We believe that packaging is important since by offering different packagings for the same product, the suppliers claim that they can get the product listed in many store concepts. A larger packaging works

at Willys whilst a single-household-packaging has a greater chance of being listed at ICA Nära or Konsum.

The Swedish FMCG industry is still not characterized by exclusive distribution and according to the interviews with the suppliers they wish to sell their products to as many retailers and store concepts as possible. Therefore the *Competitive Structure (4)* does not affect the retailers' options when choosing suppliers. However, we believe that this might change since Jakob Testén claims that Unilever is currently looking over the possibility of an exclusive collaboration with a certain retailer.

*The Corporate Image (5)* was not mentioned explicitly by the retailers, however, Henrik Cajneud of ICA says that in order to add a product to an existing category, the supplier needs to be very strong. Image seems to be important for the suppliers as they all want to be perceived as a good and innovative partner. Being a good citizen was also mentioned by the suppliers, but we doubt that the retailers would choose a supplier on that basis.

Henrik Cajnerud of ICA says that nowadays all products have to be put in a special context, but as we understand it, the context is usually defined by the retailer who then chooses the suppliers that have products which fit into the concept. We believe that the outcome of the collaboration which then begins is probably partly dependent on the *Relative Marketing Effort (6)* of the supplier. A supplier which contributes with many ideas and who has strong financial muscles should have a good possibility to be perceived as a good partner. Furthermore, the suppliers who participate in the retailers' advertising should be perceived positively, especially in the case of ICA since ICA are aware of the suppliers being of the opinion that they contribute more to ICA's brand than their own brands.

The shift in power balance is per se an event that affects the *Business Climate (10)* in many ways. We have seen that the power shift has resulted in for example changes concerning negotiations, information sharing and shelf space. None of the interviewees mentions any other macro-economic events that directly have affected the choice of the supplier or product. However, as we have seen in the empirical study, trends such as low-fat or low-sugar are important for both retailers and suppliers. Since these trends affect the demands of the customers it is important for the retailers to be able to offer products that fulfil criteria as low-fat or low-sugar. These trends are important for the

suppliers too since they open doors for development of new and innovative products. Because of this, we argue that trends should also be included in these macro-economic events.

The retailers' *Financial position (11)* is probably of greater importance for the buying behaviour of smaller retailers as their financial position poses more limits to them than to the large suppliers.

We have already mentioned that the *Business Negotiations (12)* between retailers and suppliers have become tougher and more focused on price. We have also mentioned the case of Kellogg's, the global, leading brand which was delisted from Coop because of the parties' inability to agree on the factor price. The "windows" are also an important part of the negotiation process where the suppliers' new products are presented for and evaluated by the retailers. None of the interviewees mentioned any situation where *Market Disturbance (13)* affected their buying behaviour, but in spite of this it is rather clear that market disturbances do affect the buying behaviour. Poor crops or lacks of primary products such as cacao, would definitely affect the suppliers' production.

### **5.5.3 Our own retailer value model**

In order not to repeat all factors in Sheth's model we will only explain the other value generating elements which we included in our own model (see figure 26, next page) and then draw some conclusions about retailer value. In our model we added *Information sharing*, *Joint-product development* and *Flexible response*. Information has been mentioned by all interviewees, either as a something that has lead to the power shift or something that has been affected by the power shift. It is probably the most important resource for both retailers and suppliers as it is the key to understanding the consumer. By having access to scanner data, consumer research, market trends etc. both retailers and suppliers can get information about what really matters; the consumer. Sharing information would also facilitate Joint-product development and Flexible response. We believe that joint-product development would benefit both parties, the suppliers would not have to worry about their products not getting listed by the collaborating retailer and the retailers would ensure having an exclusive product which according to the available information is demanded by their customers and therefore has good sales potential. Joint-product development should also ensure the suppliers that even though the product will be copied by

the retailers' private labels, the retailer should be interested in not cannibalizing its own exclusive product and therefore at least make the competing private label product different in quality in order to not appeal to the same customers as the exclusive product. Flexible response is facilitated by sharing information since it allows the supplier to take part of scanner data for example and thereby adjust production and stock-keeping to the needs of the retailer.

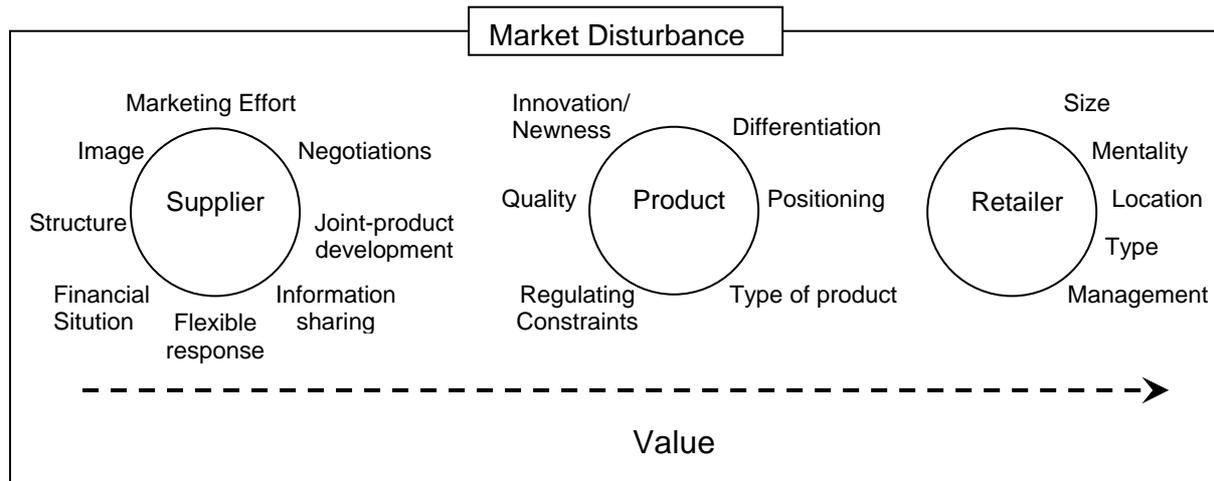


Figure 26: Our own retailer value model inspired by Sheth (1981 in Holm Hansen & Skytte,1998)

### 5.5.4 The concept of retailer value

Keeping Sheth's model and our own retailer value model in mind, we argue that in order for the suppliers to create value, they need to understand the buying behaviour of the retailers. We can further conclude that the base of buying behaviour consists of choosing suppliers and products that satisfy the consumers' demands, but also correspond to the goals and store concepts of the retailers. Creating retailer value is becoming increasingly important for the suppliers due to the changed marketplace where they, rather than the retailers, need to adjust to the new rules of the game.

In creating retailer value in a long-term perspective, the suppliers primarily have to have the final customer, the consumers, in mind. This because the retailers' goals, whether they be financial or strategic, eventually end up adjusting to the consumers' needs and demands. A paradox it may seem is that the retailers, in an attempt to meet the consumers' demand for added value, require strong

brands, innovative products and product attributes. On the other hand, the focus in negotiations with the suppliers is primarily on price. Furthermore, the retailers do not give any guarantees and make themselves difficult to collaborate with regarding product innovation since the suppliers fear having their ideas copied for private labels.

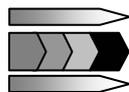
As the consumers have become more demanding and make more informed purchases, they have created a need for the retailers to differentiate regarding those attributes that different segments of consumers are sensitive to, primarily price, products, brands and accessibility, and pushed the retailers to develop different concepts according to target segment. This, in turn, has opened up an opportunity for the suppliers to better focus on a certain segment of consumers and by being the best in a very narrow category become the first choice of those consumers. On the other hand it is no longer the choice of the suppliers to do so, since those brands and products that do not satisfy a specific need for a specific target group, will not stay on the market for long. Not only have smaller suppliers of not so known brands suffered the effects of these recent changes, but also leading suppliers of high-profile brands are feeling the pressure of possibly getting de listed.

## Chapter 6.



# Conclusions

In this chapter we aim to answer the questions of investigation and fulfil the purpose of the study. We also discuss some general aspects of the study and suggest some areas for future investigation.



## **6. Conclusions**

The main overall purpose of this thesis was to study what the recent development in the Swedish FMCG industry has implied both for retailers as well as suppliers, along with the attempt to define the concept of retailer value.

*How has the shift in power balance affected the relationship between retailers and suppliers within the Swedish FMCG industry?*

The shift in power balance has affected the relationship between retailers and suppliers in many ways. The negotiations have become tougher and more focused on price, and the suppliers have in general become more dependent on the retailers and need to adapt to the different store concepts. The increased dependency of the suppliers is partly due to the retailers making better use of the information they possess and taking control over a number of marketing variables that used to be almost exclusive for the suppliers. This development leads to the suppliers having to be very convincing when launching new products and negotiating for listing, emphasising the credibility of the information backing up a new product.

The oligopolylike situation in the Swedish FMCG industry is another important factor contributing to the suppliers' dependence. To get delisted from a retailer chain with a centrally managed organisation could mean the kiss of death for many suppliers as each chain represents such a significant share of the market.

The fact that the retailers are offering private labels, which usually have a lower price than the market leading brands, has proven both to contribute to the shift in power balance and also to amplify the effects of it. The private labels have resulted in the suppliers perceiving the retailers as competitors and therefore the sharing of information gets hampered as trust is decreased. Another current development concerns the quality of the private labels which is improving. This implies a movement from Type 1 to Type 2 private labels and some retailers even aim to make their private labels innovative. If in fact the private labels are becoming innovative without the help of the major brands, we are of the opinion that the suppliers will soon find themselves in a difficult position. This because their ability to develop products and generate surplus value for the retailers through the satisfaction of the demands of the consumers is really where they

currently still have the upper hand. This might prove to be true especially when private labels are developing into brands not only constituting a cheaper alternative to known brands but are in fact demanded by the consumers also for other characteristics.

We argue that in order for the market leading suppliers to improve the relationship with the retailers, and thereby their own situation, they could approach the retailers by offering exclusive collaborations. This way, the suppliers will not fully depend on the retailers, as would be the case if they would choose to produce private labels, but still enjoy the benefits of a closer relationship and also get to keep one of their most valuable assets, their brand name.

*What is retailer value and how can it be generated by the suppliers in the Swedish FMCG industry?*

Because of the changed marketplace the suppliers need to understand the retailers' goals and adapt to their store concepts in order not to lose shelf space or get delisted. Retailer value is the phenomenon of through products and services contribute to the goals of the retailer, whether they be determined in financial or strategic terms. There are many ways in which the suppliers can generate retailer value, however the key to the retailers is through the consumers. Considering the fierce competition in the industry today both between different suppliers and between supplier brands and private labels, the only way to be a given choice by the retailers, is to be the first choice in the mind of the consumer. What creates value to the consumers will ultimately create value also to the retailers who can not afford to do without those products and brands that are in demand. The retailers recognise the expertise and in depth knowledge that the suppliers have regarding consumer behaviour and trends in the categories where they are present. Information has proven to be the essence of value creation, as it can be used both for product innovation and concept development. Information sharing, in an ideal setting would lead to joint product development between the retailer and the supplier and thus a closer relationship between the two.

## **Additional comments on the area of investigation**

The argument regarding lack of trust in information sharing from the suppliers' side would suggest that the consumers end up being the losers in the current situation since product development gets hampered, and product development is what takes the desires of the consumer into consideration and intends to optimize the value added. The suppliers that are large enough and experienced enough to be able to commit resources to R&D in a beneficial way are the ones that do it best, not the retailers, who should concentrate on supplying a high level of service and those products and brands that are in demand by the consumers. We argue that the situation in which the parties find themselves today is more focused on short term profits at the expense of long term development. On the other hand, it may also be argued that the development of private labels has made the suppliers of known brands more alert to respond to trends within consumer demand, as it is the only real competitive advantage that they possess when the retailers are investing in familiarizing their private labels as brands. We have seen examples of products being developed for increasingly narrow segments of consumers, a recent example being Estrella's gourmet chips, targeting an adult segment where salty snacks traditionally have been a category directed to very general target. Another example is GB Glace's Big Pack Lätt Vanilj (Vanilla Light) ice cream targeting families with an interest in keeping the consumption of fat limited. From this perspective, perhaps the discussion around private labels, which generally claims that the retailers are focusing too much on the bottom line at the expense of the consumers' freedom of choice, is rather narrow sighted and fails to take important aspects into consideration. If the private labels, which can be seen as yet another alternative, are pushing the brand suppliers to become even more innovative and eager to satisfy the consumers' desires, then it is for us as consumers to decide, yet again, how much importance we wish to give the factor of price.

## **Future research and general remarks on the study**

Our delimitations when designing this study included only taking into consideration suppliers that constitute market leaders in at least one category of products. This because we had to narrow down the area of investigation due to the limited amount of time that we disposed of, and because we thought that the market leaders would be sure to possess enough information necessary for us to be able to draw conclusions. However, in the process of gathering information

we realised that it would be interesting to also do a study of the perceptions of smaller suppliers in the same field, since the information we have received indicates that their situation is quite different compared to the heavy-weight suppliers that we have focused on.

We would also like to suggest Brand loyalty versus Store loyalty as an area of investigation as we have encountered theories based on empirical findings that are of contradicting nature. We believe that it would be interesting to see to what degree consumers choose product brands over stores or vice versa.

A difficulty we encountered when conducting this study was getting hold of the persons to interview and making sure they were the ones with the ability to provide the most amount of valid information. We realised after contacting a few companies that the term “Retailer Value” was not established as a word of every day communication, even within the departments that are directly related to the significance of the term. We do however believe that this obstacle was overcome without any major complications as the representatives of the companies contacted were in general very open and gave us a kind and positive reception.

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# Appendix

## Interview Guide

### Retailers

What do you aim to communicate toward your customers? What do you want the customer to think when thinking of ICA/Coop/Axfood/Vivo?

Who are your customers? Why do they choose ICA/Coop/Axfood/Vivo?

How do you define value for the customers?

Do you have any specific criteria for products/brands?

How do you decide whether or not a product fits into your range?

How do you decide whether or not a brand fits into your range?

How do you handle completely new suppliers/brands/products?

What would make you decline listing to a supplier/brand/product?

What demands can you make regarding payments, logistics and price?

Have you perceived any change in the power balance between you and the suppliers?

Have you got any integrated information system with /some of/ your suppliers?

How have the suppliers reacted to the competition of the private labels?

How do you distribute shelf space? Is it possible to buy shelf space? Do you use AC Nielsen's consumer investigations for example?

Category management?

The allocation of private labels? Do you use strong and well established brands as baits in order to make the customers "find" the private labels in the store?

How do you fix the prices of private labels? Brand strategy?

To what extent do you use information from data bases?

How do you notice the customers' preferences? For example demands on products that you do not have?

What is your opinion on hard discounters?

### Manufacturers

Who are your customers?

What do you aim to communicate toward your customers?

How do you generate value for the customers?

How do you notice the consumers' preferences? Do they express specific desires?

To what extent do you use information from data bases?

How do you get listed? Shelf space?

Do you have any criteria when choosing retailers?

Is there a difference between different retailers regarding negotiation power for example?

How much freedom/choice do you have regarding payments, logistics and prices?

Have you perceived any change in the power balance between you and the retailers?

How do you perceive the contact with the retailers? In terms of negotiations or collaboration?

Do you collaborate with the retailers when launching new products? Are you first guaranteed shelf space and then invest in advertisement or is it the other way around?

Have you got any integrated information system with /some of/ your retailers?

How do you perceive the competition of the private labels?

What is your opinion on hard discounters?