

**Suppliers' Ability to Control Category Management Activities in Supplier–  
retailer Relationships**  
**Empirical Evidence from Finland and Sweden**

by

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# **Suppliers' Ability to Control Category Management Activities in Supplier–retailer Relationships**

## **Empirical Evidence from Finland and Sweden**

### **Abstract**

The purpose of the present study is to analyse suppliers' control over category management (CM) in the context of Finnish and Swedish supplier-retailer relationships. The study concentrates (i) on the Finnish and Swedish suppliers' ability to control the tactics of CM and (ii) on the origins of this control. Based on the literature on CM and bases of power, a four-page self-administered questionnaire was drawn up. A survey study was conducted among 90 Finnish and 116 Swedish representatives of fast moving consumer goods suppliers. ANOVA procedure was utilised in the analysis of the data. The study revealed that both Finnish and Swedish suppliers believe retailers being clearly in charge of CM tactics. However, large suppliers were also perceived to have some control over CM decision making both in Finland and in Sweden. The extent of power over decisions related to the separate decision-making elements of CM tactics was relatively widespread among suppliers. The present study indicated that both Finnish and Swedish suppliers apparently have most influence over in-store promotions and least influence over pricing. In the Finnish context, the extent of power seems to be dependent on the market position of supplier whereas in the Swedish context, the suppliers' market position did not seem to affect the extent of control. According to both Finnish and Swedish suppliers, the most important origins of control over CM tactics were non-coercive in nature, i.e. they were based on referent and expert power bases. This study approached CM and suppliers' power bases from the perspective of manufacturing organisations. The phenomenon could also be approached from the retailers' or the dyadic perspective. Conceptual and qualitative empirical studies are needed to obtain a clearer understanding of the phenomenon. The study suggests that suppliers who wish to gain some control over CM tactics should base their interaction with retailers on expertise and issues related to referent power bases.

### **Introduction and purpose**

ECR (Efficient Consumer Response) is a movement that began in the early 1990s in the United States and was characterised by the emergence of new principles of collaborative management along the vertical supply chain. It was understood that suppliers and retailers can serve consumers better, faster and at less cost by working together with trading partners. Consequently, ECR allows retailers and suppliers to seek a competitive advantage by demonstrating their superior ability in working with trading partners to add value for the consumer (Corsten & Kumar, 2005). Today, there are national and international ECR programs in countries around the world and many companies have initiated actions to at least explore the potential impact of this movement and the underlying concepts on their business.

Probably the best-known business process of ECR is category management (CM) (Dewsnap & Hart, 2004; Gruen & Shah, 2000). CM is a process of managing categories as strategic business units—thus enhancing business results by delivering consumer value. According to the literature, CM allows a retailer and its suppliers to move concurrently towards capturing important cost savings,

while at the same time focusing on more effective, consumer-oriented marketing and merchandising practices (Dupre & Gruen, 2004; Kurnia & Johnston, 2003). Dewsnap and Hart (2004) undertook a comprehensive review of the extant literature on CM and summarised the key points of evidence, commentary and criticism contained within this literature. They concluded that CM forms a platform for sustainable competitive advantage based on the ability to market the right products in the right way to meet the fast-changing needs of a highly complex consumer market.

The most distinctive characteristic of the CM is that suppliers and retailers come together and interact to create and manage strategies and operations for specific *product categories* – not just for *individual brands* (Araujo & Mouzas, 1998; Dupre & Gruen, 2004). In other words, CM highlights that the retailers' categories, rather than the suppliers' brands, become the focus of management resources. Moreover, retailers and suppliers have to replace their own traditional organisational structures with a new collaborative structure that integrates *category* functions and decisions (Christopher, 2005; Nielsen, 1992). In emphasising this collaborative structure, the discourse on CM has largely neglected the concept of power – which has long been a central element in distribution channel discourse in general. Power is often perceived to be contrary to co-operation. Indeed, power is often perceived in a negative light – being understood as the ability of one actor to punish another for non-compliance. However, such an understanding of power is too narrow. The concept of power is not necessarily opposed to the concept of co-operation (Dapiran & Hogarth-Scott, 2003).

This article seeks to offer some additional perspectives on CM through an examination of power in the context of Finnish and Swedish supplier–retailer relationships. The topic is current due to the reason that Finnish and Swedish retailers have worked themselves into a position of dominance in contemporary distribution channels as a result of the massive concentration. Both in Finland and Sweden three large retailing groups dominate the grocery markets with about 80 percent market share at the moment (Planet Retail Databank, 2006). This same concentration phenomenon is currently taking place also in the other Northern and Central European retail industries. It has been stated that the high level of concentration gives retailers more power to make independent CM decisions and more power in deciding which brands will appear on the shelves (see e.g., Paché 1998; Ogbonna & Wilkinson 1998).

The purpose of present study is to analyse suppliers' control over category management (CM) in the context of Finnish and Swedish supplier-retailer relationships. The study concentrates (i) on the Finnish and Swedish suppliers' ability to control the tactics of CM and (ii) on the origins of this control. The study will especially focus on analysing whether there are differences in the weight and extent and origins of control over CM tactics depending on Finnish and Swedish suppliers' size in terms of market share in a product category. The comparative nature of this study allows us to explore the suppliers' control over CM tactics within countries with similar retail structure. Both in Finland and Sweden large retailers have taken a strong position in the supply chain for fast moving consumer goods (see e.g. Lindblom, 2003).

In the focal study, the key CM tactics refer to (i) assortment planning; (ii) pricing; (iii) space allocation; and (iv) in-store promotional activity (see also Nielsen, 1992; Gruen & Shah, 2000). These tactics of CM are very crucial for suppliers because the success of their brands depends on brand availability in stores. Suppliers therefore try to achieve some degree of control over retailers' CM tactics to ensure the availability of their brands in stores. For example, Howe (1998) has argued that an indication of the extent to which a typical supplier-retailer relationship has changed is the way in which major fast moving consumer goods suppliers now devote considerable managerial

energy and financial resources to winning the battle not only for the mindspace of consumers but also the shelfspace of retailers. Moreover, CM may have some negative implications on small suppliers, e.g., Desrochers et al. (2003) have asserted that large suppliers are likely to take significant responsibility for CM decision-making whereas smaller suppliers are likely to be largely excluded from CM collaboration.

### **Power and control in the distribution channels**

The concept of power is one of the most studied topics within the general field of distribution channel research. The study of social power began with investigations of the sources of power (French & Raven, 1959) and the attributions of power (El-Ansary & Stern, 1972; Etgar, 1976; Hunt & Nevin, 1974). Later researchers have moved on to other issues – such as the exercise of social power in channel relationships (Gaski, 1986; Gaski & Nevin, 1985) and how channel members operationalise various sources of power in terms of influence strategies (Frazier, 1983).

The present study uses the term power to refer to the capacity of a particular channel member to control the decisions of another in a given channel at a different level of distribution (Stern & El-Ansary, 1982). The term control has been interpreted in various ways. Control can be direct or indirect. Direct control refers to a coercive, commanding influence that produces overt compliance by the influenced party. This compliant behaviour is likely to include certain negative sentiments. In contrast, indirect control refers to a non-coercive influence that reflects the internalised norms and values of the influenced party. The compliant behaviour of the influenced party is likely to include positive, co-operative sentiments (Dapiran & Hogarth-Scott, 2003).

It is important to recognise that the capacity to exercise power is a product of social relationships, rather than being an attribute of a particular social actor. In other words, it is not sufficient to say that a particular firm is powerful; rather, that firm has power over another in a particular context. The set of firms over which a particular firm exercises power defines the domain of its power. Moreover, the domain of *power* is only one of three dimensions that jointly specify the power possessed by a firm – the other two being *weight* and *scope*. The *weight* of power refers to the degree to which the exercise of power by a firm affects the probability of another firm behaving in a certain way under certain circumstances. The *scope* of a firm's power identifies the various decision variables of the domain that can be influenced by the firm (Diamantopoulos, 1987).

Power, in isolation, is a concept of little analytical value. The *nature* of power itself is less important than the *origins* of power (Hyvönen, 1990). According to power dependence theory, power is the inverse of the dependence of one unit with respect to another (Emerson, 1962). According to this view, dependence is a key source of power – both explicit and implicit power. Ogbonna and Wilkinson (1998) argue that the dependence perspective is the cornerstone of most theories of power. Dependency theory makes the simple argument that the power to control or influence others resides in the extent of the other's dependence on one for the things s/he values (Emerson, 1962).

In contrast to this rather unidimensional view of power (as expressed in the power dependence theory), a more multi-dimensional view of the origins of power was presented by French and Raven (1959). In short, to explain how power originates in a relationship, they posited that each party brings certain resources to the relationship. French and Raven (1959) emphasised that these

resources bestow power on their holder: that is, a group of individuals controls resources that can be developed into a source of power (Hyvönen, 1990; Hogarth-Scott & Dapiran, 1997). According to the arguments of French and Raven (1959), power is thus derived from the channel member's control over valued and scarce resources on which another channel member is dependent. In their classic text, French and Raven (1959) presented five power bases:

- *reward power* – based on the ability of one channel member to mediate rewards and positive outcomes, and to remove or decrease negative outcomes received by another;
- *coercive power* – rests on the ability of one channel member's ability to punish other channel members for non-compliance;
- *legitimate power* – based on the belief of one channel member that another has the right to prescribe behaviour; legitimate power has two sources: legal and traditional;
- *referent power* – results from the willingness or desire of one channel member to be associated with another; and
- *expert power* – based on formal or specialised knowledge about particular issues or activities within an organisation.

In principle, any of these power bases can play a significant role when suppliers are aiming to increase their control over CM tactics. Dapiran and Hogarth-Scott (2003) emphasised that co-operation (that is, indirect control) comes about through the use of expert and referent power. According to this view, the use of non-coercive power strengthens exchange relationships and increases trust (Hunt & Nevin, 1974), whereas the use of coercive power weakens exchange relationships, reduces trust and invites retaliation (Raven & Kruglanski, 1970). Hyvönen (1990) observed that coercion, reward, and (to some extent) legal legitimacy, represent resources of influence – and that effectiveness depends on overt compliance, rather than inner acceptance. In contrast to the other three types of power, referent and expert power imply a high level of attitudinal conformity.

## **Research Design And Sample**

The basic unit of analysis in the present study comprised the CM relationships between suppliers and retailers. This was considered from the supplier's perspective, i.e. suppliers' perceptions of their CM relationships with retailers were analysed. It should be emphasised that the objective was not to describe any particular CM relationship between a supplier and a retailer, but rather to gather respondents' general perceptions of CM practice and suppliers' ability to control tactical CM decision making. The reason for this was that issues related to specific CM relationships and power bases may be very delicate among the suppliers representing relatively small Finnish and Swedish markets, and we therefore did not ask our informants to specify to which particular CM relationship they were referring.

The sample was collected from both Finland and Sweden. Questionnaires were sent by post to all supplier members of ECR Finland and ECR Sweden. The number of questionnaires sent to each firm was determined by the number of product categories that the firm represented. Only one manager/each product category/company was asked to fill the questionnaire. The respondents were asked to answer the questions from the viewpoint of the category they represented. Since all major multinational, national and regional suppliers are members of these organisations, it was not likely that utilising their membership registers as a sample frame would seriously bias our study. The

sample that was collected from Finland consisted of 470 managers in 90 manufacturing firms in the fast-moving consumer-goods industry. Of the 470 questionnaires sent out, 91 were returned; of these, 90 were satisfactorily completed for use in the analysis. The response rate of 19% in the Finnish sample could be considered satisfactory for the present analytical purposes. The sample that was gathered from Sweden consisted of 705 representatives of 141 manufacturing firms in the fast-moving consumer-goods industry. 120 questionnaires were returned. Of these, 116 were satisfactorily completed for use in the analysis. The response rate (16%) of the Swedish sample was also considered as sufficient for our analytical purposes.

We drew up a four-page self-administered questionnaire covering CM and bases of power. The questionnaire was pre-tested among selected members of the ECR Finland board. The four-page questionnaire was designed to be completed by the person who was most familiar with CM and the characteristics of the supplier–retailer interface. Most respondents were therefore from the marketing departments of supplier firms (e.g. sales managers, key account managers, category and brand managers, and marketing managers). In this respect there were no significant differences between the Finnish and the Swedish respondents.

The rationale for sending questionnaires to managers representing the same companies was based on the nature of CM activity: the basic idea is to manage product categories as distinct, individual ‘business units’. This is also stated widely in the CM-related literature (e.g., Dupre & Gruen, 2004; Araujo & Mouzas, 1998; Nielsen, 1992). Consequently, it is possible that a supplier that is, on the whole, considered large, e.g., in terms of total turnover, could at the same time be market leader or second largest in some categories, and third largest or smaller in some others. Similarly, a manufacturer that, on the whole, could be considered small, e.g. in terms of total turnover, could be a market leader or the second largest in one category. Consequently, the nature of CM strategies for different product categories may vary within the same company. It was therefore appropriate to analyse the relationship between suppliers and retailers in terms of separate arrangements on the category level, rather than analysing the overall relationships between the suppliers and the retailers as a whole.

Non-response bias, by its very nature, is difficult to assess (Hudson et al., 2004). However, we found no statistically significant differences in the frequencies (chi-square test) or the means (t-test) between the groups of early and late respondents. Small suppliers were apparently not as active in responding as larger suppliers. However, it can be argued that the relatively low proportion of small companies in the present study constitutes a reasonable proportion of the entire ‘small company population’ in Finland and in Sweden—because smaller companies are not as involved in CM activities as larger suppliers. Furthermore, the Finnish and Swedish fast-moving consumer-goods markets are highly concentrated in terms of both suppliers and retailers. In both countries three large retailing groups (in Finland S-group, K-group, and Tradeka; and in Sweden Ahold, Axel Johnson and Coop Norden) dominate the grocery market with about 80 percent market share (Planet Retail Databank, 2006). When it comes to the fast-moving consumer-goods manufacturing market, it can be stated that through mergers and acquisitions, the number of suppliers has decreased during the last ten years in both countries (Lindblom, 2003). The relatively small proportion of small companies in the sample does not therefore invalidate the findings of the study, although it is acknowledged that it reduces the possibility of obtaining results of high statistical significance.

The scales used in the questionnaire were developed specifically for this research. The scale items were developed and purified from an initial pool of scale items, based on review of the literature

and previous studies on channel relationships. Suppliers' ability to control CM decision making (weight and scope of control) was measured against four variables (respondents' ability to control 'assortment planning', 'pricing', 'promotional activity' and 'space allocation') employing a five-point scale ('extremely weak', 'weak', 'moderate', 'strong', 'extremely strong'). An independent samples t-test was conducted to compare the mean scores of each variable between the Finnish and Swedish suppliers. Furthermore, ANOVA (and F-test) was used to ascertain the differences between the groups of suppliers. Post hoc comparisons using the Scheffé paired-comparison method were also conducted to test for differences between the groups representing market leaders, second largest suppliers and third largest or smaller suppliers (see Table 1).

To explain possible sources of suppliers' control over CM tactics, the study examined the origins of power through which the suppliers believe they can influence retailers' decision-making and actions related to CM tactics. Origins of power were conceptualised using French and Raven's (1959) typology of power as discussed above ('reward', 'coercive', 'legitimate', 'referent' and 'expert'). These theoretical constructs were measured by 13 variables on five-point Likert-type scales ('strongly disagree', 'disagree', 'neutral', 'agree' and 'strongly agree'). The importance of various sources of power was measured by asking the respondents how they can in the best way influence retailers' CM decisions regarding the respondents' category. For each of the five power constructs, scale scores were computed as the average of the individual variables. Also here an independent samples t-test was conducted to compare the mean scores of each variable between the Finnish and Swedish suppliers. Differences between the different supplier groups regarding the importance of various origins of power were analysed by means of ANOVA, and the Scheffé method was utilised to test for differences between the respondent groups representing market leaders, second largest suppliers and third largest or smaller suppliers (see Table 2).

## **Findings**

The first objective of the study was to assess how much control over CM decision making is possessed by Finnish and Swedish suppliers, and to analyse the extent of this control. The extent of power over decisions related to the separate decision-making elements of CM tactics (that is, over assortment planning, pricing, promotional activity and space allocation) is relatively widespread among suppliers (see Table 1). In general, the present study revealed that both Finnish and Swedish suppliers apparently have most influence over in-store promotions and least influence over pricing. In the Finnish context, the extent of power seems to be dependent on the market position of supplier. So-called market leaders i.e. suppliers that have highest market share in the focal category have more control over CM tactics than smaller suppliers. However, in the Swedish context the suppliers' market position does not seem to affect the extent of control.

Table 1 The Finnish and Swedish suppliers' perceptions of their ability to control CM tactics

FINLAND <sup>a</sup>						
Group means <sup>b</sup>						
	Market leaders n = 46	Second largest suppliers n = 21	Third largest or smaller suppliers n = 22	Total n = 89	F	p-value
Assortment planning	3.46 (.78)	3.05 (1.02)	2.50 (.96)	3.12 (.96)	8.73	.000
Pricing	2.50 (1.03)	3.00 (1.10)	2.45 (1.22)	2.61 (1.10)	1.79	.173
Promotional activity	3.59 (.96)	3.24 (1.22)	2.68 (1.17)	3.28 (1.04)	5.28	.007
Space allocation	3.28 (.91)	2.81 (1.29)	2.23 (1.15)	2.91 (1.14)	7.36	.001
SWEDEN <sup>a</sup>						
Group means <sup>b</sup>						
	Market leaders n = 62	Second largest suppliers n = 30	Third largest or smaller suppliers n = 23	Total n = 115	F	p-value
Assortment planning	3.16 (1.12)	2.86 (1.03)	2.70 (1.02)	2.99 (1.09)	1.85	.162
Pricing	2.50 (1.02)	2.23 (1.01)	2.22 (1.09)	2.37 (1.03)	1.01	.368
Promotional activity	3.21 (1.04)	3.10 (.96)	3.09 (1.08)	3.16 (1.02)	.18	.835
Space allocation	3.10 (1.07)	3.07 (.98)	2.95 (1.09)	3.06 (1.04)	.15	.861

<sup>a</sup>Managers' perceptions were measured on the following scale: 1=extremely weak, 2=weak, 3=moderate, 4=strong, 5=extremely strong

<sup>b</sup>Figures in parentheses are standard deviations

The results of the independent samples t-test indicated that there were no statistically significant differences in the mean scores between Finnish and Swedish suppliers with respect to the perceptions of their scope of control regarding CM tactics. As can be seen in Table 1, there are also no statistically significant differences within the groups of Swedish suppliers when it comes to the perceptions of their scope of control. In contrast, there were statistically significant differences within the groups of Finnish suppliers with this respect. As Table 1 shows, the ANOVA results regarding their scope of control indicated statistically significant differences for assortment planning ( $F=8.73$ ,  $p=0.00$ ), promotional activity ( $F=5.28$ ,  $p=0.00$ ) and space allocation ( $F=7.36$ ,  $p=0.00$ ). Individual differences in the ability to provide input on each CM tactic among the three respondent groups were tested for significance using the Scheffé method. The ANOVA results linked to the Finnish suppliers presented in Table 1, supplemented with post hoc comparisons, are summarised below:

- With respect to assortment planning, the respondents from market leader companies perceived their control possibilities as greater (mean score 3.74) than those from the third largest or smaller companies (mean score 2.50), the difference being significant at the 0.05 level. The Scheffé test showed no statistical significance with this respect between the market leaders and the second largest companies, nor between the second largest and the third largest or smaller companies.

- With respect to promotional activity, the respondents from market leader companies perceived their control possibilities as greater (mean score 3.59) than those from third largest or smaller companies (mean score 2.68), the difference being significant at the 0.05 level. The Scheffé test showed no statistical significance with this respect between the market leaders and the second largest companies, nor there were statistically significant differences between the second largest and the third largest or smaller companies.
- With respect to space allocation, the respondents from market leader companies perceived their control possibilities as greater (mean score 3.28) than those from the third largest or smaller companies (mean score 2.23), the difference being significant at the 0.05 level. However, the Scheffé method revealed no statistically significant differences between the respondents representing the market leaders and the second largest companies, and between the respondents representing the second largest companies and the third largest or smaller companies with respect to space allocation.
- With respect to pricing, there were no statistically significant differences in the control possibilities between the respondent categories representing the market leaders, the second largest companies and the third largest or smaller companies.

The second objective of the present study was to explain the origins of the control that Finnish and Swedish suppliers exercise over CM tactics. This control can be expected to be derived from the suppliers' control over valued and scarce resources on which retailers are dependent. Table 2 summarises the importance of suppliers' various sources of power in CM decision making, as perceived by the respondents. The importance of various sources of power refers here to the respondents' opinions regarding their existing possibilities to influence retailers' CM decision making (i.e. it refers to the bases of power they currently have).

Table 2 The Finnish and Swedish suppliers' perceptions of the importance of various sources of power in category management decision-making

FINLAND <sup>a</sup>						
Group means <sup>b</sup>						
	Market leaders n = 46	Second largest suppliers n = 21	Third largest or smaller suppliers n = 22	Total n = 89	F	p-value
<b>Reward power</b>	<b>2.43 (.86)</b>	<b>2.21 (.77)</b>	<b>2.83 (1.08)</b>	<b>2.48 (.92)</b>	<b>2.65</b>	<b>.076</b>
Competitive prices	2.17 (.93)	2.19 (.81)	2.73 (1.55)	2.31 (1.10)	2.10	.129
Superior discounts	2.35 (1.08)	2.10 (1.00)	2.91 (1.31)	2.43 (1.15)	3.07	.052
Fair terms of trade and payment	2.39 (.91)	2.29 (1.10)	2.55 (1.18)	2.40 (1.02)	.35	.705
Superior financial support	2.74 (1.24)	2.14 (.79)	3.50 (1.30)	2.79 (1.25)	7.36	.001
Incentive system	2.52 (1.13)	2.38 (1.02)	2.50 (1.34)	2.48 (1.15)	.11	.897
<b>Coercive power</b>	<b>1.46 (.96)</b>	<b>1.43 (1.03)</b>	<b>2.18 (1.56)</b>	<b>1.63 (1.18)</b>	<b>3.36</b>	<b>.039</b>
A 'take it or leave it' attitude	1.46 (.96)	1.43 (1.03)	2.18 (1.56)	1.62 (1.18)	3.36	.039
<b>Legitimate power</b>	<b>3.58 (.66)</b>	<b>3.54 (.56)</b>	<b>2.89 (.83)</b>	<b>3.40 (.74)</b>	<b>7.99</b>	<b>.001</b>
Formal contracts	3.04 (.97)	2.90 (1.09)	2.64 (1.22)	2.91 (1.06)	1.10	.339
Clear roles and responsibilities	4.04 (.92)	4.05 (.81)	3.09 (.87)	3.81 (.96)	9.72	.000
Market position	3.65 (.90)	3.67 (1.02)	2.95 (1.13)	3.48 (1.02)	4.18	.019
<b>Referent power</b>	<b>4.22 (.77)</b>	<b>4.40 (.64)</b>	<b>3.43 (.95)</b>	<b>4.07 (.87)</b>	<b>9.75</b>	<b>.000</b>
Superior brands	4.22 (.96)	4.62 (.81)	3.59 (1.33)	4.16 (1.09)	5.46	.006
Goal congruence	4.22 (.87)	4.19 (.98)	3.27 (.94)	3.98 (.99)	8.75	.000
<b>Expert power</b>	<b>4.35 (.74)</b>	<b>4.57 (.82)</b>	<b>3.73 (1.02)</b>	<b>4.25 (.89)</b>	<b>6.13</b>	<b>.003</b>
Superior expertise linked to CM	4.28 (.83)	4.48 (.81)	3.55 (1.06)	4.15 (.95)	7.01	.002
Superior consumer knowledge	4.41 (.78)	4.67 (.91)	3.91 (1.11)	4.35 (.93)	4.05	.021
SWEDEN <sup>a</sup>						
Group means <sup>b</sup>						
	Market leaders n = 63	Second largest suppliers n = 30	Third largest or smaller suppliers n = 23	Total n = 116	F	p-value
<b>Reward power</b>	<b>2.73 (.81)</b>	<b>2.75 (.71)</b>	<b>3.03 (.70)</b>	<b>2.79 (.77)</b>	<b>1.35</b>	<b>.264</b>
Competitive prices	2.60 (1.14)	3.00 (1.08)	3.04 (.77)	2.79 (1.07)	2.28	.107
Superior discounts	3.03 (1.19)	3.07 (1.11)	3.39 (1.03)	3.11 (1.14)	.87	.423
Fair terms of trade and payment	2.56 (1.02)	2.57 (.90)	2.70 (1.40)	2.59 (1.07)	.14	.873
Superior financial support	3.02 (1.04)	3.03 (1.22)	3.52 (.95)	3.12 (1.08)	2.01	.138
Incentive system	2.41 (1.04)	2.10 (1.00)	2.48 (1.12)	2.34 (1.05)	1.14	.323
<b>Coercive power</b>	<b>2.20 (1.17)</b>	<b>1.89 (1.10)</b>	<b>2.52 (1.54)</b>	<b>2.19 (1.24)</b>	<b>1.59</b>	<b>.209</b>
A 'take it or leave it' attitude	2.20 (1.17)	1.89 (1.10)	2.52 (1.54)	2.19 (1.24)	1.59	.209
<b>Legitimate power</b>	<b>3.56 (.61)</b>	<b>3.19 (.81)</b>	<b>3.23 (.87)</b>	<b>3.40 (.74)</b>	<b>3.35</b>	<b>.038</b>
Formal contracts	3.22 (1.05)	3.03 (1.13)	3.17 (1.19)	3.16 (1.10)	.30	.741
Clear roles and responsibilities	3.37 (1.04)	3.21 (.91)	3.09 (.67)	3.27 (.95)	.83	.440
Market position	4.05 (.73)	3.37 (.85)	3.43 (1.27)	3.75 (.94)	7.75	.001
<b>Referent power</b>	<b>3.80 (.79)</b>	<b>3.65 (.88)</b>	<b>3.54 (.74)</b>	<b>3.71 (.81)</b>	<b>.98</b>	<b>.378</b>
Superior brands	4.25 (.76)	4.10 (.82)	4.13 (.92)	4.19 (.81)	.43	.654
Goal congruence	3.35 (1.15)	3.27 (1.17)	2.96 (1.02)	3.25 (1.13)	1.02	.365
<b>Expert power</b>	<b>3.87 (.89)</b>	<b>3.87 (.91)</b>	<b>3.80 (.88)</b>	<b>3.85 (.88)</b>	<b>.04</b>	<b>.957</b>
Superior expertise linked to CM	3.62 (1.02)	3.70 (.95)	3.55 (1.01)	3.63 (1.00)	.15	.857
Superior consumer knowledge	4.11 (.86)	4.10 (.98)	4.04 (.88)	4.10 (.89)	.05	.952

<sup>a</sup>Managers' perceptions were measured on the following scale: 1=not important at all, 2=to a lesser extent important, 3=to some extent important, 4=important, 5=extremely important

<sup>b</sup>Figures in parentheses are standard deviations

The results of the independent samples t-test indicated that the differences in the mean scores between Finnish and Swedish suppliers were statistically significant (at the 0.05 level or lower) on eleven variables out of the seventeen (including single items and composite variables) that were studied [superior discounts, superior financial support, a ‘take it or leave it’ attitude, Clear roles and responsibilities, market position, referent power (composite variable) goal congruence, expert power (composite variable), superior expertise linked to CM, superior consumer knowledge]. However, as can be seen in Table 2, the actual differences in the mean scores between the Finnish and Swedish suppliers with respect to most variables are not extremely significant.

According to both Finnish and Swedish suppliers, the most important origins of control over CM are non-coercive in nature. Expertise (in terms of CM capabilities and consumer knowledge) together with referent-related resources (in terms of superior brand and goal congruence) were perceived to be the most important bases of power in the both countries – although the Finnish suppliers considered these power bases to be slightly more important than did Swedish suppliers. Legitimation-related issues (in terms of contracts, proper division of roles and responsibilities as well as strong market position) were also perceived to be relatively important origins of control by both Finnish and Swedish suppliers. Reward power (in terms of competitive prices, superior discounts, terms of trade and payment, financial support, and incentives) was perceived as being less important source of control by the respondents (both in Finland and in Sweden). However, there was a difference between larger and smaller suppliers. In the Finnish and Swedish context, third largest or smaller suppliers attached greater importance to reward power bases than did market leaders or second largest suppliers. Coercive power (in terms of a ‘take it or leave it’ attitude) was negatively related to control possibilities over CM tactics in both countries.

As Table 2 shows, the ANOVA results regarding Finnish suppliers’ perceptions of the importance of various sources of power in category management decision-making indicate statistical significant differences for coercive ( $F=3.36$ ,  $p=0.039$ ), legitimate ( $F=7.99$ ,  $p=0.001$ ), referent ( $F=9.75$ ,  $p=0.000$ ) and expert power bases ( $F=6.13$ ,  $p=0.003$ ). Individual differences among the three respondent groups (market leaders, second largest suppliers and third largest or smaller suppliers) were tested for significance using the Scheffé method. The ANOVA results linked to the Finnish suppliers presented in Table 2, supplemented with post hoc comparisons, are summarised below:

- With respect to reward power base’s importance as a whole, the Scheffé test showed no statistically significant differences between the Finnish respondent groups representing market leader companies, second largest companies and third largest or smaller companies. With respect to single items of reward power base, the respondents from the third largest or smaller companies (mean score 3.50) perceived the importance of superior financial support as more important than those representing market leader companies (mean score 2.74) and second largest companies (mean score 2.14), the difference being significant at the 0.05 level. However, the Scheffé method revealed no statistically significant differences between the respondents representing the market leader companies and the second largest companies with this respect.
- With respect to coercive power base as a whole, the Scheffé test showed no statistically significant differences between the Finnish respondent groups representing market leader companies, second largest companies and third largest or smaller companies.
- With respect to legitimate power, the Finnish respondents representing market leader companies (mean score 3.58) and second largest companies (mean score 3.54) perceived the importance of legitimate power base as greater than those representing the third largest or

smaller companies (mean score 2.89), the difference being significant at the 0.05 level. However, the Scheffé method revealed no statistically significant differences between the Finnish respondents representing the market leaders and the second largest companies.

- With respect to referent power, the Finnish respondents representing market leader companies (mean score 4.22) and second largest companies (mean score 4.40) perceived the importance of referent power base as greater than those representing the third largest or smaller companies (mean score 3.43), the difference being significant at the 0.05 level. The Scheffé method indicated no statistically significant differences between the Finnish respondents representing the market leaders and the second largest companies, as far as the importance of referent power was concerned.
- With respect to expert power, the Finnish respondents representing market leader companies (mean score 4.35) and second largest companies (mean score 4.57) perceived the importance of referent power base as greater than those representing the third largest or smaller companies (mean score 3.73), the difference being significant at the 0.05 level. The Scheffé test showed no statistical significance with this respect between the Finnish respondents representing the market leaders and the second largest companies in terms of the market share in a focal category.

As can be seen in Table 2, the ANOVA results regarding Swedish suppliers' perceptions of the importance of various sources of power in category management decision-making indicate statistical significant differences only for legitimate power base ( $F=3.35$ ;  $p\text{-value}=0.038$ ). Individual differences among the three respondent groups (market leaders, second largest suppliers and third largest or smaller suppliers) were tested for significance using the Scheffé method. The ANOVA results linked to the Swedish suppliers presented in Table 2, supplemented with post hoc comparisons, are summarised below:

- With respect to legitimate power base as a whole, the Scheffé test showed no statistically significant differences between the Swedish respondent groups representing market leader companies, second largest companies and third largest or smaller companies. Actually, there are in statistically significant differences only in one single variable out of thirteen within the groups of Swedish suppliers when it comes to the perceptions of the importance of various sources of power in category management decision-making. Scheffé test indicated that market position is considered to be more important base of power among the representatives of market leaders (mean score 3.56) than second largest (mean score 3.37) and third largest or smaller (mean score 3.43) suppliers, the difference being significant at the 0.05 level. However, the actual difference in the mean scores between the market leaders, second largest suppliers and third largest or smaller suppliers is not very high.

## **Conclusions and need for further research**

Category management (CM) is a process that involves managing product categories as business units and customising them on a store-by-store basis to satisfy customer needs (Nielsen, 1992). CM is assumed to lead to improved sales and profits, more efficient promotions, more efficient use of space and demographically targeted promotions (Kurnia & Johnston, 2003). CM is practiced through specific tactics. CM tactics are generally divided into: (i) assortment planning; (ii) pricing; (iii) space allocation; and (iv) in-store promotional activity. Retailers are assumed to be in charge of these four areas of CM decision making. The present study was designed to: (i) describe and measure the ability of Finnish and Swedish suppliers to control CM tactics; and (ii) to explain the

origins of this control. The topic is current due to the reason that Finnish and Swedish retailers have worked themselves into a position of dominance in contemporary distribution channels as a result of the massive concentration and centralisation. Both in Finland and Sweden three large retailing groups dominate the grocery markets with about 80 percent market share at the moment.

Although it is generally stated that retailers are clearly in charge of CM tactics also suppliers seem to have some possible avenues of control over CM decision making. The extent of power over decisions related to the separate decision-making elements of CM tactics was actually relatively widespread among suppliers. The present study indicated that both Finnish and Swedish suppliers apparently have most influence over in-store promotions and least influence over pricing. In the Finnish context, the extent of power seems to be dependent on the market position of supplier whereas in the Swedish context, the suppliers' market position did not seem to affect the extent of control. In Finland, market leaders and second largest suppliers (in terms of market share in categories respondents represented) seem to possess rather strong weight of control in decision-making concerning CM tactics. In the Swedish data, statistically significant differences between company's market position with respect to weight of control in CM decision making could not be found. The difference between Finnish and Swedish suppliers with respect to weight of control might be due to differing cultures prevailing in Finland and in Sweden with respect to retailers' way to manage their supplier relationships: in Sweden, the retailers may conduct CM cooperatively with several suppliers per each category whereas the Finnish retailers usually build their CM activities on so called category captain arrangements in which market leader suppliers are likely to take significant responsibility for formal CM decision-making (see e.g., Desrochers et al., 2003). However, further studies are needed in order to shed light on these issues more thoroughly.

According to the present study, the origins of control of both Finnish and Swedish suppliers are mostly non-coercive in nature – as indicated, to some extent, by other studies (Kurnia and Johnston, 2003; Dupre & Gruen, 2004). Expertise (in terms of CM capabilities, consumer knowledge and market information) and referent-related resources (in terms of superior brand and goal congruence) were perceived to be the most important bases of power among both Finnish and Swedish suppliers. It seems that, by using expert and referent power bases, suppliers are at least to some extent able to control retailers' CM tactics indirectly. Consequently, with respect to managerial implications, the present study suggests that suppliers who wish to gain some control over CM tactics should base their interaction with retailers on expertise and issues related to referent power bases. For example, suppliers should aim to understand consumer needs more thoroughly and should become flexible with respect to marketing activities. They should aim to achieve their own objectives while also helping retailers to achieve theirs. Brand-related capabilities seem to be a central non-coercive power base in increasing suppliers' control over CM decision making. Because small suppliers usually possess weak or moderate control over CM decision making, they seem to be at the mercy of retailers and large suppliers. The key question for smaller suppliers is whether they can trust retailers and larger suppliers to act in a fair and objective manner in making decisions concerning CM tactics on the basis of consumer needs, rather than on the basis of their own short-term self-interests. It is also crucial for retailers to understand that it is extremely risky to be dependent on only a few large suppliers. As Dupre and Gruen (2004) have argued, an exclusive CM relationship with one large manufacturer can weaken relationships with other suppliers. This can decrease a retailer's capacity to combine the expertise of several suppliers in producing value for consumers.

This study approached CM and power bases from the perspective of manufacturing organisations. The phenomenon could also be studied from the retailers' perspective, or from a dyadic perspective (incorporating the views of both suppliers and retailers). It would also be fruitful to conduct

comparative studies in other national settings, for example, repeat the survey in Southern Europe or UK where the retail structure and business context in general can be expected to be different from that of Northern Europe (Finland and Sweden). Finally, conceptual and qualitative empirical studies are needed to obtain a clearer understanding of the suppliers' control over CM tactics and the origins of this control. In particular, there is a need to create a comprehensive framework that takes into account contextual factors and the structural characteristics of manufacturer–retailer relationships. In-depth qualitative research would also be useful for systematic development of hypotheses and multi-item scales for use in subsequent deductive research.

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