

MULTIPLE PARTNERSHIP ARRANGEMENTS BETWEEN CPG RETAILERS AND THEIR SUPPLIERS

Kazutaka Komiya (Kagawa University, Japan, k-komiya@ec.kagawa-u.ac.jp)

Yuji Sakagawa (Hokkaido University, Japan, yujis@econ.hokudai.ac.jp)

Abstract.

This paper serves two purposes. Firstly it proposes an alternative partnership arrangement between consumer packaged goods (CPG) retailers and their suppliers, i.e. multiple partnership (MP) arrangements. MP arrangements involve retailers developing multiple partnerships with their suppliers within a single category. It differs from a category captain (CC) arrangement deployed by some retailers on category management, by assuming that there exists some type of partnership arrangements between CPG retailers and their suppliers. The second purpose of this paper is to examine the reasons behind why retailers and their suppliers develop MP arrangements, using the case study of a Japanese supermarket chain, Coop Sapporo. Previous studies argued that multiple partnerships between a retailer and its suppliers are to prevent a single supplier behaving in an opportunistic manner. However, adopting an Industrial Marketing and Purchasing (IMP) approach and taking a holistic view of the network, this paper notes that these multiple partnerships serve to develop a greater value of merchandising knowledge through multiple interactions between the retailer and its suppliers. The case study of Coop Sapporo serves to illustrate the approach in implementing an MP arrangement and through its interactions with its suppliers, emphasizing the realized benefits to the retailer who develops and acquires greater knowledge about their merchandising. Finally, the contributions of this paper and areas for future research studies are discussed.

Keywords.

multiple partnerships (MP) arrangements, category captain (CC) arrangements, merchandising knowledge, IMP approach

Paper type.

Work-in-progress paper

INTRODUCTION

In a contemporary economy consumer packaged goods (CPG) retailers face intensive competition, and in response, have focused on integrating their supply chains in an attempt to develop closer ties with their suppliers. Competition in these markets has transitioned from being between organizations to being between large sets of organizations or supply chains (Corsten & Kumar 2005, Morgan et al. 2007, Castaldo et al. 2009).

In the CPG retail market, category management is a recognized business practice involving collaboration between retailers and their suppliers. Generally speaking, a category is defined as “a distinct, manageable group of products/services that consumers perceive to be interrelated and/or substitutable in meeting a customer’s need,” (ECR 2000, p.4), whereas category management is defined as “retailer/supplier process of managing categories as strategic business units, producing enhanced business results by focusing on delivering consumer value” (ECR 2000, p.4). Category management has encouraged retailers to collaborate with their suppliers to create value to meet consumer needs, improve efficiencies and effectiveness in category-level actions (e.g. Gooner et al. 2011).

A typical implementation of category management is a “category captain (CC) arrangement”, which involves the retailer selecting one supplier to closely collaborate within a single category (ECR 2000, Gruen & Shah 2000, Lindblom & Olkkonen 2006 2008, Morgan et al. 2007, Gooner et al. 2011). This single supplier is called the “category captain”. The category captain receives sales information exclusively from the retailer allowing it to develop category plans that not only covers its own brands, but also store and other competitors’ brands (Gruen & Shah 2000). The retailer and category captains build a one-to-one relationship within a category.

However, CC arrangements on category management are not the only type of partnership arrangement open for CPG retail supply chains. Another partnership arrangement proposed in this paper is the “multiple partnership (MP) arrangement”. Here the retailer develops multiple partnerships with its suppliers within a single category. According to previous studies, the retailer adopts an MP arrangement to prevent a category captain behaving in an opportunistic manner. However, another reason for MP arrangements exists. Multiple partnerships between the retailer and its suppliers aim to facilitate interactions and contribute to enhancing the retailer’s merchandising knowledge on such aspects as assortment, pricing, promotion etc. This paper examines the case study of a Japanese retailer, Coop Sapporo, in order to illustrate the multiple partnerships with its suppliers and the knowledge it has acquired through this interaction.

This paper serves two purposes. Firstly it proposes an alternative partnership arrangement, i.e. MP arrangement and discusses its characteristics compared to a CC arrangement. The second purpose is to examine the reasons why retailers and suppliers develop MP arrangements. This

paper shows that an MP arrangement is developed to gain a greater value of merchandising knowledge through interactions with suppliers, using the case study of a Japanese supermarket chain, Coop Sapporo, as an example.

The remainder of this paper is arranged as follows. The paper examines two types of partnership arrangements between retailers and suppliers, namely CC and MP arrangements, and examines the characteristics between them. Following this, the paper examines the reasons behind existing MP arrangements illustrating and analyzing the case of Coop Sapporo. Finally, this paper discusses the contributions of this paper and examines future possibilities of research in this area.

THE CLASSIFICATION OF PARTNERSHIP ARRANGEMENTS

CC arrangements on category management are widely diffused (e.g. ECR 2000, Morgan et al. 2007, Gooner et al. 2011). Efficient Consumer Response (ECR), an organization codifying and standardizing the process of category management, proposes CC arrangements as a specific type of category management (ECR 2000). As mentioned above, in a CC arrangement the retailer selects a single supplier, the category captain, who plays a leading role in the decisions of category planning. Gruen & Shah (2000) note the behaviors of retailers and category captains in the course of category management as (1) the retailer selects the category captain and provides its proprietary sales information at the store level for the entire category (all brands including store brands). (2) the category captain then develops a category plan that covers all SKUs, including the addition, deletion, pricing, allocation of shelf facings, and shelf-placement of various SKUs. In CC arrangements, the retailer develops a one-to-one relationship within a single category and depends upon a handful of leading suppliers to manage the categories as a whole.

An alternative type of partnership arrangement is the MP arrangement. The difference between CC and MP arrangements is that MP allows retailers to develop multiple partnerships within a single category. “Partner suppliers” are those suppliers that build partnerships with their retailers, receiving sales information and taking equal roles in managing products or categories. Competitive suppliers are those in the same category and who also collaborate with retailers in the same manner.

Table 1 presents a classification of partnership arrangements between CPG retailers and their suppliers. As stated previously, the difference between CC and MP arrangements exists in the numbers of partnerships within a single category. Within a category, the retailer adopting a CC arrangement develops a one-to-one partnership with the category captains, whereas the retailer adopting an MP arrangement develops multiple partnerships with many partner suppliers, which

may well include competitive relationships in the same category.

The table also aims to highlight another two differences between types of partnership arrangement. One relates to the business unit. CC arrangement is based on the rules of category management, and thus categories are considered as strategic business units. The retailer and category captain make decisions to enhance results of these categories. In the MP arrangement, on the other hand, the retailer doesn't consider categories as business units explicitly. Business units can be assumed at various levels. One example is "brand management", in which decisions are made according to the goals and criteria of individual items or brands (Dussart, 1998). Other cases would adopt larger groups of products than general categories. For some cases, these business units, including categories, would be used depending on the products or situations.

The other relates to sales information disclosure. In a CC arrangement, only the category captain receives sales information from the retailer, whereas in an MP arrangement all partner suppliers have access to this data.

Table1; A classification of partnership arrangements
between CPG retailers and their suppliers

	CC arrangement	MP arrangement
Number of partnership within a category	One to one	Multiple
Business unit	Category	Non category
Sales information disclosure	Category captain	Multiple partner suppliers

THE REASONS FOR MP ARRANGEMENTS

Preventing opportunistic behavior

Why does the retailer develop an MP arrangement with partner suppliers? According to previous studies, the main reason is to prevent suppliers, especially category captains, from acting in an opportunistic manner. In a CC arrangement, it is clear that category captains have strong influences on category management decisions. Thus, retailers and non-category captain suppliers fear opportunistic behavior by the category captain, whose aim is to develop category plans in order to maximize its profits rather than optimize categories. In fact, previous studies have highlighted that CC arrangements have the potential to cause such opportunism by its category captains (Gruen & Shah 2000, Desrochers et al. 2003, Morgan et al. 2007, Lindblom & Olkkonen 2008, Lindblom et al. 2009, Bandyopadhyay et al. 2009, Gooner et al. 2011) and have

suggested ways of preventing them (Desrochers et al. 2003, Lindblom & Olkkonen 2008, Lindblom et al. 2009, Bandyopadhyay et al. 2009).

Bandyopadhyay et al. (2009) proposed some measures to prevent category captains from acting in an opportunistic manner, one of which is "The retailer considers all other suppliers in the CC arrangement decision rather than the leading manufacture/brand as the category captain" (Bandyopadhyay et al 2009, p.317). This form is as same as MP arrangement, which is designed to reduce category captains or other leading suppliers' influence.

Gaining greater value knowledge through interactions with suppliers

However, partnership arrangements between retailers and suppliers can be examined from different perspectives, such as from resource utilization or interaction. General retailers sell thousands of products but lack the resources to manage all categories. Thus, they intend to leverage the resource of suppliers (Morgan et al., 2007; Gooner et al., 2011).

There are some previous studies to examine partnerships from the view of resources that firms possess (Baraldi et al 2007). Typical examples are studies from resource-based view. Resource based view assumes that firms are bundles of resources (e.g., Penrose 1959, Wernerfelt 1984) and they develop partnerships to gain access to other firms' valuable resources (e.g. Eisenhardt & Schoonhoven 1996, Das & Teng 2000).

Studies at the Industrial Marketing and Purchasing (IMP) School have also debated such resources from a relationship and network context. In the IMP approach, companies are embedded in business networks (e.g. Debbie et al. 2010). Håkansson & Ivan (1995) propose a framework to analyze business networks. This business network is composed of business relationships between two companies. There are three layers to the substance of business relationships i.e. actor bonds, activity links and resource ties. Actor bonds connect actors and influence commitment, identity, and trust between two actors. Activity links are defined as the activities of companies that can be connected in different ways to develop their relationships. Resource ties are defined as the connections that combine resources to sustain business relationship activities.

The IMP approach stresses the value of resource gains through the interactions with partners (Gadde et al. 2003, Baraldi et al. 2007). Gadde et al. (2003) state that "Resources always have 'hidden' and unexploited dimensions that can be explored and developed in interaction with business partners" (Gadde et al. 2003, p.360). In the IMP approach the value of resources is assumed to co-produce through interactions with actors.

CC and MP arrangements can be considered from the resource viewpoint and its interactions in a network. In a CC arrangement the retailer can acquire and access a valuable category

captain's resource, namely its knowledge of the market. However, in a CC arrangement the retailer has a one-to-one relationship only in a specific category and therefore has limited access to the knowledge of non-category captain suppliers. Furthermore, the retailer doesn't have opportunities to develop the value of resources because of limited interactions with other non-category captain suppliers.

On the other hand, in an MP arrangement, the retailer has developed multiple partnerships with partner suppliers. The retailer can acquire and access knowledge of multiple partner suppliers, thereby having many opportunities to create additional value of knowledge through its interactions with partner suppliers. Thus, another reason for developing MP arrangement is that the retailer acquires and develops greater knowledge of products or categories.

In the following section, we examine the case study of a retailer adopting an MP arrangement, which has led to the retailer developing and acquiring greater knowledge through the interaction with its suppliers.

CASE STUDY OF AN MP ARRANGEMENT; COOP SAPPORO

Case methodology

This research adopts a single-case study approach and focuses on a Japanese cooperative association, Coop Sapporo, located in Sapporo city, Hokkaido, Japan.

This single-case study is seen to represent a pilot case, the first of a multiple-case study. Although it is appropriate to conduct multiple-case studies of retailers in order to validate theories (e.g. Voss et al. 2002, Beverland & Lindgreen 2009, Barratt et al. 2011), this study forms a first attempt at developing such a theory in order to differentiate between partnership arrangements.

Coop Sapporo collaborates with many of its suppliers, some of which are competitors. Coop Sapporo is the leading retailer in Japan who has adopted an MP arrangement, and thus it is worth investigating this case study in order to understand the methodology and reasoning required to implement an MP arrangement.

The main data used in this research was derived from semi-structured interviews with Coop Sapporo's merchandise managers and archived report data.

General outline of Coop Sapporo' MP arrangement

Coop Sapporo, is the largest cooperative association in Japan, located in Sapporo city, Hokkaido, Japan. It has 107 stores with the majority of their shops in a supermarket format and offers a home-delivery service. Total sales in 2011 were about 2.7 billion US dollars, with 70% of sales derived from its supermarket stores.

Figure 1 gives a general outline of Coop Sapporo’s MP arrangement. Coop Sapporo has disclosed their sales information with suppliers via a website called “Takarabako Service”, through which suppliers are able to have daily, weekly and monthly sales revenues for all SKUs at any time.

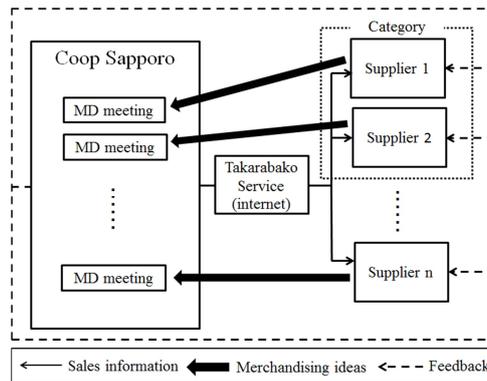


Figure 1 – A general outline of an MP arrangement

Suppliers analyze sales information supplied by the retailer to find any issues associated with Coop Sapporo’s merchandising such as appropriate assortment, pricing, or promotion etc. Suppliers then develop ideas to tackle any issues.

An example of partner supplier’s proposal was as follows. A food manufacturer analyzed the relationship between price and sales volume of a particular product on sale at Coop Sapporo's stores. According to the result of this analysis, this food manufacturer determined that the sales volume of its product was constant even though the price last year was higher than two years ago. The food manufacture informed Coop Sapporo that the price had been reduced more than necessary and proposed merchandising ideas such as refining the frequency and timing of offering discounts. As the result, it was determined that the average price of this product could be raised by 4 yen (4 cent/US dollar) without hurting sales.

It is difficult for Coop Sapporo merchandise managers to be aware of such matters as they handle more than 500 items per manager, and thus cannot afford to analyze the sales information of each product in detail.

Sales representatives from supply companies propose and discuss merchandising ideas at “MD (merchandising) meetings” held twice a year, with executive and merchandising staff from Coop Sapporo. Coop Sapporo’s executives then give their approvals to implement such proposals. Upon approval, Coop Sapporo’s merchandising managers coordinate these ideas with feasible merchandising plans to implement at their stores, and the results reviewed and evaluated

by both suppliers and Coop Sapporo. Suppliers learn from these feedbacks and use them for their future proposals. Furthermore, Coop Sapporo doesn't stop suppliers from implementing these "tried-and-trusted" merchandising ideas at rival stores.

Almost all (about 300) suppliers subscribe to a Takarabako Service to receive POS data after paying a subscription of around 1,700 US dollars per year. Around 70 of these suppliers propose merchandising ideas to Coop Sapporo. Coop Sapporo has multiple partner suppliers not only throughout company, but also within a single category.

Hideaki Omi, the president of Coop Sapporo, explained that the main reason for the introduction of this system was to analyze sales information in detail with help from its suppliers. Before implementing this system, Coop Sapporo accumulated sales information, but merchandisers weren't able to analyze them in detail because of staff shortages. This system enabled Coop Sapporo to exploit sales information fully, receive greater numbers of in-depth merchandising ideas from its suppliers and thereby provide more value for its customers at its stores.

When Coop Sapporo started their MP system, the majority of their suppliers weren't able to develop merchandising ideas that Coop Sapporo expected. Suppliers accumulated abundant knowledge of their products or categories, but did not have enough experience to analyze sales information and to integrate the results from sales information analysis together with the knowledge of their products or categories into merchandising ideas.

Therefore, Coop Sapporo invested a lot of effort to improve suppliers' abilities to develop their merchandising ideas. Coop Sapporo implemented a "MD study workshop", attended by a number of supplier sales representatives and Coop Sapporo executives. Here, sales representatives presented their merchandising ideas and discussed these with all participants. Suppliers learnt methods of developing merchandising ideas at this workshop. Furthermore, Coop Sapporo highlighted any issues and provided instructions as to their resolution.

Analysis from the view of IMP approach

Coop Sapporo's MP arrangement has following characteristics.

- Coop Sapporo develops multiple partnerships with suppliers, which include competitive relationships in the same category.
- Coop Sapporo provides sales information for partner suppliers. Partner suppliers analyze and propose ideas to solve merchandising issues at Coop Sapporo.
- Supplier proposes their merchandising ideas at "MD meetings", where supplier sales representatives attend together with executive staff from Coop Sapporo.

- Supplier sales representatives discuss merchandising proposals at MD meetings with Coop Sapporo's executives who give their approvals to implement them.

From an IMP viewpoint, the Coop Sapporo MP arrangement can enable it to gain higher knowledge value than a standard CC arrangement. As mentioned above, the IMP approach focus on the value of resources developed in interactions with partners (Gadde et al. 2003, Baraldi et al. 2007). Thus, the value of merchandising knowledge increases with improved interaction between retailers and its partner suppliers.

There are three discussion points. The first is that Coop Sapporo has a greater number of opportunities to interact with suppliers because it has developed multiple partnerships in its business network. Its network range is broader than a standard CC arrangement. These interactions provide Coop Sapporo opportunities to enhance the value of merchandising knowledge.

Secondly, one partner supplier interacts in more than one product or category. In a CC arrangement, a category captain can only provide its knowledge within a specific category because its knowledge extends only to that specific category. However, in an MP management, partner suppliers are not subject to such restrictions. Partner suppliers' proposals refer to various products or categories. Thus, Coop Sapporo has more opportunities to interact and gain value of merchandising knowledge.

The final points relates to the intensity of interactions. MD meetings are where sales representatives from partner suppliers are able to propose their merchandising ideas to executives at Coop Sapporo, and thus there is an additional element of stress as they need to devote greater efforts to ensure that their merchandising ideas will be successful. The MD meeting held in the presence of executives can enhance the intensity of interaction in an MP arrangement.

CONCLUSIONS

This paper offers two contributions to theory. Firstly, this article reveals diversity in the partnerships open to CPG retailers and suppliers who want to adopt MP arrangements. For the future research studies it would be interesting to study the factors or conditions that influence whether a retailer adopts either a CC or MP arrangement.

Secondly, this article examines partnership arrangements between retailers and suppliers from an IMP viewpoint. There are many studies on these partnership arrangements, but few discussions from an IMP approach. This article focuses on the interaction between the retailer and suppliers and discusses the mechanism of gaining the value of knowledge in the MP arrangement. These points make important contributions in understanding the characteristics of

partnership arrangement between retailers and suppliers.

This paper also offers important insights for retail managers. MP arrangements present strategic options for them. CC arrangements on category management are well known and widely practiced and thus would be first choice for retail managers at this time. However, partnership arrangements have variations and it is up to retail managers to adopt an appropriate partnership arrangement strategically.

On the other hand, the discussion in this paper is not based on sufficient empirical research results and thus requires further investigations. At first, differences among partnerships arrangements should be examined empirically. It is worth conducting multiple case studies including those retailers who adopted different types of arrangements for comparison. Secondly, there is lack of sufficient data of retailer adopting an MP arrangement. It is worth conducting longitudinal case studies where investigations over a sufficient period would allow inferences to be made before and after developing the MP arrangement. Furthermore, retailer surveys provide additional empirical data to examine additional factors or conditions such as cases where retailers adopt a CC or MP arrangement.

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