RELATIONSHIP SELLING STRATEGIES TO INCREASE COOPERATION FROM DOMINANT RETAIL CHANNEL PARTNERS: FINDINGS OF AN EXPLORATORY STUDY

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ABSTRACT

The emergence of large retail chains has shifted channel power from fast-moving consumer goods (FMCG) manufacturers to those chains. This has reduced levels of cooperation manufacturers obtain from retail partners and the ability of manufacturers to implement preferred marketing strategies.

Initial findings of exploratory research confirm the validity of a conceptual model of sales-based determinants of trust, channel cooperation, channel performance and retail partner satisfaction, and have enabled minor refinements to that framework.

Findings add to academic understanding of the drivers of retail chain cooperation, channel performance and customer satisfaction, and provide useful guidelines to FMCG sales management, especially with respect to required attributes of salespeople and appropriate sales force organisation strategies.

Limitations are identified and further research is recommended.

Key words: Business-to-business marketing; marketing channels; channel cooperation.

BACKGROUND

The retail industry has become highly concentrated in most developed economies. For example, the combined market share of the top five retail chains within the German food market reached 73% in 2009 (TradeDimensions 2009). Similar situations exist in France (70%), the United Kingdom (55%) and Sweden (85%) (Metro 2009; Zentes, Morschett & Schramm-Klein 2007).

The concentration and accompanying negotiating leverage based on large transaction volumes have resulted in substantial channel power for large retail chains. These chains often use their power and aggressive negotiating tactics to obtain favourable wholesale terms from manufacturers. They often prevent manufacturers from implementing preferred marketing strategies. For example, a chain might refuse to carry more than a limited assortment of a manufacturer's range of products.

While several studies have investigated relationships between selling behaviour, trust and cooperation, those studies have omitted sales force organisation strategies and have not considered

manufacturer—retailer relationships. Given the power of large retail chains, it now appears important to identify what the sales force can do to improve the level of cooperation obtained from those chains.

DETERMINANTS OF CHANNEL COOPERATION

Prior research findings suggest that 'trust is instrumental in bringing about positive attitudes and behaviors' (Razzaque & Tan 2003: 42). Furthermore, to develop trust, a buyer must believe 'the seller deliberately considers and acts to some degree in support of the buyer's interest' (Wood, Boles, Johnston & Bellenger 2008: 389). Bradford, Crant and Phillips (2009) have found that salespeople with higher levels of job satisfaction are more likely to engage in customer-focused behaviour valued by customers and, therefore, to assist in the development of trust. These findings suggest that FMCG manufacturers should ensure their salespeople are motivated to develop customer-focused, trust-based relationships with their channel partners — an approach consistent with relationship selling.

Effective relationship selling includes recognition of the requirement to fully understand customer needs, and to focus on open communication, problem-solving, ethical behaviour, sincerity and development of trust (Boles, Brashear, Bellenger & Barksdale 2000; Guenzi, Pardo & Georges 2007). Successful channel relationships 'are those that increase a partner's relationship commitment' (Arnett, Macy & Wilcox 2005: 28). The focus is long-term since longevity of the relationship provides 'financial rewards from coordinated strategic investments' (Slater & Olson 2000: 815).

A relationship must provide both partners with a source of competitive advantage to be sustainable, possibly resulting from access to resources that are superior to those available to competitors. Those resources 'can be either tangible (e.g., the offerings a retailer has on its shelves) or intangible (e.g., the knowledge and skill that a selling team brings to its key customer)', and can include 'informational resources (e.g., information about consumers or industries)' (Arnett et al. 2005: 30). As suggested by Vázquez, Iglesias and Álvarez-gonzález (2005: 126), a manufacturer's competitive capability 'does not depend on its in-house strategic assets alone', but also on 'the scope of relationships it can establish' with its partners.

CONCEPTUAL FRAMEWORK

Figure 2 illustrates a (revised) framework that provided the basis of the primary research within this study. It was postulated that appropriate sales force attributes (customer focus, expertise, motivation, role clarity) and sales force organisation strategies (account strategies, including relationship selling; resource allocation, including use of key account management and selling teams) encourage appropriate relationship selling behaviour, leading to retailer trust in the firm, cooperation from the retailer, improved performance for channel partners, and customer satisfaction on the part of the retailer. Some 'feedback loops' also are postulated. (The potential influence of private labels, brand image and corporate image are not reported here.)

RESEARCH METHOD

This study is interpretive (Gummesson 2003), incorporating both case study and grounded theory approaches (Goulding 1998; Suddaby 2006). This approach is supported by researchers within the fields of business-to-business marketing (Wagner, Lukassen & Mahlendorf 2010) and sales (Geiger & Turley 2003; Jones, Dixon, Chonko & Cannon 2005). A preliminary framework, illustrated in Figure 1, was developed from a literature review covering business-to-business and, specifically, business-to-retailer relationships. This framework was revised based on primary research findings (Carson, Gilmore, Perry & Gronhaug 2001).

Prior to the main research phase, interviews were conducted with five academics in the business-to-business marketing and sales fields to test the theoretical basis of the preliminary framework. Only minor revisions were deemed necessary, illustrated in Figure 2. The revised framework was then discussed in pilot interviews with sales managers from three German automotive components suppliers (recruited from existing industry contacts), to confirm the need for relationship selling behaviour even in situations in which customers place most importance on price. These pilot interviews also were used to provide the principal researcher with some experience in conducting in-depth interviews with participants of a similar background to those in the target population.

Following that, interviews were conducted with a sample from the target group, namely, sales and marketing executives of major FMCG manufacturers. These interviews were conducted in German (the first language of participants and the primary researcher) and transcribed from notes and audio recordings. To date, 20 semi-structured interviews, each of 60-120 minutes, have been conducted with 18 managers from 12 major FMCG manufacturers, as well as two consultants. Participants had at least several years of experience in a manufacturer—retailer environment. They included three Sales Directors, six Key Account Managers, two Field Sales Force Managers, four Category Managers, two Business Development Managers and one Customer Service Director. Fifteen participants were from ten of the top 100 FMCG suppliers in Germany, accounting for 20% of the sales revenue of those firms (Top 100 Lieferanten Deutschland 2010 2011). Six firms manufacture processed foods, three manufacture confectionery products, two manufacture food and non-food grocery products, and one manufactures non-food grocery products.

Interviews covered the following topics, questions being aimed at exploring relationships not identified or explained in prior research, consistent with a grounded theory approach to the generation of theory (Bogomolova, Villani & Kapulski 2010; Fisher & Otnes 2006; Glaser & Strauss 2008).

- Overview of the business-to-retailer selling process, including challenges
- Key attributes of salespeople to enable development of cooperation with retailer customers
- Appropriate selling strategies to develop cooperation, including relationship selling strategies
- Other factors influencing the development of cooperation obtained from channel partners.

Convenience sampling, assisted by ‘snow-balling’, was utilised since a ‘hard-to-reach’ but inter-connected population was involved (Engel & Schutt, 2010). Potential participants were identified via a social network (*Xing*, the German equivalent to *LinkedIn*) and from participant lists for the ‘German Supermarket Conference’ and the ‘Efficient Consumer Response Days’, organised by the German Lebensmittelzeitung and GS1 Germany, respectively. Initially, three participants working for FMCG manufacturers were recruited directly, and a recruitment ‘head-hunter’ identified additional potential participants. Also, initial participants were asked to recommend other potential participants.

Findings from the semi-structured interviews were augmented by information obtained from presentations by speakers at the above-mentioned retail conferences and informal discussions with attendees of those conferences. Such augmentation is consistent with the grounded theory approach.

The study focused on Germany due to the high level of manufacturer—retailer conflict in that country compared with other European countries (Wiezorek, 1998). Given this focus, findings cannot be generalised to other countries. The sample is small but representative of major FMCG firms in Germany, although over-represented by food-related firms. For exploratory purposes, the sampling seems adequate, given that a diversity of participants and major FMCG firms has been achieved. However, a lack of participants from retail chains — due to recruitment difficulties — is a limitation. (It is hoped to recruit retail buyers before the study is concluded.) Given the focus on large FMCG firms and their relationships with major chains, findings cannot be generalised to other manufacturer—reseller situations, such as those involving small FMCG manufacturers selling to retailers, or manufacturers of industrial products selling to distributors or wholesalers.

FINDINGS AND DISCUSSION

The pilot interviews confirmed that relationship selling is used in industrial sales situations even when dealing with price-sensitive customers. During separate interviews with sales managers from three German automotive components suppliers, it was reported that strong buyer—seller relationships enabled informal advice to be obtained about low competitive pricing, providing an opportunity to decrease prices to retain contracts. It also was reported that early advice about new projects often is obtained if effective relationships exist with buyers. Also, a good understanding of the behaviour and personal characteristics of individual members of buying teams can assist salespeople to interpret behavioural tactics of buyers during major negotiations. The interviews confirmed the possibility that relationship selling could assist FMCG firms to improve cooperation from retail chains.

Trust and Cooperation

Based on findings from the primary study of FMCG executives, the importance of trust and cooperation has been confirmed by most participants, with the following (translated) excerpts of comments by different participants identifying some key issues:

> *Cooperation could help to pour oil on troubled water or to move faster back to the mode, 'Let's talk about it instead of punishing one another'. (National Account Manager 1, Company C)*
>
> *I think in 50/50 decisions a good level of trust may help you to get a decision you want. (National Account Manager 2, Company C)*

However, the cooperation of some retail chains can be difficult to obtain, as indicated in the following excerpts:

> *I remember we had to raise prices, and then the retailer cancelled a meeting which was prepared by ten people from our side. That is a … power game. As soon as a problem comes up, related to money, all projects are stopped [by the retailer] until the problem's resolved. (Field Sales Force Manager, Company C)*
>
> *We try to view the retailers as partners and [realise that] only in cooperation is there a future. But some of our retail partners do not understand that yet. … The atmosphere is confrontational. Although we have a long-term approach, our earnings are decreasing …! (Business Development Manager, Company E)*

Sales Force Organisation Strategies

Most firms distinguish between (1) salespeople directly involved in operational sales issues, such as key account managers, responsible for developing relationships with their counterparts and negotiating prices, sales conditions and promotions, and (2) category management, responsible for presenting information about shopper insights, sales metrics, product combinations sold in stores, etc.

Effective category management enables the firm to develop new strategies, suggest new ideas (such as better placement) and support retailers to achieve category growth.

> *Such a split is important; it would be fatal to mix up the two topics. If we want talk about category management, we talk about strategy, open potentials and things in common. But as soon as you start talking about operational things, automatically, you lose the focus on strategy. (Head—Category Management, Company B)*

Therefore, most firms have two separate units related to sales, but requiring close cooperation:

> *You have to synchronize within your own organisation before going to the customers, [meaning that] suggestions are agreed beforehand with the key account managers, to avoid contradictory statements, to be consistent and agreed by all sides. (National Account Manager 1, Company C)*

This has a strong influence on organisational structure in that all members of a customer sales team must have access to the same information at the same time. Also, good communication must exist between different customer teams to ensure transfer of success stories from one customer to another.

> *The only way to establish trust is to act consistently. (Customer Service Director, Company G)*

Sales Force Attributes

Salespeople require the ability to develop strong relationships with buyers, as explained below:

> *Personal relationships are important as trust comes via personal relationships. (Business Development Manager, Company E)*

This also has a strong influence on the sales person's role clarity, as the following statements suggest:

> *[The buyer] does not need to be my friend, but must trust me and have the feeling that I am his internal lawyer within my firm. (National Account Manager 1, Company C)*

> *This means I can do as much as I want in Category Management and so on, which is building trust and cooperation by time. But all this is nothing if I do not help him in such areas (taking products back) and let him alone. (Field Sales Force Manager, Company C)*

Self-motivation seems to play a major role, with one major manufacturer not paying any variable salary (bonus or incentives) to its field sales force.

> *Behind that is the company's basic philosophy, that the employee who works in our company must be motivated by himself to achieve the best possible performance. (Sales Director, Company A)*

Furthermore, it was reported that there are different required skills between key account managers and the field sales force, on the one hand, and category managers, on the other. Key account managers, in particular, require good negotiation skills, partly because retail purchasing managers have annual appraisals with many different manufacturers and are well trained in negotiation. Also, a 'hands on' ability is necessary for key account managers and field sales force to successfully support retailers. In contrast, category managers require the ability to develop arguments and explanations ('stories') out of complex data.

Cooperative projects based on top-level decisions between sales directors and senior purchasing managers are easier to achieve than those based on a bottom-up approach. Therefore, contact management and communication skills also are important at senior sales management levels.

> *Since the appointment of our new head, we try to develop more top-to-top contacts to intensify cooperation. (Field Sales Force Manager, Company C)*

Relationship Selling Behaviour

Participants generally agreed that selling behaviour is determined by the composition and attributes of the sales force, the sales force organisation strategy, and the firm's overall business orientation. Selling behaviour determines what a customer experiences and perceives about a manufacturer. Therefore, to create trust within the retail organisation, the manufacturer's sales force must portray a

customer-oriented, relationship approach and display a willingness to cooperate. The following excerpts identify some of the issues:

> *I think relationship management is still very important because it is the basis for trust. Especially cooperation needs trust. If there is distrust then you don't share things and you don't initiate things. Sometimes you also get information earlier which may help you. The business shouldn't be based on [just] a good relationship, but it definitely helps. … I think at the selling behaviour part, also things like code of conduct, philosophy and vision play a role. If you don't share things (problems), you can't get the right results. (National Account Manager 2, Company C)*

Also, transparency in behaviour and communication is considered to be a prerequisite for trust and cooperation, as indicated in the following excerpts:

> *If [when making stock and location recommendations to a retailer], we suggest to retailers and competitors why and where to place them [products in specific shelf locations], we need strong reasoning. Because the retailer wants to get the best bottom line and usually our reasoning should withstand the competitors' further inquiry. (Senior Category Manager, Company C)*
>
> *You can develop [trust] by showing openness when analyzing; for example, laying open how and why we did something. This creates trust. (Category Manager, Company D)*
>
> *Transparency is the basis and the fundamental [requirement] of trust. (Business Development Manager, Company E)*
>
> *You must prove that you are serious and … you receive respect and credibility and that is valued. (Sales Director, Company F)*

In that context, some of the manufacturers recently replaced their long-established, complex and — from a retailer's viewpoint — 'implausible' pricing systems with new simplified and standardised systems. The old pricing systems typically resulted in difficult and drawn-out price negotiations with retailers and, consequently, with different pricing outcomes for different retailers. Since some retailers

communicate with each other, it often was difficult to explain why some chains had different prices to others. The transparency embedded in the new pricing systems is apparently valued by retailers. Therefore, the actual supply offering (pricing being a major component) can have a major influence on trust, both directly and indirectly, through the sales force being able to adopt a more 'plausible' negotiating approach.

As already explained, most manufacturers are aiming for long-term relationships with retail chains. However, this does not imply that salespeople should necessarily avoid confrontation to satisfy retailers at any cost. Indeed, belated compliance to demands by a retail chain after initial refusal on economic grounds could have *adverse* effects on relationships due to a loss of credibility. For example, several participating companies had been faced with the threat of having some products de-listed due to their unwillingness to reduce prices as demanded by retail chains. If salespeople initially had argued that such a reduction was impossible due to unfavourable costs, but later had complied with the demand due to escalating threats from the retailer, this could have resulted in a customer perception that those salespeople were not being honest during the initial negotiations. In turn, those salespeople would lose credibility and trust in the eyes of the retailer. In essence, credibility requires salespeople to implement believable arguments during their negotiations. As asserted by a participant:

> *Promise and deliver. ... If you say something, you really have to do it. (Sales Director, Company G)*

Consistency and transparency in negotiations seem to have a positive influence on the level of trust and cooperation manufacturers obtain from retailers, as the following statements indicate:

> *Transparency is a knock-out criterion as a basis for relationships. As soon as there are 'second guesses', it is lost. ... Credibility, being authentic, being honest, being transparent are ... important topics. (Business Development Manager, Company E)*

Consistency and transparency are not issues limited to individual salespeople. Rather, those issues relate to the whole company and, therefore, are determined by overall sales force organisation

strategies. For example, one participating firm provided its sales force with pre-formulated email content for typical requests by retailers to ensure consistency in responses.

As indicated in the following excerpt, category management also illustrates the importance of transparency, credibility and trust as components of relationship selling behaviour:

> *The category management approach, per se, is an approach where you have to be objective, of course it is not only black and white, there is a lot of grey, but our numbers [data], nowadays, are so good that if you really want to work with someone and you tell him these two products are very good, but they aren't, you do that only twice and lose all trust. There it is important to show honesty and authenticity, this then creates trust. (National Account Manager 1, Company C)*

Trust, Cooperation, Channel Performance and Satisfaction

Manufacturers do not appear to aim to develop trust as an end in itself. Rather, manufacturers are attempting to increase cooperation and, consequently, market share and channel performance. This is explained in the following excerpt:

> *Cooperation is a means to an end. … We want to grow profits … faster than competitors … ; it is our top goal …. Generating turnover and market share is only possible when I let retailers participate. (National Account Manager 2, Company C)*

The following illustrates how cooperation can lead to improved performance and customer satisfaction, in turn reinforcing trust:

> *We presented the project at several retailers. Some declined fully, while others wanted to get paid for it. … But that's the wrong approach, because we do not create projects and ideas that provide only the retailer with more earnings. Why should I pay for the retailer to make more money? But some customers saw the potential. Twelve months after implementing the project, the other customers noticed that they had lost [market share] in the category and the other retailer had won at their expense. This [situation] sometimes*

changes the mind of other customers and they come back and ask for an equal project. (Senior Category Manager, Company A)

CONCLUSIONS AND RECOMMENDATIONS

Generally, our conceptual framework was supported by feedback from participants. Importantly, additional components of three factors and an additional feedback loop within the framework were identified, as shown in Exhibit 3. Sales force attributes and sales force organisation strategies do appear to influence relationship selling behaviour; appropriate relationship selling behaviour does seem essential to gain trust and cooperation of retail chains; and increased cooperation does seem to result in improved channel performance and customer satisfaction. In addition, a relationship-building 'hands-on' attitude and a capacity for analytical strategic thinking appear to be important additional attributes of salespeople within FMCG firms. Separate but integrated operational and strategic selling teams would be effective enhancements to sales force organisation strategies. Emphasis on ensuring credibility, consistency and transparency in negotiations and other selling activities (as well as in overall supply offerings) appears to be an essential enhancement to relationship selling behaviour. Retailer customer satisfaction appears to reinforce customer trust in the supplier and its sales force.

FMCG manufacturers would benefit from ensuring the attributes of their salespeople match the sales force and behavioural requirements identified by participants in our study. They also would benefit from reviewing sales force organisation strategies, including the implementation of operational and strategic components of key account management.

Given the limitations of this study (identified previously), further research is recommended to confirm the components of each factor within the conceptual framework and to measure the effects of relationships between the factors. Potential improvements in our understanding of the drivers of retail chain cooperation, channel performance and customer satisfaction justify such research.

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FIGURES

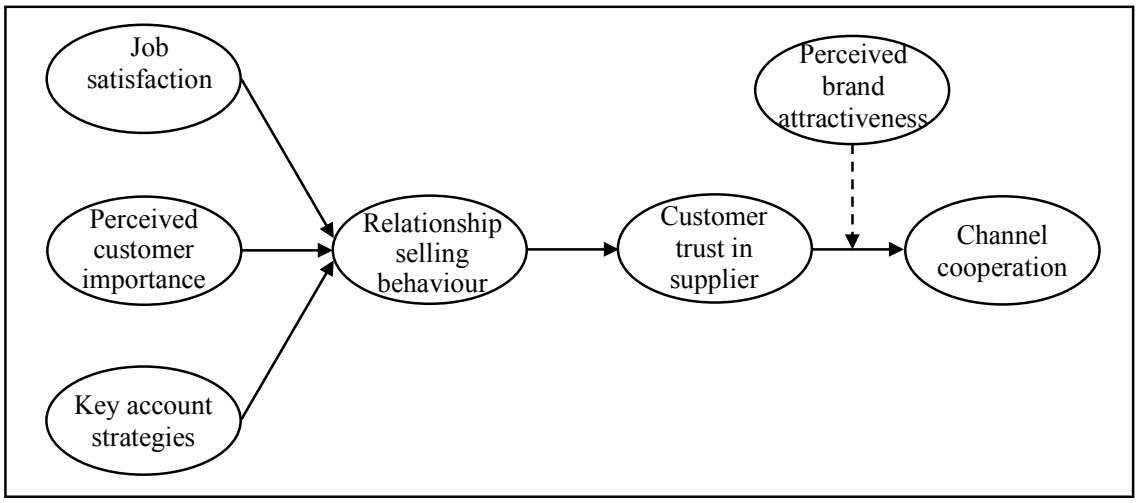


Figure 1: Preliminary conceptual framework

Source: Adapted from Bradford, Crant & Phillips (2009: 389)

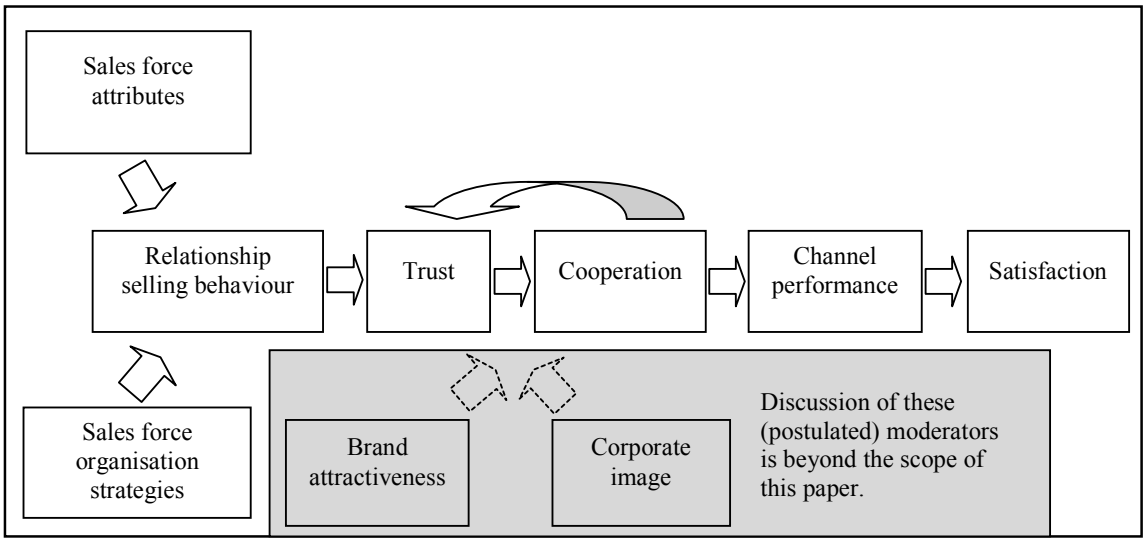


Figure 2: Revised conceptual framework

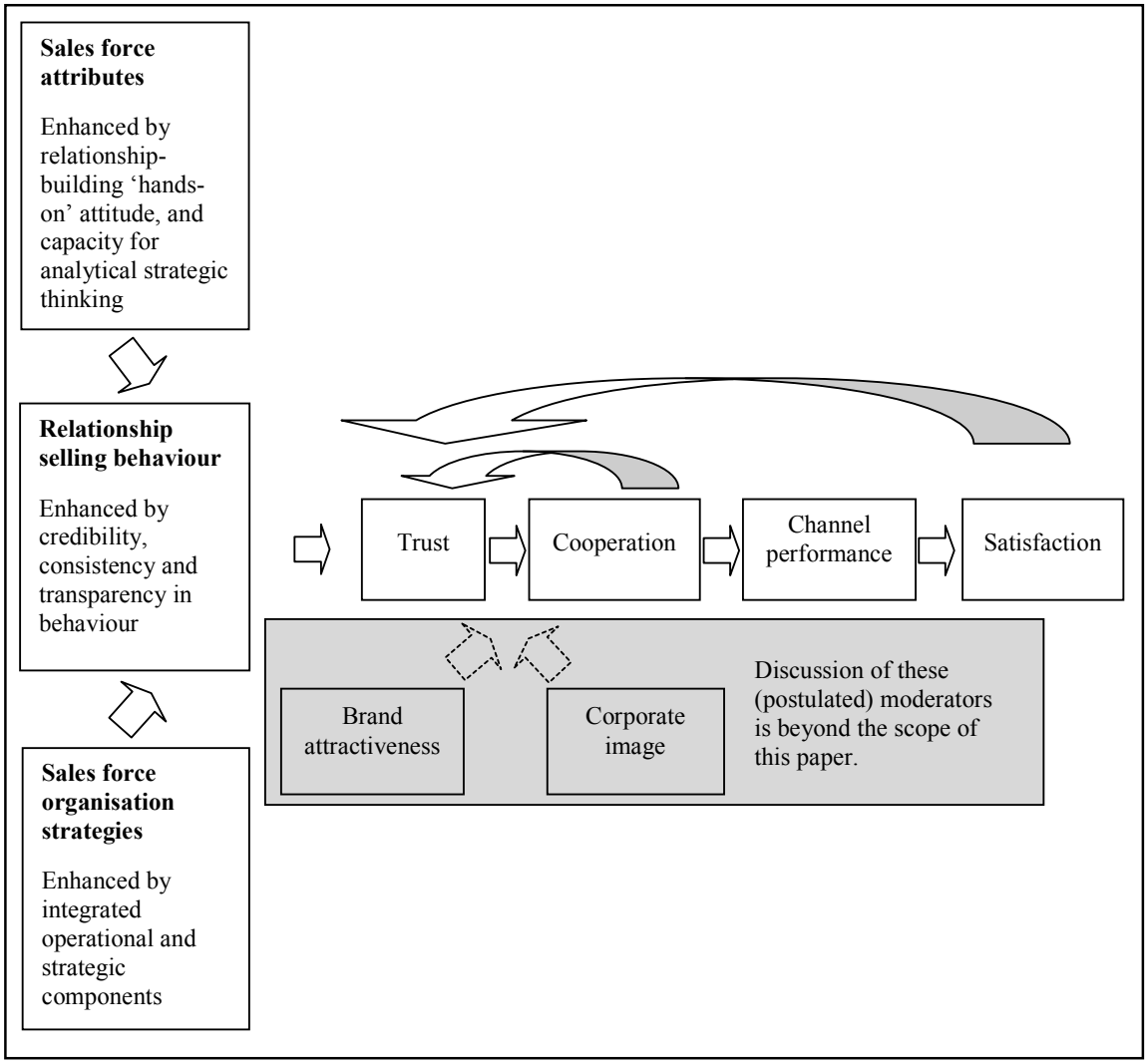


Figure 3: Final conceptual framework