# The role of the salesforce in achieving cooperation from dominant channel partners

Christian Zippel[1] and John Wilkinson[2]

[1] Ehrenberg-Bass Institute for Marketing Science

University of South Australia

and

University of Applied Sciences Aalen

Beethovenstrasse 1   73430   Aalen   Germany

Telephone:  +49 (0) 7361 576 22 10   /   Facsimile:  +49 (0) 7361 576 22 50

Email:  christian.zippel@unisa.edu.au

[2] Ehrenberg-Bass Institute for Marketing Science

University of South Australia

GPO Box 2471   Adelaide   SA   5001   Australia

Telephone:  +61 8 830 20995   /   Facsimile:  +61 8 830 20442

Email:  john.wilkinson@unisa.edu.au

## Abstract

The emergence of large retail chains has resulted in a shift in channel power from manufacturers to retailers. Typically, this shift has reduced the level of cooperation manufacturers now obtain from retail channel partners. In turn, this now limits the ability of manufacturers to implement some components of their preferred marketing strategies.

This paper provides a discussion on channel power and cooperation, and the roles of the salesforce and selling teams in attempting to increase cooperation from channel partners.

**Key words**: Channel cooperation; Channel power; Relationship selling

## Background

There has been concentration within the retail industry in many developed economies. For example, the combined market share of the top five retail chains within the German food market increased from 63% in 1998 (Hesse, 2004) to 73% in 2009 (Trade Dimensions, 2010). Similar situations exist in France (70%) and the United Kingdom (55%) (Zentes, Morschett and Schramm-Klein, 2007). In the United States, the top two retailers within the home improvement market, Home Depot and Lowe's, have a total market share of more than 50% (Geylani, Dukes and Srinivasan, 2007). The largest of the retail chains are now as large as – or even larger than – some of the largest manufacturers of global brands (Zentes *et al*, 2007).

The concentration within the retail sector has been attributed to the effective use of information technology and logistics systems, the introduction of successful private-label brands, improved retail management practices, and the ability of large chains to offer lower prices than small retailers due to their operating efficiencies (Geylani *et al*, 2007). The concentration and accompanying negotiating leverage based on very large transaction volumes have resulted in substantial channel power for the largest retail chains. Furthermore, those chains frequently use their channel power and aggressive negotiating tactics to obtain favorable wholesale terms from manufacturers (*ibid*).

Consequently, it has become difficult for many manufacturers to 'manage' their large retail partners. Therefore, from both research and managerial perspectives, it seems appropriate to assess whether account management and other sales strategies can be developed to improve channel management effectiveness. Many business-to-business sales organizations have extensive experience managing large accounts, key account management having been adopted by such firms from as early as the 1960s (Weilbaker and Weeks, 1997). Therefore, it also seems appropriate to assess whether successful key account management and other sales strategies within the business-to-business (or ‘industrial’) environment are transferable to the business-to-retailer environment.

## Channel power

Large retailers can develop power over their suppliers through their large transaction volumes and the benefits those offer to suppliers through economies of scale. For example, in the United States home improvement market, Home Depot provided economies to suppliers by consolidating regional purchasing offices and streamlining purchasing procedures (Geylani *et al*, 2007).

Large retailers also can develop power through effective application of innovative logistics systems and information technology. For example, Wal-Mart’s “cross-docking logistics system”, introduced in the 1980s, resulted in the firm “sharply cutting the usual inventory and handling costs” (Day, 1994, p. 38). Wal-Mart also was a leader in implementing electronic data interchange during the 1990s, enabling improved exchange of data between retailers and their suppliers, and in the application of radio-frequency identification, and Internet- and scan-based trading technologies that will provide additional economies to its suppliers – as well as to Wal-Mart itself (Geylani *et al*, 2007).

The issue of information technology provides a simple illustration of the channel power of large retailers. In 2004, several large retail chains, including Tesco and Wal-Mart, directed their major suppliers to incorporate radio-frequency identification technology into their distribution systems – the large chains being able to use coercive power to compel suppliers to invest in unproven and expensive technology (Williams and Moore, 2007).

More significantly, retailer channel power can constrain manufacturers from implementing some preferred marketing strategies. For example, a typical large retail chain might refuse to carry more than a limited assortment of a manufacturer's range of products. Indeed, large retailers occasionally "dictate to their vendors what should be made, in what colors, in what sizes, and what they are made of" (Dukes, Geylani and Srinivasan, 2009, p. 309). Clearly, such exercise of channel power by retail chains is likely to constrain some aspects of manufacturers' preferred marketing strategies. Therefore, it is appropriate to assess whether effective key account management and other sales strategies can assist in obtaining greater cooperation from those channel partners despite the initial imbalance of channel power.

**Channel cooperation**

It has been suggested that mutual manufacturer–distributor dependence on resources and capabilities, and compatibility or congruence of goals and culture create "a favorable environment for cooperation", while mutual trust, information exchange and reciprocal commitment contribute to "the efficient day-to-day working of manufacturer–distributor cooperation" (Vázquez, Iglesias and Álvarez-gonzález, 2005, p. 128).

Researchers in various countries have found that dependence appears to encourage commitment and cooperation among channel partners. This suggests that there would be benefits from "increasing the importance and exclusivity of one's resources" (Razzaque and Tan, 2003, p. 41). From a sales management perspective, those findings also indicate the importance of the salesforce emphasizing the differentiating (especially any unique) elements of their company offerings when engaging with executives from their retail customer organizations. This has clear implications regarding salesforce communication strategies.

Research results also suggest that "trust is instrumental in bringing about positive attitudes and behaviors" (*ibid*, p. 42). Therefore, to increase channel cooperation, sales management also needs to identify ways to develop and enhance trusting relationships with retail partners.

**Other responses to increased retail chain channel power**

Manufacturers could undertake various marketing strategies designed to increase their channel power. For example, within its foreign markets, the New Zealand Dairy Board undertakes substantial “brand investment activity”, attempts “to get close to customers” and to “sell more of the branded and specialized products” to increase its channel power (Welsh and Juric, 1998, pp. 79, 80).

This type of approach is supported by the following argument from Dukes, Gal-Or and Srinivasan (2006, p. 94):

> *… informing consumers about product attributes (e.g., through manufacturer advertising) could be a way to shift channel power (in relation to a retailer) toward manufacturers of certain products. For example, consider products for which consumers make their final brand choice after visiting a retailer (e.g., small appliances, semidurable goods). In the absence of full consumer information, a retailer often can consummate a sale to a consumer who, ex post, would have preferred a competing brand that only a competing retailer carries. By informing consumers (e.g., through manufacturer advertising) before consumers make their retailer choice, retailers are more inclined to reach an agreement with the manufacturer to carry their product, thus improving the bargaining position of the manufacturer.*

Similarly, manufacturers could attempt to transfer consumer demand to the smaller (weaker) retailers through selective cooperative advertising to consumer markets. Such a strategy could be combined with the adoption of pricing strategies aimed at raising the wholesale price to smaller retailers in response to pricing pressures from large retail chains. If successful, the combined strategy would increase the profitability of manufacturers and their smaller retailers (Geylani *et al*, 2007). Clearly, the latter strategy would require involvement of the salesforce.

Manufacturers also could use selective dissemination of market information to increase their channel power, aiming to improve the marketing effectiveness of smaller retailers by sharing information with those less powerful channel partners, but *not* with the large retail chains, as illustrated below by Geylani *et al* (2007, p. 176). Such an approach would require careful consideration of the communication component of account management plans for different categories of channel partner.

> *For example, suppose that the manufacturer, through its market research, has knowledge of consumer preferences for its product. The manufacturer might ask whether this information should be shared and, if so, with whom. In the presence of a dominant retailer, the manufacturer may have incentives to share this information only with select channel members.*

Based on their research, Dukes *et al* (2006, p. 94) offer some different views about the impact of large retail chains, even suggesting that "manufacturers' profits might actually improve as a result of a retailer's improved channel position when this improvement is due to efficiency gains", which "can aid market forces toward shifting the distribution of a manufacturer's goods toward more efficient outlets". Again, however, such a situation would require effective key account management to ensure the full potential were obtained from the relationships.

For global manufacturers, more extreme options are available to increase channel power. Major expansion through the acquisition of companies with complementary products is one option for manufacturers. For example, in 2005 Procter & Gamble commenced a move to buy Gillette, creating "the world's largest consumer brands group" with substantially greater channel power. In addition, following the merger, Procter & Gamble started to target lower-income consumers in emerging markets such as China and India. In developing those markets, Procter & Gamble "is deliberately not partnering with global retailers like Wal-Mart and Carrefour". Instead, in China the company is accessing "a huge distribution system staffed by an army of individual Chinese entrepreneurs", including kiosks in small villages at the end of the distribution channel. It seems likely that the anticipated "stable growth in Asian markets" would decrease the firm's dependence on large retail chains in developed markets. (Piercy and Lane, 2006, p. 20)

Of course, market expansion strategies, such as that mentioned above, would require the firm's salesforce to identify and establish appropriate partners at different levels of the marketing channels. Furthermore, if the firm's existing salesforce lacked adequate experience and expertise in the targeted markets, then it would need to recruit appropriate personnel.

**Relationship selling and key account selling teams**

Globalization of business, increasing levels of competition and increasingly demanding customers have resulted in transaction-oriented exchanges being replaced by relationship-oriented selling approaches characterized by high levels of personal involvement, joint actions and long-term commitment (Razzaque and Tan, 2003). In a general sense, the philosophy of relationship selling includes recognition of the requirement to identify and understand customer needs, emphasis on open communication and problem-solving, ethical behavior and sincerity, and development of trust (Boles, Brashear, Bellenger and Barksdale, 2000; Guenzi, Pardo and Georges, 2007). The focus is long-term since "longevity of the relationship" between buyer and seller provides "financial rewards from coordinated strategic investments", and provides the seller with "greater insight into the buyer's latent needs" (Slater and Olson, 2000).

Consistent with the above factors, there have been recent signs of moves away from adversarial toward cooperative relationships between manufacturers and distributors, and from transactional toward relational exchanges (Vázquez *et al*, 2005).

From the perspective of relationship marketing, “successful relationships are those that increase a partner’s relationship commitment”, while from the perspective of competitive advantage, “successful partnerships enable firms to offer more value or lower costs than rivals” (Arnett, Macy and Wilcox, 2005, p. 28).

As explained by prior researchers, firms utilizing key account management often establish selling teams with members from functional areas other than just marketing or sales (Wilkinson, 2010). Moon and Armstrong (1994, p. 21) distinguish between two types of team, the “core selling team” being assigned to particular customers and “actively involved in the development or implementation of the sales strategy” for each customer, and the “selling center” participating in particular sales transactions in which the selling firm is involved. Membership of the teams can be drawn from any function within the selling firm. Major characteristics of the two types of team are summarised in Exhibit 1. According to Arnett *et al* (2005, p. 30), effective core selling teams “enable firms to jointly develop new market offerings, processes, and procedures”. Within the context of channel management, such teams should assist manufacturers to cooperate – or even collaborate – with retail channel partners.

**Organizing Framework of Selling Teams**

| Core Selling Team | Selling Center |
|---|---|
| Relatively permanent, customer-focused group | Relatively temporary, transaction-focused group |
| Membership determined by job assignment to a specific buying organization | Membership determined by involvement in sales transaction for a particular good or service |
| One team per buying unit | One selling center per sales opportunity |
| Membership relatively stable | Membership very fluid |
| Characteristics of team depend on characteristics of buying organization | Characteristics of team depend on characteristics of sales opportunity |
| Mission is strategic with respect to the buying organization | Mission is tactical with respect to the sales opportunity |

**Exhibit 1: Framework of selling teams**

**Source**: Moon and Armstrong, 1994, p. 23

Core selling teams (not necessarily operating with this title) now proliferate within the business-to-business marketing environment, ranging in size from “a few part-time individuals to a hundred or more members deployed full-time at the customer’s site” (Sheth and Sharma, 2008, p. 267). For example, Procter & Gamble and Coca Cola have teams at Wal-Mart and McDonald’s comprising more than a hundred people (*ibid*). In the case of Procter & Gamble and Wal-Mart, this extensive relationship selling approach dates back many years (Sheth and Parvatiyar, 1995).

Frameworks of key account management have been proposed by various researchers, including Homburg, Jensen and Krohmer (2002), Arnett *et al* (2005) and Zupancic (2008).

From the viewpoint of channel management, key account management requires more than just ‘superior relationship management’. Manufacturer–retailer relationships must provide partners with some source of competitive advantage, 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) and relational resources (e.g., access to the relationships that a partner has with other firms)” (Arnett *et al*, 2005, p. 30).

Similarly, as suggested by Vázquez *et al* (2005, p. 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 channel partners. Indeed, those authors offer the following comments about the role of relationship selling in this context (*ibid*, p. 127):

> *It is generally accepted that there are advantages to be gained from cooperation. The manufacturer must become more aware of the distributor as an associate or partner, not as a rival, whose work is of strategic importance in acquiring a*

*competitive advantage. The objective is to provide an advantage in both the distribution channels and in the market itself. In short, the aim is to practice intermediaries-focused and end-customer-focused relationship marketing.*

Hunt (1997, p. 441) provides an argument for the strategic value of cooperation based on the sharing of relational resources, including those derived from relationship marketing, summarized below. The argument provides support for prior suggestions that manufacturers could improve their channel power by cooperative–collaborative sales approaches.

> *Because relational resources can contribute to organizational capital and a firm's marketplace position of competitive advantage, the strategic planning process should include plans for developing relationships that complement existing organizational competencies. Ideally, a firm would wish to calculate the profit potential of each relationship, both existing and potential. Because the explicit calculation of profits to be derived from a specific relationship is frequently impossible, addressing the relationship portfolio conundrum requires focusing in a more qualitative manner on the efficiency/effectiveness-enhancing characteristics of each relationship.*

Finally, Guijun, Youmin and El-Ansary (2008, p. 190) suggest there are "important functions that *guanxi* may play in doing business in China", particularly its influence on "channel members' behavior in China's marketing channels". Based on their research findings, these authors suggest that "a better interpersonal *guanxi*" between representatives of channel partners in the context of Chinese culture is associated with "mutual trust, mutual understanding and care for each other" (*ibid*, pp. 201-202). Such factors would encourage those representatives "to look after each other and to use more noncoercive power as influence strategies" (*ibid*, p. 202). Therefore, it seems possible that, even in a Western culture in which interpersonal relationships typically have less influence on business decisionmaking than *guanxi* within the Chinese culture, members of a manufacturer's core selling team might be able to influence decisions by retail channel partners through effective relationship selling strategies based on development of strong individual relationships and trust.

**Recommended research**

Much research already has been conducted into factors relating to key account management, such as recent studies regarding the importance of, and benefits from, key account planning (Ryals and Rogers, 2007), the impact of key account management strategy on buyer–seller relationships (Arnett *et al*, 2005), the dimensions of key account management to be considered when conceptualising or attempting to optimise an overall program (Zupancic, 2008), the effects of internal networking relationships on the sales performance of key account managers (Hutt and Walker, 2006), and factors affecting the transition to collaborative buyer–seller relationships (Spekman and Carraway, 2006). Some research, identified above, has been undertaken with respect to channel management-related aspects of key account management and selling teams.

The need for further research in this area is supported by various researchers, including Homburg *et al* (2002, p. 56), who assert that "key account management is a highly relevant issue for marketing and sales managers" and that "the lack of sound academic research in this area is surprising", Zupancic (2008), and Storbacka, Ryals, Davies and Nenonen (2009). In particular, there appears to be no reported research relating to the use of selling teams to improve channel cooperation, despite suggestions that differences exist in key account management responsibilities within business-to-retailer selling operations compared to other business-to-business selling operations (Sidow, 2007).

Therefore, it now seems appropriate to explore the opportunities for manufacturers to extend their use of relationship marketing/selling strategies – utilizing key account management and ‘core selling team’ approaches – to develop stronger cooperative and collaborative relationships with major retail chains. It also seems appropriate to explore the potential benefits to manufacturers from establishing ‘strategic channel teams’, comprising corporate planning, brand management and sales management executives, to identify opportunities in emerging markets and to identify and target potential future channel partners in those markets, partly for growth reasons and partly to limit the relative channel power of their existing (mainly Western) retail partners within the context of their global business operations.

Such research would draw upon prior research within related fields and, also, would consider appropriate means for – and the potential benefits from – development of deep individual relationships between relevant executives of manufacturer and retail partners (including the possible transfer of existing key account management practices within ‘industrial’ marketing environments and adaptation of the concept of *guanxi*).

Development of research constructs to support the proposed research could be assisted by adapting aspects of conceptual frameworks of key account management suggested by Homburg *et al* (2002), Arnett *et al* (2005) and Zupancic (2008) to the business-to-retailer selling situation. Research constructs also would incorporate the concepts of the ‘core selling team’ and the ‘selling center’ of Moon and Armstrong (1994), and additional factors relating to team effectiveness identified by Cross, Ehrlich, Dawson and Helferich (2008).

## Conclusions

The proposed research should add to the understanding of how relationship selling and key account selling teams are used within major firms selling through dominant retail chains, and should provide some indication of which forms of selling team appear to be most effective within this selling situation. From a practitioner viewpoint, results of the research should provide senior sales management within supplier firms with information to assist them in improving the design and operation of their selling teams.

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