The power of trust in manufacturer-retailer relationships

Nirmalya KUMAR, Singapore Management University

Publication Type
Journal Article

Publication Date
11-1996

Abstract
Manufacturers and retailers traditionally have seen each other as adversaries, but the benefits generated by trusting relationships between such old foes as Procter & Gamble Company and Wal-Mart Stores show that fear and intimidation may not be the most effective way for manufacturers and retailers to deal with each other after all. Studies of manufacturer-retailer relationships in a variety of industries reveal that exploiting power has three major drawbacks. It can come back to haunt a company if the balance of power changes; victims will ultimately seek ways to resist such exploitation; and working as partners allows retailers and manufacturers to provide customers with greater value than they can when they try to exploit each other. To build a trusting relationship with their weaker partners, powerful companies can build systems that strive both to compensate their partners fairly for their contributions and to resolve differences in a manner that their partners perceive as fair. These systems ensure that there is two-way communication, that all channel partners are dealt with equitably, and that partners can appeal channel policies and decisions. In addition, they provide partners with a coherent rationale for policies and ensure that partners are treated with respect. Moving a relationship from the power game to the trust game is difficult, requiring a change in culture, management systems, and attitudes. But the success of organizations such as Marks & Spencer, Kraft, and E.J. Ekornes all testify to the benefits of making the effort. In rapidly changing environments, success will go to those who learn to make the leap of faith.

Keywords
Trust, Business planning, Retail industry, Manufactures, Partnership, Industrial organization, Business research, Chain stores, Strategic planning

Discipline
Marketing | Organizational Behavior and Theory

Research Areas
Marketing

Publication
Harvard Business Review

Volume
74

Issue
6

First Page
92

Last Page
106

Citation

Creative Commons License
Trust helps manufacturer-retailer relationships realize their full potential. When both sides trust each other, they are able to share confidential information, to invest in understanding each other's business, and to customize their information systems or dedicate people and resources to serve each other better. A trusting party typically will not feel it needs to monitor its counterpart's behavior; thus it can cut its monitoring costs. Last but not least, trust allows a company to capture the hearts and minds of channel partners so that they will go the extra mile. The relationship between P Foreign retailers have well-known manufacturer brands, in transition countries sometimes they are the only source of them. As was told by one manager, when they entered Russia, consumers went to them to buy products like Nescafe or Nutella, because they were the only source. Power relationships are embedded in market relationships, they structure transactions and domination appeared to be one of the most typical strategies on the modern markets. – What is the role of trust and fairness in establishing such long-term interconnections within the value chain? – How does the degree of the network’s customer orientation depend on the power distribution between partners?.. on the dominant firm’s position in the value chain?.. on the dominant firm’s degree of customer orientation? Exploring retailer relationships. How do private label suppliers experience the relationship with their retail clients? Power vacuum. The market for private label products continues to grow throughout Europe but at the same time we have seen the concentration of retail into retail chains with market domination. Mainly in human food, but also in the pet industry. The consequence is that a few powerful buyers interact with many suppliers. Overcapacity in manufacturing in many product categories,
one of them being pet food, has created an environment with a downward pressure on pricing and margin