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VERTICAL MARKETING MANAGEMENT IN MARKETING CHANNELS  
(Conflict and Power Problems)

1. Introduction

The producer-trader<sup>1</sup> relations, especially those of the consumer-goods industry in Federal Republic of Germany, have recently changed and have increasingly become subject of controversies in competitive policy, but also in economy, especially in the marketing sector<sup>2</sup>.

Stagnating and increasingly saturated markets, as well as the change from a seller's to a buyer's market are the reasons for the fact, that the competition between producers and traders for market shares permanently intensifies.

Also the conflict potential in the marketing channels, especially for the producers, has grown considerably, because of the progressing emancipation of trade marketing and the fact, that their brand policy becomes more and more independent (the traders have changed their role from a passive agent into the gate-keeper position in the marketing channel)<sup>3</sup> on the one hand and because

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<sup>1</sup> Trader means: the wholesalers and retailers together.

<sup>2</sup> H.H. Bauer, Hersteller-Handels-Beziehungen im Wandel, auf dem Weg zu einer dualen Marketing-Führerschaft im Absatzkanal, "Markenartikel" 1982, H. 10, p. 428-436.

<sup>3</sup> Ibidem, p. 428.

of the increasing concentration process of the traders on the other hand<sup>4</sup>.

Actually, the original distribution of power between producers and traders (vertical power structure) began to change and the traders become more and more the dominant (more powerful) element in the marketing channel, especially in the consumer-goods industry of the FRG<sup>5</sup>. Therefore, many producers are confronted with serious problems in justifying and enforcing their vertical marketing policy against traders, because of the altered power-balance in the marketing channels the traders are only little interested in cooperating with the producers, especially as a result of their increasing demand power.

The former "dominating position", mainly of the brand-good producers in the marketing channel is decreasing more and more, and new dominating positions are built-up, especially by large chains in the food retail trade such as for instance, ALDI, COOP, TENGELMANN, EDEKA and REWE. So you can say many producer marks are displaced by trade marks, which become more and more important in the market.

Therefore, the question arises, how far the producers are able now to realize their vertical marketing management policy, because of the altered power structures in the marketing channels, and whether traders themselves are not going to be a dominant element of vertical marketing activities in the future?

To analyse this question for the foodstuff sector of the FRG and to find, at least partly, an answer to this question will be object of this analysis.

To do this, it is, first, necessary to define some important basic terms, in order to be able to discuss topical conflict and power fields between producers and traders afterwards.

Not every single power and conflict field named under No. 3 in the contents will be explained and analysed in all detail, but I

<sup>4</sup> H. S t e f f e n h a g e n, Konflikt und Kooperation in der Markenpolitik aus wissenschaftlicher Sicht, "Markenartikel" 1983, H. 3, p. 92-95; G. R ü s c h e n, Wie stellt sich die Markenartikelindustrie auf die Handelskonzentration ein?, "Markenartikel" 1984, H. 3, p. 108-116.

<sup>5</sup> W. K a r t t e, Aktuelle Probleme des Wettbewerbs in der Konsumgüterwirtschaft, "Markenartikel" 1984, H. 5, p. 232-238.

will pick out the most important problem sectors and explain them with examples.

The main points in the following analysis will be the conflict and power fields "product and assortment policy, price policy and contract policy", because, firstly, these are the central organization sectors of vertical marketing management and, secondly, these organization fields are an object of power struggles in practice at the moment.

## 2. Fundamental Terms

### 2.1. Term, Tasks and Types of Vertical Marketing Management

As you certainly know, in the literature there are a lot of possibilities of defining the term "vertical marketing management". I will understand the following by this term:

"Vertical marketing management is the systematical, objective-orientated coordination of all marketing activities across different distribution levels".

This definition is purposefully a very "wide" one and does not state for the moment, who is the dominant element of the marketing activities in the marketing channel. Apart from that it contradicts the opinion, you can often find in the literature, that the terms "vertical marketing management" and "vertical marketing cooperation" are synonyms<sup>6</sup>.

However, I think that equating one term with the other does not seem to be correct, as in vertical marketing management the market partners, unlike it is the case with the marketing cooperation, usually do not work together as equals. In vertical marketing management rather one element (until now it was the producer) is the dominating element in the marketing channel and in most cases it also takes over the marketing-leadership<sup>7</sup>. As the balances of power, however, have been changed, therefore, the definition of vertical marketing management was not limited to the producer only.

<sup>6</sup> G. Thies, Vertikales Marketing, Berlin-New York 1976, p. 52.

<sup>7</sup> H. Steffenhagen, Marketing, vertikales, [in:] Marketing Enzyklopädie, Bd. 2, München 1974, p. 675-690; Bauer, op. cit., p. 430.

The task of vertical marketing management is to plan, coordinate and integrate centrally every marketing activity across all the different distribution levels in the marketing channel with the aim:

- 1) to increase the profit or decrease the costs and
- 2) to make an efficient distribution of duties possible between the market partners, thus, avoiding duplication of marketing activities<sup>8</sup>.

The vertical marketing management appears in many different types in practice. So in this paper only a few classification criteria for differentiating different types of vertical marketing management can be pointed out. The following Fig. 1 gives you a short survey<sup>9</sup>

## 2.2. Definition and Differentiation of the Term "Conflict"

After having shortly explained the term, tasks and types of vertical marketing management I now want to define the term "conflict", which should be used in the further discussion. Here again, similar to the term of vertical marketing management, we are confronted with considerable difficulties in defining it because the term "conflict" has many different meanings in the social sciences and in the behaviour-orientated science of business administration.

"In the following analysis conflicts are to be defined as contrarities between market partners, which have the effect of incompatible patterns of behaviour between the interaction participants<sup>10</sup>.

As "conflict" I have also chosen a term, which is very "widely" defined and which doesn't prevent you from seeing all the different causes and types of conflict such as, for instance, goal-setting-conflicts or evaluation-conflicts in the marketing chan-

<sup>8</sup> S t e f f e n h a g e n, Marketing..., p. 675.

<sup>9</sup> I h i e s, op. cit., p. 53.

<sup>10</sup> W. K r o e b e r - R i e l, P. W e i n b e r g, Konflikte in Absatzwegen als Folge inkonsistenter Präferenzen von Herstellern und Händlern, "Zeitschrift für Betriebswirtschaft" 1972, H. 3, p. 525-544. R.M. M a a s Absatzwege, Konzeptionen und Modelle, Wiesbaden 1980, p. 111.

Classification criteria	Types of vertical marketing management
1. Coordination initiative and -direction	<ul style="list-style-type: none"> <li>forward coordination (producer)</li> <li>backward coordination (trader)</li> </ul>
2. Coordination structure	<ul style="list-style-type: none"> <li>one level coordination (includes only one marketing level)</li> <li>two or more level coordination (includes two or more marketing levels)</li> </ul>
3. Coordination extent and -intensity	
3.1. Number and importance of the coordination partners	<ul style="list-style-type: none"> <li>partical coordination (includes less market partners)</li> <li>total coordination (includes all market partners)</li> </ul>
3.2. Number and importance of the coordination fields	<ul style="list-style-type: none"> <li>partly functional coordination (only special marketing fields)</li> <li>total functional coordination (all marketing fields)</li> </ul>
3.3. Coordination length	<ul style="list-style-type: none"> <li>temporary coordination (time limited)</li> <li>permanent coordination (time not limited)</li> </ul>

Fig. 1. Possible types of vertical marketing management in marketing channels

nel<sup>11</sup>. This method of proceeding, especially in regard to the following explanation of topical fields of conflict and power seems appropriate, as in practice there is a great variety of different conflict situations.

Furthermore, the interdependant context between conflict and power problems becomes already clear by this definition of conflict, as power is one possible type of incompatible behaviour, by which conflicts can be solved. But this context will be explained later on.

<sup>11</sup> S t e f f e n h a g e n, Konflikt und Kooperation in der Markenpolitik..., p. 93.

### 2.3. Definition and Differentiation of the Term "Power"

Finally, I want to define the term "power" more exactly. It seems suitable to choose a definition that is operational in regard to the objective.

"Power should be understood as the possibility to influence the activity and/or decision fields of other market partners contrary to their objectives"<sup>12</sup>.

This power definition is based upon the "relational power concept", which presumes that power will only exist within interaction relations, and that power processes are always target-orientated. Furthermore, it becomes clear that the term "power" is conflict orientated, because power is always used contrary to the objectives of others.

This definition also shows the close context between conflict and power problems, which I will explain in the following paragraph.

### 2.4. The Interdependant Context Between Conflict and Power Problems

As it has already been pointed out, there is an interdependant context between conflict and power problems. This is, for instance, confirmed by the fact that the conflict potential in the marketing channels has been increased, because of the growing demand power of the traders, and because of changes in the balance of power. The power changes which are characterized by the fact that traders are more and more able to make their own marketing policy (against the aims of the producers) have the effect that the size of conflict as well as the intensity of conflict have considerably increased in the marketing channels.

Furthermore, the increasing demand power allows traders to solve the so-called "latent conflicts" with the producers, which means that power is also used as an instrument to solve conflicts<sup>13</sup>, whereby usually "latent conflicts" become "manifest conflicts"<sup>14</sup>

<sup>12</sup> M. Weber, *Wirtschaft und Gesellschaft*, Tübingen 1956; H. Steffenhagen, *Konflikt und Kooperation in Absatzkanälen*, Wiesbaden 1975.

<sup>13</sup> Maas, op. cit., p. 122.

<sup>14</sup> Steffenhagen, *Konflikt und Kooperation in Absatzkanälen...*, p. 24.

So we can say:

- 1) conflicts can arise or increase by the use of power and
- 2) conflicts can be solved by the use of power.

Result: this means that conflicts may be the cause as well as the consequence of power processes.

This interdependent relational context between conflict and power problems can be explained more clearly by the following Fig. 2.

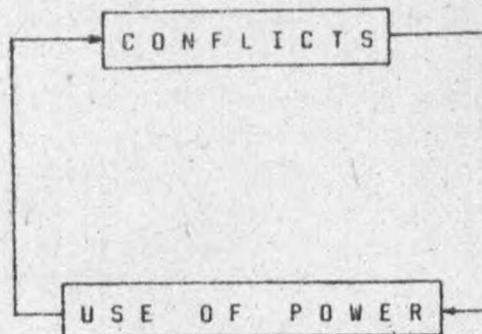


Fig. 2. The interdependent relational context between conflict and power problems

### 3. Topical Conflict and Power Fields Within the Scope of Vertical Marketing Management

As I have already pointed out, I can't discuss here all the relevant conflict and power fields of the vertical marketing management. Therefore, going to speak only about those problems, which are at the moment the most topical ones, such as "product and assortment policy, price policy and contract policy". But for the sake of completeness, I want to show you all the relevant potential conflict and power fields in a figure<sup>15</sup>. As you can see from the following table the aspect of different "coordination fields" (of point 3.2 in Fig. 1) is the dominant differentiation criterion here.

First of all, I want to discuss the conflict and power field "product and assortment policy".

<sup>15</sup> Ibidem, p. 75; Bauer, op. cit., p. 429.

### 3.1. Product and Assortment Policy

In the field of product and assortment policy, changes in the balance of power between producers and traders become most evident when we take the example of branded goods. Branded goods, which are marked article with a constant product quality and a certain price level, used to be the undoubted domain of the producers. For some time now trade marks, especially "no-names", as for instance, the "Ja!" - products of REWE, the "Alternativen" of EDEKA and the "Weissen" of the HL-markets get more and more importance in the foodstuff market.

The development of the traders' own trade marks and "no-name" products, which are quite comparable in quality with the brand goods of the producers, is a sign, therefore, that the traders are increasingly becoming more active in the product development sector and confront the consumer more and more with their own marketing conceptions.

The figures in the annual business report of REWE for 1982, for instance, confirm this development. The "Ja!" - assortment of REWE, which was introduced in 1982, contained at that time about 50 products. Special advertising campaigns and sales promotions were made for this product group with the aim to profile the REWE chain in the market and to increase their contribution margins in the difficult foodstuff sector. Thus, for example, the "jakordia" - products, which had been introduced in the tobacco product sector, made a surplus in turnover from about 35% in the first year<sup>16</sup>.

Similar trends can be also seen in the other products of the "Ja!" - assortment. Furthermore, it is characteristic that some "no-names" of other large trade enterprises in the foodstuff sector reached quantities up to 60% and more in special product groups<sup>17</sup>.

Therefore, it is a justified assumption that especially the foodstuff retail trade priced more and more the traditional producer marks out of the market with such a rapid growth rate of its trade marks and "no-name" products. In my opinion increasing

<sup>16</sup> Rewe - Geschäftsbericht von 1982.

<sup>17</sup> L. B e r e k o v e n, No-names, Versuch einer Standortbestimmung, "Markenartikel" 1983, H. 5, p. 180-184.

Table 1

Potential conflict and power fields in the scope  
of vertical marketing management

Conflict and power fields / Market partners	Producer	Trader
1	2	3
Product and assortment policy: product development	development and enforcement of producer-products and -brands building-up a product- and brand-image	development and enforcement of trader-products and -brands building-up an assortment - and sales agency-image
product program and assortment development	permanent product innovation	only occasional product innovation, constancy with products of strong turnover
Price policy	continual, with price recommendations supported price policy	high-pressure price policy (for instance under cost selling)
Information and communication policy market research	product and brand related search and selection of information	assortment and sales agency related search and selection of information
advertising	over-regional product advertising creation of product references and building-up brand loyalty	regional assortment and sales agency advertising creation of assortment preferences and building-up dealer loyalty
sales promotion	product related sales promotion	assortment related sales promotion
sale	product related sales representation favourable placement of producer products	more assortment related sales representation favourable placement of trader products and integration of the producer products into the trade assortment
Distribution policy: stockkeeping	continual sale with large orders and little stock-keeping	demand orientated quantities ordered with shorttime of delivery and little stockkeeping

Table 1 (contd)

1	2	3
transport	high distribution intensity with self-delivery by trade	selective and exclusive distribution with delivery by the producer
Contract policy: discounts	appropriate (justified) trade margins, discounts and provisions	high trade margins, discounts and provisions
conditions	objectively justified additional services as for instance advertising and sales promotion assistance etc.	additional services as for instance entree fees, placement fees, special discounts for the opening of new stores etc.

power conflicts seemed to be unavoidable in the sphere of product and assortment policy. Furthermore, I assume - that it becomes more and more difficult for the producers to realize their own marketing management strategies in this sector.

As the second topical conflict and power field I want to discuss the sector of "price policy".

### 3.2. Price Policy

Recently in this sector there have been fierce conflicts between producers and traders, which ultimately lead to an intervention of the Federal Anti-Trust Board as the supreme guardian of competition policy.

The conflict arose, because traders like COOP in the region near Bremen sold well-known producer branded articles, such as, for instance, "Asbach Uralt" as "bait", that means under their cost price. They could do this, because of their enormous purchasing power and because of their mixed calculations.

On the side of the producers, there were vehement protests against these actions supported above all with the argument that there might be long-term marketing losses in the reputation and sale of their branded articles. This would mainly be caused by the fact that the "under-price selling" of branded articles in such a way would destroy the consumer's confidence, because they would

associate the decline in prices with inferior product quality<sup>18</sup>.

Traders, at first, remained unimpressed and pointed out that under cost price selling of brand goods is a legal selling strategy in competition and showed only the extreme efficiency of trade enterprises doing this. Then the Federal Anti-Trust Board intervened in this conflict and forbade the REWE-group in the region near Bremen to sell producer branded articles under their cost price in accordance with § 37a, line 3 of the law against unfair competition (GWB)<sup>19</sup>.

However, the Anti-Trust Board expressly pointed out that, generally, the sale under cost price is legal and that § 37a, line 3 GWB can only be applied if trade enterprises owing to their superior market power are able to sell products systematically and continually under their cost price with the aim to oust competitors from the market or even to destroy them.

Furthermore, the chairman of the Federal Anti-Trust Board KARTTE arranged in October 1983 a meeting between leading representatives of producer and trade enterprises, at which the so-called "common declaration to protect the efficiency contest and competition" (also called the "solemn promise of Berlin") was signed stipulating that in the future there will be no systematical under cost price selling of producer branded goods<sup>20</sup>.

This example, which is representative for the price policy in marketing channels, demonstrates that the power position of the traders has considerably increased and that only the intervention of the state could prevent them from using their total demand power within the price policy. Therefore, we can say that already today the traders in the foodstuff sector are the dominant element of vertical marketing activities, especially in the price policy.

As a final conflict and power field between producers and traders I now want to discuss the "contract policy".

<sup>18</sup> H.J. Bunte, Mit Anstand unter Einstand, "Absatzwirtschaft" 1983, H. 4, p. 56-59.

<sup>19</sup> O.V., Kartellamt untersagt Coop Verkauf unter Einstandspreis, "Frankfurter Allgemeine Zeitung" 1983, H. 112, p. 13.

<sup>20</sup> P. Spary, Sicherung des Leistungswettbewerbs durch UWG-Novellierung, "Markenartikel" 1984, H. 6, p. 306-308.

### 3.3. Contract Policy

Especially in the scope of contract policy, a number of cases have been reported recently which demonstrate how much the relations between producers and traders have changed. They also further support the thesis of "the increasing demand power of trade enterprises"<sup>21</sup>. A characteristic example is the case of METRO.

The Federal Anti-Trust Board found out by investigations that METRO charged its foodstuff suppliers with the so-called "entree fees". The investigations showed that METRO, for instance, demanded DM 500 for the acceptance of one new product in their assortment from 900 suppliers. It means that with 40 METRO-markets and 22 integrated PRIMUS- and MEISTER-markets they made DM 31000 per product and supplier and with 900 suppliers that amounts to about DM 28 million. Furthermore, some suppliers, moreover, had to oblige themselves in a written form to take the goods back if they didn't reach a satisfactory turnover<sup>22</sup>.

But the list of such illegal practices by traders could be extended much more, adding for instance placement fees, replacement fees, free displays and other services, the right to return goods, if these articles are taken out of the assortment, etc.

These examples show again that especially in the scope of the contract policy the power and conflict fields have not diminished, but have increased and intensified between producers and traders. It also shows that the producers have (as a result of the market constellation) hardly any possibility to retaliate or resist the traders than to apply to the Federal Anti-Trust Board for help, because the concentration and fusion process in the foodstuff trade has dramatically increased and is still increasing<sup>23</sup>.

The Federal Anti-Trust Board found out that the five largest trade chains in the FRG i.e. ALDI, COOP, TENGELMANN, EDEKA and REWE account for about 65% of the total turnover in the foodstuff trade. In spite of this enormous purchase potential of each trade chain, during the last two years there have been made endeavours aiming at large trade enterprises like HERTIE, KAUFHOF, WERTKAUF and MASSA to go together with the middle-class structured buying agen-

<sup>21</sup> W. B e n i s c h, Wettbewerbsbeschränkungen in Konsumgüterabsatz, "Markenartikel" 1984, H. 5, p. 240-246.

<sup>22</sup> O.V., Kartellamt..., p. 44.

<sup>23</sup> S p a r y, op. cit., p. 306.

cies SELEX, TANIA or HKG and the trade chains EDEKA and REWE to promote "more favourable buying"<sup>24</sup>.

This shows that even large branded good producers like OETKER, NESTLE and UNILEVER have hardly any possibility in trading with other trade enterprises, because sometimes 15% of their turnover falls upon one single "trade giant".

Finally, the following Tab. 2 once more shows the permanently increasing concentration process and the demand power of the foodstuff trade in the FRG, which is related to that.

T a b l e 2

Powerful trade enterprises in the consumer-goods sector of the FRG

D E M A N D - G I A N T S	
The 20 biggest trade enterprises in the consumer-goods sector (turnover in Mil. DM)	
1. Albrecht	13 500
2. Selex/A O Handelsgruppe	13 160
3. Metro	12 000
4. Tengelmann/Kaisers	11 378
5. Quelle/Schickedanz	10 386
6. Edeka-Zentrale	10 000
7. Rewe Leibbrand	9 500
8. Karstadt	9 395
9. Coop	9 380
10. Otto Versand	8 300
11. Kaufhof/Kaufhalle	7 604
12. Gedelfi	6 770
13. C A Brennkemayer	6 420
14. Hertie	6 090
15. Adolf Schaper	4 714
16. Kaufring	4 201
17. Kipp-Gruppe (Massa)	4 060
18. Sudfleisch/Sudvieh	3 200
19. Allkauf	3 100
20. Horten	2 940

S o u r c e: O. V., Kartellamt untersagt Coop Verkauf unter Einstandspreis, "Frankfurter Allgemeine Zeitung" 1983, H. 112, p. 32.

#### 4. Conclusion

I want to revert to the question I started off with, which asks for the dominant element of vertical marketing management in the foodstuff sector of the FRG. As matters are, it looks as if the present strategical situation in the marketing channel is chara-

<sup>24</sup> O. V., Kartellamt..., p. 36.

cterised by the fact that the producers despite having large marketing experience and competence in many cases are unable to enforce their marketing management policy, because of the increasing power deficits and the resistance of the traders. However, it seems that in the present situation traders, at least, in some marketing fields neither have the competence to handle the marketing instrumentarium excellently, nor have enough power to take over the vertical marketing management in the sense of the marketing leadership in the channel<sup>25</sup>

But the increasing development and emancipation of the trade marketing<sup>26</sup> and also the progressing concentration process indicate that traders in the near future will be the dominating element in most of the marketing fields, at least, in the foodstuff sector of the FRG. Thus, it is to be expected ultimately that the role of producers has changed generally with branded goods producers degraded to suppliers for the large trade enterprises, which take over all the traditional producer marketing activities and with them the leadership in the marketing channel.

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PIONOWE ZARZĄDZANIE MARKETINGOWE W KANAŁACH RYNKOWYCH  
(problem konfliktu i siły przetargowej)

Pionowe zarządzanie marketingowe jest rozumiane jako systematyczne i zorientowane na cel przedsiębiorstwa koordynowanie działalności marketingowej podmiotów, znajdujących się na różnych poziomach rynku. Siła przetargowa tych podmiotów, a także relacje zachodzące między nimi istotnie się zmieniły. Handel staje się wiodącym uczestnikiem kanału rynkowego i zaczyna odgrywać dominującą rolę w procesie integracji wertykalnej. Równocześnie konflikty między uczestnikami kanału rynkowego, wywołujące skłonność do sprzecznych ich zachowań, ulegają nasileniu. Wynika to w części z wzrastającego znaczenia handlu i zmian relacji między siłą przetargową poszczególnych uczestników kanału rynkowego.

Przedstawiono dziedziny i przyczyny występowania najczęstszych konfliktów, podając ich typologię z uwzględnieniem przeciwstawnych dążeń producentów i handlu. Na tym tle, przyjmując różne kryteria klasyfikacyjne, wyróżniono 5 podstawowych typów zarządzania marketingowego.

Wykorzystano materiał empiryczny odnoszący się do różnych form integracji wertykalnej między handlem a przemysłem w RFN.

<sup>25</sup> Bauer, op. cit., p. 433.

<sup>26</sup> Q. V., Kartellamt..., p. 26.