

Does the Importance of the Category Influence Retailer Relationship Quality?

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Abstract

In this paper we examine the perceptions of brand benefits for retailers within a product category context and the subsequent influence on relationship quality. This research builds on previous work which showed that manufacturer's brands are important within channel relationships. In this paper we extend the analysis to consider how two different categories, namely liquor and grocery, influence retailer relationship outcomes such as satisfaction, trust, commitment and performance of a manufacturer's brand. A SEM analysis indicates that brands in the important liquor category are not necessarily perceived by retailers as being more beneficial than grocery categories. However the liquor category brands have stronger retailer relationship outcomes than brands in the grocery category.

Research problem

This study examines the differences between product categories on retailer perceptions of brand value and relationship outcomes. The task of managing manufacturer's brands with retailers has altered, prompted by changes in retailer practice (Stern and Weitz 1997) which includes an increased emphasis on private labels and category management. Category management (CM) is a coordination mechanism between manufacturers and retailers to build category sales and profit for mutual benefit rather than just managing brands individually (Gruen and Shah, 2000). This research focuses on two research questions: First, to what extent are the sources of manufacturer brand benefits for retailers influenced by product category value? Second, how does this category value influence key retailer relationship outcomes associated with the brand?

Literature review

Category management is a key tool of relationship collaboration used internationally by manufacturers and retailers (Basuroy, Mantrala, and Walters, 2001) to optimise value within the business to business (B2B) relationship. Dhar and Hoch (1997) showed the breadth and depth of brands within the assortment both affected the category performance. Manufacturers can influence the retailer's assortment plans by providing retailers with knowledge such as market share, trends and brand expenditure. Manufacturers also welcome the opportunity to focus on the category more strategically with retailers and not just emphasise margins or pricing (Pearce, 1996).

Srivastava, Shervani and Fahey (1998) use the term market-based assets to describe resources such as manufacturer brands that are valued by customers such as retailers. Underlying this framework is the resource-based view (RBV) of the firm. Branding has considerable value for firms in creating cash flow and lowering the cost of capital (Srivastava, Shervani, and Fahey

1997). Brands can enhance cash flows for retailers through pre-established demand, trade promotions, opportunities to up-sell through price premiums and branded variants (Bergen, Dutta, and Shugan, 1996), increased consumer usage (Wansink and Ray, 1996), cross-selling of related products in store (Kasulis et al., 1999) and line extensions (Quelch and Kenny, 1995).

In the B2B literature, there is now an increased understanding of how supplier resources including brands influence buyer-seller relationships (Cannon and Perrault 1999; Jap 1999). Ulaga and Eggert (2006) consider that researchers have tended to focus on the soft side of relationship marketing i.e. trust and commitment without considering the more tangible aspects such as performance or the financial determinants of value. Walter, Ritter and Gemunden (2001) proposed that buyers and sellers create value with direct functions such as profit and volume and indirect relationship based functions such as supplier market innovation and market development. Spiteri and Dion (2004) tested the impact of supplier benefits overall on relationship value and satisfaction. Their model included supplier product benefits and brands which influenced the buyer's commitment to a supplier. Hogarth-Scott and Daprian (1999) found while manufacturer retailer relationships reflected power and dependence, category management was seen as a way of building trust and commitment. However the few studies on the effects of manufacturer's brand on retailer relationships (e.g. Biong, 1993) do not address category effects nor consider the influence of the retailer's customer (Webster, 2000).

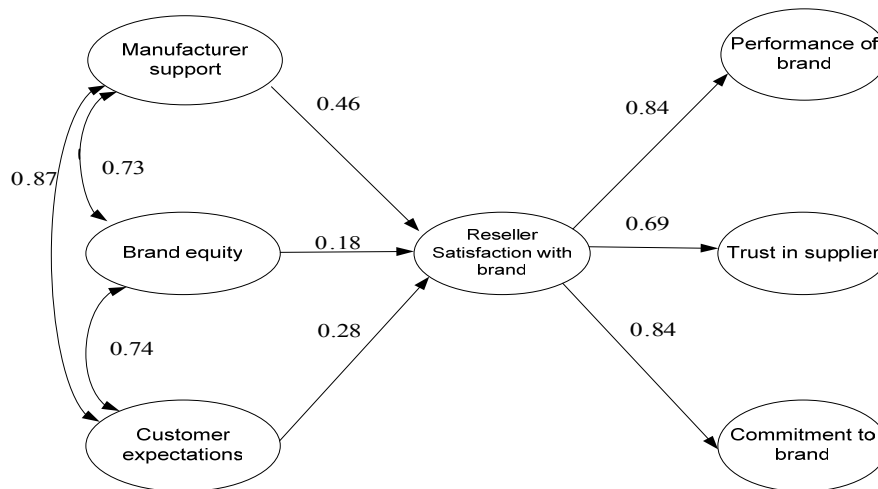
The role of brands as a manufacturer resource within channel relationships was investigated by Glynn and Brodie (2004) (GB) using a multi-method research design. The first phase consisted of exploratory, qualitative research, followed by a confirmatory, quantitative phase. From the qualitative analysis a conceptual model was developed and then quantitatively tested. Within the model, the antecedent constructs were the sources of benefits that manufacturer brands have for retailers. These antecedent constructs influenced retailer satisfaction with the brand (a mediating construct) which in turn influenced trust, commitment and performance of the brand. Structural equation modelling (SEM) was used to analyse the data, allowing for alternative competing models to be considered (Anderson and Gerbing, 1988).

The data was collected with a mail survey of supermarket retailers in New Zealand using the key informant methodology. These retailers were the managers responsible for product ordering in eight selected categories for each store. A questionnaire was sent to 1404 category buyers in 357 supermarkets. Appropriate pre-testing with both retailers and experts in research design was undertaken to ensure that the research instrument was valid and reliable. Seven-point Likert scales were used to record the informant's responses. This itemised rating scale was not only easy for respondents to complete, but meant the data could also be analysed by SEM. The response rate was 30% which compared well to similar retailer studies e.g. Baldauf, Cravens and Binder, 2003) at 20%.

The structural model shown in figure 1 was developed and tested across eight products and sixteen brands. The data showed that manufacturer brands offered three sources of brand benefit including manufacturer support for the brand, the retailer's assessment of a brand's equity and customer expectations for the brand. These brand benefits influenced satisfaction, trust commitment and performance. Satisfaction had been shown to be a strong predictor of loyalty, repurchase intentions and (Ravald and Gronross, 1996). The GB model had extremely good

validity and reliability criteria (Chi-square = 951, $df = 221$, p value = 0.000, $X^2/df = 4.3$, RMSEA = 0.064, GFI = 0.91, AGFI = 0.99). However this analysis assumed no differences between the product categories, but the data obtained provided the opportunity to examine both the direct benefits i.e. the profit and volume benefits and as well as the indirect sources of value such as the brand benefits.

Figure 1: Sources of Brand Value Model (Glynn and Brodie, 2004)



Research design

To answer the research questions, data from the GB model was reanalysed by category type, liquor and grocery. The liquor categories were wine and beer and the grocery categories were toothpaste, shampoo, fruit juice, jam, laundry detergent and dishwashing liquid. Several questions relating to the leading environment were asked of retailers based on a scale from Kumar, Stern and Achrol (1992). A one-way ANOVA with a Scheffe post-hoc test showed that the liquor ratings were significantly different at the $p < 0.05$ level compared to the grocery categories for these questions: ‘category importance in future growth’, ‘changing customer preference’, ‘customer demand’ and ‘number of competing brands’. Retailers thus considered the liquor categories to be more important and more competitive than other categories. This finding was confirmed by local trade data that showed liquor to be one of the top ten supermarket categories (Nielsen, 2001). It was concluded that the liquor categories were very important to grocery retailers because of their higher dollar value and future growth potential.

Findings

To test for the moderating effect of category value, a two-group analysis was conducted within the GB model with product category as a moderating variable. The dataset $n = 820$ was split with the liquor brands in one dataset $n = 237$ and grocery brands in the other $n = 583$. In the high value liquor category the fit statistics were $X^2 = 517$, ($df = 221$) $X^2/df = 2.34$, p -value = 0.000, RMSEA=0.075, GFI=0.84, CFI=0.98, AGFI=0.80 and NNFI=0.98. For the low value grocery

category: $X^2 = 714$ ($df = 221$), $X^2/df = 3.23$, p -value=000, RMSEA=.062, GFI=0.90, CFI=0.99, AGFI=0.88 and NNFI=0.99. Thus the GB model fitted both category types very well.

All freed pathways were significant at $p < 0.05$. The magnitude of the effect for each pathway is similar for both the liquor and grocery categories. This finding also indicates the stability of the factor structure of the GB model. The validity of the structural model is also confirmed as all pathways are significant. Table 1 shows some differences between the liquor and grocery categories in terms of the standardised estimates for each pathway.

Table 1. Two-group Analysis Liquor (High) and Grocery (Low) Value Categories

Parameter	Categories	High value $n = 237$		Low value $n = 583$	
	Lisrel	Std. estimate	t -value	Std. estimate	t -value
Manufacturer support →satisfaction	γ_{41}	.94	4.5	.99	5.9
Brand equity→satisfaction	γ_{42}	.36	2.9	.41	4.2
Customer expectations→satisfaction	γ_{43}	.61	3.3	.51	3.3
satisfaction→performance	β_{14}	.88	10.0	.73	13.9
satisfaction→trust	β_{24}	.66	9.5	.43	12.5
satisfaction→commitment	β_{34}	.85	9.3	.75	12.7
Chi-square ($df = 221$)		517	p -value	714	p -value
X^2/df		2.34	.000	3.23	.000
RMSEA		.075		.062	
GFI		.84		.90	
AGFI		.80		.88	

To answer the research questions, invariance tests were conducted using a two-group analysis in LISREL. This establishes whether the differences between the model parameters are statistically significant. A base model was computed (model 1 shown in table 2). For the first research question, in model 2 the gamma parameters were held invariant and the chi-squared statistic showed no significant change.

Table 2 Two-group Analysis -Liquor and Grocery Categories

Competing models	Chi-square	Df	$\Delta \chi^2$	Δdf	Model comparison	CFI	NNFI	RMSEA	CAIC	Significance at $p < 0.05$
1. γ & β	1357	491				.99	.99	.066	1828	
2. γ invariant	1360	494	3	3	1 & 2	.99	.99	.066	1807	Not Significant
3. β invariant	1377	494	20	3	1 & 3	.99	.99	.066	1825	Significant
4. $\gamma + \beta$ invariant	1383	497	23	3	2 & 4	.99	.99	.066	1807	Significant

Thus the sources of brand value (manufacturer support, brand equity and customer expectations) pathways on retailer satisfaction with the brand showed no significant differences between the two categories. In research question two there were differences in the beta pathways from retailer satisfaction to the relational outcomes (trust, commitment and performance of the brand) between the high and low value categories. Here the chi-squared statistic difference for model 3 is above the chi square threshold ($\chi^2(3) = 7.8, p < 0.05$). The high value liquor categories led to significantly higher estimates of relational outcomes by retailers compared to the grocery categories. In model 4 the invariance test is also significant, but this result reflects the influence of the relational outcomes shown in model 3.

Discussion and implications

The literature has not generally considered the product category value with B2B relationships involving brands. This observation is surprising given that a key marketing strategy for brand manufacturers involves extending brands into other categories and that retailers emphasise category management of brands to enhance return on investment. So evaluation of the sources of brand value within the category context was relevant in the context of this B2B relationship. Several categories were used in this research which enhanced the generalisability of the findings, unlike other retailer studies such as Lassar (1998) and Baldauf et al. (2003) which typically reported results from only one category. A comparison of category responses found that the liquor categories were regarded as more important to retailers than the grocery categories.

Despite the importance of brand equity in the marketing literature, there have been few attempts to quantify the sources of brand value in (B2B) marketing. Moreover in much of the retailing literature the value of product category has not been fully considered. The literature does indicate that retailers are concerned with the financial benefits of category management (Hogarth-Scott and Daprian, 1997) which affect relationship constructs such as trust and commitment. The first research question addressed whether there were any differences in the effects of sources of brand value for retailer satisfaction in the high and low value product categories. This study showed that retailer satisfaction with sources of brand value is the same regardless of the category. However to answer the second research question, invariance testing showed that the higher value liquor category led to stronger retailer commitment to the brand, trust of the manufacturer and perceptions of brand performance.

While retailers do not differentiate between brands whether or not a brand is from a high or low value category, they do differentiate by category value when evaluating brand relationship outcomes. This finding is logical as retailers will be more satisfied with and committed to their investment in resources in areas where they obtain better returns such as liquor. It seems that retailer's rating of brand performance and trust in the manufacturer will also be enhanced. This study further demonstrates the validity and reliability of the GB sources of brand value model and its applicability across different product categories. When evaluating brands within B2B relationships, the value of the category or industry is an important influence on relational outcomes.

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