Available online at www.sciencedirect.com
ScienceDirect
Journal of Operations Management 25 (2007) 512–527
JOURNAL OF OPERATIONS MANAGEMENT
www.elsevier.com/locate/jom

Focal supplier opportunism in supermarket retailer category management

Neil A. Morgan [a,*], Anna Kaleka [b,1], Richard A. Gooner [c,2]

[a] Kelley School of Business, Indiana University, 1309 E. Tenth St., Bloomington, IN 47405-1701, United States
[b] Cardiff Business School, Cardiff University, Colum Drive, Cardiff CF10 3EU, United Kingdom
[c] College of Business, East Carolina University, Bate 3125, Greenville, NC 27858-4353, United States

Available online 30 June 2006

Abstract

Common prescriptions for improving the performance of supermarket retailers center on using key suppliers as ‘‘category captains’’ and leveraging their resources and capabilities to implement effective category management that will both reduce retailer costs and provide a basis for differentiation. However, despite these widespread prescriptions, the potential for supplier opportunism means that supermarket retailers are either skeptical or have failed to make such category management relationships with key suppliers work. Drawing on agency, transaction costs, and network theory, we synthesize insights from qualitative fieldwork with retailer and supplier managers and primary data from 73 category managers in U.K. supermarket retailers to empirically examine antecedents and consequences of category-level focal supplier opportunism. Our findings suggest that focal supplier opportunism decreases retailer category performance and increases militant behaviors among non-focal suppliers in the category supply chain. Consistent with retailer fears, we find that focal suppliers with significant influence in retailers' category management efforts are more likely to engage in opportunistic behavior. However, our results also reveal that retailer fears that being dependent on a focal supplier will lead to greater supplier opportunism are largely unfounded, while supplier dependence on the retailer is also unrelated to focal supplier opportunism. Finally, we find that retailers' ability to monitor – but not to punish – its focal suppliers is negatively related to opportunistic behavior among focal suppliers.

Keywords: Category management; Supply chain management; Retailer–supplier relationships; Grocery retailing; Opportunism; Agency theory; Transaction cost analysis; Network theory

1. Introduction

Grocery retailing is a challenging industry characterized by consolidation, globalization, and the rapid expansion of mass merchandisers (e.g., Smith, 2004; Whipple et al., 1999). In the face of such trends, grocery retailers have increasingly focused on better managing their supply chains (e.g., Boyer and Hult, 2005; Corsten and Kumar, 2005), and in particular on leveraging suppliers' resources and capabilities via category management (e.g., Gruen and Shah, 2000; Economist, 1997). Category management involves treating sets of complementary and/or competing brands as strategic business units and allocating resources within these categories to maximize planned outcomes (e.g., Blattberg and Fox, 1995; Dhar

* Corresponding author. Tel.: +1 812 855 1114; fax: +1 812 855 6440.
E-mail addresses: Namorgan@indiana.edu (N.A. Morgan), KalekaA@cardiff.ac.uk (A. Kaleka), goonerr@ecu.edu (R.A. Gooner).
[1] Tel.: +44 29 2087 6859; fax: +44 29 2087 4419.
[2] Tel.: +1 252 328 4043; fax: +1 252 328 4095.

0272-6963/$ – see front matter
doi:10.1016/j.jom.2006.05.006

et al., 2001). One or more suppliers to a category often have greater resources (e.g., consumer insight, marketing budgets, etc.) and stronger capabilities (e.g., brand management, marketing planning, etc.) required for effective category management than the retailer. To leverage these resources and capabilities, retailers may involve suppliers in the analysis of category-level data, category goal setting, and the formulation and execution of category-level plans (Basuroy et al., 2001; Dussart, 1998).

Analysts suggest that retailers can significantly enhance category performance by allowing a key supplier to assume the role of ''category captain'' where the focal supplier undertakes or has significant input into the retailer's category management efforts (e.g., Blattberg and Fox, 1995; Freedman et al., 1997). However, despite this widespread prescription, many retailers are either unconvinced or have failed to make such focal supplier category management relationships work (e.g., Brandweek, 1999; Stank et al., 1999; Supermarket Business, 1999). The literature offers surprisingly little insights into this important issue. There have been few empirical studies of supplier involvement in category management (Dhar et al., 2001; Gruen and Shah, 2000), and organizational theories offer a vast array of different viewpoints on potentially important factors in understanding retailer–supplier category management relationships. Yet, with grocery retailing being the largest component of global retail sales that now exceed $8000 billion, and analyst estimates that successful retailer–supplier category management collaborations can produce up to 2% of sales in cost savings, and 11% increases in sales, this is clearly an important issue.

This paper addresses this important gap in knowledge. In addition to offering new empirical insights for retailer and supplier managers, our research contributes to knowledge in three areas. First, using qualitative fieldwork we demonstrate that many of the assumptions underpinning organizational theories that may be viewed as relevant to understanding buyer–supplier relationships do not hold in the context of grocery retailer category management. We therefore synthesize insights from our fieldwork with four different organizational theories (agency, transaction cost, network, and relational exchange theory) to identify supplier opportunism as a key construct in understanding retailer–supplier category management relationships, and to develop a model of important antecedents and consequences of category-level focal supplier opportunism. Importantly, this suggests that problem — rather than paradigm-centered approaches may be required to study organizational issues in supply chain management.

Second, we test our model in a sample of U.K. supermarket retailers with data from 73 category managers representing seven grocery retailers across a representative set of 35 different product categories to provide new empirical insights into focal supplier opportunism and its direct and indirect impact on retailers' category-level performance. Our results suggest that retailers are right to be wary of prescriptions to engage in category management relationships with focal suppliers — and that monitoring and the ability to punish opportunistic behavior do not necessarily act as effective safeguards. This has important implications for many supply chain management programs such as VMI and CPFR that rely on relational exchange precepts.

Third, our findings illuminate the supply chain management situation where a buyer's relationship with a focal supplier allows that supplier to directly influence the buyer's relationships with competing suppliers who continue to supply products to the buyer. We find that in such situations, opportunistic behavior by a focal supplier provokes responses from other suppliers as well as having a direct negative impact on the retailer's performance. Since similar buyer–supplier dynamics occur in many other retail sectors, as well as in other industries such as electronics and automotive, our findings offer important new insights into supply chain management in the theoretically important and empirically largely ignored context of networks of suppliers that simultaneously sell competing products to a single buyer.

2. Conceptual model

Much of the operations management (e.g., Krause, 1999; McCutcheon and Stuart, 2000), supply chain (e.g., Stank et al., 1999; Whipple et al., 1999), management (e.g., Dyer and Singh, 1998; Dyer and Nobeoka, 2000), and business-to-business marketing (e.g., Anderson et al., 1994; Cannon and Perreault, 1999) literature over the past decade has drawn on relational exchange theory to advocate more collaborative buyer–supplier relationships. These literatures posit that closer and more collaborative relationships allow buyers and sellers to share resources and obtain mutually beneficial economic outcomes that are superior to those that each party may be able to achieve separately. In grocery retailing, the managerial literature echoes these relational exchange theory notions and advocates more collaborative retailer relationships