Power Shift Paradox in Retailer-Manufacturer Negotiations: How to Take Advantage of the Channel Power Shift?

Abstract

In an experimental investigation, we challenge differences in bargaining power on the success in the domain of retailer-manufacturer negotiations. The power allocations turn out to have a significant impact on negotiation success. In scenarios with substantial differences in bargaining power, particularly female and mixed dyads failed to achieve a mutually satisfactory result.

We learn that an increase in bargaining power does not necessarily lead to an increase in negotiation efficiency. Particularly, the paradox of channel power to profitability from manufacturer towards retailers is considered.

Keywords: Bargaining power, formal negotiation procedure, gender, issue authority.

Track: Retailing, Channel Management and Logistics
1. Introduction
At the end of each year, negotiations between retailers and manufacturers set the course for the next year. They fix the conditions of their further cooperation and negotiate prices, advertising subsidy, shelf space, retroactive payments, sales promotion and the listing of new products. The effectiveness of these negotiations is crucial for success in business life (Bazerman & Neale, 1992). It is suggested in the literature that customers’ relative bargaining power is crucial in determining the service costs (e.g., Kwak, Kim, & Moon, 2006) as well as the price (e.g., Roth, 2006), and the shift of power in the supply channel toward retailers is a controversially discussed topic in retailing (cf. Dukes, Gal-Or, & Srinivasan, 2006 for a recent review). However, little attention has been given to annual negotiations in retailing-related literature. In this paper, we present a comprehensive study about the shift of bargaining power in the context of an annual negotiation task and analyze the force of gender in three different bargaining power allocations (balanced, high, low). Therefore the research questions are:

- How the shift of bargaining power influences negotiation results?
- What is the force of gender in the different scenarios?
- How can the paradox of channel power to profitability from manufacturer towards retailers be explained?

The remainder of this paper is structured as follows. Section 2 provides an overview of the related research and research propositions. A formal negotiation experiment to evaluate these propositions is outlined in Section 3. In Section 4, we depict the experimental results and relate them to already established knowledge. In the last section, we draw conclusions and outline implications for both practitioners and researchers.

2. Related Research and Research Propositions
Bargaining power, the ability to influence the other party, has often been considered as an important factor in negotiation (De Dreu & Van Kleef, 2004). Power activates a general tendency to approach whereas powerlessness causes a tendency to inhibit (Keltner, Gruenfeld, & Anderson, 2003). Gersbach and Haller (2009) highlighted that each individual of a sociological group tends to benefit from an increase in his bargaining power, but falls behind if others in his group have higher bargaining power. Although an individual suffers due to the shift in the bargaining power, the overall utility of the group might increase. Table 1 shows an overview of studies focusing on the power shift in retail chains.

### Table 1: Previous Studies on Power Shift in the Retail Channel

<table>
<thead>
<tr>
<th>Study</th>
<th>Object /Finding</th>
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<tr>
<td>Messinger and Narasimhan (1995)</td>
<td>Power shifts in grocery channel; profitability declined for both manufacturers and retailers.</td>
</tr>
<tr>
<td>Kadiyali, Chintagunta, and Vilcassim (2000)</td>
<td>Analysis of local markets for tuna and refrigerated juice: The usual games in marketing literature do not map the data.</td>
</tr>
<tr>
<td>Ailawadi (2001)</td>
<td>No empirical evidence for an overall shift in market power towards the trade.</td>
</tr>
<tr>
<td>Bloom and Perry (2001)</td>
<td>Manufacturer who sell to powerful retailer do not necessarily have a lower profitability.</td>
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A controversially discussed topic in the literature is the impact of power on the negotiation process and performance (e.g., De Dreu & Van Kleef, 2004; Kwak, Kim, & Moon, 2006; Roth, 2006). In line with Mannix and Neale (1993) as well as Galinsky, Gruenfeld, and Magee (2003), we assume that different gains are due to the manipulation of bargaining power. Considering the issue authority as a proxy of bargaining power, we propose:

P₁: The negotiation result is determined by the allocation of the issue authority.

This proposition implies that the results of three different experimental scenarios, N, M, and MM (which are explained below) are not expected to be equal. However, different influences related to gender are not mentioned at all. The second proposition is in line with empirical examination by, among others, Calhoun and Pride (1999), Curhan, Neale, Ross, and Rosencranz-Engelmann (2008) as well as Stuhlmacher and Walters (1999), who depict women as being less effective negotiators than men and therefore achieve lower outcomes. The existence of these differences is expected in this study, too. Thus, our second research proposition is:

P₂: The negotiation-result is dependent on gender differences.

Furthermore, we suppose that gender differences can also be found in the scenarios with different levels of bargaining power.

P₂a: Gender differences determine the results in the balanced power scenario.

P₂b: Gender differences determine the results in the high power scenario.

P₂c: Gender differences determine the results in the low power scenario.

3 Experiment

The experiment deals with the annual negotiations between a chocolate manufacturer and a large retail chain. The parties negotiated eight different issues: Price in Euro (paid by the retailer, not the shelf price), advertising refunding, shelf space, shelf maintenance, retroactive conditions, promotions at the point of sale, listing of products, and access to customer data (e.g., market basket data, purchase history recorded for loyalty programs) for each product. Each issue has four options, so that there were at total $4^8 = 65,636$ possible agreements in each negotiation. In contrast to Gupta, we did not distribute the issue authority due to the negotiators’ interest. In our case, the issue authority is defined as an external and abstract mix of bargaining power. Therefore, we have three different scenarios:

Neutral scenario (N)

This scenario replicates the experiment by Gupta (1989). Both partners are provided with a balanced power over the negotiated issues. Consequently, the manufacturer and retailer are forced to reach an agreement for all the issues. If they fail to agree on at least one of the set of issues, the agreements for all the other issues become invalid.

Matched scenario (M)

In the matched scenario, each negotiation party has full authority over “natural resources”. The negotiators can improve their overall outcome by compensating the counterpart for a concession.

The Mismatched scenario (MM)

This scenario covers the inverse assignment of authorities. This enables the parties slipping into the counterpart’s role, but keeping their own priorities.

The authority assignments of the three scenarios are outlined in Figure 1.
The issue authority procedure reduces the complexity of the negotiation task and increases transparency by providing a structure of issues. Following Coleman (1973), $C_{ij}$ represents the issue authority of the $i$th party over the $j$th issue. $C_{kj}$ is the issue authority of the $k$th party about the $j$th issue. The issue authorities have to meet $C_{ij} + C_{kj} = 1$ with $0 \leq C_{ij} \leq 1$ and $0 \leq C_{kj} \leq 1$.

A total of 72 negotiators completed a negotiation task. The participants, aged between 20 and 34, had an average age of 24.52 years. A proportion of 59.09% were female. The participants were given a role assignment as a standardized introduction to negotiation. Each negotiator was given further information about the role and the products. Then, the negotiation rules and the settings were explained to the participants, which guaranteed the ability to negotiate. Finally, the participants were paired into dyads and given the opportunity to ask further questions.

4 Results and Discussion

The results of the negotiation task show that the negotiators were unable to reach efficient outcomes. As expected, the results of scenarios M and MM are close, but very inefficient. As expected, dyads in scenario N negotiate most efficiently. To visualize this finding, Figure 2 depicts the results of the “chocolate-task” for all three scenarios:

To evaluate the impact of the bargaining power allocations N, M and MM (balanced, high, low) on negotiation success, we use the Kruskal-Wallis and Wilcoxon rank-sum tests.
Figure 3: Comparison of Joint Gains for all Three Scenarios

As expected, the results of scenarios M and MM are very close. No significant differences can be found. As proposed, the utility of scenario N with a mean of 9.2 is significantly higher. This finding is in line with Mannix and Neale (1993) and extends their research for retailer-manufacturer negotiations. Obviously, the research proposition P1 cannot be rejected, especially in scenarios M and MM where the participants were not able to achieve a mutually satisfactory result. We learn that an increase in bargaining power in retailer-manufacturer negotiations for one of the two parties implies that efficiency of the negotiators decreases. Instead of systematically improving mutual utilities and using integrative bargaining strategies, they rely on their power in scenarios M and MM, although it is irrational.

Our second proposition states that the negotiation result is dependent on gender differences. The dependence of the negotiation result due to gender differences is clear (p < 0.001) and has been tested in several studies prior to this one. In each scenario, masculine dyads achieve consistently high gains and are close to the efficient edge. Feminine dyads realize similar successful results in the balanced scenario. In the scenarios with polarized allocation of power, they turn away from their successful negotiation strategy and reach lower gains. The same behavior is found in the mixed groups. Although they achieve the highest gains (significantly higher than feminine dyads) in the balanced scenario, they negotiate considerable worse in scenarios M and MM.

In scenario N, there are only significant negotiation results between the feminine dyads and the mixed group. Significant differences between the masculine and the other two groups are found in scenarios M and MM with a more extreme allocation of power. Each scenario shows that the negotiation results differ due to gender differences. Our research propositions P2, P2a-c cannot be rejected.

Women tend to avoid a bargaining-solution by using their bargaining power. Although a rational analysis of the negotiation task would prohibit choosing extremes (to avoid playing “tit for tat” with mean results), women do tend to choose them as they rely on their lower affinity for negotiation (Bowles, Babcock, & Lai, 2007). Women used “tit for tat” in unbalanced power scenarios, even if they knew about the negative consequences, because of their higher reciprocity (Croson & Buchan, 1999). A change of the “tit for tat” strategy is paired with higher vulnerability (Pietroni, Van Kleef, De Dreu, & Pagliaro, 2008) and could not be observed within this study. This might clarify the observed behavior in the mixed dyads.
5 Conclusion and Summary

This study demonstrates that the assumed advantage of strong bargaining power does not necessarily lead to success in annual manufacturer-retailer negotiations. With changing conditions, advantages can change into disadvantages with the result of lower outcomes. In scenarios with substantial differences in bargaining power, female and mixed dyads failed to achieve a mutually satisfactory result whereas men negotiate at a consistently high, but still inefficient level. Gender differences in the reliance on bargaining power are confirmed.

This leads to the following contributions for theory building in retailing:

- Imbalanced issue authority decreases the efficiency of bargaining results.
- Participants achieved on average the highest outcome in balanced issue authority scenarios.
- Instead of improving the utility systematically especially women tend to rely on their power.
- Results provide an explanation of paradoxon of channel power to profitability in the literature.

Like the majority of scientific studies in negotiations this study is limited by the cultural variety of participants. Further Non-Western cultures and their impact on negotiation behavior are still waiting to be challenged.

Therefore we formulate the following practical implications:

- Practitioners in commercial negotiations cannot rely on an advantage in bargaining power to increase their success. Bargaining power about an issue does not compensate for insufficient negotiation skills and efforts.
- In the case of unbalanced channel power, the formal structuring - of the negotiation situation and possible solutions - is likely to increase overall success.
- Do not rely on your power!

Considering the differences above, we argue that bargaining power does not compensate for insufficient negotiation skills or efforts. On the contrary, unbalanced bargaining power decreases the likelihood of success.

References


