

Effects of Increasing the Power of Retail Chains on Competitive Position of Producers

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Abstract: There is a retailing revolution in progress, whose basic characteristic is strengthening the power of retailers. This strengthening causes shifting of the powers between members in the marketing channels and thus it leads to the change of positions and relationships within the channel. The trade revolution affects all the segments of goods and services, and it reflects, with the greatest extent and with special content, on the sphere of food and other products of everyday purchase and consumption. Precisely in this domain, the position of the large retail chains extremely strengthens in comparison to other players in the marketing channels. The effects which cause contemporary changes in the sphere of retail on relationships in the marketing channels are of substantial importance for functioning and survival of the channels. The question of a new position of producers in them is of special importance. All those, and especially smaller producers, are highly affected by the situation in which they are not able to resist the accumulated purchasing power of retailers. However, despite the fact that producers both face the ever-growing and more complex demands the large retail chains impose on them and at the same time become more dependent to the decreasing number of more and more powerful retailers, they also recognize the advantages of doing business with such partners. Simultaneously, the role of modern state is of high relevance. A state is expected to precisely and comprehensively define adequate rules for market players and to work intensively on their enforcement and sanctioning their infringement.

Keywords: marketing channels; retail chains; producers, power

1 Introduction

Strengthening the retailer's power is a basic characteristic of the modern retailing revolution. It characterizes the commercial life in the European Union and other developed trade economies in which the retail structure has been transformed from the presence of numerous minor and independent retailers into the existence of dominant, strong national and international retail chains. Retailers are rapidly

growing, developing and their power in marketing channels constantly increases. They strengthen their market share and market power, and at the same time increase retail market concentration. In accordance with the stated, an ever-growing part of the market is handled by a limited number of traders that become gatekeepers for approaching consumers [8].

Retailers become individually stronger, and retail as a sector, at national, as well as in the global market, becomes ever stronger. Parallel to increases of retail market concentrations and the increases of market shares of the individual retail chains, the power of retailers is constantly increasing compared to the power of the other members of the marketing channels [14]. Large retailers which undergo the process of restructuring, also apply modern technological innovations and conduct internationalization of their activities, become the mainspring and main force for development of trade and market within the national and international framework.

Measured in volume of turnover, property or share capital, retailers are today, in most trade groups, significantly bigger than producers. They are starting to dictate conditions even to those huge global producers whose prevailing part of production is put on the market exactly through global trade giants. As producers become more dependent on retailers, their negotiating position weakens and as a result invest more efforts in building relationships with retailers, and less in building relationships with the consumers. In this kind of situation, retail takes over numerous marketing functions which were, traditionally, performed by wholesalers and producers. Retail also takes over the leading role in developing relations with consumers, and thus acquires the dominant position within the marketing channels. At the same time, as a consequence, numerous members of marketing channels become irrelevant.

Shifting the power from producers to retailers relates primarily to increasing concentration of retail industry, successful introduction of private label products, development of a concept of category management by retailers, ever growing application of informational technology in retail, and insufficient, limited shelf space for numerous new products introduced on market every day and the like. Consolidation and raising the level of retail sector concentration enables a better negotiating position of the retailers in comparison to producers, lower purchase prices, more efficient and more effective retail business activities, and strengthening of the price competition along with a higher level of services for the consumers.

It is positively sure that in the mentioned processes of strengthening the power of retailers, the significant potential effects of adding new value for consumers are becoming more and more evident. However, changes within the retail sector affect substantial number of stakeholders and they intensively influence the activities of all other market players: producers, wholesalers, retailers, in addition to and state institutions. In this sense, increasing the power of the retailers in marketing

channels intensively opens numerous theoretical and practical questions. Basically, they all lead to the same question, is the retail concentration really in the interest of other members within the marketing channels, and among others – the producers?

That is the question which requires, both in this study and generally, thorough research in order to find concrete answers. The focus is, certainly, on the power of retailers and its usage on other players in marketing channels. In that sense, fundamental questions are if and how producers handle the asymmetric relationships within the modern marketing channels. Can the producers confront the accumulated power of retailers, the pressure retailers put in relation to prices and numerous other elements of their mutual business relationships, as well as to use the advantages of doing business with large retail giants?

Producers' problems mostly manifest in trade of fast moving consumer goods, which means food and other products of everyday purchase and consumption, because the position of retailers is the most dominant in this field. This is the basic reason why the focus of research in this study is the position of producers in this field. Furthermore, in this domain of market, the need for state intervention and harmonization of positions in regard to current problems and open questions of trade policy becomes more evident, which is a very difficult task for countries in transition, such as Serbia. Transition to the modern market, which includes protection of market players' freedom and their free competition within the market up to the level when the market abuses are detected, is not an easy task.

In any case, modern changes in the retail sphere are of high complexity. In order to comprehend those, it is necessary to comprehend the functioning of marketing channels, balance and (inter) dependence among the members of the marketing channel, influencing capability of members who have the power, not only the positive and constructive, but also the negative and destructive sides of power, and finally, the structural changes in the overall economy and market competition, which are the result of increasing the power of retailers in the marketing channels. In accordance with this, thorough research of changes in regard to the power of members and impact to the management and general functioning of marketing channels on every market become highly important. Also, due to the importance for the national market and overall economy development, the position and satisfaction of producers become an important new focus. Bearing in mind this, the special enigma to be solved is the future role of the state in the process of regulating and creating a desirable retail structure.

Shifting the market power from producers to retailers, thus eliciting changes in the marketing channels has been the focus of research since the beginning, of the last decade, of the twentieth century. Simultaneously, with the increase of market concentration and strengthening of the powerful retailers, an intensive academic dispute on how the changes in regard to the power of members in marketing channels reflect on the management of channels, positions and survival of certain

members itself, i.e. general functioning of the marketing channels. Despite the fact that phenomenon of existence of power and demonstration of the power belongs to, by now, the most popular subjects in the field of marketing and trade, these questions continue to draw attention of scientists and experts on a daily basis and with greater care.

Many researchers considered that power was a negative aspect and that those with power would strive to change the behavior of the partner using the strategy of compulsory impact. However, the attitude that power could be useful in case that it created natural distribution of activities and coordination among the members of marketing channels became the prevailing one. The latest research suggest that power in marketing channels could be strategically used, and strategic uses of power could make differences in inter-firm relationships and distribution efficiency [19]. The market players are expected to use power as an effective tool for supply chain management [4], creating the atmosphere of fair relationships and enhancing the efficiency of the overall market. In accordance with it, today the power is broadly accepted, not only in academic circles, but in practice itself by market players. The significance of powerful retailers becomes more evident, and the total theory and practice of marketing changes along with the stated trends.

However, at the same time, academic circles, also, more often raise question whether the increase of gigantic retailers is unambiguously useful to other channel players, and, finally and most important, to consumers. Questioning of the increase of a retailers power and use of that power raises many disagreements and controversies which could be worrisome. Especially in regard to potential limitations and constraints in the vertical dimensions of the channel and jeopardizing the survival of other players in marketing channels, primarily of producers and small and medium-sized retailers, higher prices for consumers, and making barriers for entering the retail market and alike. But, regardless of this, it is doubtless that the dominant attitudes in the works of modern authors are that although there is concern, whatever the problems concerning the concentration of buying power, retailers need to be monitored as long as they compete fairly for market share and pass resulting benefits on to consumers [10]. Also, when this is not the case, then with adequate anti-monopolistic policy and credible and effective anti-monopolistic institutions, one could eliminate those imperfections and deviations on the market which threatens to highly jeopardize its efficiency [17].

Greater power means the possibility of greater influence on its own position and position of its partners, but also means the possibility of showing selfish disregard for others. Unfortunately, there is always a danger of it abusing its own power and the position of weaker partners. The bigger the asymmetry in balance will mean lesser advantages for the weaker side, but there is also the possibility of imposing punishments and enforcement by the more powerful one. However, for many companies, the lure of partnering with a mega-distributor is irresistible [18], and

acceptance of power-imbalance is a key first-step to successful relationship building [11].

In accordance with this, in modern market conditions producers, and especially those with less power, try to, primarily, modify and present their role as a more significant one to those more powerful retailers. Their goal is to become their necessary suppliers, being aware that a sustainable position in modern marketing channels can be established only on the basis of a long-term cooperation and partnership in relationships, characterized by mutual dependency of its members. Be aware that both the level and form of mutual dependency define power relations between the channel members; and, it is also the seed of potential channel conflict [13]. That is the reason why they are vigorously and purposely dedicated to cultivating and managing the development of their long-term mutual relationships. Such long-term relationships develop mutually beneficial outcomes and are characterized by mutual trust, open communication, common goals, commitment to mutual gain, and organizational support [6]. Success in this endeavor, in current conditions of high power concentration and polarization of relationships, will become to producers, especially the weaker ones, preconditions for survival. And, as the economic trends become less predictable the long-term relationships between distribution channels partners becomes an increasingly more important part of the company's long-term strategy [5].

The above mentioned clearly suggests that the traditional theory of exchange now is being analyzed in the light of new relationships established in the modern market conditions between a retail subject and other players in marketing channels, that, positively, the theories of exchange that served marketing well for 40 years are giving way to relational concepts [1]. Besides, analyzed trends make more complex, both in theoretical and methodological sense, the estimation of effects which are the outcomes of increasing the power of retailers in marketing channels.

However, in practice also, more attention is paid to the analysis of the existing relations on the market. Be aware that today a firm's only sustainable advantage is its ability to learn and anticipate market trends faster than competition [12], producers try to understand better numerous concrete situations in which they fail to adequately confront the demands of powerful retail giants. Primarily, during the negotiation on starting and developing partnership between them as suppliers and representatives of procurement department of modern retailers, producers face four key and mandatory aspects [15]:

- sufficient quantities to the whole chain;
- supplier interest in the long-term relationship with the retailer;
- possibility of traceability back to the primary producer'; and
- supplier presence, in one way or another, on the chain's market.

After that, they face the pressure made by the highly powerful buyers who try to minimize the seller's differences in price and decrease transactional value to the maximum in order to, primarily, have space for calculating their own higher margin in price while selling goods in the next phase of distribution. Producers relent under their capability to mercilessly and cruelly lower purchase prices to a low uneconomical level which often is a threat to producer's survival. It is assumed that in this situation suppliers will participate in the supply chain channel as long as his profit is non-negative [9].

In addition, producers, mostly the smaller ones, often complain that retail management favors only certain suppliers and mostly the biggest ones. They are concerned because they believe that category management in this way leads to narrowing categories of products to several brands and that due to this other suppliers are in constant danger of having their products deleted from the assortment. They often see category management as a barrier for entering in the assortment, especially of secondary and tertiary brands, and they are not far from the truth. In accordance with this, today, it is more evident that "category management (CM) has become one of the core areas of interest to both producers and retailers" [7].

Besides, existing of own private label products in retail assortment, based on decisions of retailers' category managers, means that retailers are no longer only agents selling producers' brands: they are now also their competitors [2]. That phenomenon within the analysis of producers' position in conditions of strengthening the retailers cannot be overlooked. Retailers' private label products today highly compete for the shelf space and in these conditions, from producers' point of view, this kind of competition looks unfair. Competing for the shelf space has become so exhausting that many producers perceive it as the most expensive real estate in the world.

And not only for that. Realization of higher profits and greater sales volume at the same time makes it possible for powerful retail chains to become more and more powerful on a daily basis. Their purchasing agents become more skilled negotiators and with a larger horizontal market share will have larger orders to place with the firm's supplies, thereby reducing its invoice costs and boosting its power as a buyer" [16]. By increasing their "upstream" market share simultaneously transferring additional costs to producers and taking additional benefits from them, retailers will increase their horizontal participation and/or profits in this way. This, further, enables them to become more successful in "upstream" competition, which leads retailers, again, to achieve larger horizontal market share and/or profits, and in circles.

2 Objective and Hypothesis of the Research

The subject of this research relates to the effects caused by modern changes in the sphere of retail to the competitive position of producers. The aim is to evaluate the consequences of increasing the power of retailers in comparison to producers, which includes thorough and comprehensive analysis of positive and negative influences on the position and realistic interests of producers. In order to enlighten the mentioned influences, we have conducted research which, also, should confirm or disprove the defined hypothesis:

H1: *Increasing the power of retailers brings a higher level of satisfaction to large producers than to the small and medium-sized producers-*

H2: *Producers, in the conditions of existence of powerful retail chains, express more satisfaction in operating with large retailers than with the small and medium-sized ones.*

H3: *Increasing the power of retailers pushes, primarily, small and medium-sized producers to associate in order to meet the requirements of large retailers for developing long-term interrelations between them and, in this way, to ensure their own survival in marketing channels.*

A detailed survey on the satisfaction of manufacturing firms in Serbia should, in accordance with the defined elements of business relationships, show the level of producers' satisfaction in doing business with other members of marketing channels in modern conditions characterized by increasing the power of retailers. This is especially, focused on cooperation with large and small and medium-sized retailers, separately. The whole picture of that cooperation will be significantly completed by researching the satisfaction indices per individual elements of business relationship of producers and large and small and medium-sized retailers. Besides, producers' concrete responses will contribute to the evaluation of the existing level of their satisfaction in doing business with large and small and medium-sized retailers, as well as understanding of their needs for basic changes.

Results of this research should make clear, primarily, to the creators of trade policy what is the direction and influence of ongoing changes in relationships between members of marketing channels, in conditions characterized by increasing retail power. They should clarify the existence of positive influence that those processes have on trade sector of economy.

The results should enable redirecting the trade policy away from uncritical accusations of modern, large, retailers of creating an unfavorable competitive position of producers in marketing channels, in the situation in which producers mostly lose their positions and influence due to their insufficient pro-activity in terms of adjusting to new competitive conditions on market. The mentioned uncritical approach to acting and influencing of modern powerful retail chains is typical, especially, for the countries in the initial phase of retail market

consolidation. Unfortunately, those countries, due to the lack of knowledge and understanding of modern changes, often resort to state intervention in the market that is directed towards the limitation of development and power growth of retail chains. Also, countries in transition slowly develop modern concepts and contents of trade policy that especially leans toward the domain of anti-monopolistic and, generally, a policy of regulating competition on the market, which can be useful and should be used in cases where powerful retailers do abuse their power.

However, as the countries in transition, such as Serbia, are slowly adapting to creation of a modern market environment, producers are equally slowly undergoing changes. This primarily refers to small and medium-sized producers. It is expected the research will confirm that their position, in the conditions characterized by increasing the power of retailers, is significantly worse than those of large producers. It is assumed that the analysis of satisfaction of small and medium-sized producers with small and medium-sized retailers, as well as the analysis of the certain elements of business relationship between producers and retailers and their concrete responds will lead to a conclusion that the priority strategy for strengthening positions of small and medium-sized producers is their mutual connecting and associating in order to be able to cooperate with, to them highly attractive, large retailers and ensure their survival in marketing channels.

3 Research Methodology

With a view of researching the effects of demonstrating the power of large retailers on producers in the marketing channels within the market of the Republic of Serbia, in accordance with the defined methodology, the concrete research has been conducted, as well as analysis of the results and estimation of the effects of increasing the power of retailers in comparison to the producer's position. The obtained results were basis for giving answers to research hypothesis.

Instead of the (hardly feasible) possibility of measuring precisely the large retailers power and of giving a precise evaluation of the positive and negative effects of its impact on producers, researchers took into consideration the attitudes, i.e. opinions, of a significant number of producers. For the current conditions on the market of Serbia, extensive surveys were conducted which offered a relatively good picture on the significance and effects of increasing the power of retailers on the competitive position of producers in marketing channels.

In order to understand a new position of producers and their relationship with other members in marketing channels, satisfaction of producers in operating with other members in marketing channels was determined by calculating satisfaction indices for each individual relationship. To test defined hypothesis, it is highly relevant to conduct thorough analysis by dividing producers and retailers into large and small and medium-sized, where the criteria of size was a number of

employees (up to 200 employees for small and medium-sized and 200 employees for large ones).

Satisfaction indices of producers were calculated for the following individual business relationships (ij): producers (all) with wholesalers (1a); producers (all) with retailers (1b); producers (all) with small and medium-sized retailers (1c); large producers with wholesalers (2a); large producers with large retailers (2b); large producers with small and medium-sized retailers (2c); small and medium-sized producers with wholesalers (3a); small and medium-sized producers with large retailers (3b); small and medium-sized producers with small and medium-sized retailers (3c).

To calculate the satisfaction indices for each individual relationship, nine key criteria were defined (k) (elements of business relationship), and they were the basis for evaluating cooperation between members, and for each of them the survey respondents specified:

- relevance for cooperation – points from 1 to 10; and
- degree of satisfaction with the existing cooperation (satisfaction rate) – points from 1 to 5.

The following table (Table 1) shows the elements of a business relationship which were used in the questionnaire:

Table 1
Elements of a business relationship – criteria (k)

(k)	Elements of a business relationship – criteria (k)
1.	Prices, rebates and additional payments
2.	Terms of payment (due to date) and regularity of payments
3.	Sales potential
4.	Range of assortment
5.	Activities and costs to be borne by a concrete member
6.	Cooperation in terms of promotional and other marketing activities
7.	Data exchange and electronic communication
8.	Level of trust
9.	Potential for development and possibility of a long-term partnership

Additionally, the significance of single elements of business relationship were analyzed, as well. Satisfaction indices per all the elements of a business relationship, for relationships of producers towards large retailers and towards small and medium-sized retailers, were calculated.

Within the obtained data processing, the first step was normalization of satisfaction rate ($V_{ij,k}$) obtained for each element of a business relationship (k) individually, as follows:

$$X_{ij,k} = 100/4 (V_{ij,k} - 1), \quad (1)$$

($i=1, 2$ ili 3 ; $j=a, b$ ili c ; $k=1, 2, \dots, 9$)

(in case that a producer rated a sales potential of a retailer with 5, then a value obtained by normalization would be 100, with 4 – 75, with 3 – 50, with 2 – 25 and with 1 – 0).

Satisfaction index X_{ij} , which measures the relationship (ij), was calculated as a weighted average of the obtained normalized rates $X_{ij,k}$ by each criteria. Ponder was the obtained rate of relevance for cooperation of certain criteria i.e. rated elements of business relationship (from 1 to 10). Calculating satisfaction index for each separate relationship was performed according to the formulae for weighted average:

$$X_{ij} = \frac{\sum w_{ij,k} X_{ij,k}}{\sum w_{ij,k}}, \quad (2)$$

where $w_{ij,k}$ stands

for average ponders of a k-criteria of an individual relationship (ij).

The following table (Table 2) illustrates procedure for calculating satisfaction index:

Table 2
Illustration of procedure for calculating satisfaction index

Elements of business relationship – criteria (k)	Satisfaction rate by criteria	Normalization of satisfaction rate	Relevance for cooperation by criteria	Result
1	3	50	8	400
2	3	50	8	400
3	3	50	10	500
4	3	50	10	500
5	3	50	8	400
6	4	75	9	675
7	2	25	7	175
8	3	50	9	450
9	3	50	10	500
Total			79	4000

Satisfaction index in the presented case values was $4000/79=50.63$. The whole procedure provides value of satisfaction index in the interval from 0 to 100, and the same methodology is also applied for calculating satisfaction index by the elements of business relationship individually (by criteria individually) for relationships of producers with wholesalers, with large retailers and with small and medium-sized retailers.

Methodology, explained in the previous section, was applied for processing the data collected in the field research, on the sample of 30 producers operating within the market of the Republic of Serbia. The research was conducted on a

stratified and purposely (non-random) chosen sample. In the chosen sample, 17 producers with more than 200 employees (big producers) and 13 producers with less than 200 employees (small and medium-sized producers) were interviewed. On average, they co-operate with 210 retailers and 23 wholesalers. All the producers in the field have fast moving consumer goods. In defining the sample, adequate geographic spread, size of undertakings, measured by number of employees and turnover, as well as group of products with the largest share of turnover of a selected producer was taken into consideration. The sampling included around 45% of a turnover of food and other fast moving consumer goods, which is generated in the producer-retailer relation within the Serbian market. The calculated sample error was 17,8%. The basic method used for obtaining data from producers was a direct personal interview (face-to-face) which was guided by a pre-defined questionnaire, during the first quarter of 2013, which was conducted on the basis of previously developed questionnaire. The data collected within the conducted survey research were processed and analyzed using statistical program SPSS 15.0.

4 Research Results

In the questionnaire they filled out, the producers determined, primarily the significance of the certain offered elements of a business relationship with wholesalers and with retailers. After that, they rated the level of current satisfaction they had within the existing business relationships with wholesalers, and, now separately, with large and small and medium-sized retailers, based on the same elements. According to the defined methodology, based on the obtained rates, the average satisfaction indices of producers in operating with different partners in marketing channels were obtained. The results are presented in the following table (Table 3):

Table 3

Average satisfaction indices of producers in operating with other members in marketing channels

Satisfaction of → With ↓	Producers	Large producers	Small and medium-sized producers
Producers			
Wholesalers	62.24	63.36	54.49
Large retailers	63.89	64.62	61.68
Small and medium-sized retailers	55.17	56.40	51.47

In current conditions of reached, relatively significant, level of concentration within the market of the Republic of Serbia, all of the producers, express the highest level of satisfaction in terms of their relationship to large retailers.

The satisfaction is even higher when we observe the business cooperation of large producers with large retailers. This is the highest level of satisfaction of producers in relation to the different business relationship they have with their partners within the marketing channels. Average satisfaction index of small and medium-sized producers with their business relationship with large retailers is markedly lower than the average satisfaction index of large producers.

The obtained data indicate that operating with wholesalers within the market of Serbia brings to the producers, whether we analyze all the producers or individually large and small and medium-sized ones, a somewhat lower level of satisfaction in comparison to operating with retailers. However, this satisfaction is in all cases more significant than the business relationship which producers have with small and medium-sized traders.

Also, if we compare the satisfaction of large producers to the satisfaction of small and medium-sized producers, we can instantly notice the significant differences. Large producers in comparison to small and medium-sized producers are noticeably more satisfied with their business relationship with wholesalers, with large retailers and with small and medium-sized retailers.

One can clearly notice the significant difference of satisfaction of producers in their business relationship with large and small and medium-sized retailers. The obtained average satisfaction indices of producers are presented in the following table (Table 4):

Table 4
Satisfaction of producers with the business relationship with large and small and medium-sized retailers ranked by an average satisfaction index

	Satisfaction		Index
1	large producers	large retailers	64.62
2	producers	large retailers	63.89
3	small and medium-sized producers	large retailers	61.68
4	large producers	small and medium-sized retailers	56.40
5	producers	small and medium-sized retailers	55.17
6	small and medium-sized producers	small and medium-sized retailers	51.47

The obtained data indicate that when operating with large retailers, producers show a much higher level of satisfaction in comparison to operating with small and medium-sized retailers. This can be applied not only to the large producers, but to producers as a whole or small and medium-sized ones.

One can easily notice that the biggest difference in expressed satisfaction is related to the satisfaction of small and medium-sized producers with their business relationship with large retailers, on one side, and with small and medium-sized retailers on the other side. Also, it is interesting that satisfaction of small and medium-sized producers with large retailers is significantly higher than the satisfaction of large producers with small and medium-sized retailers. Surely, the lowest satisfaction is expressed by small and medium-sized producers with small and medium-sized retailers.

The collected data enabled conduction of a deeper analysis. In that sense, the results of the research depicted the business relationship of producers with retailers by each element of business relationship, as well. The following table shows the relevance for cooperation of certain elements for the producers in relation to business relationship with retailers and satisfaction indices of producers with large and small and medium-sized retailers on the basis of those elements, with ranking (Table 5).

Table 5

Satisfaction indices of producers by elements of business relationship of producers to large and small and medium-sized retailers

Rank	Elements of business relationship of producers with retailers	Relevance for cooperation	Large retailers		Small and medium-sized retailers	
			Satisfaction index	Rank	Satisfaction index	Rank
1	Prices, rebates and additional payments	9.07	54.50	8	68.93	1
2	Terms of payment (due to date) and regularity of payments	8.73	58.11	7	56.20	5
3	Sales potential of retailers	7.67	81.41	1	57.83	2
4	Level of trust in retailer	7.37	60.97	5	52.71	7
5	Range of assortment of retailer	7.23	73.04	2	56.91	4
6	Cooperation in terms of promotional and other marketing activities	7.20	68.98	3	55.79	6
7	Activities and costs to be borne by a concrete member	7.17	50.58	9	52.33	8
8	Potential for development and possibility of a long-term partnership	7.00	67.74	4	57.26	3
9	Data exchange and electronic communication	5.97	59.64	6	38.55	9
AVERAGE SATISFACTION INDEX			63.89		55.17	

For producers, the greatest relevance in their relationship with retailers reflects in prices, rebates and additional payments, which includes sale prices and rebates given to retailers, as well as additional payments to retailers, such as payment for “enlisting the products” and alike. It is followed by terms of payment (due to date) and regularity of payments. Elements of business cooperation with the smallest relevance for producers are potential for development and possibility of a long-term partnership and data exchange and electronic communication.

When it comes to prices, rebates and additional payments, the most significant elements for producers, they express a very low level of satisfaction in relationship with large retailers, in comparison to the relationship with small and medium-sized retailers where this element has the highest level of satisfaction and the highest satisfaction index. However, judging by the obtained satisfaction indices, except for prices, rebates and additional payments and the element related to activities and costs to be borne by producer, in all other elements producers express higher level of satisfaction in operating with large retailers compared to operating with small and medium-sized retailers.

Higher level of satisfaction of producers in operating with large retail chains is confirmed by their concrete responses to questions related to their attitudes on operating with large and small and medium-sized retailers. The obtained results are presented in the following table (Table 6).

Table 6

Concrete producers' responds to the questions related to operating with large and small an medium-sized retailers

Questions	Responses	
Do you prefer operating with large, modern, retailers or with small and medium-sized, traditional, retailers (who do you rather choose for a partner)?	With large, modern, retailers	Small and medium-sized, traditional, retailers
	86.70%	13.30%
Do you think that development of retail chains is in your and interest of other producers?	I think	I do not think
	70.00%	30.00%

The responses definitely confirm that producers prefer operating with large, modern retailers to small and medium-sized traditional retailers. To be specific, 86.70% of the respondents rather choose for a partner modern, powerful retail chains. 13.30% of the respondents rather choose small and medium-sized traditional retailers. Their responses to the question if they think that development of retail chains is in their interest and interest of other producers, 70% of them responded positively, while 30% of them did not think that this development was in their interest.

Within the scope of questionnaire, the producers were expected to estimate, from 1 to 5, the role of the state in terms of creating modern, incentive, market conditions, for predefined fields. The obtained average rates are presented in the following table (Table 7).

Table 7

Rates for the role of the state in terms of creating modern market conditions given by producers

Rank	Field	Rate
1	consumer protection policy	3.30
2	initiating new (international) trade chains to enter the Serbian market	2.90
3	competition policy	2.90
4	involving market players in the creation of legislation framework process	2.80
5	protection against unfair market competition	2.43
6	preventing abuse of market power of large retailers	2.40
7	small and medium-sized retailers protection policy	2.17
8	initiating domestic retail chains to enter foreign markets	1.83
AVERAGE		2.59

The first-ranked field by producers is consumer protection policy. The producers gave noticeably lower rates to the policies which are highly important for protection of their competitive position: competition policy, protection against unfair market competition and preventing abuse of market power of large retailers. On the basis of the obtained rates, the average rate of the role of the state is calculated as (2.59).

5 Testing the Hypotheses

Research has confirmed the first hypothesis that “*increasing the power of retailers brings a higher level of satisfaction to large producers than to small and medium-sized producers*”. Average satisfaction indices of producers, in operating with other members in marketing channels: with wholesalers and large and small and medium-sized retailers, indicate that, in current conditions of reached, relatively significant, level of market concentration in Serbia and significant role of large retail chains, producers, generally, but also large and small and medium-sized producers separately, express the highest level of satisfaction in terms of operating with large retailers. This confirms that strengthening large retailers brought a higher level of satisfaction to producers.

Large retailers, whose role on the market becomes stronger every day, ensure the greatest satisfaction to large producers. That satisfaction, in accordance with the results obtained in this research, as far as small and medium-sized producers are concerned is at a remarkably lower level. And, in any case, large producers express more satisfaction, in current conditions, with all the partners in marketing channels: wholesalers, large retailers and small and medium-sized retailers in comparison to small and medium-sized producers. This, without doubt, confirms that the development of large retail chains is in the interest of large producers which are able to cooperate with them and have the opportunity to use the

advantages that this cooperation provides. Thus, their competitive position in marketing channels strengthens and, surely, places small and medium-sized producers in a more inferior position, confirming that, generally, increasing the power of large retailers is not in the interest of small and medium-sized retailers.

Researches have also confirmed the second thesis that *“producers, in the conditions of existence of powerful retail chains, express more satisfaction in operating with large retailers than with small and medium-sized ones.”* Average satisfaction indices clearly indicate that the producers, all of them and, individually, large and small and medium-sized ones, express higher level of satisfaction, when operating with large retailers than with small and medium-sized retailers. The fact that, in conditions characterized by powerful retail chains, producers express more satisfaction in operating with large retailers than with small and medium-sized ones is confirmed, also, by the analysis of their satisfaction indices per individual elements of business relationship with large and small and medium-sized retailers. Out of 9 elements of business relationship of producers with retailers, the satisfaction index is by 7 elements higher when observing relationship of producer with large retailers then with small and medium-sized ones.

The highest level of satisfaction with its business relationship with large retailers is expressed by large producers. This difference in satisfaction is especially noticeable in the case of small and medium-sized producers which express substantial differences in satisfaction with their business relationship with large retailers, on one hand, and on the other hand, with small and medium-sized ones.

Finally, concrete responses the producers gave to the questions related to large and small and medium-sized retailers have definitely and clearly confirmed that producers prefer operating with large, modern, retailers to operating with small and medium-sized, traditional, retailers. A significant majority of them believe that development of large retail chains is in their interest, and in other producers' interest as well. Considering this, the advantage the large retailers have over small and medium-sized retailers is founded on higher level of satisfaction which producers express in operating with large instead of operating with small and medium-sized retailers.

The research confirmed the third thesis that *“increasing the power of retailers pushes, primarily, small and medium-sized producers to associate in order to meet the requirements of large retailers for developing long-term interrelations between them and, in this way, to ensure their own survival in marketing channels”*. The research has indicated that large and small and medium-sized producers express a higher level of satisfaction concerning cooperation with large retailers. At the same time, small and medium-sized producers show significant differences in satisfaction related to operating with large retailers in comparison with small and medium-sized retailers. However, in accordance with the structural changes occurring in the retail sector and intensive growth of retail chains, the issue of availability of sufficient quantities for the whole chain of retail shops becomes one of priority criteria for starting cooperation and development of

partnership between producers and modern retailers. Along with the intensive growth of retailers this problem becomes more evident because there is decreasing number of producers which, with their own developing capacities, can cope with highly dynamic development of retailers' demand for products.

The fastest way for a producer to meet the demands for increased quantities is to establish horizontal cooperation with other producers, of same or similar products. Producers are additionally pressured to develop such long term cooperation by growing wishes of modern retailers to establish long term partnership with their suppliers on various segments. Horizontal cooperation and development of the long-term relationships, primarily, with producers, and later with large retailers is exactly the way for producers to achieve a higher level of satisfaction per elements of business relationship with retailers.

The research has proved that producers find that the most important element of a business relationship with retailers is related to prices, rebates and additional payments. Satisfaction index of producers for that element, in a case of relationship with large retailers, which present highly desirable partners, is at a low level. The same situation is with the second important element which relates to terms of payment and regularity of payments or the element related to activities and costs which are borne by producer. Those three elements are related with the lowest satisfaction indices of producers. Horizontal cooperation of producers which leads to strengthening their power and negotiating position is the way to change the current, unsatisfying situation. This in particular refers to small and medium-sized producers which have limited ability of access and the weakest negotiating positions in relation with large retail chains.

Constantly strong pressure made on producers by large retailers and their purchasing managers is directed at lowering the transactional prices and increasing retail margins. In that sense, producers will be able to meet demands of large retailers if they expand their production capacities and thus secure the effects of economies of scale and further increase the efficiency of their work.

Horizontal cooperation and development of long-term interrelations between producers, with the aim of expanding their capacities so as to satisfy demands of large retailers in terms of prices and quantities, will be of great importance also in the case of manufacturing private label products for retailers. Anyhow, the smaller producers, the greater need for their joining and long-term strategic operating so as to meet the demands of large retailers and ensure long-term cooperation with them as the most preferred partners. That, also, means survival in marketing channels on the modern, every day more concentrated, and global market.

Conclusions

By analyzing the effects of increasing the power of retail chains on competitive position of producers in marketing channels and relationships between large retailers and producers, it becomes evident that demonstrating their significantly increased market and purchasing power causes visible effects on the competition at the level of producer. All, and especially small producers, are strongly affected

by the situation in which they are not able to endure the purchasing power of retailers and are pressured to lower sale prices up to the level which can hardly be survived by any of them. The effects of such a situation are a threat to sustainable growth and development even for those most efficient producers. However, the research results presented in this study indicate that producers, those in position to cooperate with large retail giants, express a high level of satisfaction with this cooperation. Also, those who did not manage to establish and/or sustain such cooperation, are intensively trying to find the way to do so.

In presented framework, numerous questions, both of theoretical and of practical side, are opened. The phenomenon of large retail chains domination intensively reflects on overall market structure and creation of the effective competition between all the members in the marketing channels. This is the reason that almost all the parts of the competitive process and relationships in the marketing channels impose the need for special analysis.

As for the effects of increasing the power of retail chains on competitive position of producers, there are numerous questions to be answered. Space for new research certainly lies in conducting those per products groups, which was not performed in this one due to the insufficient sample volume. Furthermore, it would be interesting to compare satisfaction of producers on similar foreign markets which undergo consolidation processes, as well as on highly developed markets. Also, there is highly emphasized need for researches which refer to tendencies of producers for cooperation at the horizontal and vertical level, as well as for exclusive business arrangements between retailers and producers.

The large enigma that should be solved, is the future role of the state in the process of regulating market and creating retail structures so as to enable effective competition on market. The research results about the role of the Republic of Serbia in terms of creating modern market conditions, which are based on the producers' rates, indicate that we are still far from a satisfying situation. Issues related to competition policy, protection against unfair market competition and preventing abuse of market power of large retailers are certainly open questions in Serbia. The mentioned questions justifiably draw attention of adequate state organizations in almost all the countries of the European Union.

It becomes clear that the fundamental task of the state is to create and manage activities which result in building a modern structure of market and trade. The state should provide conditions for as intensive competition as possible between market players in general. To be more precise, the role and activities of a state should be in interest, and certainly not at the expense of development and market freedom. Furthermore, its role in terms of strong market control is necessary so that competition and market freedoms should not be abused and should not be neglected.

Bearing in mind the stated trends, it is evident that the need for conducting exhaustively thorough research on intensive modern changes in marketing

channels is becoming more emphasized and popular, especially in the sphere of retail and new interrelations established among all market players. Thereto, the open question which requires thorough research in the European Union, as well as in Serbia, relates to the acceptable “tolerance level” of merging large trade chains, taking care of the interests of all members in marketing channels, state and other stakeholders.

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