

# Distribution of power in b2b networks literature reviews example

[Business](#), [Company](#)



## **Distribution of Power in B2B Networks**

Textile retailers have known amazing growth throughout the world due to their ability to respond and create customer needs. Taking information from various sources, such as consumer behavior, market trends, economic and socio-political or technological and environmental influence upon business, retailers such as Zara and H&M have managed to develop into leading players of the textile industry. Nowadays information means power and it can be used in multiple ways for reaching objectives, in the business environment. In the fashion industry information is the key, along with other components, for negotiating power between retailers and manufacturers. Because they managed operations in a performance - focused manner, retailers have gain high popularity among consumers, who are relying in their products for their fashion needs. In this context, retailers have managed to grow, reaching global presence and impressive sells locations across the world. This situation gives them an advantage in relation to their suppliers, allowing them to negotiate the prices, the quality of the products, time of delivery and other conditions with their upstream suppliers. The business to business (B2B) communication and negotiation between retailers and suppliers shows the distribution of power between the buyer and the seller, wherein the seller benefits of various advantages for influencing the seller's activity. This paper develops a literature review on the relationship between textile retailers and the upstream suppliers, focusing on the distribution of power between buyers and sellers and the bargaining advantages of these entities.

The upstream suppliers are the entities who transform the raw materials into

components, including the natural elements, extracted from their natural environment for later being transformed and manufactured (Walker, 2004). The upstream suppliers can be in a dependency, interdependency or vertical integration relationship with the retailers, depending on the business model that they and their retailers adopt.

Whelan (2009) indicates that in the between retailers and manufacturers information is a significant negotiation element, because retailers can provide specific information about the sales or promotional activities in order to retain a good relationship with the manufacturer. The relationship between retailer and manufacturer is encompassed into the concept of supply chain. Within the supply chain the two actors interact and exert their power in relation to each other. Daparian and Hogarth-Scott (2003) define the term of power within the supply chain as “ the ability of one entity in the chain to control the decision of another entity” (p. 259). The supply chain includes two types of suppliers: the upstream ones, which generate the raw materials, fabrics or fibers, and the downstream suppliers, which are in charge of the distribution and of delivering the end products to the final consumers (Martin Christopher in Thomachot, 2009). Without referring precisely to the supply chain, but rather depicting the competitive forces within a market, Michael Porter (1984) also specifies that there are five competitive forces that influence the dynamics within markets and industries: the existing players in the market, the substitutes, the new entries, the buyers and the suppliers.

Fermie and Sparks (2014) indicate that there are five power basis through which suppliers control the supply chain: “ reward power, coercive power,

referent power, legitimate power and expert power” (p. 36).

Suppliers and retailers engage in a “love-hate” relationship, wherein, although at moments either one of the entities might dominate the relationship depending on the economic conditions, and other aspects specific to the internal or external environment, they are in a dependency relationship. Summarizing Kumar’s study (1996) Fernie and Sparks note that the relationship between suppliers and retailers can be categorized in different dependency levels, out of which the win - win is the most effective one and the “hostage and drunk with power” (p. 36) relationship are defective, compromising the effectiveness of the supply chain. While the win-win relationship indicates a high level of interdependency, the apathy indicates a low level of partner interdependency (Fernie and Sparks, 2014). A good alignment of the negotiation relationship between allows retailers to achieve a positive market positioning, while precise knowledge of the retailers’ need and a clear awareness of their business model and objectives, can allow manufacturers to effectively negotiate (Dawar and Stornelli, 2013). Because of the customer knowledge and a good understanding of the client buying behavior and also because of the good positioning of the brands and of the stores (physic or electronic), they can better address clients’ needs than manufacturers would. As Dawar and Stornelli (2013) observe, retailers attract clients through different techniques, such as good merchandising strategies, loyalty and reward programs, sales and pricing approaches that manufacturers cannot approach directly.

Aspers (2010) notes that the distribution of power between retailers and manufacturers can depend on the industry and on the rules that apply for

each market. The author also observes that retailers have negotiation power over manufacturers because of their structural position and because of the fact that they can better influence clients' decisions (Aspers, 2010).

In fashion industry, retailers can better position the manufacturers' products, better than the manufacturers would be capable of doing themselves, because of the varied number of manufacturing relationships. Like this, retailers can afford to apply price cutting strategies, sales or other customer attraction strategies, due to their capacity of diversifying the offer proposed to the clients (Whelan, 2009).

The distribution of power in the B2B fashion environment between retailers and manufacturers is also impacted by the external context of both parties. The environmental factors or the market related factors can impact the conditions of the negotiation processes (Murray, n. d.). The currency exchange laws, the inflation rates, the governmental regulations or price control are several environmental aspects that can impact the distribution of power between retailers and their supplied (Murray, n. d.). Nature demand, the country's level income, competition and labor costs represent market specific factors that can influence the relationship between retailers and manufacturers (Murray, n. d.). Moreover, the negotiation between retailers and suppliers can also be influenced by intrinsic aspects, such as the company's channel costs, taxes or the various agreements between the two parties involved (Whelan, 2009; Myrray, n. d.).

For the large retailers, negotiating with manufacturers is even easier, because of their significant shopping points. Taking for instance Inditex or H&M, which are two of the most famous and successful fashion retailers at a

global level, present in countries throughout the world, negotiating with manufacturers is in their advantage, because they benefit of good deals from multiple manufacturers (Aspers, 2010).

According to Porter's five competitive forces, suppliers often represent an important bargaining force, having the power to influence the retailers' prices and implicitly the buyers' decision. However, in the mainstream fashion industry the bargaining power of the suppliers is not quite a major threat, because retailers work with multiple manufacturers, which are not indispensable (Aspers, 2010). Moreover, Wang, Tan, Kao, Tao and Shen (n. d.) explain that the bargaining power of suppliers is actually low because there are many suppliers engaged in the apparel industry and retailers can benefit of raw materials that are available throughout the developing countries like China, Vietnam or India. Nevertheless, the same authors reflect at the latest trends in the apparel industry, wherein brands such as Zara or H&M feel the pressure of the rising cotton prices and other raw materials specifically in the developing and underdeveloped countries that represent main manufacturing source (Wang et al., n. d.). Moreover, the social pressures against the labor slavery and the sweatshops has forced governments to rise the salaries of the workers in apparel manufacturers with almost 50%, from \$25 to \$44 per month in Bangladesh, impacting the business of the main retailers (Wang et al, n. d.).

Looking at Zara's business model, there can be understood that the company approaches its suppliers relationship differently than its competitors, which makes Inditex's business model successful in the apparel industry. As such, Inditex manufacturing 80% of its materials in Europe, with

50% of production created in Zara's ateliers (sursa). The company also purchases only four color materials to reduce the costs and although its expenses are 17-20% higher than its competitors who are outsourcing 100% of their manufacturing in Asia, Inditex with its Zara has a significant competitive advantage. This competitive advantage stays in the fact that Zara takes only 3-4 week for developing products from the conceptualization phase to the store distribution of its designed products (Malage, 2014). By controlling its supply chain, with its design, manufacturing and distribution all over the world, Zara approaches the strategy of vertical integration (sursa).

Pradhan (2010) observes that the relationship between the retailer and chosen manufacturers also depends and influences in the same time the merchandising strategy and the positioning of the brands. A design driven brand, such as Zara or H&M are more focused on innovative fashion than on prices, which indicates that in relation with their manufacturers they do not settle for less, only require what the best that they can buy for assuring qualitative and innovative designs.

On the other hand, H&M grew and recognized a massive popularity, becoming the second largest world's retailer by adopting an exact opposing market approach. The company focused on outsourcing its operations, its entire supply chain, from concept to distribution, incorporating outsourcing suppliers, manufacturers, headquarters & design, distributors until finally reaching into the physical stores (" Fashion Audit - H&M vs Zara", 2013). In fact, H&M transformed its perceived weakness in relation to its main competitor, ZARA, namely its 100% outsourced manufacturing, into a

strength. As such, the company incorporates talents from across the world in its design team, giving diversity and continuous innovation to its collections (Lu, 2014). H&M has no factories of its own, in comparison with ZARA, but it manages, nevertheless, to develop effective partner relationships with more than 700 partner companies in over 20 countries across the globe and a strong supplier network for managing buying and production (Lu, 2014).

The buyer-supplier relationship, or what constitutes the supply chain management represents an important business strategy of securing competitive advantage (Hsiao, Purchase and Rahman, " The Importance of Buyer-Supplier"). The approaches that apparel industry companies take on their supply chain reflect the effectiveness of their business models.

The companies in the textile industries are competing in terms of their supplier relationships, or, as Christopher and Peck (2012) observe, the competition in the fashion industry is mostly by their suppliers. The ways in which apparel companies negotiate with their suppliers determine their position in the fashion industry. The case of ZARA and H&M confirms this theory. Each company employs different supplier management relationship and this influences their market efficiency and successful assimilation in the daily fashion all over the world. Christopher and Peck (2012) also note that the retailers need to coordinate with their suppliers partners and work together with the upstream suppliers for building up strong relationships that would assure increased customer retention.

Zara's vertical integration makes 40% of the company's upstream supply reliable on in-house production, assured by Inditex owned company Comditel (" Supply Chain Management, Zara", 2011). In the same time, the company



also pursues global sourcing, working with over 400 suppliers that support Zara's operations in the close geographic proximity of its operation points. The same study reflects upon the importance and advantage of the vertical integration for Zara, as it protects the proprietary technology of its logistics system (" Supply Chain Management Zara", 2011).

On the other hand, having a global areal of suppliers, H&M an negotiate with them more easily, although the retailer is more dependent on the economic, social or political context, which can impact its business, as it happened in Bangladesh. The increase of workers' salaries also conducted to increased production costs for the company. Nevertheless, with an impressive number of more than 800 retailers throughout the world, H&M can assure the desired quality, without being dependent on specific suppliers (Lu, 2014; H&M Annual Report, 2012).

Being a strong player in the textile industry and owning a collaboration with multiple independent suppliers, H&M has the power of influencing the activity of its suppliers. As such, a H&M Annual Report (2012) notes that through its commitment to environmental issues, H&M determined its suppliers to save 450 million liters of water in 2012 and focused 90% of its transportation activities on rail and sea, reducing the carbon footprint.

In this time, Zara assures the quality of its products in its factories, treating with its internal suppliers as a single entity. This situation is effective because it reduces the bargaining time and the process of outsourcing for the best price/quality solution, giving once again, a competitive advantage to Zara. Moreover, the vertical integration allows Zara to optimize the Quick Response strategy for improving the coordination between retailing and

manufacturing for increasing the market shifts and flexibility (sursa). On the other hand, H&M needs to coordinate its multiple external suppliers for assuring that it responds to market trends and has the capacity of being flexible to various trends. This process of aligning many of its suppliers might be time consuming, because H&M's suppliers also work with their own suppliers, with which the retailer does not interact directly.

The huge supplier network that H&M compares in relation to Zara allows the first retailer to produce large quantities of fabrics, relying on the production of many suppliers working to provide the required quantities across the selling points of H&M. On the other hand, Zara transformed the weakness of not producing fabrics in large quantities into strength. As such, the company focuses not on quantity, but rather on diversity of its models, producing over 10. 000 new items on an yearly basis, compared to less than half models produced by H&M (Kasyuk, Reedman and Fowler, 2008).

H&M's operation directly influence its suppliers' operations. Being close to a continuously growing retailer means good business for suppliers, hence, their bargaining power is low to medium in more intense economic conditions. Each time H&M extends its operations determines increased business for its suppliers, hence, it is in their financial interest and ongoing business objectives to continue to stand next to a powerful retailer, which brings continuous business. The bargaining power of suppliers in H&M's case is a low one, also because the raw materials offered and the additional services that its upstream suppliers provides recognize little or no differentiation across manufacture points. Moreover, in developing or underdeveloped economies from where H&M mostly sources its suppliers,

the textiles are casual commodities, engaging the local suppliers in competition among themselves for attracting H&M's operations.

The advantage that H&M enjoys from its global supply network consists in the fact that it has a great innovation potential, dealing with various approaches to manufacturing or fashion trends, which the vertical integration lacks because of the limited interaction capacity (Guercini and Runfola, 2003).

Guercini and Runfola (2003) observe that the global outsourcing of suppliers allow retailers the advantage and comfort of changing their suppliers or even closing collaboration, when they are not satisfied with the results, while, in time, there can be applied a mutual adaptation and orientation that may lead to interdependency relationship. H&M can easily change suppliers or put pressure on its suppliers, while the suppliers cannot approach their relationship with H&M in a similar manner, because they are dependent on their relationship with the retailer. Nevertheless, between retailers and suppliers often appear the cooperation business relationship, which is a reflection of the existence of the trust between buyers and sellers, wherein trust is the opposite of power (Ferne ad Sparks, 2010). When trust is formed within a supply chain between the retailer and the upstream suppliers, there also appears the commitment, which enforces the relationship lifecycle (Ferne and Sparks, 2010).

H&M developed 30 centers across the world to take care of their relationships with the sellers, having the interest of maintaining good, productive relationships with them, in order to secure long-lasting and profitable relationships.

Zara and H&M are the moment's top textile brands, being present all over the world with innovative designs and fast fashion strategies of attracting and engaging customers in a consumerism trend. They have different relationships with their suppliers because they pursue distinct business strategies. Each player transformed its weaknesses into competitive advantages, managing their supplier relationship in an advantageous manner, for assuring effective market results. For H&M, its 100% outsourced sales supply allows the company to innovate and to be independent on its sellers, wherein the suppliers have limited power to influence its operations. However, H&M has the capacity of influencing the activity of its suppliers for assuring the desired quality under specific conditions. On the other hand, Zara, with its main supply chain model of vertical integration enjoys the advantage of rapidly changing the collections, because owning its own factories allows the company to produce and distribute in less than a month. The relationship between retailers and suppliers is significant for their market performance and the performance of H&M and Zara is a reflection of their negotiation with their suppliers.

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