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SURVEY-BASED ANALYSIS OF CRITERIA APPLIED BY RETAIL CHAINS AND SUPPLIERS TO SELECT CONTRACTING PARTIES FOR BUSINESS COOPERATION

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ABSTRACT. The article deals with supplier selection criteria applied by retail chains. The authors analyse results of a survey which involved retail chains operators and some selected strategic producers supplying products to leading large format retailers in Poland. They focus on relationships in the distribution channels and on the increasing role of trade intermediaries who are an important link in the channels and whose market position is being systematically enhanced. Results of the source data analysis show the growing dynamics of trade integration and concentration processes.

Key words: relationships in distribution channels, cooperation between retail chains and suppliers, trade concentration.

INTRODUCTION

Over the last few years, Poland has seen an increase in the integration of companies within the supply chain. One of the symptoms of the integration is close cooperation between the retail chains and their suppliers [Ciechomski 2008]. Therefore, it is essential to examine relationships between these entities within the supply chain. The rationale behind conducting the research was at least twofold.

Firstly, a trade company can shape its competitive strategy through appropriate relationships with its suppliers [Kiczmanowska 2008, Rawski 2002]. A significant element of each company's competitive strategy is the input competition consisting of the ability to gain suppliers and develop effective relationships with them. In this way, the company may be able to significantly reduce purchase prices, which is one of the key success factors for a trade company.

Secondly, the need for conducting research on relationships between trade companies and suppliers is also due to the fact that the relationships are subject to significant transformations as a result of processes currently taking place in the Polish commerce. Increased trade concentration, both horizontal and vertical, leads to an increase of bargaining power of stores and retail chains in negotiations with their suppliers who are mostly producers [Kłosiewicz-Górecka 2005].

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ANALYSIS OF SURVEY RESULTS

This article is based on studies carried out in cooperation with the Office of Competition and Consumer Protection in Poland (UOKiK). The main focus of this part of research included:

- Identification of factors affecting the bargaining power of each party to the transaction.
- Methods and ways of gaining suppliers by retail chains and individual trade entities.
- Methods and ways of gaining customers by suppliers.
- Transformations visible in relationships between suppliers and customers.

Information contained in the article was gathered from two study samples. The first sample consisted of operators of retail chains functioning in Poland. The method applied to obtain the information was a survey questionnaire sent by mail. The general population consisted of retail chain operators (of all types) functioning in Poland. Respondents included persons managing the retail chains, responsible for developing the company's strategy and the purchasing policy. The sample size was 43 entities (100% response rate was ensured; responses included in all questionnaires were encoded and then processed). The study was exhaustive and involved the entire general population.

The other study sample consisted of retail chains suppliers who were singled out on the basis of the operators' indications. The direct survey method was also applied in this case, using survey questionnaires sent by mail. The general population comprised purposefully sampled suppliers of the retail chains operating in the Republic of Poland. Respondents included directors or managers in charge of sales departments in those production companies. A total of 120 survey questionnaires were sent. Following their verification, 92 of them were encoded and processed. The sampling was purposive and it included producers of consumer goods from all over Poland, who were the leading suppliers to retail chains within the particular product range groups and were designated by the retail chains operators.

The article presents the analysis of replies provided by respondents to the most important questions regarding the issue of supplier and customer selection within the supply chain. The key problem determining effective operation of a retail chain is the product range, and the type and quality of the product range is a direct consequence of selecting a particular supplier of a given product. Therefore, retail chains operators were asked which person within their company structure was responsible for making decisions on supplier selection. The responses are presented in Table 1.

Table 1. Retail chain decision-makers with regard to purchasing decisions
Tabela 1. Decydenci w sieciach handlowych w zakresie decyzji o zakupie

s/n	Position in the company	Percentage
1.	Management Board	27.9%
2.	Purchasing Department	23.3%
3.	Purchasing Committee	7.0%
4.	Sales Department	16.3%
5.	No reply	25.6%
	Total	100.0%

Source: own survey

The responses listed in Table 1 indicate that decisions concerning the selection of a particular supplier are typically made at the Management Board level. In 23.3% of analysed cases the decision is taken independently by the purchasing department. In some of the trade companies there is a special purchasing committee responsible for making such decisions. Therefore, it may be concluded that supplier selection is a strategic decision, as it is made at a very high level of the organisation. It is worth noting that such solutions are applied in all types of trade companies regardless of retail chain type.

The survey asked the operators to indicate criteria used in the process of supplier selection. Each of these factors was then graded on a scale from 5 to 1, where grade 5 denoted a very significant factor, while grade 1 meant that the criterion was insignificant. Responses are shown in Table 2 along with arithmetic means of grades assigned to the individual criteria. The most important factors affecting the selection of suppliers by retail chains proved to be the supplier's products quality and price level. Less significant criteria included delivery management and delivery speed, the supplier's brand and supplier's readiness to participate in sales promotions, whereas the least important factors taken into account when choosing the suppliers were: location of the supplier's warehouses, the supplier's sales volume and the supplier's country of origin.

Table 2. Supplier selection criteria applied by retail chains
Tabela 2. Kryteria wyboru dostawcy przez sieci handlowe

s/n	**Criterion**	Weight
1	Quality of the supplier's products	4.79
2	Price level	4.60
3	Delivery management and speed	4.00
4	Supplier's brand	3.91
5	Co-participation in sales promotions	3.88
6	Terms of payment	3.77
7	Frequency of contacts with the supplier's representatives	3.28
8	Qualifications of supplier's sales representatives	3.28
9	Advertising in mass media	2.98
10	Supplier's warehouses location	2.44
11	Supplier's sales volume	2.44
12	Supplier's home country	1.72

Source: own survey

Similarly to retail chains operators who were asked to indicate their criteria of supplier selection, producers were also requested to list criteria which they take into account when selecting their customers. The suppliers chose and graded individual criteria with respect to different types of retail and wholesale trade organisations using a grading scale from 5 to 1, where grade 5 denoted a very significant factor, and grade 1 meant that the criterion was totally insignificant. Symbols denoting particular chain types include: HC - hypermarket chains, SC - supermarket chains, DC - discount chains, WC - wholesale chains, OW - other wholesalers. The suppliers' responses are summarized in Table 3.

Following the analysis of responses it may be concluded that the criteria of customer selection applicable to different chain types are very similar. Some minor differences in criteria may be noticed with respect to retail chains and wholesalers as such. And so, the most vital criteria for the suppliers choosing a retail chain include: the number of retail outlets, terms of payment, geographic spread of retail outlets and the volume of the customer's turnover; on the other hand, when suppliers select wholesalers they pay the greatest attention to terms of payment, distribution management, sales volume and the number of retail outlets served by the wholesaler.

Table 3. Customer selection criteria applied by entities supplying goods to retail chains
Tabela 3. Kryteria wyboru odbiorcy przez dostawców towarów do sieci handlowych

s/n	Criterion	Grade				
		HC	SC	DC	WC	OW
1.	Customer's brand image	3.6	3.5	2.9	3.3	3.3
2.	Service quality in the customer's outlets	3.0	2.9	2.5	3.0	3.2
3.	Retail prices level	3.4	3.3	3.6	3.2	3.2
4.	Level of customer's advertising in the media	2.7	2.6	2.4	2.3	2.3
5.	Number of retail outlets	4.1	4.1	4.2	3.8	3.7
6.	Geographic spread of retail outlets	3.8	3.8	3.9	3.6	3.5
7.	Retail outlets location	3.5	3.5	3.5	3.4	3.4
8.	Management of the distribution	3.6	3.7	3.8	4.2	4.2
9.	Terms of payment	4.1	4.1	4.2	3.9	4.5
10.	Co-participation in sales promotions	3.7	3.6	3.3	3.5	3.4
11.	Frequency of contacts with the customer's representatives	2.9	2.9	2.6	3.2	3.2
12.	Qualifications of customer's sales representatives	2.7	2.7	2.6	3.3	3.4
13.	Customer's home country	1.5	1.4	1.5	1.7	1.6
14.	Customer's sales volume	3.7	3.7	3.8	3.9	3.9
15.	Private label share in the retailer's sales	2.5	2.4	2.8	2.2	2.1

Source: own survey

For the purpose of a detailed analysis of relations between retail chains and suppliers, the chains operators were asked whether their delivery management system provided for a group of strategic suppliers. Based on replies it was established than almost 40% of our respondents claimed to have strategic suppliers. Strategic suppliers are construed here as those that retail chains operators are particularly eager to cooperate with, for products offered by the strategic supplier should be available in the operator's retail chain. Accordingly, the operators were asked to indicate the most important characteristics of their strategic suppliers. According to responses obtained, these include:

- market leader position in a given category,
- price leadership,
- offering recognized brands distinct for their high quality and innovative features,
- attractive marketing programme (advertising in mass media and sales promotion activities),
- favourable terms of payment,
- good delivery management,
- high qualifications of sales representatives.

Retail chains operators were also asked to specify how their trade organisations found their strategic suppliers. Based on the analysis of their responses, these are the measures taken in order to find the suppliers:

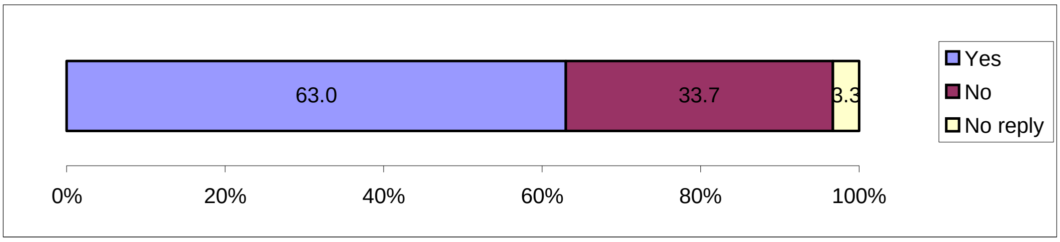
- analysis of business offers,
- participation in trade fairs,
- business negotiations,
- market research.

The activities specified by the operators seem rather obvious for a company operating in a free market economy. However, survey results do not make it possible to conclude unambiguously to what extent retail chains operators are active in finding their suppliers. It is not possible to determine which of the parties acts as a contact initiator. If the contact is not initiated by the operators, they cannot be said to be actively seeking suppliers. Therefore, it may be assumed that some of the suppliers are considered to be strategic by retail chains operators only after the contract has been signed and following some initial cooperation.

Retail chains operators were also asked to indicate any prerogatives possessed by their strategic suppliers. The results have shown that the most important privileges enjoyed by strategic suppliers include:

- wider range of sold products,
- possibility to sell products in all retail chain outlets,
- prospects of long-standing cooperation rather than a one-year contract typically offered to other suppliers,
- more shelf space,
- participation in sales promotions (also including products featured in promotional leaflets),
- more favourable terms of payment.

Producers (retail chains suppliers) were also asked whether they had a separate group of strategic customers. Based on responses presented in Graph 1, over 63% of suppliers have their own strategic customers.



Source: own survey

Fig. 1. Percentage of suppliers who have strategic customers
Rys. 1. Odsetek dostawców posiadających odbiorców strategicznych

The suppliers were also asked to indicate the characteristics of their strategic customers. According to them, the main features of strategic customers include:

- sales volume,
- financial stability,
- geographical spread,
- number of sales outlets,

- timely payments.

The criteria presented above are dominated by the financial factor. Suppliers claim that they gain their customers as a result of proactive measures taken by staff members responsible for sales management in their respective companies, while contract signing is preceded by market research and negotiations.

Additionally, the suppliers were asked to point to any privileges enjoyed by a strategic customer as opposed to any other customer within the same category of goods. The analysis of responses has shown that the most important privileges include:

- price discounts,
- extended terms of payment,
- higher promotional budgets,
- particular attention from sales representatives.

The processes of internationalization and globalization observed in the Polish economy prompted the authors of the survey to include a question concerning any manifest differences with regard to the operation of Polish and foreign companies. In other words, the question was whether the home country of the company owner affected the company's operation. As shown in Table 4, the vast majority of analysed retail chains operators did not notice any differences in cooperation with Polish and foreign firms. Only 30% of hypermarket chains operators and 22% of supermarket chains did notice a difference. This may be interpreted as a proof that the service quality in trade companies operating in Poland has levelled up.

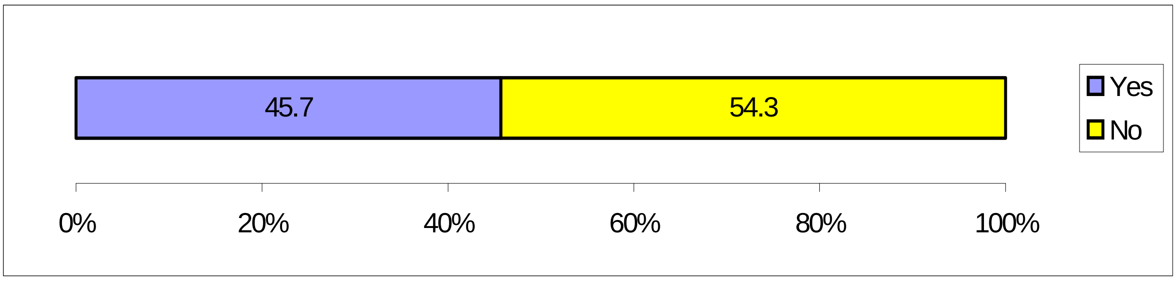
Table 4. Opinions expressed by retail chains operators with regard to differences in cooperation with Polish and foreign companies
Tabela 4. Opinie operatorów sieci na temat różnic we współpracy z firmami polskimi a zagranicznymi

Specification	No reply	There are differences	No differences
Hypermarket chains	10.0%	30.0%	60.0%
Supermarket chains	22.2%	22.2%	55.6%
Discount chains	-		100.0%
Local store chains	25.0%		75.0%

Source: own survey

The operators who pointed out that there was a difference in the service level between Polish and foreign companies were asked to detail any dissimilarities they noticed. According to the operators, the most important differences included: a more attractive discount policy, a better knowledge of the market (due to market research) and better merchandising services in the companies with foreign capital.

Also the producers were requested to specify whether they noticed any differences in the quality of cooperation with Polish and foreign retail chains operating in Poland. As illustrated in Graph 2, as many as 45.7% of the suppliers did notice such differences.

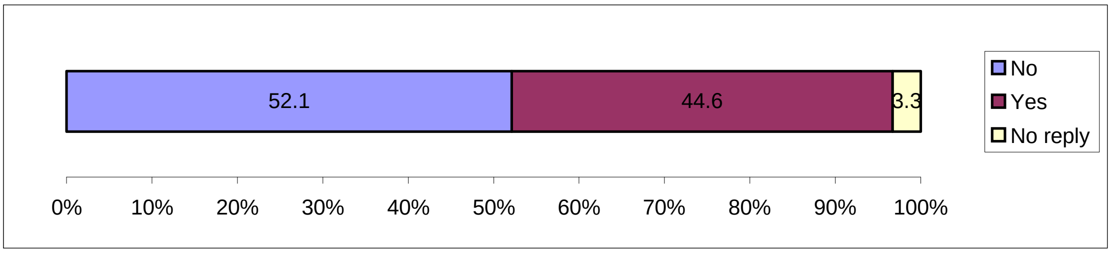


Source: own survey

Fig. 2. Producers stating there is a difference in cooperation with Polish and foreign retail chains
Rys. 2. Producenci wskazujący na różnice we współpracy z polskimi i zagranicznymi sieciami handlowymi

The suppliers claimed that the difference pertained mainly to the level of professional approach to cooperation which consists in applying detailed cooperation procedures and a higher level of purchaser specialisation, which in turn leads to longer and more complex negotiations. To sum up, foreign customers set higher requirements [cf. B. Słomińska 2007], whereas the typical feature of Polish retail chains concerns higher expectations with regard to payment deadlines.

An important element of relationships between the suppliers and retail chains is the cooperation stability. Therefore, producers were posed the question whether over the last three years they withdrew from cooperation with any retail chain. The responses are shown in Graph 3.



Source: own survey

Fig. 3. Suppliers stating whether in the last 3 years their companies stopped cooperation with a retail chain operating in Poland
Rys. 3. Odpowiedzi odbiorców na pytanie czy w ostatnich 3 latach Państwa firma zrezygnowała ze współpracy z siecią handlu detalicznego działającą w Polsce

The graph shows that as many as 44.6% of the producers supplying their merchandise to retail chains stated that within the past 3 years they had stopped cooperation with a retail chain in Poland. This may be interpreted as evidence for a relatively instable situation in this respect [cf. B. Kucharska 2002 and U. Kłosiewicz-Górecka 2001]. The relations between the suppliers and customers are still at a formative stage. The most important reasons for withdrawing from further cooperation indicated by the suppliers were: excessive expectations regarding prices and excessive requirements set by retail chains in terms of promotional budgets. Some of the suppliers also indicated the logistic costs were too high, rendering cooperation unprofitable.

CONCLUSIONS

The survey made it possible to draw the following conclusions:

- The decision on selecting a particular supplier is typically made at the Management Board level. In 23.3% of analysed cases the decision is made independently by the purchasing department.
- The decision on supplier selection is a strategic decision, being taken at a very high level of the organisation. This pertains to all kinds of companies regardless of retail chain type.
- The most important criteria affecting the selection of suppliers include: product quality and price level. The following are considered less important: delivery management and speed, the supplier's brand and readiness to participate in sales promotions.
- The least important factors involved in the selection of suppliers are: the supplier's warehouses location, supplier's sales volume and the supplier's home country.
- 40% of the respondents declared they had strategic suppliers, and 63% of the suppliers have their own strategic customers.
- 16.5% of the retail chains operators and 45.7% of the suppliers have noticed a difference in the quality of cooperation with Polish and foreign companies. The difference pertains mainly to the level of professional approach to cooperation and consists mainly in application of detailed procedures and a higher level of specialisation of purchasers, which results in the process of negotiations being longer and more complex.
- 44.6% of suppliers declared that over the past three years they stopped cooperation with a retail chain in Poland, which seems to show that the market situation is relatively unstable in this respect. The most important reasons for stopping cooperation indicated by the suppliers were: excessive expectations in terms of prices and excessive requirements set by retail chains with regard to promotional budgets.

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KRYTERIA WYBORU KONTRAHENTÓW W RAMACH WSPÓŁPRACY SIECI HANDLOWYCH Z DOSTAWCAMI W ŚWIETLE BADAŃ ANKIETOWYCH

STRESZCZENIE. Artykuł poświęcony jest kryteriom wyboru dostawców towarów przez sieci handlowe. Autorzy komentują wyniki badań ankietowych operatorów sieci detalicznych i wybranych strategicznych producentów zaopatrujących wiodących wielkopowierzchniowych detalistów w Polsce. Przedmiotem analiz są relacje w kanałach dystrybucji i rosnąca rola pośredników handlowych jako ważnego ogniwa kanału, którego pozycja rynkowa ulega systematycznemu wzmacnianiu. Uzyskane rezultaty badań źródłowych dowodzą rosnącej dynamiki procesów integracji i koncentracji handlu.

Słowa kluczowe: relacje w kanałach dystrybucji, współpraca sieci handlowych z dostawcami towarów, koncentracja handlu.

KRITERIEN ZUR AUSWAHL VON KONTRAHENTEN IM RAHMEN DER KOOPERATION ZWISCHEN HANDELSNETZEN UND LIEFERANTEN IM LICHTE FRAGEBOGENGESTÜTZTER MARKTFORSCHUNG

ZUSAMMENFASSUNG. Der Beitrag setzt sich mit Kriterien zur Auswahl von Waren-Lieferanten durch Handelsnetze auseinander. Die Autoren kommentieren Resultate der fragebogengestützten Marktforschungen, welche bei Betreibern von Einzelhandels-Netzen und ausgewählten strategischen Produzenten, die markführende großflächige Einzelhändler beliefern, durchgeführt wurden. Gegenstand der betreffenden Analysen sind Verhältnisse innerhalb der Vertriebskanäle und zunehmende Rolle von Handelsvermittlern als wichtiges Glied im Distributionskanal, dessen Marktposition im systematischen Wachstum begriffen ist. Die gewonnenen Ergebnisse der quellenbasierten Forschungen stellen die steigende Dynamik der Prozesse bezgl. Integration und Konzentration des Handels unter Beweis.
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Codewörter: Verhältnisse in Vertriebskanälen, Kooperation zwischen Handelsnetzen und Waren-Lieferanten, Konzentration des Handels.

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