The king of retail: New study shows symbiotic relationship between major retailers and suppliers

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(Phys.org) -- A new study by supply-chain researchers at the University of Arkansas shows that the relationship between major retailers such as Walmart and Target and their suppliers is collaborative in nature, rather than adversarial, and that suppliers that actively participate in innovative supply-chain processes with these major customers actually wield considerable leverage and perform better financially.

As large retailers continue to experience increased revenues and greater market share, many researchers and industry analysts have asserted that this trend has caused a shift of power away from suppliers and manufacturers. The new study shows this isn't necessarily the case.

"In this vision of the retail industry, large powerful retailers are eight-hundred-pound gorillas demanding concessions and squeezing every last drop of profit from suppliers," said Matt Waller, professor of logistics and supply chain management in the Sam M. Walton College of Business. "The general assumption – and existing academic literature supports this – is that this concentration has allowed the powerful retailers to exploit their weaker suppliers, which in turn has caused the suppliers' performance to suffer. But our study found that this isn't necessarily the case. The dynamic between the two is a little more complex."

Waller and his colleagues wanted to determine the impact of key retail accounts on supplier performance. To do this, they analyzed financial statements from Walmart, Target and more than 3,400 firms that sell their products to the two major retailers. Specifically, the researchers examined how market shares – both suppliers' and retailers' – influence suppliers' financial performance.

They found that the shift in power from supplier to retailer and the consequent dependence of the former on the latter have not necessarily led to adversarial relationships between the two. The findings provided evidence of collaboration and cooperation between the two groups, due in large part to the rapid adoption of innovative supply-chain processes, such as retailers sharing point-of-sale data with suppliers. This collaboration has enhanced financial performance throughout the supply chain.

"It's true that suppliers that depend on these key retail accounts for a significant share of their total revenues relinquish some of their leverage in the marketplace," Waller said. "But we found that as these powerful retailers gain market share, their suppliers' performance tends to increase. So suppliers may actually benefit from this dependence, and it could reflect successful strategic coordination rather than power struggles."

The researchers' findings were published in the *Journal of Retailing*.

Provided by University of Arkansas