

# Service-Dominant Logic: Transforming retailer and supplier value co-creation post COVID-19

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## 1. Introduction

Prior to the emergence of COVID-19 academic discourse on the future of retailing into 2020 and beyond spanned a wide array of subjects and related issues (Grewel *et al.*, 2017). These included the intersection of physical and digital marketplaces (Benoit *et al.*, 2019), the next generation of retailer market intelligence systems (Theodoridis *et al.*, 2019) and the evolution of retailer B2B relationships in the context of institutional environments and collaborations (Boulay, 2019).

In 2020 the structure and intricate trajectory forecasted for retailing, founded upon the relative economic stability of Europe and the UK from 2010 post the 2008 financial crisis, was substantially disrupted by the emergence of COVID-19. The resulting environmental and economic turbulence is evidenced, for example, by annual UK GDP falling by 9.4% (ONS, GDP monthly estimate, Quarter 3 2021) and UK retail sales volume dropping by 1.9 % overall (ONS, retail sales estimate, February 2021).

With the environmental and economic disruption from COVID-19 recently stabilising, retailers face the opportunity of benefiting from COVID-19 by continuing to consolidate, develop and benefit from the operational and market adjustments made in their initial response to COVID-19 (Nanda, 2021). Presenting an opportunity to build new and different collaborations and strategic partnerships with other organisations and suppliers, to materialise business benefits from this once and for all opportunity (McKinsey & Company, 2021).

Retailer category management (CM) is central to the building of new market-based collaborations and business partnerships, as it is the only business function operating at the intersection of managing retailer's category performance, the listing and product management of product lines and managing relationships with the retailers suppliers (Galbreth *et al.*, 2015). It is beneficial to retailers, as it simplifies and co-ordinates the process of making assortment, pricing, and other merchandising decisions (Alan *et al.*, 2017) and, as a collaboration, brings the supplier and the retailer closer together (Yasin *et al.*, 2017). For the past 20 years such collaboration

and the issues surrounding it have been a continual matter for academic research and discourse (Nakkas *et al.*, 2020).

Through an inductive qualitative study with retail buyers and supplier category managers, this paper investigates a) the limitations of the current category captain system of retail category management in supporting post COVID-19 retail innovation and b) the potential to improve retailer and supplier collaborative innovation through the application of Service-Dominant Logic to retail category management.

## **2. The Category Captain System**

Historically, category captainship has become a preferred way of executing CM (Sheen *et al.*, 2021). Kurtuluş *et al.* (2014) state the category captain is appointed by the retailer to manage the entire category on their behalf and that of other category suppliers. The category captain is deemed to be the 'expert in the category', often the largest supplier within a category who has a full understanding of the category and its market (Morgan *et al.*, 2007). The CC or preferred supplier is usually responsible for developing and recommending the category strategy, including a package of category insight, which is then adopted by the buyer based on it supporting the retailers' strategy and goals (Nakkas and Kurtuluş, 2020). This collaboration, of course, can impact the non-captain suppliers within the category, leading to the term 'competitive exclusion' and suggesting the category captain system puts non-captain suppliers in the category at a disadvantage and reducing collaboration in the category (Alan *et al.*, 2017).

## **3. Applying SD-Logic to retail category management**

Lusch, *et al.*, (2007), in their seminal paper propose SD-L as a means of re-framing retailing by competing through service and in turn reframing retailer-supplier relationships. Proposing retailers create collaborative and inclusive networks with suppliers and other Actors to create value through the sharing of resources, joint synthesis of knowledge and collaborative development of new market facing propositions. Arriving at a position where it is proposed retail success is contingent upon retailers developing capabilities that enable the co-creation of value with an extensive network of partners (Karpen, *et al.*, 2015), that retailers should be at the centre of and heavily influence a service eco-system (Singh, *et al.*, 2019) and that such open collaborative networks result in innovative and marketing leading co-created value propositions (Yrjola, *etal.*, 2018).

Applying the five axioms of SD-Logic (Vargo and Lusch, 2016, p.8) to retail category management potentially reframes the relationship between retail buyer and supplier category manager by recognising a) service is the fundamental basis of exchange (axiom 1), b) value is co-created by multiple actors, always including the beneficiary (axiom 2), all social and economic actors are resource integrators (axiom 3), value is always uniquely and phenomenologically determined by the beneficiary (axiom 4) and value co-creation is coordinated through actor-generated institutions and institutional arrangements (axiom 5).

#### **4. The research study**

The inductive research study deployed semi-structured qualitative interviews with 25 participants who either held the role of retail buyer or supplier category manager. This approach facilitated the discovery of the practitioner's perspective in relation to their experiences of category management and category captainship, as well as how value is created through these relationships and their own skills and resources.

Following the procedure of Gioia *et al.* (2012) the interview transcripts were initially divided into two main sections between suppliers and the retailers and were open coded using NVivo software. By staying true to the use of informant codes, categories and terminology, this initial stage of coding produced over 160 nodes (codes). Axial coding (Strauss and Corbin, 1998) was then undertaken to establish key relationships and differences amongst the nodes in the data across the whole pool of transcripts. These were labelled to produce 1<sup>st</sup> order concepts (Gioia *et al.*, 2012). Following this, a second stage of *etic* analysis was undertaken to produce 2<sup>nd</sup> order themes which were in line with the research aim and objectives and common to the SDL tradition and conceptual language.

#### **5. Research findings and implications**

Five major second order themes emerged from the study, the detail and full practical implications of which will be presented at the AMI conference. However, in broad terms, the study found a) Service is not a fundamental basis of exchange in category management, it is goods and transaction based; b) Value is uniquely, independently, and separately created by the retailer and benefits are not equally distributed; c) Retailer resources are substituted by supplier resources instead of resource integration; d) Retailers exercising power heavily influences and creates in-balance in value co-creation; e) Category service eco-systems are narrow but indicate signs of potential change. There are substantial opportunities to transform retail category management and category innovation by applying the five axioms of SD-Logic. Current capabilities of retail buyers and supplier category managers to take advantage of these opportunities are constrained by the current category captain system. However, the study indicates potential exists to evolve current category management practices and in doing so increase post COVID-19 retailer and supplier service exchange, service innovation and value co-creation.

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