

A Matter of Power: Chanel® vs. Sears-Canada®

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When there are conflicts between members of a channel, it often comes down to whom needs whom the most. A recent conflict between Chanel® and Sears-Canada® Inc. has resulted in the disintegration of the supply-chain channel linking the two companies. Sears-Canada Inc. is controlled by Sears Holdings Corporation in the U.S.

Chanel, a Paris-based company with essentially worldwide distribution, is best known for its Chanel No. 5 fragrance line, a product-brand with strong consumer preference. The company also markets fashion items, shoes, jewels, eye wear, skin care products (e.g., moisturizers), and a line of accessories and leather goods (e.g., purses and bags, hats, belts, gloves, scarves). The company has extended use of the company brand name by placing the classic double, reverse-C brand mark on a line of various sport-related products (e.g., bicycles, tennis rackets, footballs). For the most part, the company focuses on the adult female market; the major exception is for the fragrance line, which is also directed to adult males. Based on the price-points used by the company, the products are geared more to the better-off consumer.

The Sears-Canada Department Store chain is, for the most part, a “middle-America” (or “middle-Canadian”) type of store. Major attempts in the past to go upscale were generally unsuccessful for the store. Sears merchandises products typically found in the classic definition of a department store, from soft goods (white goods - linens) to hard goods (brown goods - televisions and appliances). The major merchandise strengths of the store are the Craftsman® hardware line, the Kenmore® appliance line, and the DieHard® automotive battery line, all of which are marketed under brand names owned by the company. The company has a retail presence in the U.S., Canada, Mexico, Guatemala, and Honduras with corporate and/or licensed stores. Through the Sears Brands Management Corporation, the company also operates an export wholesale operation, making the major company brands (e.g., Craftsman, Kenmore, and DieHard) available to overseas distributors, wholesalers, and foreign retailers worldwide.

The recent conflict between Chanel and Sears-Canada relates to the attempt by Sears-Canada to share in the savings Chanel obtains from the stronger Canadian dollar (i.e., the Canadian dollar, while still lower than the value of the U.S. dollar, is not as low as it was). As a result, Sears-Canada is attempting to reduce the amount it pays for purchases from suppliers with a foreign base, such as Chanel.

The issue at hand is based on varying exchange rates. If exchange rates were constant, then there would be no issue. However, if a Canadian firm purchases goods from a supplier that obtains goods from a foreign source or from a U.S. source, either of who sets prices in U.S. dollars but bills the

Canadian firm in Canadian dollars at the time, it has been expected that, even if the Canadian dollar gets stronger, the payment due the supplier stays at a higher value (i.e., at the value billed). For example, if a supplier sells goods worth \$1,000 U.S. to a Canadian firm when the Canadian dollar is only worth 0.90 cents on the U.S. dollar, the invoice to the Canadian firm will read \$1,111.11 in Canadian dollars, which is the amount due to the supplier. However, if, at the time of payment, the Canadian dollar rises to a level of 0.95 cents on the U.S. dollar, the Canadian firm still has to make a payment of \$1,111.11, even though it would only cost the Canadian firm \$1,052.63 in Canadian dollars to purchase \$1,000 in U.S. currency (assuming no other transaction fees). The end result is that the supplier is actually better off by \$58.48 in Canadian dollars. If one multiplies the \$1,000 invoice illustrated by many times to reach the value of the typical transaction between a supplier and a retailer, then the supplier landfall profit due to the exchange rate made by the supplier is greatly magnified. The argument put forth by Sears-Canada for the new payment approach taken is ultimately to reduce prices charged to consumers.

It is expected that the new policy set by Sears-Canada in dealing with purchases of the nature described is to take effect on September 30. Chanel, of course, by mutual agreement with Sears-Canada, is no longer a supplier to the retailer; hence, the change in policy is of no consequence to Chanel. Other suppliers to Sears-Canada are deciding on whether to remain part of the channel, given the planned change in policy. Earlier in the year, Sears-Canada unilaterally decided to retroactively reduce invoice values.

Hudson Bay Department Store (HBC) and Shoppers Drug Mart are major Canadian retailers that also sell Chanel fragrances, with the latter firm becoming a more dominant player in this market with the relatively recent introduction of an expanded cosmetic boutique within the drugstore operations of the company. HBC also controls the Zeller's retail operation in the Canadian market. The latter firm is a departmentalized general merchandise store that operates at lower price points than both Sears-Canada and HBC. HBC is on record as to informing suppliers that future dealings with the firm are at risk for suppliers that do not offer HBC any favourable terms so offered to Sears-Canada.

Focus: Retailer, manufacturer, institutional approach to store classification (convenience store, shopping store, specialty store [single line, limited line, super-specialty]), depth and width of a product offering, brand insistence, brand recognition, brand preference, brand loyalty, conflict, power, types of power (reward, coercion/punishment, expert, referent, legitimate), attitude, exchange rate, international sourcing, channel captain, brand mark, manufacturer brand, dealer/private brand.

Questions:

1. Define each of the concepts listed above.

2. Using the institutional approach to store classification, explain where a department store fits. Explain the nature of the depth and width of the merchandise offering of Chanel and Sears-Canada.
3. Explain the nature of the conflict between Chanel and Sears-Canada
4. What are the illustrations of manufacturer and dealer brands in the case?
5. How is power being used in the case? What type of power is being used and by whom? Explain.
6. What type of power was Sears-Canada using when it retroactively reduced the amount of payment set out in the invoices due? Explain. What could the suppliers have done in order to prevent (or to undo) such action taken by Sears-Canada? Explain. Why would suppliers take or not take any action?
7. Who appears to be the channel captain in the case situation described involving Chanel and Sears-Canada? Explain. How successful was this organization in exercising this role? Explain.
8. What do you think is the real reason for Sears-Canada seeking to pay less on the outstanding invoices?
9. If the exchange rate changed to the point where the Canadian dollar was only worth 0.80 cents to the U.S. dollar, what would the equivalent value of an invoice be in Canadian dollars, if the original purchase value was \$1,000? What would the invoice value be if the Canadian dollar was worth 0.95 cents on the U.S. dollar? If Sears-Canada had been invoiced for the latter amount (i.e., when the exchange rate was the 0.95 level), but when payment was due, the exchange rate was at the 0.80 level, what amount would Sears-Canada want to pay? Explain. How much would the supplier want Sears-Canada to pay? Explain. Based on the situation described in the case, how much should Sears-Canada have to pay?
10. If Sears-Canada had been billed in U.S. dollars and payment had to be made in U.S. dollars, how would have the situation so described change? Explain. If the Canada-U.S. exchange rate varied (both up and down) between the time of billing and the time when payment was due, how would such changes impact both the supplier and the retailer? Explain.
11. What are the implications of a changing exchange rate if a retailer sources only from domestic sources? Explain.
12. One of the problems in exercising coercion in a channel relationship is that it can destroy a channel. To what extent was coercion exercised in the situation described? What was the outcome of such use? Explain.

13. To what extent could reward power have been used in the situation described and by whom? How could it have been used? Explain.
14. Prior to the exchange rate fiasco, what type of power was being exercised in the channel between Chanel and Sears-Canada? Explain.
15. When consumers purchase fragrances like those marketed by Chanel, do consumers generally reflect brand insistence, brand recognition, brand preference, and/or brand loyalty? Explain. If Chanel is no longer available at Sears-Canada, what will consumers do when shopping for a fragrance?
16. When consumers shop for fragrances, what sequence do they normally follow with respect to making a decision about the product, brand, and store? (i.e., Which decision is made first, second, and third, after a consumer problem is recognized? Is a store decision made before or after a brand and/or product decision? Is a product decision made before or after a brand and/or store decision? Is a store decision made before or after product and/or brand decision?). What are the implications for both parties given the sequence that the consumer follows?
17. In the relationship between Chanel and Sears-Canada as supplier vs. retailer, which party needed the other party to be successful in the assigned position in the channel (i.e., did Sears-Canada need Chanel more or less than Chanel needed Sears-Canada, or did each firm need the other firm equally, to achieve the business goals each party was seeking to achieve as business operations)? Explain.
18. In arriving at a decision to sever relationships, what do you think the thought processes of each party were like at making such a decision?
19. How does Chanel make use of the concept of brand mark?

Note. The primary facts presented in this case are drawn from [1] Strauss, M. (2010, July 22). Chanel to quit Sears in dispute over dollar. *The Globe and Mail*, pp. B1-B2; [2] Sears U.S. website: <http://www.sears.com>; [3] Sears-Canada website: <http://www.sears.ca>; and [3] Chanel website: <http://www.chanel.com>