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# Relationship Management in the Supply Chain

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In this paper, the focus is on relationship management and its implications for Small-Medium Enterprise suppliers (SMEs). Specific insights are provided into retailer-supplier relationships in the UK fresh produce (fruit and vegetable) market. This sector faces a process of concentration in all parts of the supply chain determined by backward vertical integration at the initiation of powerful multiple retail buyers. The author examines the nature of relationships in a generic product group from the perspective of buyers and sellers and their interaction, utilizing material from multiple depth interviews. Results concern issues of relationship formality, exclusivity, power-dependency, relevance of organizational size, partnered growth potential and risk which lead to a number of provisional conclusions regarding the management of relationships in the supply chain

The relational concept of marketing came to the fore in the 1980s and 1990s as a response to dissatisfaction with the classical model of marketing based on discrete single exchange, primarily of goods and services for money, through manipulation of the marketing mix [1]. Relationship Marketing (RM) originated from an eclectic mix of influencers, not only from academics in marketing and management disciplines, but also from practitioners in business organizations [2]. To some, relationship marketing seeks only to operationalize the conventional view of marketing and is concerned with servicing and satisfying existing customers through long-term, close, interactive and collaborative relationships, networks and interactions that are mutually beneficial and profitable [3]. To others, there has been a real a paradigm shift in marketing [4]. The long-term outcome of the relational approach to marketing has been seen as partnerships or alliances [5]. This relational paradigm of marketing is not, however, new. Criticism of the original marketing paradigm developed in the 1970s and 1980s from those advocating the marketing of industrial goods and services. This included the Industrial Marketing and Purchasing (IMP) group, in addition to those concerned with service

quality. The first definition of the term Relationship Marketing (RM) is attributed to Berry [6], where it is described in the context of services marketing. Specific definitions of the RM approach have been developed and honed by subsequent writers. Kotler, for example, was an early exponent of the concept and describes the value of win-win situations, rather than adversarial or transactional ones [7]. Work conducted by the Anglo-Australian school [8] draws together the threads of antecedents to RM to include quality management, relational marketing and customer service. Source elements of RM are concerned with: interaction; organizational buyer behavior; quality management and services marketing. Additionally, relationships are understood as networks that compete as supply chains rather than the classical inter-firm competition [9]. Although the relational approach to marketing has gained much attention and interest, some researchers argue that relationship marketing is underdeveloped in supply chains and have called for further investigations in this context [10]. Further, others have noted that there is still little consistent theory of how relationship-marketing fits into the wider body of marketing thought [11].

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## **Development of Relationship Marketing in the Food Industry**

Over the last three decades, a remorseless process of concentration has characterized the UK food industry. Acquisitions, mergers and internal restructuring have transformed the competitive environment, driven by a complex mix of technological, socio-economic and political change [12]. The scale and pace of restructuring in these industries varies between product categories and supply chain levels, but the overall trend is towards many sectors being dominated by a few large corporations operating on a European or even global scale. Relationships have been affected at every level.

The UK's agricultural and food industry supply chain is valued at £125 billion at the consumer level. The food retail market has reached virtual saturation point and is now dominated by five companies who collectively account for about 50 percent of total grocery sales [13]. The annual turnover of market leader Tesco plc (currently at almost £22 billion) exceeds the gross output figure for the whole of UK agriculture [14]. In fresh produce (fruit, vegetables and salads) multiple supermarkets continue to strengthen their position and dominance in the market with 75% of retail sales [15]. The UK fresh produce industry has displayed increased growth, in marked contrast to the depressed state of UK agriculture, with the market increasing in value by 10% during the period 1995-1999, to reach a current £8.5 billion [16].

Hughes [17] states that retailers will continue to reduce the number of food suppliers: this concurs with the general business trend towards industrial buyers reducing their vendor relationships to a reasonable few [18]. This process is apparent in the UK and European fresh produce industry, where the trend has been toward direct sourcing to retail multiples, either from overseas or major UK suppliers. This situation has developed progressively since the 1960s and has resulted in an increasing concentration of supply. In the near future we will see fewer suppliers in key product areas [19]. Major retailers have actively reduced their supplier base in fresh produce in order to concentrate on larger and better suppliers, and further, rationalization is expected for small and medium-sized fresh produce

suppliers [20]. The growth of direct sourcing of fresh produce is at the expense of the middleman level [21]. The issue of concentration is compounded by the fact that there is generally no shortage of fresh produce [22] and the industry is normally in a state of over supply.

Evidence of a network approach to supply chain relationships is born out in practice in the agri-food industry, where economic and trading circumstances have resulted in changes to organizational structures, and competition is supply chain based [23]. Also, food industry awareness of heightened consumer knowledge and power and tightening food safety legislation has been influential in the formation of partnerships to create passports for safe foods [24].

### **A Policy for Relationship Forming**

UK farmers are traditionally producers of high volume relatively low value and unbranded commodities and as a result are often considered price takers. Support mechanisms have insulated producers of many commodities from the rigors of the marketplace. However, reduction and removal of producer support and concentration of buyer power downstream of the farmer, has meant a gradual shifting of viewpoint with regard to marketing and marketing relationships. Recently, the UK Government has encouraged farmer collaborative marketing. This direction stems back to policy outlined in a ministerial report [25]. Subsequent guidance, for example in the House of Commons Agriculture Committee report into horticulture, endorses the development of partnership marketing in fresh produce, concluding that "growers should have little cause for concern into entering into relationships with retailers" [26]. This view is endorsed by Malcolm [27] and Shaw [28] would like to see integrated collaborative food industry structures.

### **Significance of Relationship Marketing in a Commodity Market**

For commodity markets (such as fresh produce), remaining competitive is difficult, when for purchasers of standardized commodity products "there is generally little differentiation across supplier offerings or in the buyer-supplier relationship" [29].

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Relationships in commodity sectors are typified by traditionally high levels of adversarial/transactional exchange in the pursuit of lowest cost production or cost leadership. Palmer and Bejou [30] warn that RM is not appropriate to generic commodities, where they believe that purchasers' motives are driven by low cost and ease of switching suppliers. However, all types of industry require additional means of competitive advantage and this is even more critical in traditionally undifferentiated commodity markets. For example, relationship marketing can help focus on the value added features of even the most generic of products [31]. This could certainly be applied to the agri-food supply sector, where efforts to de-commoditize product supplied and focus on factors other than price will make relationships more sustainable. The ascendancy of multiple retailers in the UK fresh produce industry has changed the commodity trading status of the industry, but some fresh produce suppliers (notably the smaller, specialized family businesses) are finding it difficult to innovate [32]. Considering this, a company is forced to become more service oriented in the approach [33]. RM displaces transactional marketing. Hughes [34] and Dawson and Shaw [35] concur with this in respect to the agri-food industry, where quality and service demands in vertical channel are very high, necessitating attention to supply chain collaboration.

### **Food Industry Partnerships**

Comparatively little has been written to date with regard to RM in a business-to-business context [36] and further, its application to the agri-food industry. RM is relatively new to the agri-food industries, but there are well documented examples of partnership. Multiple grocery organizations have introduced greater elements of partnership and alliance into their trading practices with farmers, growers and suppliers, in order to achieve better growing practice [37]. The initiative for formation of such partnerships is coming from retailers, who take the lead role in promoting supply chain integration [38]. Brookes [39] concurs with this and further describes retailers as having systemic power over their suppliers.

Some early academic analysis and initiatives with regard to formation of partnerships in the fresh produce industry was developed in the 1980s. This was followed by Hughes where the change in attitude from a short-term, price-based approach to a more relational one in the fresh produce industry is noted [40]. Growers who have worked closely with major multiple retailers have responded to a requirement for consistent, continuous quality in fresh produce and have developed relationships with retail customers, as well as seeing corresponding growth in supplier business. Best practice examples of RM are cited in a CBI report [41]. Cases cited include Tesco Plc, in which is described how their interaction with suppliers changed from that of being a thump the table negotiator to a much more rounded manager of suppliers.

### **Partnership Formality**

By the mid-1990s all UK multiple retailers were specifying that fresh produce be sourced from what is termed assured produce; an industry wide agreement over formalized crop production and quality standards [42]. Formalization of relationships in the fresh produce industry, however, is still at a developmental stage. RM terminology, for example, is used in an agri-food industry context, but usage is nonstandard and ad-hoc. Partnerships and alliances are described and are seen to be less formalized business structures than public and private corporate organizations, or the tightly defined and regulated channel horizontal producer and marketing cooperative. This does not mean that food industry supply chain relationships are never defined in formal written agreements. Joint mission statements, joint development agreements, production and distribution protocols do exist. As a rule of thumb, where documentation exists, there is, normally, a greater likelihood of closer and more developed relationship between two parties. In August 1995, J. Sainsbury followed up earlier initiatives in the meat industry by launching their *Partnership in Produce* scheme between specific fresh produce suppliers and the retailer [43]. No formal contract is involved, but the scheme is designed to encourage better feedback and discussion between grower and supermarket

and a two-way flow of information. The Sainsbury, *Partnership in Produce* scheme has grown to include over 6000 growers [44]. The Sainsbury partnership approach has been described as both a transformation of their supply chain, in a physical practical sense and in terms of management philosophy [45]. Similarly, Tesco's, greatest rivals to Sainsbury in UK food retailing, have to reversed their confrontational supply chain policy, to focus on collaboration, and open relationships.

### **Exclusive or Inclusive Partnerships?**

Most UK multiple retailers now provide what they describe as "codes of practice" for suppliers and suggest similar long-term partnership aims to that initiated by J. Sainsbury. In reality, formal contracts to supply are rare and the Sainsbury *Partnership in Produce* scheme is not a contract to supply. The general situation in fresh produce partnerships is of informality, or at best loose agreement, as opposed to binding contractual and financial agreement. This does not mean that suppliers are regularly dropped at the whim of powerful buyers [46]. The long-standing, informal partnerships of Tesco and their suppliers are testament to the success of non-contractual, but close partnerships. This approach is perhaps, in contrast to the inclusive nature of J. Sainsbury, who have such a broad number of partners (albeit against a background of supply base rationalization in common with all other UK multiple retailers). This echoes the portfolio approach [47], in which organizations may have different types and levels of relationships active at any one time, rather than a single dyadic interaction. A further trend of UK multiple retailers is to develop exclusive partnerships with fewer, favored, single sources and in this way suppliers are described as being tied in to those partnerships [48]. An elite category of (fresh produce) producer is emerging [49]. These chosen few will take on board more total supply chain responsibility in return for volume growth or even whole crop marketing agreements, derived from their close association with customers and these suppliers will be "ring-fenced" in "closed supply chains" by their retail partners [50]. The race is on for retailers to secure best partners and as a result

there has been a considerable amount of activity in courting key suppliers, by product and category [51].

### **Power and Dependency in the Food Industry Relationships**

The relationship-based paradigm of marketing, brings together two apparently contradictory ideas; that of the power-dependency construct, where conflict is at the heart of exchange and quasi cooperation, which rejects conflict as a central tenet and replaces it with commitment and trust [52]. It has been much debated whether a power and dependency construct could coexist alongside a cooperative one. Ford [53] and Morgan and Hunt [54] believe that all inter-company relationships simultaneously exhibit conflict and cooperation. This applies equally in food industry supply chains, where power relationships are often prevalent [55], but companies simultaneously pursue adversarial and cooperative and partnering/network approaches [56]. It would appear that in the agri-food industry, many such diverse relationships exist and consecutively accommodate the two concepts of power/ dependency and cooperation to varying degrees [57].

Relationships are seldom fair, in the division of power or reward: nor are all parties equally active in commitment to the relationship [58]. Kumar believes that "the vast majority of manufacturer-retailer relationships are imbalanced" [59]. With regard to the food industry, Hughes [60] and Stern and El-Ansary [61] contend that relationships by their nature are imbalanced and in fresh produce particularly, there is an inherent inequality of the partnership [62]. Supply chains have senior partners, or *channel captains* [63]. These are normally large processor or retailer buyers [64].

In relationships of unequals the powerful partner can still build trusting partnerships, however, the onus is on the powerful party to treat the weaker, vulnerable party fairly [65]. Research into dyadic buyer-seller relationships in the UK fresh produce industry found that relationships last longer and are not as one sided in favor of retail buyers as commonly believed [66]. Furthermore, as exclusive relationships develop, the powerful partner becomes more dependent and hence

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the balance of power evens out [67]. There appears to be a genuine interest by retailers to approach their dealings with fresh produce suppliers from a partnership perspective [68]. Retail buyers are indeed channel captains, but value long standing relationships with key sector suppliers. Whether, however, policy is shifting towards truly two-way interactive partnerships in the UK food industry, has yet to be seen.

### **Significance of Size of Partner Businesses**

With regard to formation of collaborative relationships between organizations, diverse views are held as to the suitability of relationship forming with respect to nature and type of vertical supply chain partner businesses. Specifically, on the success of relationships between organizations of differing size and business philosophy, opinions do differ. Some authors contend that successful relations are most likely to be formed by partners of equal size and similar business ethos [69]. Others believe that an imbalance in power can be threatening to small companies when dealing with larger organizations, where the larger partner may derive the bulk of benefits [70]. However, RM should be applied and developed by all businesses irrespective of size or sector [71]. Links between small and large parties can be beneficial for both parties, with the small company gaining credibility from the link and the large company gaining access to new innovation and technological ideas [72]. RM is appropriate to SMEs, but that success is dependent on the entrepreneurship of the organization [73].

UK multiple retailers are in most cases considerably larger, than even the largest of their suppliers. This is compounded further in the fresh produce sector, where organizations are relatively small in comparison to the Fast Moving Consumer Good (FMCG) industries, where there is often a presence of high profile multi-national branded organizations which are able to achieve some counter balancing market power [74]. It would be wrong, however, to believe that successful relationships cannot exist between major buyers and smaller scale suppliers. In the fresh produce industry, although the producer elite are relatively large scale, many long standing, bonded relationships exist between

a multiple grocery retail chain and small or niche fresh produce suppliers [75]. In the competitive food retail market, major players still need to present a diverse product offering in order to differentiate themselves in a crowded marketplace.

Partnerships are developed by major multiples with organizations of much less significance, to enable sourcing of new and innovative products. In fact, partnerships can accommodate all types of growers, such that no one size is predominant and that small growers have developed into larger ones as result of partnership with the retailer [76]. Indeed, favored partner suppliers can act as a hub for smaller scale or international suppliers. This echoes the hub and spoke analogy developed by Sheth and Sharma [77] and the concept of competition in business markets as existing between networks of suppliers.

### **Relevance and Shortcomings of RM in a Fresh Produce Context**

There is a fair degree of skepticism from fresh produce suppliers over retailers' real commitment to two-way partnerships. Growers and suppliers are wary of partnership development, against a background of falling returns, low margins to suppliers and greater competitiveness in what are still often over-supplied commodity markets [78]. However, in general terms, the UK fresh produce industry is an appropriate and interesting field of study for RM. It features many of the concepts discovered in application to other industries, such as: the attempt to move away from commodity trading and move towards integrated win-win supply chain partnerships; and, the nature of power and dependency versus cooperation in vertical channels and network interaction. The relationship approach is being applied to fresh produce supply channels and the sector has developed its own terminology and documentation/formality with respect to relationship forming. There are, however, areas that warrant further investigation, namely:

- Partnership benefits.
- The significance of relationship formality.
- The importance of relationship forming to SMEs.
- Power and dependency in relationships.

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- The balance of risk and reward.
- Exclusivity.

## Research Methodology

This research investigated the nature of relationships between business-to-business marketing organizations and the experience of personnel directly engaged in dyadic exchange within existing vertical supply chains in the UK fresh produce industry. Fresh produce was selected for investigation as being a dynamic industry with a range of emerging relational structures. A definition of fresh produce for the purpose of this research follows that used as in the House of Commons Report [79] and as such includes fresh and short life, whole or prepared fruit, vegetables and salads, mushrooms and potatoes, but does not include horticulture (cut flowers and plants). The research methodology is inductive and qualitative, reflecting an exploratory and theory-building aim. A multi-case, multi-site approach was used, to allow for increased generalizability within its industrial and market context and some assurance of reliability, or consistency through repetition [80].

The sample was not further product-themed with respect to sub-sectors of fresh produce types, as this may have reduced the flexibility of the sampling procedure. However, the supplier sample as a consequence of selection for relational types, covers a wide range of different fresh produce lines (see Table 1). The companies taking part in this study were selected via a snowball sampling technique [81]. In the first instance, all of the largest major multiple food retail companies in the UK were contacted and most agreed to take part in the study. Senior managers from the retail companies were interviewed and they provided the names of two companies that supply their organization with fresh produce, sourced from UK and overseas. In some instances the companies were selected because they were considered to be typical examples of organizations engaged in vertical channel supply chain exchange; those cases which highlight what is normal or average [82]. In addition, atypical cases (organizations of differing size and business ethos) were selected in order to provide variation in source material and allow comparability befitting of multiple case

analysis. Thirty-five semi-structured depth interviews were conducted with both strategic and operational level managers at the seven largest UK multiple retailers, and at eleven fresh produce suppliers. For reasons of commercial confidentiality, all transcribed extracts are anonymized. Respondents were asked to express attitudes, perceptions and opinions with regard to the nature of business relationships and with specific reference to their dyadic relationship with named suppliers or retailers. The “in-vivo” method of analysis was used [83]; in which respondents express description in their own terms whereby the object was to interpret relationships from the inside [84]. The approach to interpretation of this research is one of content analysis, which is used to identify important examples, themes and patterns in the data [85].

## Research Findings

The research findings show a movement towards: a greater formalization of exchange relationships, fewer but more significant suppliers, getting close to the source, larger organizations, local suppliers, mutual dependency, exclusivity, partnered growth, uneven risk and more developed relationships.

### Relationship Formality

Increased planning allows managers to place events in a more manageable and measurable historical context and thereby, hopefully to make more informed decisions. There is an increasing emphasis on precise, formal review/planning through the means of business report documentation and an increased focus on identification of supply/partner performance.

All retailers interviewed are moving towards, or already have a well-established relational approach in their dealings with fresh produce suppliers, albeit with varying degrees of enthusiasm on both sides. What emerged from the adoption of this approach have been moves by some retailers to formalize the relationship between supplier and buyer within partnership documents. Such documents define the nature and responsibilities of the relationship between signatories. There are both responsibilities

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and privileges for the supplier of being under the umbrella of a partnership scheme: "We are privileged with certain commercial information, which I am sure would not be made available to us if we were not a partnership supplier. And we are obviously expected to keep that data in confidence" (Supplier zeta).

However, opinion is less certain as to the meaning and usefulness of formal partnership documentation, beyond less formal and ad hoc agreements. Both supplier and buyer organizations are keen to stress that regardless of a partnership document; retailers already possess written audit procedures, which specify the nature of standards of supplier product and service quality, food safety and good farming practice: "We have codes of practice for the production of many produce crops, which are very detailed and very specific, but not for how we will have a relationship with our supply base" (Retailer 3).

#### Fewer But More Significant Suppliers

The driving force for change from the retailer perspective is to operate with fewer, but more significant suppliers in given product categories, or through seasonal need. The intention is to have key, preferred organizations forming a greater part of the supply base and thereby deriving both time and supply chain economies and partnership gains.

The reduction in supplier numbers has

happened rapidly and the view on both sides is that those remaining will form a more important role with retailers and receive more preferential treatment. Suppliers are extremely aware of retailer policies on supply base rationalization. What suppliers hope, of course, is that greater security is derived from the status implied by the preferred/partner title: "What we hope (partnership) means, is security. By that I mean, less prospect, (unless we perform abysmally), of having our business cut back or removed than a competitor that has not been awarded partner status" (Supplier epsilon).

Rationalization means not necessarily guaranteed business, but a greater likelihood of continuing and growing business as favored or preferred suppliers. Product development or growth opportunities are likely to be put the way of existing partnership suppliers. Supply base rationalization generally means that the initiative should be given to the favored few, before being opened up to new suppliers.

#### Getting Close to Source

Securing the best available sources of supply has become paramount for retailers. This, as well as for reasons of supply chain economy, is why the prevailing trend has been for retailers to get as close to the ultimate source of supply as possible and to deal with suppliers that have their specific requirements uppermost: "Our view is we want to work

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**Table 1**  
**Organizations Represented in the Study**

Retail Company	Fresh Produce Supplier	Product Supplied	Interview Location
Retailer 1	Supplier <i>alpha</i>	Glasshouse salads	Hertfordshire
Retailer 2	Supplier <i>beta</i>	Salads	Sussex
Retailer 3	Supplier <i>theta</i>	Organic produce	UK
	Supplier <i>gamma</i>	Prepared veg, Salad	Lincolnshire
	Supplier <i>delta</i>	Prepared salads	Hampshire
Retailer 4	Supplier <i>epsilon</i>	Veg, salad	Lincolnshire
Retailer 5	Supplier <i>theta</i>	Organic produce	UK
	Supplier <i>zeta</i>	Veg, salad	Bedfordshire
	Supplier <i>epsilon</i>	Veg, salad	Lincolnshire
Retailer 6	Supplier <i>eta</i>	Potatoes	Cambs
	Supplier <i>theta</i>	Organic produce	UK
Retailer 7	Supplier <i>iota</i>	Mushrooms	Yorkshire
	Supplier <i>kappa</i>	Top Fruit	Kent

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closer with suppliers. We made it clear that we want to get closer to the core source. Really we want people (suppliers) who are producing with Retailer 7 in mind" (Retailer 7).

Wherever possible, most retailers prefer to deal directly with the ultimate producer and thereby, cut out the middleman. This approach provides control, or access to suppliers that have got control (Retailer 7) over the products that they supply. Shorter lines of communication, specifically, give the retailer and the preferred supplier control and consistent continuous quality in the key areas of supply chain traceability and safety issues, which have become more prominent. The removal of middle men from the UK and overseas production base has allowed preferred and short-chain suppliers to take on an expanded role in either producing or sourcing product direct, in order to satisfy their exclusive customers' desire for continuity, regardless of the timing of the domestic season. This may mean investing in production and value-adding capacity at home and abroad in order to satisfy their clients' year round demands.

### **Business Size**

Some retailers will suggest that because of the process of rationalization, focus is inevitably on larger organizations, with which they may prefer to develop a closer relationship. Retailer organizations are generally much larger than their suppliers and need to be sure that suppliers are in a position to be able to furnish their customers' considerable requirements: "First and foremost, one would look at the supplier and ask: has he got the resources to play at our level" (Retailer 3)?

Larger scale supplier organizations do appear to have advantages to retailers and this is seen to be mutually advantageous. These larger suppliers are treated differently and more preferentially. It is not, however, simply large size of supplier that is important to the buyer (and consequently the amount of attention given to a supplier), but the amount of business dedicated to a particular retailer. Focus on large-scale organizations can possess disadvantages too for the retailer. It is suggested, by some, that large organizations may be too unwieldy, with multiple layers of management. This makes short-chain access

to an accountable decision-maker more difficult: "(Named company) for example is too big. Everyone (at this company) started looking internally, people weren't accountable, (and) lost their focus. They were drawing big salaries, doing nothing. In the end, the result was poor quality products" (Retailer 6).

The real agenda here is perhaps of comparative size of supplier and buyer organizations. Retailers feel more comfortable with organizations that are large enough to meet their needs, but smaller than themselves. Consequently, retailers prefer to deal with those suppliers whom they feel do not have too great a market power and therefore leverage over themselves.

Partnerships with small scale suppliers are often preferred by retailers and can derive the kind of innovative products which enables competitive differentiation on the supermarket shelf. Further, an advantage for retailers of using smaller suppliers is that they can have a say in shaping the development of that supplier organization. This is seen as preferable to having a supplier who comes with the baggage of a previous trading history.

### **Location of Supplier's Business**

A further influential factor in determining level and frequency of access to retail buyers, is that of geographic location of suppliers in relation to retailer offices. This is not a primary motivation in the forging of a close supplier-buyer relationship, but it does allow more scope for business development with those organizations located nearby: "...in terms of priority and time spent, I would have a higher proportion of my time than other suppliers, because they are totally dedicated to Retailer 7 and they are (geographically) local" (Retailer 7).

### **Power-Dependency in Relationships**

There is no doubt where the balance of power lies in the fresh produce and wider UK food industry supply chain. Ultimate decision-making is very much on the retailer side of the dyad. The reasons are those of sheer buying power, control over branding (the majority of fresh produce is sold as retailer branded or unbranded) and size imbalance (even the very largest fresh produce suppliers cannot match the turnover

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of retail buyers): "A partnership between a supplier and a multiple retailer is like a ballerina dancing with a bear" (Retailer 3).

Some suppliers are worried about the retailer power brought about by this imbalance and fear that this power can be abused. It is the belief of some suppliers that the imbalance in power in favor of the retailer is counter productive to an effective (mutual) working relationship. This is despite the efforts of suppliers in meeting customers' considerable quality and service demands.

Supplier views on the use (and abuse?) of supermarket power provoke strong reaction from even their closest suppliers. Given these strong views, suppliers are pragmatic enough to realize the benefits of closeness to retail customers and will be compliant to the demands of such powerful buyers for that very reason. In contrast to the critical comments of some suppliers, others are quick to comment on the fact that the balance of power is perhaps more even than it might first appear. This means that retailers, although ultimately powerful, are more reliant on such suppliers than if they were trading on the open market for supply on a daily basis: "They (retailers) are only selling to the consumer. .... they are (only) as good as their raw material" (Supplier alpha).

### **Exclusivity**

The principal objective of exclusive supply for the retailer is to tie in the best suppliers in a given product sector, or of a given geographical /seasonal source, for their own sole use. Exclusivity of supply is fast becoming top of the agenda for discussion between suppliers and buyers (alongside availability and quality) and supersedes pre-relationship era issues, such as the endless haggling over price as the hottest topic for discussion. Exclusive suppliers are aware and do appreciate that they are being singled out for special treatment. A further agenda for retailers, in seeking exclusivity, is to deprive the competition of a particular product source or product advantage and thereby achieve further market differentiation in matters of quality, source continuity, confidential new product development and so forth: "(The issue of exclusivity) is becoming more and more, supermarkets are more similar nowadays. Looking for a point of difference is where we are going to make a difference. So,

working with suppliers whom we can trust, who don't deal with anyone else, gives us that ability to do (development) work" (Retailer 5).

Dealing with fewer fresh produce suppliers means, however, that retailers are more reliant on those key organizations. They are consequently very wary of these suppliers dealing with retail competitors.

### **Retailer Pecking Order**

An issue that concerns retailers whose suppliers also deal with the competition is the matter of pecking order of supply. This is not solely a matter of ego on the part of the retailer, but also a matter of a guarantee of continuity and consistency of quality. There is certainly a pressure in the industry to be aligned to specific retail customers and that alignment does tend to preclude relationships with other retail competitors. It is usual that suppliers will have a principal customer that takes a large share of their business and that they also serve perhaps one or two further, but seldom more multiple retailer customers. Suppliers do have perhaps two retailer customers, which take a roughly equal share, but take care that these customers are relatively compatible. The largest two UK groceries multiple retailers are continually jostling for position and this is a cause of competitive friction between them: "Our major competitor is (named retailer). It (the relationship with the supplier) depends on how we are treated in relation to (that named retailer)" (Retailer 5).

Suppliers understand that there may be problems resulting from serving direct retail competitors and have their own ways of dealing with this, such as dealing with different customers from separate production sites. Suppliers are wary of being seen to court an archrival to a principal retail customer. Those retailers that consider themselves to be innovative are the most sensitive to matters of confidentiality and privacy. This is especially apparent in production of value added products. In these cases, either dedicated factory sites have been constructed, or Chinese walls exist between units dedicated to different retailers served by the same supplier organization.

### **Partnered Growth**

A relationship, or partnership approach

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can be a route to very rapid growth for a supplier. If a retailer rationalizes its supply base this means that the favored suppliers that remain are likely to see faster growth, or sudden leaps in turnover of business with that customer. The exclusive supply situation may lead to even more spectacular growth: "During the last 5 years, the business has expanded by 25% a year, from fairly low beginnings. Ten times the turnover in 10 years - 70% of our business is with (named retailers) and all the development has had to come from those two major customers" (Supplier delta).

It is often the case that small-scale suppliers see explosive growth because of their association with large retail customers, rather than the steady year-on-year growth that they might have expected to derive from serving a broader customer base.

### **Uneven Risk**

The kind of growth outlined above, requires significant and perhaps sustained levels of investment on the part of the supplier in order to match customer demands. Investment to support a high rate of growth can be potentially very high, but it is testament to the strength of (largely unwritten) partnership agreements that suppliers are prepared to risk such high level investment at the behest of single retail customers. It is apparent that retailers are aware of high risks to suppliers associated with partnered growth, but argue that the returns derived from this approach are worthwhile for the supplier. Retailers further argue that returns from supplier investment can only ultimately be realized as a result of their exclusive patronage, and if the supplier makes mistakes, the retailer too, loses business as a consequence: "... they (suppliers) would be at more risk if they had no firm customer. At least they have a firm customer and a loyalty from us to develop that business" (Retailer 3).

Because of this, retailers, while not directly putting their money where their mouth is, assume ownership of the investment on the basis that the supplier is often dedicated to them.

### **Fresh Produce Necessitates a Different Kind of Relationship**

Retailers largely view fresh produce as a different or special range of products to buy

and handle, in comparison with other product ranges. For the supplier too, the difficulties and the specialist nature of fresh produce and the need for specialist treatment is apparent: "...fresh produce by its nature is a perishable product, fast moving, and short keeping" (Supplier zeta).

The most frequent comments in this area contrast the nature and variable demands of fresh produce with that of manufactured goods and the resulting greater necessity for relationship forming in fresh produce. Further, retailers stress that relationships in fresh produce are more developed than with manufactured goods, because of the need for short-chain, close to source relationships.

### **Conclusions**

The UK is generally seen as having one of the most highly developed food supply chains, with a large proportion of products supplied directly to multiple retailers through partnership arrangements. The logic behind greater coordination relates to the multiple retailers' demand for Continuous Consistent Quality (CCQ) bolstered by the legislative pressures on traceability, in addition to the desire for retailers to tie in the best suppliers in specific food categories. The fresh produce supply chain displays an increasing degree of structural concentration, but gives great scope for the development of SME suppliers. There is evidence to show that while there is a potentially hostile environment for smaller suppliers, large retailers have the potential to function as highly effective partners to SMEs.

Although trends towards a greater formality in fresh produce relationships are seen as useful with respect to planning, formalization through documentation and partnership agreements was not seen as essential to a good relationship. What suppliers would like to see is a greater demonstration by retailers of the mutuality of relationships. Analysis of the interviews confirms the trend concerning reduction of supply chain members. For those suppliers benefiting from vendor number reduction initiated by buyer organizations, a reduced supply base and short-chain supply situation is welcomed, as this brings greater security and favored status to preferred suppliers. This leads to a development of greater reliance on such suppliers and may ultimately lead to

***What suppliers would like to see is a greater demonstration by retailers of the mutuality of relationships.***

more equitable relationships.

As expected, relationships in fresh produce were found to be imbalanced and do favor the buyer. This does not mean however, that such relationships cannot be workable, successful and long standing, or that suppliers do not want to enter into close or exclusive relationships. A situation of exclusivity does go some way in providing a more equitable balance. Retailers are seeking to tie in key fresh produce organizations to themselves. What has emerged from the study is the significance of a pecking order of retailers. In a highly competitive market, retailer organizations are just as concerned about their suppliers' relationships to, or overtures from, retail competitors as they are about securing the continuous supply of high quality product. This is an aspect of exclusivity not fully considered in the literature relating to RM.

Research findings concur with a view that larger suppliers are generally preferred, but that SME and specialist organizations have a valuable place, and appear to offer an intimacy and immediacy that is lacking in large firms. What has additionally emerged (and this too is not adequately covered in RM literature) is the significance of the comparative size of exchange organizations. Partnered growth provides a fast track or even explosive pattern of growth for SME suppliers in the fresh produce industry. However, the balance of risk is viewed by suppliers as being unfairly born by them.

Most industries view their product as special or different and consider their industry to warrant particular attention with regard to the nature of partnership forming. In the case of fresh produce, this does appear to have some foundation, given the highly perishable nature of the product and variable conditions under which it is produced. From the cases investigated, a partnership approach is seen to be particularly significant in keeping the relationship on track.

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