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# **SME food suppliers versus large retailers: perspectives in the international supply chains.**

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# Agenda

- Reasons and determinants for the growth of retailer power and retailer-supplier relationships
- Presentation of the methodology and description of research outcomes
- Some final considerations

# The increasing retailer power in respect of manufacturers is due to:

- Increased capability of the retailers in purchasing goods, but even, structural goods and marketing and financial services;
- Augmented skill to manage together the marketing tools;
- More point in time to understand consumers taste and behavior;
- Reduced life-cycle of products which allows retailers to better manage products in points of sales
- More involvement of retailers in production activities in relation to development of private labels' products;
- More ability to manage the supply chains than in the past;
- More information of local and global procurements' markets that provide retailers with more business opportunities.

# The literature has widely investigated the relationships between retailers and producers

- **Power**

[Beier e Stern 1969; Hunt e Nevin 1974; Frazier 1983; Gaski 1984]

- **Interdependence**

[McAlister 1983; Eyuboglu, Didow e Buja 1992]

- **Conflict**

[Schul, Pride e Little 1983; Brown, Lusch e Muehling 1983; Stern e El-Ansary 1988 ]

- **Collaboration**

[Stern e El-Ansary 1988]

# In relation to these issues the following elements were examined:

- the determinants  
[Beier e Stern 1969]
- the out-comes of the power  
[Rosenbloom 1973; Stern e El-Ansary 1988; Perry 1990]
- the different stage of power  
[Lush e Brown 1982]
- how the power is communicated among subjects  
[Gaski 1984]
- how the power is perceived  
[Brown, Lusch e Muehling 1983]

- The buying activity is composed by the selection of most convenient products, but it is also connected with the strategic orientation and long-term retailers' goals.
- In particular, sourcing, evaluation and selection of suppliers is based on variety of factors

[Baily 1987; Davidson, Sweeney e Stampfl 1988; Shuch 1988; Packard, Winters e Axelrod 1996; Musso 1999].

Selection criteria
Availability to receive visit in the factory and control of production processes
Buying power of the supplier, scale economy, competitiveness potentiality
Communications system (EDI, RFID, etc.)
Contractual negotiations: (discount, payment delay, special prize)
Customer portfolio of the supplier
Exclusiveness or customization of the products provided by supplier
Financial situation of supplier to grant stability and
Flexibility of producer: delivery times, lead times, ecc.
Investments required : technical dotation, minimum quantity
Level of human resources of the supplier
Potentiality to develop
Promotional support
Quality of the products and services
Reliability with regard to the fulfillment of contractual conditions agree upon by the parties
Respect of Safety and healthy standards
Specificity of product (as made in italy, IGP)
Stock management: logistics capabilities and communication tools
Supplier reputation: share of market, volumes produced
Technical potentiality: high volumes, innovation, quality control
Value for money of the products
Vendor organizations of the producer (above all after-sale )
Wideness and attractiveness of range products

# Large retailers and SME suppliers - Three different relational balances

- SME suppliers manage to counter-balance the contractual power of the retailer
- SME supplier is the co-maker of private label products
- Supplier products are not necessary part of the retailer's assortment



Our previous researches [Pepe 1988, 2003, 2006; Musso 1996, 1999; Musso and Risso 2006] show that:

- in the short-term, retailers are only oriented to minimize the buying costs.
- in the long-term, retailers tend to create and maintain a relationship with SME suppliers.

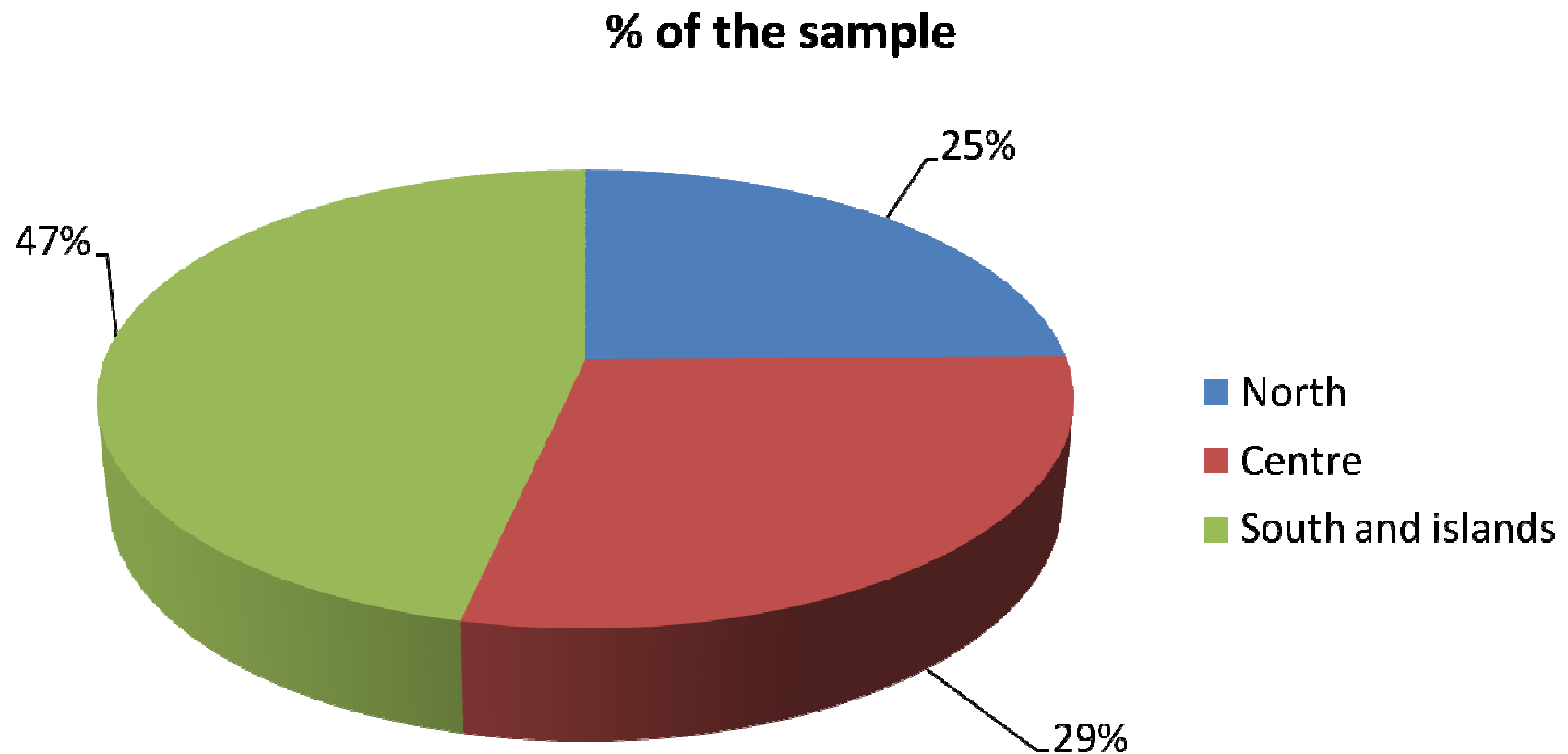
For SME suppliers, a stable, long-term oriented relationship with retailers can be the source of multiple advantages/ benefits such as:

- better access to first markets, in particular at the international level
- overcoming the hurdles in gaining access to final markets.
- the supplier improves its capability to access a new market and to internationalize its business activities.

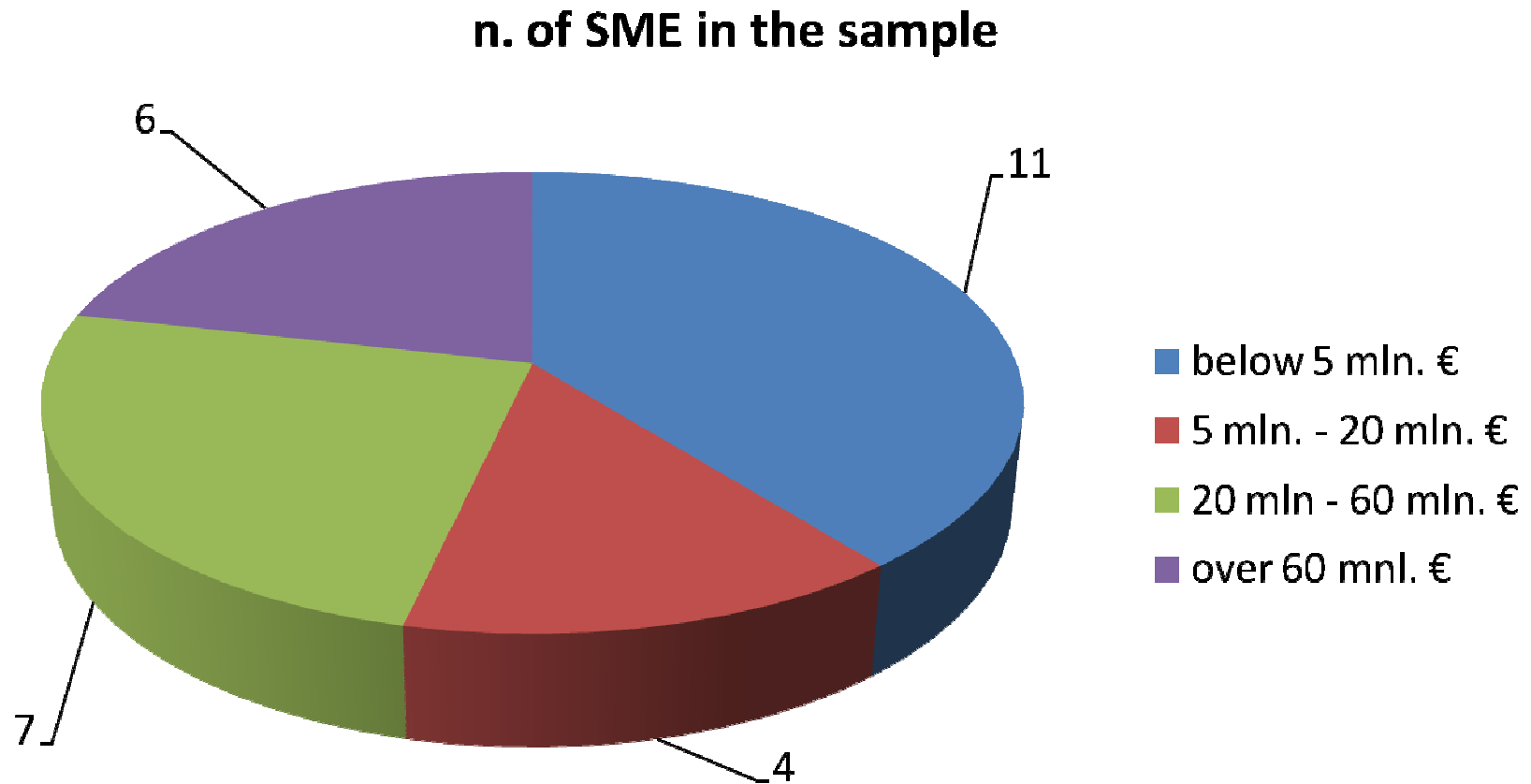
# The research

- Early 2007
- Interviews with 28 Italian food SME suppliers.
- Analysis of retailers' documentation to understand retail companies' approach to SME suppliers.
- The sample is composed of food SME identified through the Italian Association of Small and medium food enterprise

# Origin of SME in the sample

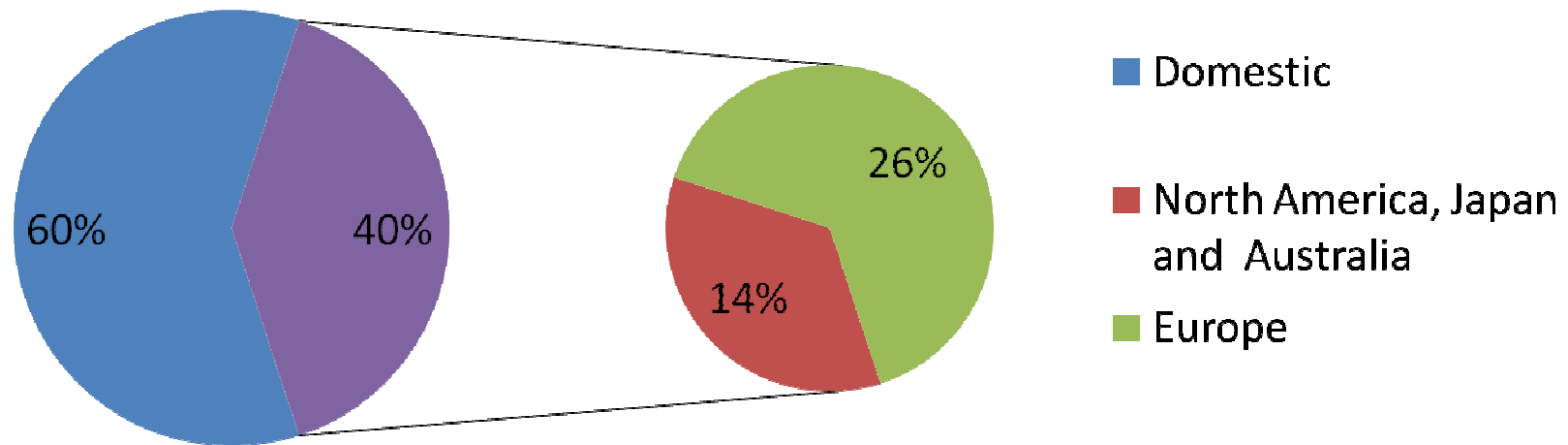


# The turnover of the SME



# The average turnover of Italian SME analyzed

**% annual turnover**



Selection criteria	N	Min.	Max.	Mean	Std. Deviation
Reliability with regard to the fulfillment of contractual conditions agree upon by the parties	28	3	5	4,82	0,476
Respect of safety and health standards	27	3	5	4,78	0,506
Producer's Flexibility : delivery times, lead times, etc.	21	3	5	4,76	0,625
Availability to receive visit in the factory and control of production processes	21	3	5	4,71	0,717
Quality of the products and services	27	1	5	4,67	0,877
Value for money of the products	28	1	5	4,61	0,916
Technical potentiality: high volumes, innovation, quality control	28	2	5	4,61	0,737
Financial situation of supplier to grant stability and	21	3	5	4,33	0,658
Stock management: logistics capabilities and communication tools	28	1	5	4,18	1,307
Potentiality to develop	20	2	5	4,15	1,137
Specific origin of product (typical products such as made in Italy, IGP, wines DOCG, etc.)	28	1	5	4,11	1,343
Contractual negotiations: (discount, payment delay, special prize)	20	1	5	4,05	1,395
Communications system (EDI, RFID, etc.)	21	1	5	4,05	1,396
Level of human resources of the supplier	21	2	5	3,95	1,359
Supplier reputation: share of market, volumes produced	21	1	5	3,95	1,396
Wideness and attractiveness of range products	28	1	5	3,75	1,481
Vendor organizations of the producer (above all after-sale )	21	1	5	3,71	1,821
Customer portfolio of the supplier	24	1	5	3,63	1,345
Investments required : technical dotation, minimum quantity	21	1	5	3,38	1,596
Exclusiveness or customization of the products provided by supplier	28	1	5	3,32	1,827
Promotional support	21	1	5	3,10	1,868
Buying power of the supplier, scale economy, competitiveness potentiality	21	1	5	2,48	1,662

Selection criteria	Less of 5 mln €	from 5 to 20 mln €	from 20 to 60 mln €	over 60 mln €	Total means
Reliability with regard to the fulfillment of contractual conditions agreed upon by the parties	4,73	4,5	5,00	5,00	4,82
Respect of safety and health standards	4,6	5	4,71	5,00	4,78
Producer's Flexibility : delivery times, lead times, etc.	4,33	5	5,00	4,83	4,76
Availability to receive visit in the factory and control of production processes	4,67	4	5,00	5,00	4,71
Quality of the products and services	4,6	4,25	4,71	5,00	4,67
Value for money of the products	4,36	4,75	4,57	5,00	4,61
Technical potentiality: high volumes, innovation, quality control	4,36	4,5	4,71	5,00	4,61
Financial situation of supplier to grant stability and	4,33	4,5	4,00	4,50	4,33
Stock management: logistics capabilities and communication tools	3,45	4,5	4,43	5,00	4,18
Potentiality to develop	4	4,67	4,00	4,17	4,15
Specific origin of product (typical products such as made in Italy, IGP, wines DOCG, etc.)	4,55	4,5	4,29	2,83	4,11
Contractual negotiations: (discount, payment delay, special prize)	3,33	3,67	4,00	5,00	4,05
Communications system (EDI, RFID, etc.)	2,67	4,5	4,80	4,50	4,05
Level of human resources of the supplier	4	3,25	3,20	5,00	3,95
Supplier reputation: share of market, volumes produced	3,83	3,5	4,40	4,00	3,95
Wideness and attractiveness of range products	3,82	3,25	4,57	3,00	3,75
Vendor organizations of the producer (above all after-sale )	2,33	3,25	4,20	5,00	3,71
Customer portfolio of the supplier	3,67	3,5	2,80	4,33	3,63
Investments required : technical dotation, minimum quantity	3	3	3,80	3,67	3,38
Exclusiveness or customization of the products provided by supplier	4	3,5	4,14	1,00	3,32
Promotional support	3,17	3,75	2,60	3,00	3,1
Buying power of the supplier, scale economy, competitiveness potentiality	2,33	2,25	2,20	3,00	2,48



# From the large retailers' perspective

Large retailers prefer to link themselves with small suppliers because:

- Easier control of the supply chain;
- Assortment more flexible
- Better characterization of the commercial formula,
- Better positioning on the markets by a mix of typical products;
- Enriching and specializing the products mix by different values such as “biological”, ethnical, ethical products.

# Some final considerations

- Often the retailer dominates the relationship
- Collaborative efforts can reduce waste and relational costs
- Furthermore , they can improve knowledge of the international business practices of the SME suppliers
- But...

## ...large retailers' needs are conditioned by increasing competition in the food sector

- The relationships between retailers and SME is still not clear.
- In a hyper-competitive climate, the availability of large retailers to help SME suppliers could be minor.
- Italian SME suppliers could end up being totally controlled by retailers...
- Which could eliminate SME suppliers that don't invest in dynamics, innovation and relational culture and tools.