Creating a Sustainable UK Farming and Food Industry:

An Analysis of Partnership Thinking as a Solution to the Problems in the UK Farming and Food Industry

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Abstract

This thesis focuses on UK Government policy-making as it pertains to the UK farming and food industry. This sector faces many serious economic problems. In response, the UK Government has developed policies and strategies to create profitable, sustainable and internationally-competitive farming and food chains.

One policy has been to promote ‘partnerships’. Considerable time and money has been spent on implementing this policy. However, the many initiatives launched have only been partially successful. A key reason for this is that many of those trying to implement ‘partnering’ have not recognised that, whilst there are many tangible and intangible advantages to be derived from ‘partnerships’, they are not always appropriate or possible.

A key factor in determining when a ‘partnership’ is either appropriate or possible and whether an attempted ‘partnership’ was successful is buyer-supplier power. Unfortunately, the concept of power never featured in UK Government policy documents.

The thesis also aims to improve our understanding of buyer-supplier power. While the cases showed that power was an important factor in affecting relationship success, they also showed that current power-related methodologies (Cox et al., 1999; Cox et al., 2000; Cox et al., 2003) may be too crude and require further development.

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Preface

Over the last two decades, the UK farming and food industry[1] has seen an unparalleled period of change and uncertainty. This has resulted in the closure of many traditional UK farming and food businesses. In response to this crisis there have been a number of UK Government policy documents[2] aimed at formulating a strategy to help protect the long-term viability of indigenous UK farming and food supply chains. The key policy direction, reinforced within key policy documents, emphasises the need for UK food supply chain participants (in particular the farmers) to implement diversification strategies, add value to food and collaborate in order to appropriate greater value from the supply chain as a whole.

One of the key sectoral foci for the UK Government, therefore, has been to encourage greater collaboration in the UK farming and food industry through actively promoting 'partnerships'. 'Partnerships' have been characterised in the UK Government policy documents (see footnote 2) as relationships where there is mutual dependency and high levels of trust. Furthermore, companies work together to drive out unnecessary costs from the supply chain on the basis of equal sharing of risks and benefits from these relationships. A number of agencies, including the Food Chain Centre (FCC), English Farming and Food Partnerships (EFFP) and the Red Meat Industry Forum (RMIF) were set up to operationalise policy direction, introduce the 'partnering' philosophy and provide collaborative tools (such as lean) to be used in the UK farming and industry. These efforts will be the focus of chapter one.

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[1] The UK farming and food sector, for the purpose of this study encompasses the entire food chain and related industries: primary production (farms); food manufacture; food wholesaling; food retailing; and, non-residential catering. Primary production will include: cereals (wheat, rye, barley etc.); industrial crops (oilseed rape, sugar beet etc.); forage plants, vegetables and horticultural products (fresh vegetables, plants and flowers); potatoes; fruit; other crop products (seeds etc.); livestock (cattle, pigs, sheep, poultry etc.); livestock products (milk, eggs, raw wool etc.); other agricultural activities (services, leasing transportation); and, agricultural consumables (energy, fertiliser, pesticides, animal feed, vets etc.).

[2] The English Rural Development Plan, 2000-2007 and The Rural Development Plan for England 2007-2013; The Report of the Policy Commission on the Future of Farming and Food- The Curry Report (2002); The Strategy for Sustainable Farming and Food (2002) and The Sustainable Farming and Food Strategy: Forward Look (2006) (MAFF, 2001, 2006, DEFRA, 2002a,b, 2006a).

The promotion of a ‘partnership’ philosophy by UK Government agencies in the farming and food industry is based upon an economic contention that partnering can lead to a number of tangible financial and operational benefits (as well as less tangible benefits). It has been argued that increased levels of collaboration, trust and equity between supply chain ‘partners’ can lead to, amongst other things, a reduction in supplier costs, increased supplier functionality, lower transaction costs (for both buyers and suppliers) and productive relationship specific investments. Before assessing the benefits of ‘partnering’ in chapter three, chapter two will first outline the historical developments of the B2B literature, to highlight the key theories influencing the discussions in chapters three and four.

There is no doubt that there are a number of advantages to be derived from ‘partnerships’. However, this thesis will contend that ‘partnerships’ are not always appropriate or possible for a number of reasons. First, not all *types* of products and services require partnering as a sourcing option. Second, even when the type of product or service being sourced would predicate that ‘partnering’ is suitable, there are different levels of risk associated with forming a ‘partnership’ and, therefore, this sourcing option, when viewed as an investment decision, is not always appropriate. Third, even if the product or service being procured is suitable and a ‘partnership’ can be formed, the relationship will not always endure and, therefore, ‘partnering’ may not be possible in the long-term. Fourth, there may be insufficient internal capabilities to effectively ‘implement’ partnership initiatives.

Furthermore, fifth, it is contended than even when it is possible to collaborate this does not mean that there will always be a balanced sharing of the risks and rewards from a ‘partnership’. One reason for this is the existence of power in buyer-supplier relationships. Power can affect the balance within relationships and will often favour one party. That party will typically (quite rationally) wish to dominate both the process and outcome of the relationship, rather than accept an equal share of the risk and rewards. This power imbalance between collaborating parties can act as a barrier to the formation of 'partnerships', in the first instance, as well as making 'partnerships' inherently unbalanced and potentially unstable over the long-term. The exercising of a powerful position (as exhibited by the multiple retailers in the food industry[3]) results in an unsatisfactory relationship for the weaker party and can ultimately result in a costly relationship failure (for one or both parties).

Despite its reliance upon the 'partnering' philosophy to help deliver a sustainable farming and food industry, the UK Government, in its policy documents, has largely ignored the impact that power has on the feasibility of 'partnerships'. Yet understanding the role power plays in relationships provides a fuller explanation for why 'partnerships' are not always appropriate or do not always work (in the short and long-term) in the manner hoped for. It is certainly a potential explanation for why the UK Government's policy in this sector has been only partially successful. This potential explanation will be the focus of chapter four.

The consideration of the concept of power allows the development of a testable hypothesis about the 'partnering' aspect of the UK Government's farming and food policy:

A policy of 'partnering' cannot provide a universal buyer-supplier solution as it is more likely to be successfully implemented under power circumstances of interdependence. This power structure will not always pertain within UK food supply chains, as is the case with supply chains generally. As a result, the UK Government's policy is likely to only be partially successful.

[3] As discussed by, amongst others, Ogbonna and Wilkinson's, 1998; Dobson et al., 1998; Dobson, 1999; Dobson et al., 1999; Dobson, 2006; Hingly, 2000, 2005; Duffy and Fearne, 2004; Fearne et al., 2005; Tallontire and Vorley, 2005 etc.

The hypothesis can be disaggregated thus:

i) Power can potentially prevent collaboration of any sort (partnering or otherwise) from happening;

ii) Power may not prevent collaboration, but it might prevent 'partnering'. In this context, this may cause problems for the UK Government's sectoral objectives;

iii) Partnering will most likely succeed under power circumstances of interdependence;

iv) Even when partnering is possible, the circumstances of interdependence might be unstable and change due to natural market developments;

v) On top of the natural change, some firms will act opportunistically and either actively try to change the power circumstances or commit other acts of opportunism within the existing power circumstances.

Having introduced the concept of power and outlined the key characteristics affecting the power of buyers or suppliers (utility, scarcity and information) at the end of chapter four, chapter five will focus in more detail on how power is identified. This chapter will, therefore, operationalise power and relationship types, through the use of frameworks similar to those of Cox et al., (2000, 2003).

The author will then test the hypothesis by using a qualitative case study approach. This is explained and justified in chapter six. Five cases have been selected from the UK food industry to test the hypothesis. These are featured in chapters seven to eleven. In chapter twelve, the thesis concludes that, as proposed in the hypothesis, partnering, although able to deliver many benefits, cannot provide a universal buyer-supplier solution. In the farming and food industry UK Government policy direction does not adequately acknowledge the existence and importance of power in buyer-supplier exchanges. The author believes that this is an important omission. The research findings presented in this thesis suggest that there are different power relationships in food supply chains and that partnering is more likely to be successful under the condition of interdependence. Therefore, the author believes that policy direction needs to change. UK farming and food industry participants should be encouraged to adopt a contingent approach to strategy formation to help achieve the Government's sectoral objectives. What this means is that organisations should be directed to pursue collaborative relationships and form partnerships only when appropriate.

Chapter One

The Future of the UK Farming and Food Industry: Strategies for Sustainable UK Production

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1.1. Chapter introduction

This chapter will start by outlining the set of exceptional circumstances that have delivered a unique mix of uncertainties, representing a truly enormous challenge for the UK farming and food industry. This is a challenge far beyond any ever faced before, which could result in the loss of UK self-sufficiency and many traditional farming practices and businesses. How the UK Government and industry have tried to tackle some of these challenges is the focus of the second section of this chapter.

This chapter will conclude by suggesting that current ‘thinking’ by UK Government and industry policy makers, and the resulting initiatives, are based on a predisposition and over-reliance upon collaborative and partnership thinking, including tools such as lean. This, it is suggested, will result in many UK food supply chain participants, in particular the farmers, being on a technical and regulatory treadmill, whereby they are faced by a sustained farm-based ‘price squeeze’ (Renting et al., 2003).

1.2. Key challenges facing the UK farming and food industry

1.2.1. Globalisation, transnational's, trade and trade barriers

The first issue to be discussed is centred upon the changing dynamics of the food industry. The world economy is rapidly changing as a result of globalisation. A number of factors have encouraged globalisation within the food industry. These include: increased levels of "trade liberalisation", a result of reduced barriers to international trade and investment flows, promoted through the GATT agreements; financial market deregulation; a growing acceptance of foreign direct investment; the growing international protection of intellectual property; and, the rise of competition and consumer protection laws (Farina, 2001; Murdoch et al. 2000; Ramsay, 2003; Senauer and Venturini, 2004). Furthermore, globalisation in the food industry has followed a similar course to many other business sectors, whereby production chains are increasingly controlled, spanning long distances, by a few large-scale transnational corporations (Murdoch et al., 2000).

Global distribution of food produce is not new (Hirst and Thompson, 1996). To supplement and complement domestic produce, countries have, for centuries, relied upon agricultural and food commodity trade (Bruinsma, 2003; Marsden, et al., 1990). However, the last 150 years has seen an unprecedented level of growth in agricultural and food trade, a trend which has continued to accelerate. Current figures suggest that of the $4 trillion worth of food sold within the world (USDA, 2005), over 10% is exported (Vorley, 2003; Senauer et al., 2004). Increased competition from imports has been made possible by: technological advances in transporting, preserving and storing food products; through increasingly efficient ways of managing and exchanging information about products; and, a reduction of trade barriers

(Farina, 2001; Murdoch et al., 2000; Ramsey, 2003). This has, in turn, enabled large-scale transnational corporations to invest in and develop global brands, with food marketing and agribusiness accounting for half of the world total gross domestic product (Ramsey, 2003)[4]. This represents a competitive threat to key products traditionally produced within Western Europe and the US.

Of particular importance to many UK food producers is the impact of increased trade liberalisation in the form of reduced trade barriers. Since WWII farming in the West has been characterised by high tariff levels, import quotas, intensive and highly subsidised farming, with price mechanisms. These factors have impeded the export of raw agricultural products for many developing countries. Tariffs, quotas and subsidies were established by developed countries to act as entry barriers to Western markets, to protect indigenous farmers, and to achieve self-sufficiency[5] (Orden et al., 2003; Vorley, 2003; FAO, 2004; Aksoy and Beghin, 2005).

However, these measures have also encouraged over production and resulted in many farmers not being customer focused. The ability of many UK producers, therefore, to adapt to increased levels of competition, is seen as an increasingly important issue for UK policy makers. The current round of the World Trade Organisation (WTO) negotiations, known as the Doha Development Round[6] could have serious implications[7]. According to the EU Commission, accepting G20 demands for increased trade liberalisation could trigger the

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[4] Mayer et al., (2003, pp. 782) identified (in the period 1980-2000) 7 key product types which have been, beyond other commodities, driven by transnational investment. These include: meat and meat products; dairy products; fish and fishery products; vegetables, fruit and nuts; spices; and, vegetable oils.

[5] This was, at least, the initial focus after the WWII.

[6] The Doha Development Agenda started in November 2001, has a work programme listing 21 subjects. Negotiations were due to be completed by 1January 2005 (WTO, 2009). However, a series of negotiations, the most recent held on July 23-29 2008, have all ended in failure. Negotiations are due to re-commence in 2009 (BBC News. 29/7/2008).

[7] The major sticking points in the Doha Development Round are rooted in cuts on tariffs and trade restrictions, in particular, within the agricultural sector. Developed countries, including those within the EU-25 are keen to resist pressure by G20 negotiators (the negotiation group of major developing countries) to classify fewer agricultural products as ‘sensitive’ and, therefore, exempt from trade liberalisation (ODI, 2004).

collapse of EU meat production and potentially reduce meat receipts by 58% (ODI, 2004, COGECA, 2005).

In conclusion, the changing dynamics of the food industry and, in particular, the issue of trade liberalisation, will continue to be an important consideration for EU producers, importers and exporters in the future (ODI, 2004; Krugman, 2007). With increased contestation there is the need for UK participants to look for more effective ways to compete globally.

1.2.2. Subsidisation- CAP reforms

The second issue to be discussed is reforms to the Common Agricultural Policy (CAP). The CAP has undergone a series of reforms, most recently those of Agenda 2000 reform (1999) and Mid Term Review reforms of June 2003 and April 2004 (DEFRA 2005). CAP reform, with a change in the EU system of direct payments, whereby a premium is paid "on a per head basis for livestock and a per hectare basis for crops" (Moss et al., 2002, pp 2.) has resulted in reduced price supports for markets and allowed prices to reflect levels more consistent with world markets (MDC, 2003). Replacing direct payment with a single farm payment, independent from production[8] will, it is argued, have a significant (although not uniform) impact upon sectors of the UK agri-industry (Revell and Oglethorpe, 2003, Renwick et al., 2003). This 'decoupling' of payments from production will, it is believed, influence farmers' production decisions and this will in turn influence the competitive dynamics within the affected industries (Moss et al., 2002).

[8] With payments now linked to: respect for environmental; food safety; animal welfare; occupational safety standards; and, the requirement to keep all farmland in good agricultural condition, (cross- compliance) (Revell and Oglethorpe, 2003; Renwick et al., 2003).

Although it is very difficult to determine the long-term impact of decoupling on UK agricultural production, a number of studies were commissioned by DEFRA to investigate the potential consequences of reforms.[9] These and other studies provide quite varied responses, but according to the Agricultural Policy and Food Chain Economics Division (APFCD) of the Food and Agriculture Organisations of the United Nations (FAO-ESA), who summarised these studies in January 2003, there were common results that suggest that decoupling direct payments will:

- reduce levels of production and bring about a closer market orientation of agriculture;
- improve farm incomes;
- have a generally positive environmental impact;
- release (labour and capital) resources from agriculture to less supported sectors; and,
- allow classification of payments in the WTO ‘green box’ and thereby enhance the EU’s negotiating hand. (APFCD, 2003).

Other commentators feel that CAP reforms will herald a new era of considerable change, which will require increased levels of innovation and market specialisation and result in even further movements towards free trade. Therefore, a major impact will be the inevitable increase in competition from low cost producers from around the world[10] (Food Chain Centre, 2003).

However, some argue that the impact of CAP reform will not be uniform across agricultural

[9] These included a study from the Centre for Rural Economics and Research (CRER), University of Cambridge (CRER, 2003) to assess the likely impact of decoupling in the UK arable sector; a preliminary analysis of partial decoupling by Harper Adams and University of Cambridge (Renwick et al., 2003); an appraisal of the impact of decoupling on the livestock sector conducted by Harper Adams University Collage and SAC Edinburgh (Revell and Oglethorpe, 2003); an assessment of the potential impact on Beef and Sheep Farming conducted by ADAS (ADAS, 2002); and, research conducted by the Department of Agricultural and Food Economics, Queen’s University Belfast (Moss et al., 2002) which noted the potential impact of decoupling on Agriculture in the UK.

[10] An example of which is the potential for countries like Brazil and Argentina, who can produce beef at less than half the cost in the UK, competing with British producers (Food Chain Centre, 2003).

sectors, or even countries. For instance, according to the Moss et al.'s (2002) report,[11] by 2010 UK beef and sheep production might fall by 11% and 12% respectively. The projected decline in livestock number is likely to be sharper in the UK than elsewhere in the EU, as UK producers are more dependent upon the subsidies. By contrast, even with a dairy premium to be introduced in 2005, Moss et al.'s study noted that as there are EU milk production quota levels and a protected internal EU market governing milk production, decoupling exerts little impact on projected dairy cow numbers and commodity prices (Moss et al, 2002). However, even this is not universally agreed upon. A more recent report by the NFU, 'A Vision for the Dairy Industry' (2005), has a contrary argument in that: " [t]he reforms agreed in 2003 lead to the most significant changes in dairy support policies since the introduction of milk quotas. The combination of support price cuts, direct payments and decoupling will combine to have a dynamic effect on the economics of milk production in the years to come" (NFU, 2005, pp. 15).

Although it may be still too early to assess the true impact of CAP reforms, it is likely that previously heavily protected industries are going to face increased levels of contestation. These concerns have influenced policy-makers to look for ways of defending the indigenous British food industry. With higher levels of contestation, a potential option would be for UK food and farming participants to collaborate and work together to jointly innovate, become market specialists and compete globally.

[11] Also referred to as the Queens Report.

1.2.3. Increased competition from imports

The third key challenge is the increased level of competition from imported food in the UK. This can be viewed as a potential consequence of increased globalisation and trade liberalisation (1.2.1) and changes to CAP subsidy system (1.2.2). With the trade gap in food, feed and drink widening by 10% to £13 billion in 2005, there is evidence that the UK home produced food, feed and drinks industries increasingly face pressure from imports. Recent figures released by DEFRA (2006) show an increased reliance upon imports for the majority of food categories. Although in some areas there have been some increases in the value of exports[12], as a proportion of the total value of sales, exports have fallen against imports (DEFRA, 2006b).

The most pronounced swing from exports towards an increasing reliance on imports has been for meat. Exports in meat (meat from cattle, sheep, pigs, goats, poultry, horses etc.) fell from an average value of £1,130.5 million in 1995-97 to £727.6 million in 2005 (a 36% decline), whilst imports rose from a value of £2,366.5 million to £3,721.8 million in 2005 (a 57% increase) (DEFRA, 2006b). In 2004, 43% of beef, 36% of lamb and 60% of all pig meat supplies (pork and bacon) consumed in the UK were imported (MLC, 2006; Cox et al., 2007).

The UK pig industry, in particular, has felt the impact of increased globalisation and trade liberalisation. In the UK pig industry there have been a number of worrying trends. First, there has been a dramatic contraction of the UK pig industry (farm numbers, breeding pigs

[12] For fish there has been an increase in export value from £705.7 million in 1995-97 to £939.5 million in 2005 and for fruit and vegetables an increase in value from £460.5 million to £515.0 million, over the same period (DEFRA, 2006b).

and pigs slaughtered) (BPEX, 2006)[13]. Second, the adoption of intensive production methods by the majority of UK pig producers has led to the commoditisation of the product and resulted in increased direct competition from cheaper imports. This has had an impact on both farm and retail prices[14] (BPEX, 2004; BPEX, 2006). The 'average farm price' paid to pig producers fell from 104 p/kg in 1993 to 92.9 p/kg in 2002, whilst retail prices charged to consumers, by retailers, rose from 207 p/kg in 1993 to 227.1 in 2002. The farm to retail price spread has, therefore, moved in favour of retailers from 42% in 1996 to 59.1% in 2002. Between 2003 and 2006 this trend was exacerbated, with retail prices rising to 288.8 p/kg by 2006 (year end June), whilst farm prices have remained low at 101.2 p/kg. By 2006 the position of the multiple retailers has, therefore, further strengthened, with the farm to retail spread hitting a new high of 65% (BPEX, 2006).

Although the reasons for the failure of the British pig industry are complicated, what is clear is that there are both increased levels of imports into the UK, and without protection, agricultural sectors such as the pig industry have struggled to compete at a regional (EU) or global level. With levels of protection falling and the success of imported products there has been an urgent need for UK industry and Government policy makers to find a 'new way' for the UK food industry to compete.

1.2.4. Food quality and safety

The fourth issue to be discussed is that of food quality and safety. This is an increasingly important topic facing consumers, agricultural marketers, farmers and Governments

[13] There has been a 49% reduction in pig holding numbers in the UK from 118,000 in 1993 to 60,000 in 2004 (BPEX, 2006).
[14] Although the profitability and margins made by pig producers are complicated by the inherently cyclical nature of profitability (the 'pig cycle'), the 'average farm to retail price spreads' have been unfavourable to pig producers, even when they have aligned themselves with multiple retailers and adopted collaborative practices (MLC, 2003).

throughout the world (Smith and Riethmuller, 1999, 2000). The list of food scare incidents affecting either individual companies or whole industries has exploded over the last 20 years[15] (Wansik, 2004; Smith & Riethman, 2000; Roberts & Smallwood 1991). In the UK there have been a series of highly publicised food scares, including a wave of food scares in the 1980's and 1990's including salmonella, E-coli, Listeria and BSE [16]. The BSE disease in cattle has seriously impacted the beef industry and has caused over 100 deaths to date from the human version CJD (Creuzfeldt-Jakob disease) (BBC News, 1998; Observer, 2004; Thesite, 2009).

More recently, over a million Cadbury's chocolate bars were recalled in June 2006, amid fears that they had been contaminated by a rare strain of salmonella, caused by a leaking pipe at their Marlbrook plant (BBC News 2007a, b)[17]. Another recent food scare, which has had a significant impact in the poultry sector and has pushed food safety onto the agenda again, has been the outbreak of H5N1 avian bird flu[18]. Before the first mass outbreak of H5N1 bird flu in Britain (February 2007) at Bernard Matthews' Turkey farm at Holton, Somerset, there had already been considerable financial fallout from bird flu within Europe[19]. The impact for Bernard Matthews has also been considerable, with, to date, the company having to make 168 of their 4500 staff redundant. The UK's largest turkey producer admitted that their sales had

[15] There are a wide range of concerns that consumers have over food safety, including microbial contamination (bacterial, parasites, fungi and viruses), chemical residues (insecticides, herbicides, fertilizers, food additives), food irradiation and the use of antibiotics. A food scare can result in the recall and redesign of a product, will require the careful handling of the problem through effective communication by individual companies (such as Cadbury's Schweppes, Tylenol, Perrier and Pilgrim's Pride) and can have serious financial implications. Other food scares such as the threat of "mad cow" disease in beef, can damage a whole industry (Wansink, 2004).

[16] Salmonella came to prominence in 1988 when Edwina Curry said that most UK eggs were infected with the bacterium. In 2000 the Government reported that 23% of pigs going to slaughter were in fact infected with salmonella. Concerns over E-coli reached their peak in 1996/1997, with a serious outbreak in Scotland and a single outbreak in Lancashire killing more than 20 people. An outbreak of Listeria in 1989 forced supermarkets to withdraw some soft cheese and cooked chicken products.

[17] The consequences for Cadbury's have been significant: they faced health and safety charges, which could result in a heavy fine and have suffered lower sales (14% lower in the immediate aftermath of the recall). The event could potentially cost the firm as much as £20m (Manchester Evening News, 2006).

[18] When in 2004, 9 people were reported dead in Thailand from contact with infected birds the worlds media was gripped with the fear that the H5N1 strain of the virus could- by latching onto the human flu virus- cause a pandemic of influenza.

[19] In March 2006 the French Government is reported saying that "its poultry sector - the largest in Europe - was now losing 40m Euros ($48m; £27m) a month. Officials said poultry sales had fallen both domestically and abroad where 40 nations had brought in restrictions." Germany's poultry industry has also seen a drop in demand of 20% due to bird flu. It estimates that the sector has lost more than 140m Euros since autumn 2005 (BBC News, 2006).

fallen by as much as 40%. Although there was no direct risk to consumers, buyers preferred to 'play it safe' and not buy turkey products (BBC News, 2007c).

Although some contaminations, such as foot and mouth disease (FMD), are of very little actual risk to consumers, they can have a marked effect on consumer and industry behaviour (Smith and Riethmuller, 1999; Lindergreen and Hingly, 2003). According to a Gallup survey looking at consumer attitudes during the 2001 foot and mouth crisis, consumers were willing to pay more for assurances of higher welfare standards (Lindgreen and Hingley, 2003; Simons and Zokaei, 2005, 2006; Taylor, 2006).

The prevalence of food scares, be it at a company or industry level, is increasingly affecting the way the Government, companies and consumers in the food industry interact. The need to allay consumer concerns, coupled with changes to legislation (The Food Safety Act of 1990), has led to a new appreciation of the importance of understanding and controlling the supply chain in its entirety. This, it has been argued, has required the development of much more collaborative relationships throughout many food supply chains in order to ensure high quality and safety standards are met, with full product traceability.

1.2.5. Concentration of market power

The fifth challenge to the food industry is the concentration of market power in the hands of the multiple retailers. UK food retailing is now dominated by four major supermarkets (Tesco, Asda, Sainsbury's, and Morrisons) who alone account for over 65% of total UK grocery sales (Fearne et al., 2005, Tallontine and Vorley, 2005[20]). The increasing concentration of downstream market power, with 72% of fresh/frozen beef and pork, 73% of bacon and 61% of lamb sold through multiple retailers, is critically important for all processors and producers supplying into the multiple retail channel (MLC, 2003; Taylor, 2005).

Retail concentration, according to Fearne (2001), has been accompanied by product rationalisation, driven by implementation of category management, post-ECR (efficient consumer response)[21]. Supplier rationalisation has shown the most marked acceleration in categories where private labels have flourished, namely fresh produce, meat and dairy. By dealing with a smaller number of larger, sophisticated suppliers, UK supermarkets have realised that it is possible to reduce both transaction costs (Duffy and Fearne, 2004; Duffy et al., 2004) and improve control over quality (Hornibrook and Fearne, 2001, 2003; Fearne et al. 2005).

Fearne et al., (2005) note that the "fact that a handful of supermarkets control access to consumers means that they are increasingly in a position to exercise power. This is because distribution through these outlets is critical to manufacturers and suppliers as these suppliers have no other viable means of setting up distribution that offers the same scale and economy benefits (Dobson et al., 1998)" (Fearne et al., 2005 p. 571). This view is supported by other writers who argue that the powerful position of the multiple retailers as 'channel captains' (Cotterill, 2001) is changing the very structure of the food industry, with significant

[20] According to the Competition Commission's (2008) 'The Supply of Groceries in the UK: Market Investigation', in 2007 the large grocery retailers accounted for an estimated 85% of total grocery sales, with 65% of grocery sales accounted for by the 4 major retailers (Competition Commission, 2008).
[21] ECR first began in the USA in 1993 and was introduced into the UK in 1996. The aim of ECR is to deliver an industry-wide approach to creating a more efficient supply chain which is better focused on the consumers. ECR has, according to some, played a leading role in the move towards greater collaboration in the UK grocery supply chain, with a focus on retail logistic (IGD, 2009).

concentration in all parts of the supply chain (Dobson, 1999; Hughes, 1994; Tansey and Worsley, 1995; Hingley, 2000).

Although there has also been significant consolidation in the global food industry, the pace of consolidation has been faster in the UK (Hingley, 2005). Channel development within the UK has, therefore, been driven by the major multiple retail groups, who, having the greatest power in the chain (Taylor, 2006), have encouraged close partnerships between themselves and a reduced number of suppliers in all categories. Central to this has been the drive by the multiple retailers to implement various farm assurance/QA producer schemes[22], with the aim of improving transparency and trust in food supply chains. This has, in part, been a response to consumer demand for food products with, "known and documented characteristics and with certified attributes" *(*Bredahl et al., 2001, p. 90), a demand, as already highlighted, borne out of the growing concerns about the quality and safety of food during the 1990s.

However, there is evidence that, although these 'voluntary' schemes for farm systems and environmental protection, food safety and/or animal welfare are of benefit and encourage good practice by farmers, they are expensive to implement[23] and are another way for the multiple retailers to gain further control (Fox, 2000; Vorley, 2003, Fox and Vorley, 2004).

Advantages for producers, quick to respond to the multiple retailers 'new standards', were found to be short-lived for many as adherence has become a 'qualifier' rather than an 'order winner'. The assumption that producers would receive higher returns for higher standards

[22] Quality assurance schemes, commonly known as farm assurance schemes are now widespread at the production stage and cover all species of livestock, as well as arable crops, milk, potatoes and fresh produce. Farm level assurance schemes include both 'generic' schemes for cattle, sheep and pigs, including Farm Assured British Beef and Lamb (FABBL) and Farm Assured British Pigs (FABPIGS) in England and Wales, and 'proprietary' quality assurance schemes run by the food retail chains and large processing companies. The retail run farm-level schemes go significantly beyond the requirements set out in the generic quality assurance schemes (Bredahl et al., 2001, p. 95). Within the UK beef sector in 1998 there were several schemes in existence including Tesco's 'Producer Clubs', Sainsbury's 'Traditional Beef Partnership', M&S's 'Select Scheme', ASDA's 'Beef Bond' and Waitrose's 'Beef Scheme'.

[23] The costs of assurance schemes, private standards and 'Codes of Practice' are born by the producers, with no contribution from the retailers to the extra costs and risks (Fox, 2000; Vorley, 2003).

has not materialised (Vorley, 2003) and many (in particular farmers) believe the various schemes partly serve as another tool to further increase the multiple retailers' power. Although these schemes have led to a smaller number of more significant suppliers to their businesses in each category (Hingley and Lindgreen, 2002), through mergers and market concentration at the processor and producer stages, the suppliers are still weak relative to the multiple retailers[24]. There are a number of reasons for this[25], but this is partly due to the multiple retailers' success in developing 'own label' products with a uniform, high quality reputation across several categories (Cotterill, 2001). This has provided less opportunity for processors and producers to create differentiated brands and brand loyalty (Cotterill, 2001; Taylor, 2006).

What must be understood, therefore, is that whilst collaboration is a potentially necessary operational solution to the food industry's need to deliver high quality and fully traceable products, it can also be a strategic tool, in particular in unbalanced power relationships. Collaboration under these circumstances enables the passing of risk and costs to weaker parties. This is something explored later in this thesis.

1.2.6. Consumer demands and consumer trends in food

The final issue to be considered is the debate surrounding the future direction of consumer demand for food. There is no doubt that assessing consumer needs and future trends are

[24] The question of whether the growing power of the multiple retailers will naturally lead to the demise of branded food manufacturers is a much debated topic. However, some argue that who has the power in the constantly changing relationships between retailers and food manufactures is less important than the fact that the smaller entities in any part of the chain are being pushed out. The retailers may still, at times, be at the mercy of those manufactures that have developed successful brands, or have become category leaders. Companies can increase their negotiating power by being category leaders and become dominant or the sole supplier for a particular product category (such as dairy for Dean Foods), for multiple retailer customers. However, overall, the position of the multiple retailers gets ever stronger (Hendrickson et al., 2001).

[25] Individual retail chains posses considerable market power as a result of: having high concentration in local markets; spatial dimensions of retail markets that provide a measure of pricing power to the store located closest to the consumer; less than perfect consumer information and high consumer search costs; and, product differentiation among various food retailers in a given market (Cotterill et al., 2003).

becoming more complicated. Higher income, urbanisation and other demographic shifts (including greater ethnic diversity and consumer perceptions regarding quality and safety) are changing global food consumption patterns (USDA, 2001; Martinez and Stewart, 2003). Consumer demand for new foods, changing eating habits and food safety risks have led to the need for food industry marketers to redefine what consumers want[26]. Changing food consumption patterns over the last 30 years, in particular, within developed countries, has had a varied impact depending upon the specific sector, with the red meat sector facing the greatest challenge (Gunthorpe et al., 1995). In the US, the red meat share of total meat consumption declined from 79% in 1970 to 62% in 2000(USDA, 2001). These trends have been mirrored in the UK, where there has been a long-term decline in consumer demand for beef, with per capita meat consumption falling from 20.9kg/p.a. in 1980 to 16.6 kg/p.a. in 2002 (MLC, 2003). However, this trend is not uniform, as there has been considerable growth in beef consumption in the developing world.

In contrast to the decline in beef consumption, changing demand patterns have brought new opportunities for other meat products, with the poultry share of total meat consumption rising from 21% to 38% during the period 1970 to 2000 in the US (USDA, 2001). The rise in the poultry industry has been, in part, related to healthy eating. However, in particular, within the US, the industry's ability to respond to consumer demand and offer convenience has helped it prosper[27] (USDA, 2001)[28].

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[26] There is a move towards foods that are convenient, with the widespread rise in the choice of prepared foods, including complete meals purchased in restaurants, or, at supermarkets (Martinez and Stewart, 2003; USDA, 2001; Cranfield et al., 1998). Food must also increasingly be fresh, natural (i.e. without preservatives) and healthy, with a move towards organic (although this is still very much niche in the UK compared to the US). There is also an increased desire that food choices can act as a remedy for ailments from heart disease to fatigue and memory loss (Zink, 1997).

[27] In 1976 only 6% of chickens were marketed to foodservice operations for further processing into patties, breaded strips, nuggets etc. but by 2001 this figure rose to 46.5%. Also chickens sold as cut up pieces, and, therefore, more convenient, opposed to whole chickens, rose from 28% of sales in 1971 to 42.5% in 2001(Martinez and Stewart, 2003).

[28] Similarly, per capita consumption of fruit and vegetables increased by 25% between 1977 and 1999 in the US (USDA, 2001).

More recent figures for the UK lend further support for a change in consumer preferences towards healthier food options, with the quantities of fruit and vegetables showing the largest rise in the last 20 years: up 7.7% in 2005-06 compared with 2004-05 figures[29]. Fish and uncooked chicken have also shown an increase of 5.7% and 6.1% respectively in the same period, whilst household purchases of beef and veal dropped by 2.3% in 2005-2006. Meanwhile, quantities of confectionary purchased per household fell by 6.1% (DEFRA, 2007).

These significant shifts in consumer demand, driven by a number of factors (a focus on health, impact of food scares, etc.) is relevant, as UK policy makers (see section 1.3) have highlighted the need of producers to become more customer-focused. A reading of policy documents leads us to believe that many UK food chain participants (particularly UK producers), because of historically high levels of industry protection, do not, at present, have the necessary commercial experience to effectively meet consumer demands.

1.2.7. Summary of the challenges facing the UK farming and food industry

As has been demonstrated within this section, there is no doubt that the UK farming and food sector is faced by a series of unprecedented challenges. Although these challenges have been considered separately it is, in reality, impossible to consider them in isolation. Space does not allow it, but it is also useful to consider the varying impact of the identified challenges in separate, diverse sectors such as red meat, dairy or horticulture. However, it does seem fair to say that the globalisation of the food industry, reforms to the CAP, concerns over food quality and safety, the increased power of the multiple retailers and changes in consumer

[29] This is possibly a result of the UK Governments '5 a day', fruit and vegetable initiative.

preferences have all resulted in a general decline in UK self-sufficiency and, for many producers, profitability.

A recent report by the National Farmers Union, although directed at the dairy industry, succinctly sums up many of the problems within the UK farming and food industry in general: "[W]hether we like it or not, the British dairy industry is going to become subject to continued competitive pressures. Some of these are already present in the domestic market because of the intense competition brought about by a powerful retail sector driven by higher profits and lower costs. But the pressure at an international level will grow partly as a result of CAP reform, and partly as a result of greater trade liberalisation. The industry cannot be blind to the effect that liberalisation could have on its competitiveness" (NFU, 2005, p. 6). The next section will now consider the UK Government's response to these challenges.

1.3 Government and industry response to challenges in the UK farming and food industry

Having explored the key challenges facing the UK farming and food industry, this section will now examine the UK Government's attempts to redress these issues and help create a sustainable UK farming and food industry. This section will include a summary of key policy statements, in so far as they relate to collaboration. They come from six Government policy documents: the English Rural Development Programme (ERDP), 2000-2006 (MAFF, 2001) and the Rural Development Plan for England (RDPE), 2007-2013 (MAFF, 2006); the Curry Report (2002), the Strategy for Sustainable Farming and Food (SSFF) (2002); and, the Sustainable Farming and Food Strategy: Forward Look (SFFS) (2006). Although these policy documents focus on broad issues relating to UK agriculture as a whole, there has been a consistent message reinforced through all of these documents, which emphasises (amongst other things) the need for farmers to implement diversification strategies, add value to food and collaborate in order that they may appropriate greater value from the supply chain.

1.3.1. The English Rural Development Programme (ERDP) 2000-2006 and Rural Development Programme for England (RDPE) 2007-2013

The English Rural Development Programme (ERDP) 2000-2006 (MAFF, 2001), was a programme of activities designed to contribute to the delivery of the UK Government's Strategy for Sustainable Farming and Food (2002) by helping farmers and foresters to respond better to consumer requirements and become more competitive, diverse, flexible and environmentally responsible. It has also provided help to rural businesses and communities which need to adapt and develop. The RDPE provided a framework for the operation of separate but integrated schemes which provide opportunities to protect and improve the countryside, develop sustainable enterprises and help rural communities to thrive (MAFF, 2001; DEFRA, 2009)[30].

The ERDP document identified, amongst other weaknesses, that within the UK there are poorly developed food supply chains, insufficient processing of primary products and poor collaboration in the farming industry. The report also noted that there were few entrepreneurs and poor marketing skills within the farming sector (MAFF, 2001).

‘Priority A’ within the ERDP was to create a productive and sustainable rural economy. To deliver this, various schemes such as the Rural Enterprise Scheme, Processing and Marketing Grants and Vocational Training Schemes were introduced to help farmers/processors to develop new products and market outlets and work towards greater collaboration in the

[30] A total of £1.6 billion of EU and Government money was made available under these schemes in England during the 7 years (2000-2006) of the Programme (DEFRA, 2009a).

industry. Targeted training was provided to support these activities. A SWOT analysis within the ERDP highlighted poor collaboration in farming and forestry as a key weakness, with increased collaboration seen as an opportunity (MAFF 2001).

One of the primary drivers of the ERDP was to help promote the marketing of agricultural products. This was seen as a key national priority and the scheme was charged with developing collaborative groupings of producers, developing initiatives aimed at linking parts of the food chain and the development of consumer and quality assurance schemes (MAFF 2001, p. 39).

The ERDP 2000-2006 has now been replaced by the Rural Development Plan for England (RDPE) 2007-2013 (MAFF, 2006)[31]. A key focus of the new programme is to devise a programme of activities to further support the UK Government's SSFF and help "to build profitable, innovative and competitive farming, food and forestry sectors" (MAFF, 2006, Chapter 3, p. 149). A substantial part of the budget for Axis 1 of the programme will be to "[S]upport for training and knowledge transfer and increased innovation, value-add, collaboration and entrepreneurship" (MAFF, 2006, Chapter 3, p. 149). Within Axis 1 of the programme, a key objective is cited as: "promoting and encouraging greater collaboration and co-operation between producers, and the rest of the supply chain" (MAFF, 2006, Chapter 4, p. 5).

[31] This programme has a budget of £3.9 million which is almost double that of the previous programme (DEFRA, 2009).

1.3.2. The Report of the Policy Commission on the Future of Farming and Food- The Curry Report (2002)

After the outbreak of foot and mouth in 2001, the UK Government was forced to respond and, in August 2001, appointed a Commission. The aim of the Commission was to look at how to create a sustainable, competitive and diverse farming and food sector. At its heart, was the need to devise a profitable strategy for the future of the industry, so that it could compete internationally, while protecting the environment and providing healthy food (Curry, 2002). In January 2002, The Policy Commission on the Future of Farming and Food published its report: 'Farming and Food: A Sustainable Future'. Recommendations put forward by the commission were diverse. However, there was a continuation of the general message initially presented in the ERDP, 2000-2006, that is, a greater emphasis upon stronger and more coordinated buyer supplier relationships, as well as an encouragement for farmers to enter into horizontal collaborative relationships.

Some of the key recommendations from the Curry Report on collaboration, supply chain co-ordination and the potential to develop partnerships are paraphrased below:

- Other industries have looked hard at their supply chain in the drive for efficiency. The food industry must also do this. At the moment, some chains are too long and market messages are getting lost before they reach the primary producers (p.30).
- Primary producers, as well as collaborating vertically in the supply chain, should pool resources and collaborate horizontally to improve their marketing scope and to enable them to negotiate with the much larger companies to which they sell, and from which they buy (p.33).

- There is a great deal of potential for collaborative ventures for all farmers large and small (p. 35). An English Collaborative Board should be established to encourage and support collaborative ventures (p. 35).
- A whole supply chain approach to improving competitiveness in the [red meat] sector is needed. The long supply chain in red meat is one of the reasons why competitiveness is slipping (p.42).
- Professionally-managed collaborative ventures developing processing units (value-add) should be given a high priority for grant funding and Government aided venture capital initiatives (p.44).
- Two major agencies should be created: the *Food Chain Centre* (FCC), with a brief to support collaborative thinking and efficiency improvement across all British agriculture sectors (dairy, cereals and fresh produce), and the *English Farming and Food Partnership* (EFFP), to focus on the potential for collaboration and partnerships within farming.
- A number of forums should be set up to promote these activities, for example, the *Red Meat Industry Forum* (RMIF), created to oversee projects to assist in the improvement of efficiency and competitiveness in British red meat supply chains.

The Curry Report (2002) also emphasised the importance of local food initiatives, linkages between the regional development authority (RDA) and Food from Britain[32] in order to develop the regional food component and the stronger development of local and regional brands.

[32] Food from Britain is the market development consultancy commissioned by the UK Government to increase exports of UK food and drink (www.foodfrombritain.com).

1.3.3. The Strategy for Sustainable Farming and Food: Facing the Future (SSFF) (2002) and Sustainable Farming and Food Strategy: Forward Look (SFFC) (2006)

Similar messages emerged from an important policy document published later in 2002. The Strategy for Sustainable Farming and Food (SSFF) (2002) report highlighted that 70% of the land was managed by farmers and that farming represented an important dimension of land usage and maintenance, if not income. According to the policy document, the challenge for sustainability is for the whole chain to respond to an increasingly global market. In order to achieve this, different links in the chain must realise they are "mutually dependent" (SSFF, 2002, p. 9) and need to "work together to drive out unnecessary costs" (SSFF, 2002, p. 9). The emphasis on working together with stronger links with downstream players was aimed at reducing costs and adding value. Similarly the report emphasised the importance of partnerships and cooperation between farmers (Farmer Controlled Businesses).

Key recommendations within the policy document are paraphrased below:

- Create a more effective food chain by reconnecting all elements of the food chain and strengthen the links between various elements in the food chain through co-operation and working together (p.15).
- Reconnecting with the market includes reducing unnecessary costs as well as adding value to production through a number of initiatives including the promotion of local and regional farmer's markets.
- The continued support of initiatives already established such as the Red Meat Industry Forum to improve efficiency in the food chain and aid in reconnecting the market. This also includes support for the Food Chain Centre, with a remit including mapping, measuring and searching for inefficiencies in the chain and encouraging teamwork among all members of the chain.

- Encourage increased levels of co-operation and collaboration, formal and informal, between producers and others in the chain. In order to help collaborative initiatives, the Government will provide capital grants under the RDPE schemes and support noncapital projects aimed at improving competitiveness and marketing through collaboration, under the Agricultural Development Scheme (ADS).
- Setting up of the English Farming and Food Partnership (the ‘Collaborative Board’ recommended by the Curry Report) to develop a strategy to encourage the co-operation between farmers and between farmers and the rest of the food chain.
- Support for the concept that farmers need to work in partnership with other farmers and consumers and through co-operation build local markets.

The Sustainable Farming and Food Strategy: Forward Look (2006) builds on the SSFF (2002), which, as discussed, set’s out the UK Government’s priorities for delivering a sustainable farming and food sector. Forward Look outlines the new strategy and is structured around five priority themes: succeeding in the market; improving the environmental performance of farming; sustainable consumption and production; climatic change to agriculture; and, animal health and welfare.

Within the priority theme of ‘succeeding in the market’, a core element of the SFFS is to follow on from the Policy Commissions (2002) recommendations to: “reconnect farmers with their markets; strengthen the links in the food chain; focus on the benefits of collaboration and co-operation; and help farmers to acquire the skills needed to exploit these opportunities” (SFFC, 2006, p. 8). The SFFS will also review the work of the Food Chain Centre (FCC), Red Meat and Cereals Industry Forums and the English Food and Farming Partnership (EFFP) before funding comes to an end (2008), to determine “what needs to be done, and the structures that need to be in place, to ensure that the industry takes action to benefit from the tools and techniques that have been developed from working more collaboratively" (SFFC, 2006, p 18).

1.3.4. Agency and Forum activities arising out of the Curry Report

Since 2002, and the initial publication of the Curry Report (2002) and the Strategy for Sustainable Farming and Food (SFFS) (2002), millions of pounds have been spent on activities undertaken by new food chain bodies, including the Food Chain Centre (FCC), English Farming and Food Partnership (EFFP), Red Meat Industry Forum (RMIF), Food from Britain (FFB) and the International Agriculture and Technology Centre (IATC). They have all been working towards the SFFS outcomes of reconnecting all elements of the food chain, in particular the farmers with their markets, and strengthening links between the various elements of the food chain through co-operation and working together (DEFRA, 2007).

It is not possible to highlight all the activities undertaken by these various food chain bodies. However, by briefly looking at the activities of the FCC, the EFFP and RMIF, further evidence can be presented, highlighting the UK Government's heavy reliance upon collaborative, partnering and supply chain thinking (including operational tools such as lean).

1.3.4.1. The Food Chain Centre (FCC)

The organisation was formed in 2002 and hosted by the Institute of Grocery Distribution (IGD) to support the most effective flow of information and, along with other priorities, was aimed at bringing people from each part of the food chain together to identify and publish reports on best practice in collaboration and planning. Encouraging collaboration was at the heart of all activities undertaken by FCC and its partners. It contended: "[T]he Food Chain Centre believes in prosperity through partnership, and has worked to promote collaboration along the chain" (FCC, 2007).

In order to achieve this, lean thinking was introduced to focus on stripping out waste and was applied to thirty three whole chain projects across the four main agri-food sectors: red meat, dairy cereal and fresh produce. Many examples were cited as evidence of the benefits of collaboration[33]. Within the FCC there were a number of techniques made available aimed at helping farmers improve efficiency and add value through greater collaboration. These were Supply Chain Mapping[34], Masterclasses[35], and Farm Business Clubs[36].

1.3.4.2. The Red Meat Industry Forum

The RMIF, a forum established to support the collaborative initiatives of the FFC and EFFP, drew heavily on the collaborative lean, win-win and partnering paradigm. Sponsored by the Meat and Livestock Commission (MLC), National Farmers Union (NFU), IGD and Department for the Environment, Food and Rural Affairs (DEFRA) they were the pioneers for many of the food chain tools (Value Chain Analysis (VCA), Probe, Masterclasses etc.). In co-operation with others, the RMIF has applied the lean thinking approach to complete

[33] For example, a project with Dairy Crest, whereby a new supplier association was set up with 400 farmers supplying milk for the Davidstow Cheese brand, resulted in farm members receiving an extra 1p per litre on their milk by working to a tighter specification to suit cheese production (FCC, 2004a).
[34] The FCC piloted the concept of lean thinking in the food industry and examined 33 chains from farm to fork. In partnership with Cardiff Business School, and using a Value Chain Analysis (VCA) tool, the analysis involved engaging businesses within the food chain to encourage collaboration and to identify where cost and value are added. The FCC concluded that, on average, 20% of the cost in the food chain added no value (FCC, 2007).
[35] Similar to value chain analysis but with the focus on a single operation / company, with staff encouraged to "learn by doing" and look for ways to reduce cost and waste (FCC, 2007).
[36] These allowed farmers to work together and pool their expertise, whilst benchmarking themselves against each other through comparing production costs (FCC, 2007).

nine VCA, of the thirty three that FCC delivered, covering a mix of species (beef, lamb and pork), different distribution channels (retail and catering) and sizes of business (FCC, 2003, 2007; DEFRA, 2007b).

It was expected that, by adopting collaborative lean tools and understanding the causes of waste and inefficiency from poor co-ordination and uncertainty within a supply chain, it would be possible to improve efficiency and profitability and generate win-win or non-adversarial collaborative (Cox, 1999; Cox et al., 2004) outcomes for all of the participants in the chain (Simons et al., 2003; FCC, 2004a). Feedback from these studies has led to the initial conclusion that this approach could deliver a potential 2% to 3% cost saving at each of the stages within the red meat industry chains (FCC, 2004b; Zokaei and Simons, 2006).

1.3.4.3. The English Food and Farming Partnership

The English Food and Farming Partnership was established as an independent member organisation in May 2004, with a mission to 'make collaboration work'. Its principle aim was to strengthen the profitability, competitiveness and sustainability of England's farming, food and related rural industries. It stated that it could achieve its aims by encouraging the growth of market-focused and professionally run farmer-controlled businesses (FCB's) and by developing partnership activities between farmers and between farmers and businesses through food chains (DEFRA, 2007b).

The EFFP operates through a team of regional business advisors who work across the full supply chain promoting collaboration. They offer a range of market-focused business development services, including market analysis and feasibility studies for agri-businesses.

Since 2002, the regional teams have supported a number of initiatives which are cooperative in nature and are either loosely collective entities, involving participants of the same tier or legally-formed cooperative companies. These include:

- the creation of "Peak Choice", by which fourteen farmers will sell premium branded beef and lamb delivered via a box scheme, available for sale on the internet and selected outlets;
- the 'share to grow' initiative, which highlights, for example, the potential financial and lifestyle benefits of working together for grain growers in Suffolk (R&R Farms);
- the 'share to milk' initiative developed to help dairy farmers interested in collaborating with other farmers;
- the promotion of collaborative benefits in conjunction with, amongst others, the NFU, DEFRA and regional and local bodies such as Regional Development Agencies (RDS), as well as other commercial partners to arable farmers; and,
- the support of a strategic partnerships between Milk Link, OMSCo (the organic milk suppliers cooperative) and Yeo Valley (EFFP, 2009).

1.4. Conclusions

This chapter has highlighted some of the many challenges facing the UK farming and food industry and has detailed the UK Government's attempts to promote a sustainable industry. It is clear from the latter that there seems to have been, and remains, a strong argument in favour of enhanced collaboration and, in some cases, the formation of 'partnerships' in the food chain as a strategy to combat industry challenges. Evidence has been provided highlighting, in particular, the UK Government's reliance upon a collaborative or 'partnering' philosophy, with the adoption and heavy promotion of tools such as lean. Examples of collaborative initiatives in the food industry, driven by both the UK Government and industry, have been provided.

Before it is possible to critique whether or not the UK Government initiatives have been successful, we first need to clearly establish their aims. As we have seen, the Curry Report (2002) was the UK Government's key policy document informing many of the latter policy documents highlighted in this chapter. The aim of the Curry Report (2002) was to devise a strategy to create, "a profitable and sustainable farming and food sector, that can and does compete internationally" (p. 9). Furthermore, it envisions farmers that "are technically efficient and run profitable businesses. Through co-operation and collaboration they have invested beyond the farm gate, and they receive a fair return for the food they produce" (p.9).

The economic aims of the SFFS (2002) are similar. These are to help build a profitable and sustainable farming and food sector, through supporting: improved co-operation and trust throughout the food chain; a more efficient and competitive food supply chain; and, increased and sustainable farm profitability and efficiency (DEFRA, 2006, p. 2). These aims will, according to the policy document, be achieved in part through the support of the Government sponsored agencies, EFFP, FCC and Industry Forums (e.g. RMIF).

In summary, the key sectoral objectives of the UK Government are to:

1) create a profitable farming and food sector;
2) create a sustainable farming and food sector; and,
3) create a farming and food sector able to compete internationally.

Furthermore, the objective of the UK Government in respect of farmers is for them to become technologically efficient, profitable, and, receive a 'fair' return for the food they produce (DEFRA, 2006, p. 2).

According to the policy documents reviewed, these aims will be achieved primarily through promoting improved co-operation and collaboration throughout the chain, and creating increasingly efficient and competitive food supply chains. Improved collaboration and co-operation will, it was argued, encourage organisations within the UK farming and food sector to work closely together. This will in turn, through promoting increased transparency and fostering an atmosphere of trust, enable co-operating organisations to readily identify waste and improve the flow of both materials and information throughout entire supply chains. It was felt that by doing this, organisations and whole supply chains would be more competitive and this would help the UK farming and food industry to be more sustainable and better placed to compete internationally.

Assessing the 'success' of the UK Government's sectoral objectives is, however, not a simple matter, nor is there sufficient space here to consider this in detail. There is, the author contends, considerable evidence to demonstrate that the UK Government's sectoral objectives have been, at best, only partially successful. First, the farming and food sector is not profitable for many. For example, although multiple retailers' profitability fluctuated between 3.6 and 4.5%, during the period 2000 to 2007, with Tesco maintaining an average of approximately 6% (Competition Commission, 2008, pp. 34-35), profitability in many farming sectors did not fare as well. Although pig farm incomes fluctuated significantly, in 1998 (-£40,000), 1999 (-£10,900) and 2007 (-£4,100), losses were recorded (Competition Commission, 2008, pp. A9 (5)-2). It was also reported that red meat producers (beef and lamb) are making significant losses of around £260 million per year (Competition Commission, 2008, pp. A9 (4)-4).

Second, there is evidence that, in particular for the producers, the farming and food sector may not be sustainable. There has been a dramatic decline in the number and output of UK farmers within the red meat, pig and dairy industries. For example, the amount of pork produced in the UK has fallen by 14.7% during the period 2000 to 2007 (from 721,000 tonnes to 617,000 tonnes), with the number of pig farm holdings falling from 17,100 to 10,000, over the same period (Competition Commission, 2008, pp. A9 (5)-1 – A9 (5)-2). The number of dairy farms has also declined considerably from 35,000 in 1995 to less than 20,000 in 2006 (Competition Commission, 2008, pp. A9 (3)-1).

Third, there is evidence that for many producers it is not possible to compete internationally. According to BPEX (2005), the rapid growth in imports has contributed to the decline in UK pig production. British producers cannot compete with cheaper imports (Competition Commission, 2008, pp. A9 (5)-1). This is also evident when we consider that imports of beef and veal, for example, grew by a staggering 69.2% between 1996 and 2005, whilst exports fell by 82.5% over the same period (Competition Commission, 2008, pp. A9 (4) -9).

Furthermore, specifically for producers, since the publication of the Curry Report in 2002, the situation has continued to deteriorate, with considerable evidence that they are not achieving a ‘fair’ price for the goods they produce (see Competition Commission, 2008 for more information).

Finally, although many of the UK Government initiatives have had considerable success in identifying the sources of waste in the value chains analysed[37], the securing of co-operation of all links in a chain to generate 'win-win'[38] supply chain improvements has been difficult (Simons et al., 2003; Fearne, 2005; DEFRA, 2007b). The major reasons for this, it has been argued, is that it has been very difficult to achieve the desired levels of trust between participants in the food chain and there is considerable resistance to change at all levels (Fearne, 2005). As a result, the anticipated higher returns for all participants have not been realised (Simons et al., 2003). The findings also highlight that there was a lack of willingness or ability, given the nature of the products, for farmers to respond quickly to changing consumer needs (such as fat content etc.). The level of price and volume uncertainty and the policy of supermarkets to readily switch between suppliers at regular intervals, it is argued, also hindered the development of trust and longer term collaborative relationships (Hingley, 2005; Fearne, 2005; DEFRA, 2007b).

A careful reading between the lines of the policy documents also provides some further explanations for why collaborative initiatives have often been less successful than anticipated. At no point in the documentation is there an attempt to define what is actually meant by collaboration or 'partnering', other than people and businesses working together. At an operational level this is relatively easy for people to interpret. However, the implication in most of the UK Government policy documents is that by working together, benefits and risks will be shared equally throughout the chain.

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[37] For example, an assessment of the RMIF's four major business improvement pilot programmes (Farm Business Improvement Clubs, PROBE, Masterclasses and VCA) estimated, if there was to be a targeted roll-out of the tools in the red meat industry, there could be between £0.5-0.8 bn savings (DEFRA, 2007b, p. 19).

[38] Whereby, 'win-win' indicates an equal sharing of the gains from the reduction of waste and improved efficiency (Cox, 2004).

It appears that policy-makers and some industry participants (in particular the multiple retailers) have avoided the politically sensitive issue of power and the possibility that benefits and risks might not be equally shared. As previously highlighted, voluntary Farm Assurance and Quality Assurance Schemes, or Farmers Clubs, for example, encourage collaboration but do not result in equal benefits and sharing of risks. This highlights that the multiple retailers and groups of farmers, from an operational perspective, need to collaborate or 'partner'. However, it is also an example of collaboration that has provided no higher returns for farmers. Farmers have delivered their side of the bargain, higher standards at an increased cost, but they have not, in many instances, received higher prices in return. Power advantages for the multiple retailers are being fully exploited. Indeed many believe that when there are unbalanced supply chains, as there clearly are in the UK retail chain, collaborative initiatives can be used strategically by the more powerful parties to further pass on costs and risk to the weaker party (Hingley, 2005).

It is apparent from this discussion, that the UK Government had a number of sectoral objectives and that improved co-ordination and collaboration was, quite justifiably, offered as a potential way of improving industry. Evidence was also provided demonstrating that the UK Government has not fully achieved its sectoral objectives. The question is why? A pointer, the author feels, comes in the evidence about how waste reduction gains have not been shared equally. This suggests that part of the problem for achieving the UK Government's sectoral objectives is the existence of power in buyer-supplier relationships. The UK Government has never adequately addressed this. What this thesis aims to do, therefore, is further explore the concept of power and put it forward as a potential key factor in why the UK Government's policy programme for the development of the UK farming and food industry has had rather partial success. To be able to do this, it is necessary to go back to first principles. First, a definition of ‘partnering’ has to be established. Second, a clear understanding of the concept of buyer-supplier power has to be established. Third, a clear understanding of the impact of the concept of power on ‘partnership’ relationships has to be developed. Once these three conceptual stages have been completed it is then possible to assess through research whether this particular critique of the UK Governments agricultural policy is valid and whether changes to the policy might be required. The three conceptual stages are the subject of the following three chapters.

Chapter Two

Historical Development of the B2B literature

2.1. Introduction to chapter

Chapter one set the context to this thesis by establishing that there are severe and unprecedented problems facing the UK agricultural industry (1.1.- 1.2.). In response to this crisis the UK Government proposed a series of initiatives aimed at creating a sustainable British food and farming industry (1.3.). At the heart of these proposals has been the call for industry participants to adopt a much more collaborative approach to doing business. There is no question that, in principle, the kind of collaborative initiatives established by the UK Government can produce tangible and substantial benefits to interested parties and supply chains as a whole. However, as has already been signalled, there is the possibility that asymmetric power relationships might provide obstacles to that happening consistently, and in a manner consistent within the UK Government's policy objectives, within the agricultural supply chains.

In the following three chapters, the author will return to first principles in order to set up his investigation of the UK Government policy. This involves defining the terms collaboration and 'partnership' (3.3.), discussing the key benefits that such a relationship type can give participants (3.4.), and pointing out the obstacles that lie in the way of such relationship types being a universal solution (chapter four). However, before entering into this discussion, which uses the relevant literature thematically, it is useful to first briefly place that discussion within the context of the historical development of the relevant literature. Therefore, in this chapter the author briefly explains the emergence of a literature focusing upon buyer-supplier relationships.

2.2. Moving beyond the neo-classical model of exchange

Until relatively recently the question of how organisations, in particular commercial organisations, should interact with each other was not a topic that received a great deal of attention. Up until the 1970s, an economist addressing these issues would most probably have looked to the standardised model of neo-classic exchange[39]. The central precept of neo-classical economics sees the main objective of the firm being to minimise costs and maximise profits, with the basic unit of analysis as individual transactions in a competitive market. Economic efficiency underlines decisions surrounding what functions should be contracted out or done in-house (Mallen, 1973; Anderson, 1985; Webster, 1992; Arndt, 1983; Heide, 1994).

In the 1970s, however, the limitations of neo-classical economics, first noted by Coase in the 1930s, started to receive greater attention. It began to be recognised that, in particular, the assumptions from which the theory emerges were so at variance with the reality of the B2B world that many of the suggested causal relationships between market structure and financial outcomes, or surplus value division, simply did not hold true in the real world. Three assumptions of neo-classical economics, in particular, were of most interest to the B2B world[40]. First, that there are zero transaction costs, with the process of exchange being a

[39] Neo-classical economists such as Stinger (1951), Baligh and Richartz (1967) and Bucklin (1970), were primarily interested in modelling supply and demand, understanding the impact of different markets, structures and prices on output (Heide, 1994).
[40] Although this Utopian view of the world which assumed that there was no monopolistic and oligoplisitic competition has been replaced, with a relaxation of the some key assumptions, such as perfect information, certainty, and profit maximisation, many of the fundamental

frictionless activity. Second, that there is perfect and complete information. Third, that there is ease of switch between customers and suppliers (Bowles and Gintis, 1993; Himmelweit et al., 2001). In reality, these assumptions do not hold true as transaction costs can be substantial, there can be significant information asymmetry, as well as high costs of switching between customers and suppliers. Once these assumptions are included in the treatment of B2B relationships, you start to see economic outcomes which are by no means simply determined by market structure[41].

By the 1970s, it was felt that the inadequacies of neo-classical economic study could no longer be ignored and two new schools of thought emerged. First, Agency Theory looked at the consequences and managerial implications of a number of forms of information asymmetry, most notably adverse selection, strategic misrepresentation and moral hazard.

Adverse selection occurs when there is a situation of asymmetric information between sellers and buyers. This results in there being a misinterpretation of the product or service or in some cases the abilities of an actor (for instance an IT specialist). If it is not possible before buying the product (such as a second hand car) or service or employing an expert, to assess the quality of the product / service or verify the employee's skills or abilities, then the buyer may purchase a 'lemon'. It will only be once the exchange has been made that both the buyer and the seller will have full knowledge of what was exchanged, by which time the buyer may be unable to back out of the transaction (Ackerlof, 1970; Eisenhardt, 1989a; Himmelweit et al., 2001). A potential solution for sellers and buyers of goods such as second hand cars or

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principles remain the same; namely that a market typically involves large numbers of sellers and buyers and that the individual transaction is removed from other transactions in time and space, with all encounters in the marketplace being anonymous, transient and efficient (Arndt, 1979).

[41] According to Arndt (1979) when it comes to understanding inter-organisational exchanges the microeconomics view of the world is not adequate as, "[E]conomists have identified the market imperfections due to seller concentration, barriers to entry, product differentiation, and lack of information (Scherer, 1970)" (p. 70). He goes on to relate other problems such as "information overload" (p.70) and the mismatch between the information available and the information required to make a knowledgeable transaction (Arndt, 1979). He argued that an appropriate research paradigm should, therefore, look beyond the one actor, with a given goal paradigm, to encompass conflicts within and between organisations (Arndt, 1983).

washing-machines are to offer guarantees. This will give the consumer the confidence that they are not buying a ‘lemon’ (Himmelweit et al., 2001). Other solutions, for instance, when an IT expert claims to have a specialism which is difficult to observe, include either putting in place information systems to monitor performance or contracting on the basis of outcome, whereby the risk of underperformance is mitigated (Eisenhardt, 1989a).

Strategic misrepresentation is the use in negotiation of private information, to provide false signals to the other party in an exchange. This can be likened to bluffing in poker game and, like adverse selection, is a strategy of opportunism. In order to avoid falling victim to strategic misinterpretation it is necessary to acquire information about an opponent’s opportunities and costs of delay prior to a negotiation or exchange (FitzRoy et al., 1998).

Moral hazard meanwhile occurs, in particular, when one party to an exchange is insulated from risk and, therefore, may act differently than if this was not the case. As the party does not bear the full consequences of the risk, there is, so the argument goes, a tendency for actors to act less carefully. For instance, if financial institutions are shielded from the consequences of reckless lending by either the Government or central banks, there is less incentive to act prudently. Furthermore, if borrowers can default on payments with little impunity they will also act less prudently. Another example of moral hazard can be when an upper tiered manager is shielded from the consequences of poor decision-making, due to factors such as nepotism (Arrow, 1963, 1965, 1971). Moral hazard can also exist when one party to a contract takes advantage of asymmetric information to act in a manner which will be detrimental to the interests of the other party (Himmelweit et al., 2001). In this case, a principal may not be able to ascertain what an agent has done and, therefore, the agent may or may not have done what was agreed upon (Eisenhardt, 1989a).

Second, Transaction Cost Economics (TCE) emerged as well. Here, the focus was not upon information asymmetry, rather upon the consequences of asset specificity and uncertainty, with the assumptions of bounded rationality and opportunism.

2.3. TCE: A key development in the study of B2B relationships

TCE, as originally developed by the likes of Williamson (1975, 1985, 1995), focused considerable attention on the 'make-or-buy' decision,[42] and the appropriateness of different governance forms (market, hybrid or hierarchy). Williamson's work also explored the development of contracts and the behavioural assumptions of bounded rationality and opportunism, factors which, when present, can lead towards a hierarchy governance form or vertical integration (Tadelis, 2002). Klein, Crawford and Alchian (1978), who enhanced TCE with the "hold-up" problem,[43] and, Grossman and Hart (1986) and Hart and Moore (1990), who formally modelled the hold-up problem when developing their property-rights theory (PRT)[44], added to the knowledge of how organisations protect themselves from hazards associated with an exchange relationship.

Much has been written about buyer-supplier exchanges from a TCE perspective and, therefore, it is pertinent to briefly outline the main principles of this approach. The starting point of the TCE model is the most controversial. Like all economic theories, TCE is based upon certain behavioural assumptions. Two are paramount. The first is bounded rationality. Bounded rationality was a response to the neo-classical notion of full or hyper-rationality.

[42] In 1937 Ronald Coase asked what determines whether production will be organised in the firm or through markets, which was later coined the 'make-or-buy' decision (Tadelis, 2002).
[43] In the face of incomplete contracts, specificity, and opportunistic behaviour, integration can help promote ex ante investment incentives (Tadelis, 2002).
[44] PRT formally modelled the hold-up problem and offered a precise definition of integration via ownership and residual control rights, as well as analysing the costs and benefits of integration in a unified way (Taledis, 2002).

The 'perfect rational man'[45] is said to be able to maximise their utility given all the available information (Rubinstein, 1998; Tsang, 2008). Tsang (2008) defines full rationality as, "being able to find the optimal decision in every situation" (p. 64).

However, as Tang (2008) argues, making certain 'rational' decisions actually requires more than just basic information. It also requires the decision-maker to formulate complicated calculations. As Simon originally pointed out in the 1950s, the assumption of full rationality does not hold true in the real world, as people are only partially rational. It is, therefore, better to describe humans as having 'bounded rationality', whereby they make the best decision they can, based upon their specific knowledge and available resources (Simon, 1957).

The TCE literature follows a very similar line of argument. Williamson (1985), employs Simon's (1957) view that human actors do not have absolute rationality; that is, individuals sometimes do not know what they don't know, and, therefore, have limited information processing capabilities. Bounded rationality is defined as, "a semi-strong form of rationality in which economic actors are assumed to be '*intendedly* rational, but only *limitedly* so' (Williamson, 1985, p. 45; emphasis in original). Building on Simon's work, the TCE literature argues that rational agents have limited ability to formulate and solve complex problems. Furthermore, managers have limits to how much information they can process. This includes receiving, storing, retrieving and transmitting information (Williamson, 1981;

[45] According to Rubinstein (1998), there is considerable dissatisfaction with economic models that adhere to the 'perfect rational man' paradigm. This is because the rational man makes a number of unrealistic assumptions: that the decision maker has a clear picture and knowledge of the choice of problems he faces, i.e. he is fully aware of the set of alternatives from which he can choose from; the decision maker has clear preferences over the entire set of alternatives; the decision maker has the skills necessary to optimise and make whatever complicated calculation necessary to discover the optimal course of action. Furthermore, his ability to calculate is unlimited and he never makes mistakes; the decision maker is indifferent to logically equivalent descriptions of alternatives and choice sets. I.e. if the sets A and B are equal, the choice from A will be exactly the same as the choice from B.

Lonsdale, 2005a). In a contractual context, therefore, bounded rationality means that actors involved in buying are often unable to develop complete contracts[46].

The second controversial behavioural assumption is opportunism. TCE maintains the assumption that individuals will often act opportunistically. Williamson (1985) defines opportunism as, "self-interest seeking with guile... the incomplete disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate or otherwise confuse" (Williamson, 1985, p. 47). Opportunism can also include, according to Williamson (1985), blatant lying, cheating or stealing. It is important to note that neither bounded rationality nor opportunism, on their own, provide insuperable problems. It is when they combine that they provide the potential for what Williamson (1985) describes as 'serious contractual difficulties'[47].

The extent to which serious contractual difficulties do arise from the combination of bounded rationality and opportunism, depends upon the nature of the transaction in question. Two aspects of the transaction are particularly relevant. The first is asset specificity. Business relationships will, to a lesser or greater degree, require an investment in, for instance, equipment or training. Asset specific or transaction-specific investments are those investments that are made by one party to meet the requirements of a particular relationship and which would have to be completely or partly written off if that relationship ended. According to Williamson there are broadly speaking three degrees of asset specificity; high, medium and low asset specificity. When there is high asset specificity the asset has little or no value outside of a specific relationship (Lonsdale, 2005a).

[46] In some cases this is because individuals or organisations do not have complete information about the exchange, or because particular quantities or outcomes cannot be observed or predicted (Williamson, 1981, 1985).
[47] When there is opportunism by the supplier and this is combined with bounded rationality on the part of the buyer, there will be incomplete contracting. In this case the supplier will take advantage of a gap in the buyer's knowledge to try to earn rents from an asset (Shelanski and Klein, 1995; Lonsdale, 2005a).

The second aspect of the transaction is the level of uncertainty. Uncertainty is defined as the inability to predict individual's actions, as a result of limited competence, trustworthiness and the reliability of human agents (or the principal agent problem), market changes, or a buyer's future requirements (Shelanski and Klein, 1995). When there are complex contractual circumstances (see later discussion in section 3.4.3.) involving innovation or the formation of new ventures there is likely to be a high degree of uncertainty in the transactions (Lonsdale, 2005a)[48]. In order to mitigate the potential for opportunism a greater number of safeguards will, therefore, be needed to be written into the contract (Williamson, 1985, 1991a).

Under conditions of bounded rationality and opportunism, asset specificity and uncertainty come into play in the following manner. First, asset specificity causes one or both parties to become locked into the other. This is because, for instance, if a buyer makes a significant transaction-specific investment, they can only re-enter the market if they are willing to write-off that investment at a significant loss. This can result in the buyer staying with a suboptimal supplier as the risk (financial, operational and perceived) is too great to move to an alternative supplier. This is then particularly a problem if the transaction is characterised by uncertainty. Uncertainty, as has been mentioned, means that an incomplete contract is signed prior to the commencement of the contract, with the gaps filled in over the life of the contract period. The negotiations over the filling of the gaps can be difficult, however, under conditions of opportunism and if one party has become locked-in, with no credible threat of exit, then the re-negotiation of the contract is likely to be more problematic. The risk is that one party will try and 'hold-up' the other in order to earn quasi-rents[49] (Lonsdale, 2005a).

[48] Uncertainty is also described by some as environmental complexity. Environmental complexity impacts transaction costs and partly explains contractual incompleteness (Segal, 1999). A complex environment is defined by Segal (1999) as "the parties inability to verify publicly observable information and their inability to prevent renegotiation place severe constraints on contracting and may explain contractual incompleteness. In a complex environment, the parties' inability to foresee all of the possible trades ex ante and the cost of describing them ex post impose additional constraints on contracting and extend the applicability of the incomplete contracting result." (Segal, 1999, p. 74).
[49] Golberg (1980) sums up the behavioural realities (including the potential consequence) and the characteristics of a transaction succinctly: "First, people are not omniscient, their information is imperfect and improvable only at a cost. Second, not all people are saints all of the

In response to the implications of these four concepts, TCE offers a range of governance solutions. When a transaction is characterised by high asset specificity and uncertainty, then TCE suggests that the transaction be managed internally[50]. This is because the costs of safeguarding the two parties against the potential opportunism (mainly hold-up) of the other are so great that they overwhelm any economies of scale provided by any supplier (which are limited anyway because of the uniqueness of the transaction). When a transaction is characterised by medium asset specificity and uncertainty, a hybrid or 'partnering' arrangement is suggested. Here, the reasoning is that whilst the costs of safeguards are high, they are not as high as for high asset specific transactions and they are more than compensated for by the economies of scale provided by the supplier of a more, although not entirely, generic good or service. Finally, low asset specific transactions are secured through arm's length contracting, as the economies of scale are great and the costs of safeguarding are low. Here, extensive safeguards are not necessary as the customer can switch suppliers easily.

One question remains outstanding from this discussion of governance solutions. This concerns how managers are meant to know how to choose between, and set up the different governance solutions, particularly hybrid ones. The answer provided by TCE is feasible foresight. The TCE literature argues that even though managers are limited by bounded rationality, they are not myopic. Managers have the ability to, at least, foresee general categories of problems and, therefore, they are able to still undertake far-sighted contractual arrangement, such as 'partnerships' (Williamson, 1990; Lonsdale, 2005a, b). This means that

time, as the relationship unfolds there will be opportunities for one party to take advantage of the other's vulnerability, to engage in strategic behaviour, or to follow his own interests at the expense of the other party. The actors will, on occasion, behave opportunistically. Third, the parties cannot necessarily rely on outsiders to enforce agreements cheaply and accurately" (Goldberg, 1980, p. 339).

[50] This refers to either making the product or operating the service in-house.

although it may not be possible to sign complete contracts it is still possible to safeguard a firm against potential opportunism.

2.4. Criticisms of TCE

TCE has, therefore, made a major contribution towards the development of collaborative or partnership thought. Later additions to the TCE literature argued that collaboration was but one of a number of competing institutional governance forms. No form, including collaboration, was perfect, but the extent of imperfection varies according to the circumstances / properties of a particular transaction.

What can be seen here for the first time is an acceptance of a form of relationship that sits between the market and hierarchy. However, notwithstanding the obvious advantages of Agency Theory and, in particular TCE, the theories have attracted many critics. TCE in particular has been the target of many an academic eye. Criticisms levelled at TCE are that the theory is both overly optimistic and pessimistic, uses a too crude segmentation of relationship types, tends to over simplify and there is a debate as to whether the theory is normative or positive.

TCE is said to be over-pessimistic because Williamson assumes venality[51] is always an issue. Two criticisms have been made here. First, it is said his work neglects cultural norms and confidence-building arrangements transferred from the Japanese context. Second, as argued by people like Grannovetter (1985), the assumption of opportunism was a consequence of the fact that TCE theory was 'under-socialised'. People involved in relationships over time, it is

[51] Venality is the condition of being susceptible to bribery or corruption or the use of a position of trust for dishonest gain (Oxford English Dictionary).

said, develop an obligation towards each other and therefore opportunism is less of a problem than suggested by the theory. As a result, it is possible, the argument goes, to reduce contractual safeguards when firms are engaged in repeat contracts (Gulati, 1995), because companies develop greater levels of trust over time. Trust can, therefore, be viewed as a substitute for complex contracting agreements (Granovetter, 1985; Bernheim and Whinston, 1998; Dyer and Sing, 1998; Adler, 2001; Carlisle and Parker, 1989; Womack and Jones 1994; Ford, 1980, etc.)[52]. However, it is important to note that trust is seen by many as a key antecedent to the development of collaborative relationships or partnerships (Anderson and Wertz, 1989; Achrol, 1991; Moorman et al., 1992; Harback et al., 1994; Wong and Sohal, 2002). It is argued, that it is possible to create effective hybrid governance forms, rather than to vertically integrate, at much higher levels of asset specificity and uncertainty, due to the impact trust and long-term orientation have on relationships (Macneil, 1974, 1978; Ring and Van de Ven, 1992).

Whilst some have argued that TCE is over-pessimistic about human behaviour, others have argued that TCE is over-optimistic, as the ability of managers to predict and develop appropriate governance structures is not as easy as the theory suggests. It is said that the theory is overly confident in the potential of feasible foresight, especially when talking about actions to avoid post-contractual lock-in[53]. Adverse pre-contractual power, it is said, often means you cannot always negotiate the safeguards you want. There is also pre-contractual ignorance. People make mistakes. Some argue that TCE theory effectively uses feasible foresight as a 'sleight of hand' to deal with the assumption of bounded rationality. On one hand, the theory states that managers have bounded rationality and therefore cannot sign complete contracts. However, as TCE is purportedly a predictive theory helping managers to

[52] The concept of trust is discussed in more detail in chapter three, section 3.3.1.2.
[53] See the work of Klein et al., 1978.

choose appropriate relationship types, feasible foresight was introduced. Feasible foresight argues that even though managers may have bounded rationality and are not able to develop complete contracts, they can still, with reasonable certainty, predict factors pertinent to the contract and therefore sign long-term contracts. To some this is somewhat contradictory or, at least, convenient (Londsdale, 2005b).

A further criticism is that the TCE segmentation is too crude and too static with the relationship choice being only between market, hybrid or hierarchy. A robust ‘make’ or ‘buy’ decision (as originally envisioned by Coase in 1937) is really only part of understanding the alternative governance structures available. Some would argue that although TCE theory acknowledges alternative modes of governance, there tends to be an over reliance upon the extreme forms such as markets and hierarchies rather than focusing upon intermediate or hybrid forms (Stinchcombe, 1990; Ring and Van de Ven, 1992). According to Ring and Van de Ven (1992), “although TCE provides a sound theoretical foundation for the exploration of market versus hierarchy mechanisms for solving strategic dependence, it suffers from not adequately exploring other available governance structures, repeat transactions, the dynamic evolution of governance and transactions and the key roles of trust and equity in any interorganisational relationship” (Ring and Van de Ven, 1992, p 484).

Lastly, some authors contend that there is a question as to whether the theory is normative or positive. Is TCE an account of how organisations make governance decisions out there in the real world, or, is it merely another normative piece of advice to managers? Many outsourcing studies over the past 10-15 years, for example, Lacity and Willcocks (1996) and PA Consulting (1998), suggest that any claims about the former lack empirical support.

2.5. Developments in the B2B literature after TCE

As a result of these criticisms, there were a number of responses in the 1980s and early 1990s. First, in addressing the claim that TCE is overly pessimistic a number of hybrid models have emerged which are based upon trust (see earlier discussion). Built on the seminal work of Macneil (1974, 1978), who looked at relational contracting. These models state that hybrid relationships should be based upon trust. Procurement and supply chain writers have also focused upon the importance of trust as a response to the existence of opportunism in buyer-supplier exchanges (Carlisle and Parker, 1989; Womack et al., 1990).

In order to counteract the threat of opportunistic behaviour and to drive continuous improvement throughout supply chains, organisations, it is said, need to develop relationships based upon long-term and highly collaborative ways of working (Scott and Westbrook, 1991; Christopher, 1992; Macbeth and Ferguson, 1994; Cooper et al., 1997). It has been argued that the development of relationships based on trust and collaborative ways of working can create optimal conditions for achieving sustainable competitive advantage. This advantage is based on supply chains competing with other supply chains, rather than through competition at a company level (Carlisle and Parker, 1989; McKenna, 1991; Sako, 1991; Lamming, 1993; Hines, 1994; Gummesson, 2002).

Second, in response to the charge that TCE is overly optimistic, there has been considerable work, particularly by the IMP group, that has discussed that desired governance structures are much more difficult to establish in reality than as suggested by TCE, as relationships are not static and change incrementally over time (Ford, 1980; Ford and Rosson, 1982; Dwyer et al., 1987). Furthermore, it has been argued that relationship development should not be viewed as a simple linear progression. Relationships are cyclical in nature, and therefore, inherently unstable (Oliver, 1990). These factors make it far more difficult to argue that managers can rely upon feasible foresight and, therefore, develop appropriate governance forms.

Third, there have been many attempts to provide a much more nuanced segmentation of relationship types in response to the claim that TCE's segmentation is far too crude[54]. It is said that, in reality, there is a continuum of relationship forms between the obligational contracting relationships, characterised by high trust, cooperation and long-term commitment, and arm's length contractual relationships where parties to the exchange are independent and potentially adversarial (Sako, 1992). In the middle are a number of relational exchanges or hybrid / intermediate governance forms that are typically characterised as being long-term, continuous and complex (and often contracted) relationships [55](Macneil, 1980; Kaufmann and Stern, 1988; Webster, 1992; Fontenot and Wilson, 1997). It is within the variety of hybrid governance forms that firms often find themselves inappropriately managing risk.

Fourth, a number of surveys have concluded that outsourcing has continued to rise over the last 20 years (PA Consulting Group, 1998; Deloitte, 2008). Furthermore, there are many different reasons influencing a firm's make or buy decision, not just the decision to reduce transaction costs (Lacity et al., 2008,). According to Lonsdale and Cox (2000), firms outsource as it is increasingly difficult and costly to remain up-to-date in a variety of supply

[54] According to Oliver (1990) there are six types of cooperative inter-organisational relationships (IORs) or governance forms. These are described as trade associations, agency federations, joint ventures, social service joint programs, corporate –financial interlocks and agency-sponsor linkages. Whereas, Spekman et al., (1998) define 4 types of relationships: open market negotiations, co-operation, co-ordination and collaboration. Hartland (1996) also spends considerable time talking about different types of relationships including transaction, short-term contract, long-term contract, joint venture, equity interest and acquisition. Although she relates this continuum to the appropriateness of supply chain management (SCM), the principles are similar; there are different governance forms which require different strategic approaches and favour a greater or lesser extent of collaboration (Harland, 1996).

[55] The increasing importance of cooperative inter-organisational relationships (IORs) (hybrid governance forms) has been picked up by a number of writers (Van de Ven and Walker, 1984; Ring and Van de Ven, 1994, Oliver, 1990). Ring and Van de Ven (1994) and Oliver (1990) argue that during the late 1980s and early 1990s there was an explosion of IORs, including, strategic alliances, partnerships, coalitions, joint ventures, franchises, and research consortia; as well as various forms of network organisations.

chain activities[56] (Lonsdale and Cox, 2000). A recent survey (2008) conducted by Deloitte supports this view.[57] The primary drivers of outsourcing initiatives were to: reduce cost (64%); leverage technology expertise (56%); find cheaper labour (49%); improve customer value (37%); gain competitive advantage (27%); consolidate assets or resources (19%); and, increase shareholder value (15%) (Deloitte, 2008). There has, therefore, been an attempt to address the issue of whether TCE is positive or normative.

2.6. Introduction to the concept of power emerging in the B2B literature

Therefore, there has been much thrust and counter-thrust within the B2B literature between the early 1970s and the early 1990s. However, in the mid-1990s there was another development. The concept of power in B2B relationships, long associated with the negotiation literature reappeared. This literature had, by and large, been forced to the margin by the TCE literature and responses to this debate, and by the partnering literature, all of which did not see power as a critical component of buyer-supplier relationships.

The power literature considered the importance of power in buyer-supplier relationships. Lukes (1974) defined power as the ability of one actor to make the second actor act in a way that is contrary to that second actor's interest. Furthermore, it was argued that, firms' in buyer-supplier exchanges will attempt to influence the terms of the exchange to give them maximum benefits (Rumelt, 1987). According to this literature, the ability to influence other firm's behaviour requires them to have control of resources, as well as a degree of dependency on them by the other firm (Cox, 2007). Consequently, Cox (2007) argues that

[56] This is particularly the case in the IT sector, where technological change is more rapid than many other sectors (Lonsdale and Cox, 2000)
[57] The Deloitte Consulting 2008 Outsourcing Report: "Why Settle For Less?" was based upon a survey of 300 executives.

power exists in business relationships if one party needs the other party more than they need them. This then leads to the notion of understanding power in terms of dependency.

With reference to Emerson (1962) and other author's work (Blau, 1964; Thompson, 1967; Jacobs, 1975, Cook, 1977; Cook and Emerson, 1978; Campbell and Cunningham, 1983 etc.) and Porter's five forces methodology, Cox et al., (1999) developed a methodology for mapping the dimensions of buyer and suppler power. This methodology used the constructs of resource utility, resource scarcity and information scarcity (this is the focus of the discussion in chapter four, section 4.6).

The power literature criticised the TCE literature and the premise that it is possible to develop contracts due to feasible foresight (Lonsdale 2005a, b). It also criticised the literature based on partnering and trust (i.e. Lamming, 1993 and Hines, 1994) for also largely ignoring issues of power. From this perspective, power can stop collaboration from happening in the first instance and results in collaboration being, in many cases, unequal. This latter strand of the literature is developed fully in chapter four.

Chapter Three

Benefits of Partnering

3.1. Introduction to chapter

Chapter two traced the development of the B2B literature, placing the 'partnering' and power literature in its historical context. The chapter finished by emphasising the reappearance, in the B2B literature, of the concept of power in buyer-supplier relationships, a strand of the literature which will be developed fully in chapter four. As previously stated, this chapter will return to first principles, by first defining the terms collaboration and 'partnership' (3.1) and then by discussing the key benefits that such a relationship type can give (3.2). Chapter four will then discuss, in full, the obstacles that lie in the way of such relationship types being a universal solution.

3.2. Definition of collaboration and partnerships

The author now wishes to flesh out a robust definition of 'partnering'. This definition will align with the view of 'partnering' held by the UK Government, which is implicit in its actions in the food and farming sector[58]. There is considerable agreement on many of the basic principles of collaboration and partnering, with a widespread acknowledgement that these types of relationships have moved purchasing and supply away from adversarialism

[58] UK Government documentation and agencies mention aspects of collaboration or partnering (i.e. close working relationships, trust and equity etc.) without ever fully defining these terms.

towards the more collaborative end of the spectrum of interorganisational relationships[59] (Thompson and Sanders, 1998). However, there is still considerable confusion and disagreement within the literature about what the precise definition should be.

Defining ‘partnerships’ is problematic as the term itself is relatively new[60] and the terminology (such as ‘partnering’ and alliancing) is often (although erroneously) used interchangeably. ‘Partnering’ has been used to describe a wide array of different forms, from alternative strategic perspectives (Duffy, 2002)[61], and most ‘partnership’ definitions lack conceptual robustness. This has led to a number of definitions for ‘partnering’ which differ, for instance, in the exact nature of partnering, the strategic focus, the precise role of contracts, the length of partnerships and the importance of incentives (Barlow et al. 1997; Bresnen and Marshall, 2000). These disagreements are significant because in order to understand the complex phenomenon of interorganisational collaboration and partnering (and to be able to test the hypothesis proposed in this thesis), it is crucial that we establish a robust working definition to be used throughout. This will be discussed next.

To start, it is easier to define what does not constitute a ‘partnership’. Although the terms ‘partnership’ and alliance are often used interchangeably (Bresnen and Marshall, 2000) this should not be the case (Duffy, 2002). A strategic ‘partnership’ is between a buyer and supplier (vertical collaboration), whilst an alliance is between two suppliers (horizontal collaboration) (Gattorna and Walters, 1996). Whilst the author acknowledges the importance

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[59] As highlighted previously, there are a range of possible relationships types, from transaction (market) to vertical integration (hierarchy) (Spekman, 1998; Harland, 1996; Webster, 1992; Fontenot and Wilson, 1997). Between these two extremes lie various hybrid governance forms, which can include: consortiums; trade associations; voluntary agency federations; joint ventures or programmes; strategic partnerships; alliances; networks; network alliances or organisations; modular corporations; outsourcing; and, virtual corporations (Oliver, 1990; Webster, 1992; Thompson and Saunders, 1998; Hardy et al., 2003 etc.).

[60] The term ‘partnering’ having stemmed from the collaborative associations forged between assemblers and suppliers in the Japanese automotive industry in the 1960s and 70s was used in the West only relatively recently (Webster, 1992; Lamming 1993; Loraine, 1994; Barlow and Cohen, 1996; Cox, 1997), in Ireland, (2005).

[61] ‘Partnerships’ have been described under a number of different guises including: a “movement towards strategic partnerships” (Gattora and Walters 1996), “collaborative ties” (Spekman, 1988a), “associate relationships” (Carlisle and Parker, 1989) and “relational behaviour” (Dwyer, Schurr and Oh, 1987; Paswan and Young, 1999), in Duffy, 2002.

of the horizontal 'partnership' literature (including the literature on cooperatives) this thesis will focus upon vertical 'partnerships' only. Second, in this thesis when the term 'partnership' is referred to it does not refer to the legal sense of the word (Ellram and Edis, 1996). A legal partnership is a way of forming a business (trading under a specific name) between two or more people, whereby there is an agreement to work together and share the profits / liabilities together[62]. A collaborative buyer-supplier relationship by contrast, is an agreement to work together between two separate businesses and, therefore, this 'agreement' is not governed by the rules of a legal partnership (according to the Partnership Act, 1890).

Having established what does not constitute a partnership the remainder of this section will focus upon working towards a robust definition of a 'partnership' by highlighting the key aspects of collaboration and 'partnering' as discussed in the literature. Collaborative partnerships are typically: a) between two legally separable organisations (Williamson, 1991b; Mitchel and Singh 1996); b) rely on neither market or hierarchy mechanisms of control (Phillips et al., 2000; Hardy et al., 2003); c) long-term business relationships (Burnes and New, 1996; Ellram and Hendrick 1995; Herbig and O'hara, 1994; Ellram 1990, 1991a; Lambert et al., 1996) that are required to be negotiated through ongoing communication (Hardy et al., 2003); and, d) can be open-ended, for a specific term, or for a single project (Mathews et al., 1996), with no requirement that the relationship is either exclusive or contractually based (Ireland, 2005).

Furthermore, there is a general assumption within the literature that 'partnerships' require buyers and suppliers to work closely together as the position between market and hierarchy

[62] Partnerships can be traditional partnerships, whereby if the business makes a loss or is successfully sued, the individual partners are personally liable (all their assets can be taken) or Limited Liability Partnerships, which mean that partners are not liable for any loses. Although partnerships do not require a legally binding partnership agreement there is usually a written agreement outlining the structure of the business with respect to each partner's responsibilities, rights, profit / liability sharing, and entering and leaving terms (Legal Advice Centre, 2009).

suggests. It is suggested that a close relationship could include having a shared design process, open book costing, interchangeable staff, as well joint improvement projects (Macbeth and Ferguson 1994; Sanderson, 2008). Cannon and Perrault (1999) helpfully provide a general categorisation of relationship connectivity within which such collaborative activities can be organised. By identifying a set of five relationship connectors which reflect how buyers and suppliers interrelate and conduct commercial exchanges, it is possible for us to use this model to define a close or an arm's length relationship. Cannon and Perrault's descriptive categorisation of collaboration activities is split into five groupings: product/process information exchange; operational links; legal bonds; cooperative norms; and, relationship specific adaptations by buyers and sellers.

Product / process information exchange refers to the sharing of proprietary, cost or forecasting information and mutual involvement in product development meetings. This could be actuated through open costing arrangements, joint demand forecasting, and value mapping for waste elimination. *Operational linkages* refer to the linking of systems, procedures and routines of the buyer and supplier to facilitate the flow of goods, services or information. At one extreme organisations may operate at arm's length where there are no inter-firm routines or systems. At the other extreme there will be inter-coupled systems. This could be actuated through standardised interlinked systems such as effective consumer response (ECR) systems, in the retail sector, EDI and e-procurement linkages, or, in the automotive and manufacturing sectors, Just-in-Time arrangements.

Legal bonds are detailed and binding contractual agreements which clearly specify the agreed roles and responsibilities of the cooperating parties. Legal bonds provide a governance mechanism used to replace a hierarchy exchange when vertical integration is deemed impractical[63]. *Cooperative norms* refer to the two parties working out an agreed set of expectations about how each of the two parties should behave in the relationship and deal with problems / opportunities. This can be achieved through developing trust building events and after sales value-added activities. Lastly, *relationship specific adaptations* refer to investments in adaptations to processes or products that are non-transferable to relationships with other suppliers or buyers. These can be made by one or both parties and could be joint projects, joint investments or joint-venture initiatives (Cannon and Perrault, 1999)[64].

Having presented their categories of interaction, Cannon and Perrault (1999) argue that all relationships require an exchange of basic contractual information and products or services, but for a relationship to move from arm's length to 'close' there must also be evidence of further relationship connectors (product/process information exchange, operational links, cooperative norms and relationship specific adaptations). They also state that, a 'contract' in this sense may not be a legally binding contract, merely an expression of interest. Finally they argue that the existence of legal bonds, alone, will not denote a 'close' relationship.

Using Cannon and Perrault's terminology, for the purpose of this thesis, an *arm's length relationship* is defined as***: "a relationship in which there is only basic exchange of information and products / services. The relationship may or may not be governed by legal bonds".*** A *close relationship, meanwhile,* will be defined as: ***"a relationship which goes beyond the basic exchange of information and products / services (including legal bonds), with evidence of the two parties being engaged in further relationship connectors***

[63] From a resource dependency perspective (Miles, Snow and Pfeiffer, 1974) contracts are employed to reduce environmental uncertainty (Cannon and Perrault, 1999).

[64] It should be noted that these connectors are not necessarily interrelated. For instance, a buyer may want a formal contract, but not wish to share information with a seller; conversely one party may be happy to share information without a formal contract (Cannon and Perrault, 1999).

(product/process information exchange, operational links, cooperative norms and relationship specific adaptations)".

To address further criticisms of current partnership definitions it is important to consider the concepts of mutuality and equality. 'Mutuality' is a feeling or action common to two or more parties (Oxford Dictionary). There is a general assumption that all buyer-supplier relationships have mutuality, as there must be benefits from trading (Emery and Trist, 1965; Phillips et al, 2000, Cox, 2001). 'Partnership' definitions also often assume that there must be an equal sharing of the benefits and risks of working together (Frazier, 1983; Cooper and Ellram, 1993; Sanderson, 2008). In other words, both parties must feel the same and act in a manner commonly agreed upon, with respect to the benefits and risks associated with the 'partnership' and how these will be shared. This 'equality', it is argued, will encourage long-term cooperation and collaboration between supply chain actors (Cooper et al., 1997; Cooper, Lambert and Pagh, 1997; Ellram and Cooper, 1990; Novack, Langley and Rinehart, 1995; Tyndall et al., 1998). In the context of 'partnerships' 'equality' is, however, a contentious issue[65]. This contention can be understood with reference to the typology produced by Cox et al., (2003).

In their typology, Cox et al., (2003), (see Figure 3.1., to follow), make a distinction between way of working and the sharing of surplus value. The bottom axis, way of working, is a continuum that runs between arm's length and close, to be understood in the manner

[65] Many definitions of 'partnerships' state that the risk and reward must be 'the same'. However, 'equal' can also mean 'evenly matched' (Oxford Dictionary). It can, therefore, be argued that 'equality' is proportional, based upon the perceived level of investment and risk made by both parties. It is very unlikely that the level of investment and risk in a 'partnership' will necessarily be balanced even if two organisations invest the same amount of time and money. If the two organisations are not of the same size, with similar resources, then the smaller partner may proportionally be making the larger investment and taking the greater risk. It is also unlikely that the benefits of a 'partnership' will be the same for both parties. However, the benefits need to be strong for both, to encourage the formation of a partnership in the first instance (Zanquetto-Filho et al., 2003). There are also (as discussed in section 3.3) different reasons to partner. For instance, one party may be looking for access to scarce resources, whilst the other is looking for operational level efficiency improvements. Finally, there are many examples of when the risks and rewards from collaboration are not shared equally. When there is a substantial power imbalance between collaborating parties the lion's share of benefits from the relationship flow from the weaker party to the stronger (Spekman, 1988; Cox et al., 2007, 2008; Sanderson, 2008).

explained by Cannon and Perrault (1999). However, as the typology shows, there is also the question of how surplus value is shared (vertical axis). There are three possible outcomes suggested by the typology. First, there are adversarial buyer- skewed relationships. Here, the buyer attains the majority of the surplus value. The buyer will pay a price that is substantially lower than their utility function and the supplier receives only normal profits (or slightly above). Second, there are adversarial supplier-skewed relationships. Here, the supplier attains the majority of the surplus value and is able to earn significant profits (an economic rent). This signals that the buyer is paying a price very close to their utility function. Third, gains from the relationship can also be shared in an approximately equitable way. Such relationships are described as non-adversarial (Cox et al., 2003, 2004; Sanderson, 2008).

Combining these three possible value-division scenarios, with the two categories of interaction we have six possible relationships, as shown in Figure 3.1. This demonstrates that buyers and suppliers entering into highly collaborative relationships do not necessary equally share the gains from the relationship. The concept of 'partnering' should, if it is to reflect the clear sentiment of many describing 'partnerships' and the UK Government, in the area of farming and food, be more precisely defined using Cox et al.'s (2003) model as *non-adversarial collaboration*. In a non-adversarial collaborative relationship the commercial and operational costs and benefits are shared equally (Cox et al., 2003; Sanderson, 2008).

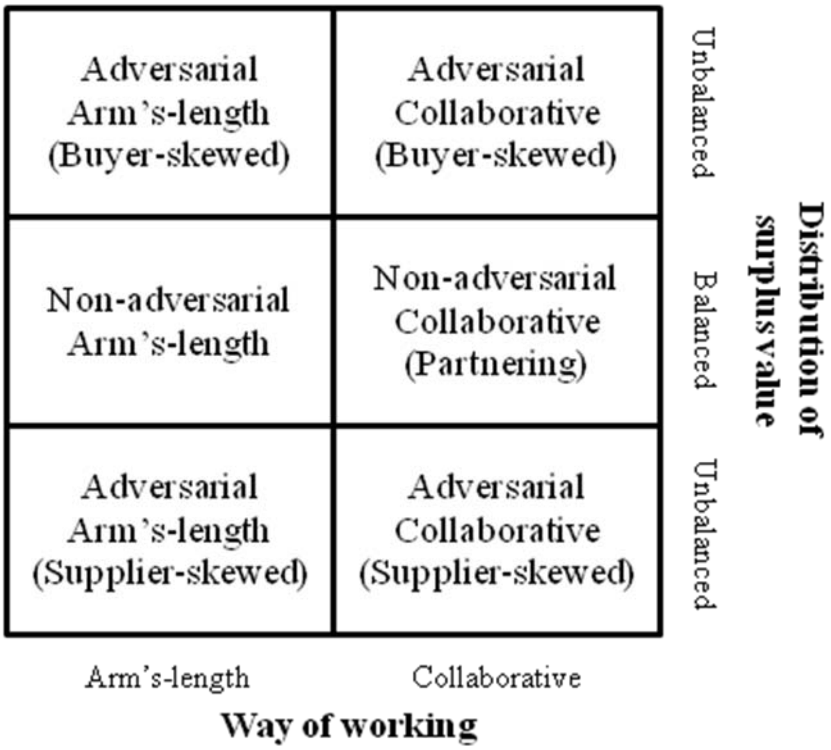

Figure 3.1: A typology of buyer-supplier relationship types (Source: Adapted from Cox et al., 2003)

From this discussion, therefore, bringing together ideas and concepts on working relationships and mutuality, it is possible to build up a robust working definition of a partnership. For the purpose of this thesis and because it largely aligns to the UK Government's interpretation[66], a partnership will be defined as*:* ***"an ongoing collaborative interaction, not necessarily governed by a contract, between two legally separate organisations, that relies on neither a market or hierarchy control, with the collaboration based upon a commitment to the equal sharing of the costs, risks and rewards derived from working together".***

[66] Although, as discussed, the UK Government's policy documentation talks about the importance of developing trust in relationships, the term trust has not been included in the definition of a partnership used in this thesis. This is because the author has chosen to take a position similar to that of the TCE and power literatures, which do not see trust as important in buyer-supplier relationships. It was, therefore, not the intention of this research study to consider the importance of trust in buyer-supplier relationships. Of greater importance to this research study, are the existence of power in buyer-supplier relationships and the sharing of surplus value from a relationship.

Having devised a robust working definition of the term partnership, the thesis can now proceed to the task of using the literature to identify the benefits of such a relationship type. This task is undertaken in the remainder of this chapter.

3.3. The benefits of partnering

From the 1970s onwards, because of greater economic pressures brought on by the oil shock and then increased global competition, there has been an increasing realisation by many writing in the B2B field, that the traditional model of B2B exchange (arm's length and adversarial) did not enable firms to quickly respond to changing market dynamics or help them to cut costs (Lamming, 1993; Webster, 1992). Furthermore, it was argued that to transfer costs from one firm to another did not lead to a competitive advantage (Christopher, 1998; Lamming, 1993). What was needed, it was argued, was a much more collaborative way of working, following the practices developed by Japanese automotive companies such as Toyota (Toyota Production System) and Honda.

Companies like Toyota and Honda, by developing close working relationships or 'partnerships' with their immediate channel partners, and encouraging them to do the same throughout the chain, were shown to be able to achieve remarkable results. This way of working encouraged both partners to invest in the systems needed to ensure total quality was built into products at a lower cost than their Western counterparts. Through cooperation, building trust and proper relationship management it was said to be possible to achieve results that were greater than the sum of the parts (Christopher, 2005; Ryals and Humphries, 2007). It was shown that companies pursuing a more arms length and adversarial approach, such as General Motors, started to lose out to Japanese car manufacturers that were able to more efficiently design and produce a higher quality car at a lower cost (Lamming, 1993; Webster, 1992). Partnering was, therefore, heralded by many as 'best practice', replacing the more traditional, arms length and adversarial exchange relationships (Dwyer, Schuur and Oh, 1987; Webster, 1992; Paswan et al., 1998).

Partnering is now well established as an approach to managing buyer-supplier relationships and there is an extensive literature demonstrating the main principles, practices as well as benefits of partnering (Saunders, 1994; Chadwick and Rajagopal, 1995; Larson, 1997; Thompson and Saunders, 1998; Bresnen and Marshall, 2000 etc.). However, in reading the literature it is apparent that there is still considerable debate about why organisations choose to partner, how to frame the advantages of partnering, as well as an increasingly lively debate focusing on the failure of partnering to meet performance expectations (CII, 1994; Mohr and Spekman, 1994, Rackham et al., 1996; Angelo, 1998, Bresnen and Marshall, 2000). Indeed, assessing the literature on partnering is a complicated proposition. The rationale for partnering is multidisciplinary and is framed in different and often interrelated ways. According to Zanquetto-Filho, Fearne and Pizzolato's (2003) review of the literature, for example, there are four types of benefits to be derived from partnerships: cost efficiency and asset utilisation; customer service improvement; marketing effectiveness; and, profitability and growth. Oliver (1990) who also considered interorganisational relationships in detail provides a different perspective as to why relationships develop. According to Oliver (1990) organisations may form linkages or exchanges with others due to: *necessity*[67]; *asymmetry*[68]; *reciprocity*[69]; *efficiency*[70]; to create *stability*[71]*;* and, to increase the *legitimacy* of an organisation[72].

[67] This could be due to legal or regulatory requirements (Oliver, 1990). It can be the case that for large Government contracts, for a bid to be successful, organisations that would not voluntarily collaborate or form a partnership are required to be in a consortium.
[68] Asymmetry refers to the potential to exercise power or control over another organisation or its resources (Oliver, 1990).
[69] This emphasises the performance benefits of cooperation (Oliver, 1990).
[70] By increasing returns on assets or reducing in unit cost, waste, downtime or costs (Williamson, 1975, 1985).

The discussion of the benefits of partnering can, therefore, be framed in a variety of ways. As a result, this part of the thesis will separate out the predominant claims that have been made for partnering over the years and try to simplify what is often a complex, obscure and disparate literature. It will be shown that what is both evident and important is that different aspects of the partnership definition (that is, closeness and equity) contribute differently to the benefits that partnering can provide. The author has chosen to focus on seven benefits of partnering, as they seem to be deemed of greatest importance in the literature. These are: lower transactions costs; the management of complexity; uncertainty; the acquisition of scarce resources; cost reduction and functionality enhancement; improved stability; and, organisational legitimacy.

3.3.1. Lower transaction costs

Although there are many practical and other reasons why partnering can be beneficial (see later sections), according to some writers the most important advantage of a partnership is to deliver lower transaction costs. The predominant rationale is relatively straightforward. The establishment and maintenance of all business relationships have associated transaction costs (TCs)[73]. TCs can include search, negotiation, contracting, adapting and monitoring costs (Williamson, 1975; Hiede, 1994). Many of these types of costs are increased by the fear of opportunism. However, if buyers and seller are, as discussed previously, able to develop trust within their relationships then such costs can be kept to a minimum (Chiles and McMackin, 1996).

[71] As a response to environmental uncertainty. Environmental uncertainty can be the result of resource scarcity and imperfect knowledge about environmental uncertainty, including environmental fluctuations and availability of exchange partners (Oliver, 1990).

[72] Partnerships may be formed to demonstrate or improve a firm's reputation, prestige or congruence with the prevailing norms. For instance, a partnership may be formed to publicise a firm's commitment to social responsibility (Oliver, 1990).

[73] Many authors have used transaction cost economics (TCE) reasoning as a robust way of framing these potential advantages. Williamson (1975, 1979) combined economic theory with management theory to establish guiding principles to help firms to determine what type of relationships they should adopt in the market place (Ellram and Edis, 1996; Chiles and McMackin, 1996; Sanderson, 2008); however TCE is by no means alone in focusing upon the reduction of transaction costs.

3.3.1.1. Types of transaction cost

There are a number of associated TCs for organisations entering into the market place for a new product or service. Depending upon the criticality of the spend and the level of product or service complexity, different supplier selection processes will be appropriate. Nevertheless, there are typically several stages of a supplier selection process, which may including a request for information (RFI), request for tender (RFT), supplier selection, negotiation and contract development[74]. The management of all of these stages incur TCs.

Of course much of this process can be automated these days, with many organisations offering e-procurement tools to reduce the process costs. Tools such as reverse auctions can also be utilised to obtain the lowest possible contract price[75]. However, there are always going to be costs associated with selecting new suppliers and negotiating new contracts. These are costs typically associated with buyers, but will also be borne by the supplier as well[76]. Furthermore, once a contract has been signed there are other potential transaction costs associated with managing the contract and monitoring supplier performance.

Many of these TCs are present under all circumstances- they are simply the basic costs of doing business. However, some TCs are inflated by a fear of opportunism. Due to the fear of adverse selection[77], for example, many organisations put in place robust supplier selection

[74] Typically in the first stage, a request for information (RFI) may be sent out to potential suppliers or published in a relevant industry or trade journal (or on the web). From responses, against predetermined selection criteria, several organisations will then be requested to submit a formal tender (RFT) (in some cases there may be no need for the first step). Suppliers will then have to provide information as outlined in the RFT. This information will be reviewed and, in some cases, presentations or 'beauty parades' will be part of the negotiation stage. Depending upon the criticality (including size) and complexity of the contract, several stages of negotiation may be necessary. Finally, the successful supplier will be awarded the contract, and in the case of public sector tenders, the unsuccessful suppliers will be given feedback as to why their bid failed (see CIPS website for more info).

[75] This will still require a process, including RFIs and RFTs, with companies having to be pre-selected to compete in a reverse auction. This process incurs costs.

[76] For instance, a large private medical insurance company (BUPA) recently spent over quarter of a million pounds on a failed bid. Due to the size and complexity of the contract on offer, a significant amount of time and resources were needed to go through the RFI and RFT stages, with nothing to show at the end (CBSP, 2005).

[77] See explanation on page 53.

processes. Setting up this process for a new contract can be costly[78]. Again, the actual costs are largely dependent upon the need to ensure full information is obtained and then assessed robustly, so that the best suppliers are selected. Once negotiations take place, there will be a cost associated with the means of coming to an agreement. In some cases these costs are low[79]. However, for large and complex contracts in particular, there may be several stages of negotiation, including demonstrations of technology and service offering. This takes time and diverts resources away from other activities. In many cases, a robust negotiation is believed to be necessary to determine if suppliers are attempting to pursue strategic misrepresentations[80] or act opportunistically in another way. So again we see that opportunism increases TCs.

Once a contract has been signed, there are further TC's which are relevant. Due to the fear of 'hold-up' and post-contractual opportunism the relationship needs to be managed. To mitigate the risk of 'hold-up' some aspects of the contract may need to be re-negotiated. This comes at a cost. Finally, there can also be significant monitoring costs. Due to the fear of moral hazard[81] it may have been necessary to establish KPIs within the contract. In order to assess a supplier's performance and to ensure they are living up to their side of the bargain, it may be necessary to have monitoring measures in place, to gauge supplier performance against KPIs. This could be for delivery on time, quality (PPM defects) and service attributes etc. Monitoring a supplier will again take time and cost money.

[78] Even, if it is a re-tender of an existing contract, there are costs associated (in terms of time and resources dedicated to the selection process) with undertaking a RFI and RFT exercise.
[79] In a reverse auction the winning supplier has contractually agreed to deliver the product or service at the price reached at the close of the auction. There is no further negotiation.
[80] See explanation on page 54.
[81] See explanation on page 54.

3.3.1.2. The role of trust in reducing transaction costs

Many scholars have argued that trust plays a significant role in constraining opportunistic behaviour (Ganesan, 1994, Hsiao et al., 2002) in business relationships[82]. Furthermore, according to Chiles and McMackin (1996), this diminution in opportunism can reduce the aforementioned TCs in a number of ways. Trust can reduce costs in the negotiation stages. Rather than actors entering into tactical-type negotiations, whereby both parties are cautious and slow at resolving issues, a negotiation based upon trust will more likely follow a game-type approach whereby, parties cooperate and resolve differences quicker. Trust can also reduce costs at the contract drafting stage. If it is possible to have much looser specifications in the contract, with the expectation that this will not be taken advantage of by either party post contractually, then significant time and cost savings can be made. Trust can also significantly reduce monitoring costs. If there is confidence that the supplier will perform well and not take advantage of any potential to act opportunistically, it is not necessary to have expensive monitoring regimes[83]. Furthermore, trust can also reduce other potential costs associated with complex safeguards, such as providing bonds against contract failure (Chiles and McMackin, 1996).

[82] The literature on trust in collaborative relationships is extensive and goes beyond the scope of this thesis. Hsiao et al., (2002) provide a useful summary of the literature on the benefits of building trust in business relationships. These include: decreased transaction costs in an exchange relationship; reduce the risk of opportunistic behaviour; increase long-term orientation; willing to make idiosyncratic investments, willing to engage in future business opportunity; and, facilitate cooperative transactions (Hsiao et al., 2002). It is also important to note that it is argued that trust, amongst other criteria, is a key antecedent to successful collaboration and partnering (Dwyer et al., 1987; Harback et al., 1994; Christopher, 2000; Mentzer et al., 2001). However, it is also argued that trust is an unrealistic behavioural assumption in buyer-supplier relationships (Williamson, 1985). Furthermore, defining trust can be problematic. Lane and Bauchman (2002) comprehensively analyse the topic of trust and argue that the concept has many meanings. When they consider personal trust there are three common elements: a degree of interdependence between trustor and trustee; a means of coping with risk or uncertainty; and, a belief or expectation that vulnerability resulting from the acceptance of risk will not be taken advantage of by the other party (Lane and Bauchman, 2002). Trust can, therefore, be defined in a number of ways. However, definitions of trust frequently state that there needs to be confidence in, or predictability in, one's expectations (Zucker, 1986), confidence in another's goodwill (Friedman, 1991) and the expectation that even with the opportunity and incentive to act in their own interests, people will not do so (Nooteboom, 2002, p. 47). Trust is defined by Geysken et al. (1997) as, "the extent to which a firm believes that its exchange partner is honest and / or benevolent". Honesty in this context is the knowledge that a partner is reliable and will fulfil their obligations either contractually or extra-contractually (Geysken et al., 1997).

[83] For instance, see case four, chapter ten, where Cadbury's Schweppes 'trusts' their milk supplier and, therefore, the supplier is charged with self-monitoring the quality of the milk delivered.

3.3.1.3. Other transaction cost benefits of partnerships

There are also other transaction cost benefits associated with different aspects of partnering. According to Goodman and Dion (2001), partnerships vary in length from 1 year to 75 years, with over 50% of partnership relationships lasting less than 12 years. However, despite this variation it is fair to say partnerships tend to be relatively long compared to arm's length relationships[84]. By having long-term partnership agreements there is a reduction in transaction costs for both buyers and suppliers, as there is no need to constantly re-visit the market and re-negotiate contracts[85]. As has already been argued there are, in some cases, significant costs associated with this.

In addition, partnering is also associated with a general reduction in TCs, frequently linked to a reduction in the supply base. Partnering is often combined with organisational efforts to significantly reduce the number of relationships they manage by focusing upon a smaller number of key suppliers, thereby minimising overall TCs. This leads to a diminution in the need to search for new suppliers, lower negotiation and contracting costs[86], and lower adaptation and monitoring costs.

3.3.2. Managing complexity

A second benefit of partnering is seen in the way in which such relationships allow complexity to be managed. The issue of contractual complexity is a large topic. According to Hansen and Higgins, (2007), it is difficult to arrive at a definition of complexity. Some authors use broad measures such as contract length (Robinson and Stuart, 2007; Joskow,

[84] In the case of a PFI they are 25 years or more.
[85] However, there will still be post-contractual negotiations over the period of a long-term contract.
[86] It may not be necessary to go out to tender after an initial contract terminates

1988), whilst others focus upon the inclusion or exclusion of specific provisions (Barthelemy and Quelin, 2006). Therefore, many define contractual complexity by the extent to which contracts combine elaborate clauses, such as those dealing with control, incentive, price, evolution and end of contract. Hansen and Higgins, (2007) prefer to define contractual complexity against a multidimensional framework. Their framework[87] gauges complexity against two variables: functional scope; and, technological scope. Functional scope provides a measure of the breadth of the contract, whilst technological scope provides a measure of the depth of the contract.

Technological scope is low if the contract focuses on just one technology and is high if there are a large number of technologies covered. When the technological scope is high it is necessary for both firms to have greater internal capabilities. When the functional scope is low an agreement focuses on solely one function (such as research and development) and the contract only contains focal rights[88]. When the functional scope is high, contracts will include details dealing with other functions including, for instance, marketing, manufacturing and distribution (Hansen and Higgins, 2007).

When dealing with complex relationships, it is the closeness of the relationship that is said to be the main deliverer of the benefits, although the trust aspect of partnering also helps. Essentially, partnership relationships can assist in the management of complexity in a number of ways. Partnerships allow the exchange of significant amounts of proprietary and non-proprietary information and thus enable both parties to better understand technical requirements, commercial requirements (e.g. demand) and working practices. All of these permit planning, investment and the development of relevant solutions.

[87] See Hansen and Higgins (2007), for more detail.
[88] Such as intellectual property rights, property rights, licensing rights and exit rights.

In some situations, the exchange may require the development of a highly technical or complex solution (product or service). The nature of the transaction may, therefore, dictate that there is a need to extensively share information and work together to jointly solve problems. One such example is the construction of a sub-marine or new battleship for the MOD. In this case the 'product' is immensely complex, requiring at every stage of the project's life (initial specification, build, commission, testing etc) for there to be extensive information sharing and working together to find solutions to problems which arise (Sanderson 2008). Many PFI's, such as large build projects (i.e. a new hospital) will require close relationships between the contractors and the various stakeholders. When designing and building a new hospital theatre (as part of the larger project), clinicians will, for instance, need to be consulted, along with other interested parties.

With complex solutions there may also be a requirement for long-term post-contractual involvement, possibly because of a commitment to repair or maintain an asset due to proprietary knowledge. An example of this would be for Liebherr cranes. Liebherr is one of the world's largest crane producers (over 1000 per year). All of their cranes are customised to order and increasingly the delivery of the crane is linked to a long-term service offering (currently 15% of all cranes sold). Customers have a direct link with technical staff based at the main plant in Biberach and internet-based communication allows Liebherr to provide a service which includes, remote maintenance, operating assistance for complex lifting routines, updating control software and remote operation of equipment for new routines (Slack and Lewis, 2008).

Under these circumstances, working closely together through the formation of a partnership could be the most effective solution[89]. Furthermore, closely linked to complexity is the notion of uncertainty in an exchange. Uncertainly can impact an exchange in a number of ways, and this discussion is the focus of the next section

3.3.3. Managing uncertainty

Partnering can also assist in the management of uncertainty. Before discussing this in more detail, it is first necessary to make the distinction between uncertainty and risk. According to Knight (1921), risk is a situation whereby it is possible to describe contractual situations where there are many known alternative scenarios that could potentially emerge during the life of the contract (Brousseau and Glachant, 2002). The important distinction here is that it is possible to avoid post-contractual re-negotiation, as variances can be stipulated in the contract. It is, therefore, possible to sign 'flexible' contracts or 'framework agreements', whereby the contract provides a range of alternative scenarios. For instance, the exact quantities of products required over the life of the contract may not be known. Furthermore, a potential disturbance may relate to changing input costs. If this is the case a contract can have 'escalator' clauses which establish a link between contract prices and input cost indices[90].

The important point to make here is that in circumstances of risk, although the exact nature of disturbance cannot be predicted, it is possible to anticipate the range of variations and build this into the contract. There are many examples of such 'framework agreements', such as the

[89] When there is high complexity, in particular when linked to high levels of asset specificity, partnerships may not be suitable and vertical integration may be more apt.

[90] An example of this is that many UK pig producers agree upon a cost plus (X%) price for the meat they supply to multiple retailers. In this example input costs, such as feed, can vary greatly and are unknown.

contracts negotiated by NHS PASA and its suppliers. Here, exact quantities for many products procured (consumables, footwear, drugs etc.) are not known in advance and, therefore, supplier pricing frameworks are agreed nationally, to then be 'called off' locally, when the demand arises[91] (Lonsdale, 2005b).

Uncertainty, however, causes different problems for relationships. Uncertainty has been defined by Knight (1921), as contractual situations where there are unimaginable scenarios which could emerge over the life of the contract[92]. Uncertainty, therefore, causes there to be to an incomplete contract at the start of the relationship. According to Lonsdale (2005), the significance of uncertainty is that it makes it difficult for buyers to obtain value for money as it is not possible to sign complete contracts. Post-contractual re-negotiation becomes an inevitability. Re-negotiation, in itself, is not necessary a major problem[93] unless two states are present. First, if there is a power imbalance between the two parties re-negotiating and, second, if opportunism is prevalent in the relationship. If the stronger party in the re-negotiation chooses to act opportunistically and take advantage of their power resources, they will be able to earn rents from the transaction (Shelanski and Klien, 1995)[94].

Partnering can assist in managing uncertainty in a number of ways. First, the inherent closeness of a partnership can support the quick (and complete) flow of necessary information between organisations and for filling information gaps[95]. Second, (as previously

[91] Another example could be framework agreements, with 'escalator' volume discounts, for overall 'bed nights' used in a hotel chain. For example, there may be an agreement between BUPA and Hilton Hotels which states that if BUPA staff and clients use over 1000 'bed nights' in a calendar year, there will be a retrospective rebate of X% (CBSP, 2005).

[92] According to Williamson (1975) uncertainty refers to limited competence, worthiness and the reliability of human agents (principal agent problem). There is, therefore, a risk associated with individuals or organisations that do not have complete information (info asymmetry) about the exchange or because particular quantities or outcomes cannot be observed or predicted (both internal and external uncertainty). This results in incomplete contracts being signed (Williamson, 1975).

[93] Although there will be transaction costs associated with the process of re-negotiating and the drawing up of a new contract.

[94] There is therefore the behavioural assumption that even if an individual has full information, they will often act opportunistically, in their own interests. This is described by Williamson (1975) as: 'self-interest seeking with guile'. However, as has been discussed previously, the assumption that parties will act opportunistically and take advantage of their power resources is, by no means always true.

[95] In some cases there may be no flow of information as, due to the nature of the purchase, it is impossible to accurately foresee future requirements (volumes, specifications etc.).

discussed) the 'trust' developed in the relationship can ensure that the negotiations over the filling of the information gaps occurs without exploitation.

When there is evidence of a relatively high degree of uncertainty, it is often suggested that partnering (or indeed hierarchy) as a governance structure is more appropriate than relying on market exchanges. This is because it is not possible to effectively manage the relationships through a classical, or, flexible (including 'framework agreements') contract (Macneil, 1974). Therefore, by moving to a closer relationship, with the sharing of information, joint goals, etc., there will be a lower probability that either a buyer or supplier will act opportunistically and take advantage of any information asymmetries that exists between the partners. According to Ellram and Edis (1996), when the market fluctuates between moderate to high uncertainty and the purchasing organisation does not wish to, or is not able to, vertically integrate[96], they can instead consider obligatory contracting or partnering. Partnering is seen as an attempt to pre-empt opportunistic behaviour by highlighting the mutual advantages of working together in a long-term and ongoing relationship.

3.3.4. Acquisition of scarce resources

From an extended resource-based perspective (RBP) of the firm, the primary justification for collaborating or partnering is not the reduction of transaction costs but the acquisition of scarce resources. Within the strategy literature, this perspective focuses upon the role of strategic resources and capabilities as the source of economic rents and the driver for achieving a sustained competitive advantage (Barney, 1991; Grant, 1991; Squire et al., 2006).

[96] Partnering has an advantage over vertical integration as it gives the buyer access to the scale and scope associated with external supplier selection, without the constraints of vertical integration (Sanderson 2008).

For competitive advantage to be achievable and sustainable, resources need to have imperfect imitiability, imperfect substitutability and imperfect mobility (Barney, 1991).

Within the extended RBP of the firm, it is apparent that although internal resources[97] are a necessary element for attaining competitive advantage, increasingly firms must look towards external relationships to gain access to the complementary resources and capabilities to achieve this[98] (Dyer and Singh, 1998; Mathews, 2003). It has, therefore, been suggested that the type of relationships firms have with their suppliers (arm's length or collaborative) is important as buyer-supplier collaboration can be viewed as a strategic resource (Gadde et al., 2003; Madhok and Tallman, 1998). A collaborative relationship can give a buyer access to unique capabilities and resources which would not be made available to them if the relationship was managed in an arm's length manner (Squire et al., 2006) and which cannot be or are too costly to develop internally (Powell et al., 1996). Resources can be acquired in a number of different ways: through the direct transfer of assets; the sharing of key equipment, intellectual property, or personnel; and, the transfer or sharing of knowledge (Dyer and Singh, 1998; Hamel et al., 1989).

The acquisition or access to scarce resources through greater collaboration and partnering provides a number of advantages which can help firms to achieve a sustainable competitive advantage. Collaborating firms (or partners) can be much more flexible, responsive and are able to introduce new products more quickly and at a lower cost than competitors[99]. Improved flexibility is becoming increasingly important for firms to achieve competitive advantage in a time of progressively uncertain environments, global competition and

[97] Whereby the unit of analysis is primarily the firm (Dyer and Singh, 1998).
[98] Whereby the unit of analysis becomes the network to which a firm belongs, rather than the individual firm (Mathews, 2003).
[99] Some would argue that in the face of severe global competition new product development is of particular importance. An increasing number of firms form partnerships to reduce concept-to-customer cycle times and costs, whilst at the same time improving both the quality of and design processes for new products (Shin et al., 2000). There is also the fact that new product development is inherently risky and, therefore, partnerships are a means of sharing the risks as well as the rewards (Shin et al., 2000).

technology acceleration (Gerwin, 1993). Improved flexibility ensures firms can manage production much more effectively in the face of fluctuations in customer scale and scope (Squire et al., 2006). This is particularly apt when we consider the food industry. It is argued that by developing much more collaborative buyer-supplier relationships, (including the formation of partnerships) firms can improve supply chain flexibility. This can enable the faster introduction of new products, support product customisation, reduce lead-times, costs and inventory, and deliver goods in an efficient and timely manner (Zhang et al., 2002, 2003).

Competitive advantage is increasingly linked to being able to respond quickly to changes in customer demand (Stalk and Hout, 1990). By developing closer more collaborative relationships, with the resultant improvement in information flow and knowledge sharing, it is possible for firms to significantly improve response times to shifting customer demands and can also lead to cycle-time reduction (Squire et al, 2006). Organisational responsiveness is further enhanced as suppliers operating within a collaborative partnership are more likely to be responsive and expedite orders for loyal buyers who they trust (Handfield and Bechtel, 2002).

To conclude, from a RBP of the firm, the rationale for increased collaboration and the formation of a partnership is centred upon how close relationships (as against arm's length relationships) will help a firm to acquire or gain access to resources which enable them to develop distinctive capabilities (such as superior flexibility, responsiveness and better / cheaper new product development). These capabilities must be different to competitors as well as being difficult to imitate. Unique capabilities will in turn provide the basis of an enduring competitive advantage (Barney, 1991; Ghemawat, 1986; Peteraf, 1993; Prahalad and Hamel, 1990; Porter, 1996). According to the RBP of the firm, collaboration is about finding partners to work with to leverage existing resources as effectively as possible and to pool and transfer resources of all kinds in order to gain the most beneficial strategic position (Hardy et al., 2003).

3.3.5. Reciprocity-based improved performance: lower costs and greater value creation

There is also a broad and multidisciplinary swathe of literature which highlights the many reciprocity-based performance and competitive benefits which partnerships can deliver. From this perspective the formation of a partnership is based upon collaboration and founded upon the principle of reciprocity. One of the primary drivers to forming close relationships is therefore to facilitate the pursuit of joint and mutually beneficial goals (Oliver, 1990). Underlying this thinking is the belief that resource scarcity induces cooperation rather than competition or the scrabble for power, influence and control over those resources (Aiken and Hage, 1968; Schermerhorn, 1981).

Further to this, is the assumption that these relationships are characterised by balance, harmony, equity and mutual support and not by conflict and domination. Exchange partners anticipate that the benefits derived from collaboration will outweigh any loss of decision-making control and be greater than the costs associated with managing a close relationship (Provan, 1984; Oliver, 1990).

Partnerships can deliver reciprocal performance improvements across business activities for both buyers and suppliers (Matopoulos et al., 2007), as well as providing competitive opportunities. A closer working relationship can deliver superior supplier performance by improving the functionality (for example quality, technology, reliability and compatibility) of the supplier's product or service offering and by reducing costs. This can be modelled by thinking about partnerships as working to increase the surplus value (see Figure 3.2 below).

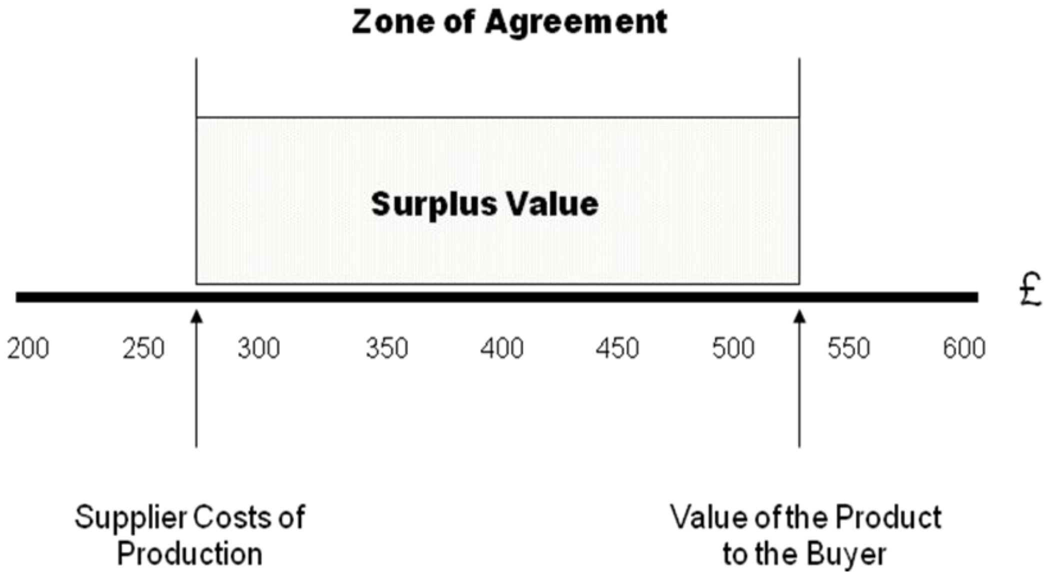

Figure 3.2: The surplus value diagram (Source: Watson, 2008, MBA slide)

Looking in a little more detail, partnerships create a greater degree of mutual dependence and an atmosphere whereby joint-planning and information-sharing is the norm. This increased level of knowledge-sharing and innovation capability can help deliver *new product development benefits*, including a better product design process and faster and more responsive new product development. There are also a number of *manufacturing (planning) benefits*. Collaboration can help increase product quality and minimise supply disruptions as well as providing order-processing benefits in the form of increased responsiveness. Furthermore, there are *customer service benefits*, with improvements to supplier reliability, product availability and better lead times and *distribution benefits*, whereby there is faster and more flexible delivery (Duffy, 2002, Ireland, 2005).

Partnerships can not only help deliver improved product and service quality, they can also help to reduce unnecessary costs. Partnerships can help create better customers. Many unnecessary supplier costs are often the result of poor information flows (demand signals) from the customer to supplier. An increase in the two-way flow of information provides suppliers with a better understanding of the current and future plans of buyers, enabling them to better focus their activities (as well as enabling them to have better asset utilisation). There are, therefore, a number of *demand management benefits*, including more accurate forecasts and the joint resolution of forecasts exceptions, as well as a number of *inventory management benefits*, including: increased product stability and reliability in reordering; optimal production planning; and, reduced inventory levels. Partnering also provides the basis for more stable supply prices through increased mutual dependence, thereby improving buyer support (Ellram, 1990, 1995; Lewis, 1990; Bennet et al., 1996; Lamey, 1996; Mitchell, 1997; Bennet and Jayes, 1998; Bresnen and Marshall, 2000; Horvath, 2001; Mentzer et al., 2000; McLaren et al., 2002; Simatupang and Sridharan, 2004; Duffy, 2002, p. 61; Matopoulous et al., 2007;).

Finally, there are also commercial benefits for both buyers and suppliers. Better communication and consensual decision making enables partnerships to better service the end customer, potentially delivering increased revenue growth. High levels of collaboration can also give a supplier a competitive advantage because they are more focused on the buyers needs. This in turn can lead to increased volumes of sales through better consumer understanding. There can also be general s*ales benefits*, including more rapid access to markets, increased market share and improved performance at promotional events. In an ever-more competitive economic environment partnering can therefore help collaborating firms to survive (Lyons et al., 1989; Wilson, Dant and Han, 1990; Duffy, 2002).

There are a number of empirical studies which support these claims including that of Larson (1997), who looked at 291 construction projects and established a positive relationship between partnering and measures of project success. Carr and Pearson (1999) conducted an empirical study testing whether co-operative buyer-supplier relationships lead to positive financial performance in the US manufacturing industry. Their work concluded that firms who engage in more co-operative relationships with suppliers have higher levels of financial performance. Duffy (2002), who conducted research in the UK fresh produce industry, concurred, stating that, “overall the results confirm the key hypothesis that partnerships are associated with higher levels of performance” (Duffy, 2002, p. 277).

There is also a large number of case studies from diverse industries which provide further evidence to support the improved performance and commercial benefits of partnering (e.g. Cowan et al., 1992; Weston and Gibson, 1993; Ellram and Eddis, 1996; Christopher and Juttner, 2000; Duffy and Fearne, 2004; Zanquetto-Filho et al., 2003). These benefits have led to a profusion of reports, manuals and tools and techniques, describing ‘best practice’ across industrial sectors, aimed at engineering collaboration and building trust between buyers and suppliers through formal mechanisms such as team building and incentive structures (Bennet and Jayes, 1998; Bennet et al., 1996; Bresnen and Marshall, 2000).

3.3.6. Improved stability: reducing conflict in exchange

Partnerships are also formed to create stability in response to environmental uncertainty. Environmental uncertainty is generated by resource scarcity and a lack of full knowledge of environmental fluctuations, availability of suitable exchange partners and the rates of exchange. This uncertainty drives organisations to form long-term collaborative relationships to improve the stability, predictability and dependability of their exchange relationships (Oliver, 1990).

It is argued, therefore, that short-term, arm's length or adversarial approaches to relationships are counter-productive as they can increase the potential for conflict and the degree of uncertainty in exchanges. It is far better for customers and suppliers to become partners with firms making a long-term commitment to work together (Anderson and Narus, 1991). There is the benefit of reducing the potential conflict behaviour by moving an exchange from a discrete one to a relational one. Furthermore, partnerships can overcome internal and environmental uncertainty, especially when there is a high probability that circumstances may arise beyond the control of both parties (Kaufmann and Stern, 1988; Oliver, 1990).

There is, however, considerable debate centred upon partnering and the advantages of developing trust between exchange partners. The impact trust has on relationship stability and performance is contested. Lane and Bachmann (2002) argue that the majority of organisation scholars, "connect trust with highly positive effects on performance" (Lane and Bachmann, 2002, p. 19). As noted previously, an empirical study by Duffy (2002) also saw a positive link between trust and organisational performance. Other authors note that partnership and the resultant increased levels of trust helps collaborating organisations to overcome mutual difficulties such as power imbalances, conflict and lower profitability (Dwyer, Schurr and Oh, 1987).

In contrast, although Williamson (1985) acknowledges that personal trust enables relationships to survive greater stress and display greater adaptability, he also claims that trust has no role to play in organisational performance (Williamson, 1993). Furthermore, although

Zucker (1986) believes that trust may be necessary and desirable for interorganisational interaction, he argues that collaborative forms (including partnerships) may not be the most effective governance structure. In addition, there are many examples within the food retail industry where there are high levels of collaboration[100], with the end customer receiving good value for money, but with little trust throughout the supply chain (Duffy et al., 2003, Hingley, 2005). Here it is power that drives the relationship and delivers high organisational performance (and satisfaction for the end customer), not trust. Nevertheless, although contested, there is considerable support for the benefits of partnering, with associated higher levels of trust, in the form of improved relationship stability and a reduction of exchange conflicts.

3.3.7. Wider social or ideological responsibility to partner: improvements to organisational legitimacy

A further perspective is highlighted by Ring and Van de Ven (1994). They argue that the TCE and other literature (including RBP etc.) ignore the importance of equity and legitimacy outcomes from partnerships. For them, the purpose of a partnership may be to ensure both parties are seen to be gaining from the relationship and thereby preserve a reputation for 'fair dealing'[101] in the community. By maintaining a reputation for 'fair dealing', a firm will be able to build higher levels of trust with both customers and suppliers and to make specific investments in relationships, even when there are conditions of high uncertainty[102] (Helper and Levine, 1992).

[100] Which are often referred to as 'partnering'.
[101] 'Fair dealing' does not require that inputs and outputs are necessarily divided equally between the cooperating parties, but it does imply that they receive proportional benefits for investments made (Ring and Van de Ven, 1994).
[102] The issue of uncertainty in exchanges is widely discussed in disparate bodies of literature including the TCE literature as already covered. According to Chandler (1962) and others, environmental uncertainty and organisational structure are strategically critical determinants of a firms overall performance and likely success. Partnering is seen as a logical solution to environmental uncertainty. There have been many studies which have identified decision making uncertainty as a key outcome of the external environmental uncertainty (Paswan et al., 1998).

Organisations may, therefore, form relationships or partnerships to increase organisational legitimacy, driven by the desire to improve their reputation, image or prestige in the market place (Oliver 1990). Some relationships will publicise an organisation's commitment to social responsibility or charitable activities, which will in return help build a good reputation and image (Singh et al., 1986). In some cases there may well also be a genuine drive to form partnerships for wider social, political or ideological reasons (Barney and Hansen, 1994, Teisman and Klijn, 2002, Skelcher, 2005, Sanderson, 2008).

3.4. Conclusion

Chapter two discussed the history of economic theory in so far as it relates to partnering and interorganisational relationships. This showed how the literature had developed since its reliance on neo-classical economics, although that had not stopped there being genuine disagreements on the nature of partnering. Following this and necessitated by the disagreement within the literature, in this chapter, a definition of partnering was provided, which will used throughout this thesis (3.2). The definition chosen was designed to be in line with the interpretation of partnering adopted by the UK Government in its agricultural policies during the last decade. In developing this working definition of partnering it was necessary to also define terms such as 'close', as well as concepts such as 'mutuality' and 'equality'.

Section 3.3. went on to outline the many potential benefits to be derived from moving a relationship from arm's length toward a collaborative one. Partnerships, it was argued, can be seen as the logical solution to increased competitive pressures facing many organisations today.

In conclusion, regardless of whether benefits of partnering are best understood from a TCE perspective, a RBP, or any of the other perspectives covered thus far, there are tangible (as well as less tangible) operational and commercial benefits which have motivated organisations to form partnerships. Although the academic community has attempted to explain these benefits within often tight theoretical frameworks, the reality is that partnerships are formed for complicated interrelating reasons. The benefits to be derived from partnerships are hugely variable and often a result of the unique circumstances of an exchange and the specific resources, skills, ideology and personal motives of the individuals and organisations forming a partnership.

The next chapter will now consider the other side of the coin: the applicability of, and obstacles to, partnering. Just because something can provide benefits doesn't mean it is always appropriate or possible. In chapter four, the author will argue, therefore, that partnering is not always appropriate or possible for a number of reasons. First, transaction sizes do not always justify the level of investment needed to form partnerships. Second, organisations or individuals may not have the necessary skills or capabilities to actually deliver partnerships. Third, there are circumstances when trust cannot be developed and, therefore, partnerships, as defined, will not be possible. Finally, as a result of power imbalances, collaboration may either not be possible or will not be balanced and, therefore, not a true partnership, according to the working definition.

Chapter Four

The Applicability of and Obstacles to Partnering

4.1. Introduction

A partnership was clearly defined in the previous chapter as*: **"an ongoing collaborative interaction, not necessarily governed by a contract, between two legally separate organisations, that relies on neither a market or hierarchy control, with the collaboration based upon a commitment to the equal sharing of the costs, risks and rewards derived from working together".***

Seven benefits highlighted by this literature were discussed in the previous chapter. However, there is an increasingly large body of literature which argues that partnering is only appropriate under certain transactional and market circumstances. The assumption that partnering is best practice can be challenged for a number of reasons. These are:

i) Firms buy many different types of goods and services. Many of these are very small and simple and do not require complex relationship forms to be developed in order for them to be bought effectively;

ii) Although, on some occasions, the type of product / service being sourced would suggest that partnering is suitable, there are different levels of risk associated with forming a partnership and, therefore, this sourcing option not always appropriate;

iii) Even if the product / service being procured is suitable and a partnership can be formed, often the relationship will not endure and, therefore, partnering may not be appropriate in the long-term;

iv) There may be insufficient internal capabilities to effectively implement partnership initiatives; and,

v) Power imbalances between collaborating parties can act as a barrier to the formation of partnerships in the first instance or, if a partnership is formed without due regard to the power balance between collaborating parties, this can result in the risks and rewards from a partnerships being unevenly distributed. This will ultimately result in unbalanced relationships that do not align with the working definition of partnerships adopted here (or, indeed, adopted in many sources).

4.2. Appropriateness: type of process and product

It is logical to start with determining what *type* of purchase is best suited to partnership sourcing. First, the buyer's *production process* is said to influence the level of stability necessary and, therefore, determines the appropriateness of partnering or arm's length relationships. A partnership sourcing approach is increasingly applicable when items are needed for an assembly line production process, rather than small batch runs or job lots (Leenders and Blenhorn, 1988; Ramsay, 1996). An assembly line production process requires a stable and constant delivery of products / components. By developing partnerships with suppliers, buyers can ensure that there is minimal stock holding (by them) through the use of manufacturing techniques such as Just-in-time (JIT) and be confident (through improved two way communication, sharing of pains and gains etc.) that there will be no disruption to supply which could result in a costly line stoppage. When the production process is based upon small batch runs or job lots, having a constant and stable flow of materials through the process is less pressing and, therefore, it may not be necessary to have such close or collaborative relationships with suppliers, as the impact of a supplier's performance is less crucial.

Second, some argue that *the size of purchase* is crucial (Spekman, 1988; Gadde and Snehota, 2000). In this case, the decision to move from an arm's length (or as Gadde and Snehota (2000), call it, low involvement) to a close or collaborative (high involvement) relationship is a function of the volume of business for the buying company. When a supplier relationship represents a major volume of business for the buyer a close or collaborative (high involvement) relationship is more appropriate. Conversely, if the transaction size or volume of business is low, an arm's length relationship may be more fitting (Gadde and Snehota (2000).

However, this construct is still too restricted, as there can still be arm's length relationships with major suppliers when the purchase is either a non-critical or standardised product or service (Gadde and Snehota, 2000). The third and fourth important aspect of the *type* of product is, therefore, the *characteristics* of the specific purchase. In most cases there is no need for nurturing the long-term commitment inherent in partnerships for the purchase of *non-critical commodities*. In this instance, there may be limited potential gains from deeper involvement and fewer incentives for a closer or more collaborative (high involvement) relationship (Ramsay, 1996; Gadde and Snehota, 2000).

Fourth, if a standardised commodity will match the purchaser's needs, there may be no incentive to partner. From a transaction cost perspective, partnerships are a natural response to high levels of asset specificity. Partnering is seen to be the appropriate governance choice when there is significant asset specificity and when it is not possible or too costly to bring the purchase in house (i.e. move to hierarchy) (Williamson, 1975, 1985). Furthermore, (as previously discussed) partnering helps organisations to overcome the inherent complexity and uncertainty in some exchanges. This may not be the case for the purchase of standardised products.

There are two points to make here. First, it is evident that the conditions requiring partnerships are not present in anything like the majority of exchange relationships. Often purchases will be small, non-critical, standardised and there will be little or no uncertainty in the exchange (both internally in terms of required volume and specification and environmentally in terms of the unpredictability of supply market). There will be, therefore, very little overall transactional risk. An example of this would be a company procuring a known volume of standardised laptop computers (which are not seen as a critical spend for the business), requiring little or no after sales involvement with the supplier. In this case it will often be appropriate to manage such a purchase in an arm's length manner.

Second, a related criticism is that, although transaction-cost research demonstrates that closer supplier relationships are appropriate when an exchange is associated with asset specificity and / or uncertainty (and other factors), there is little guidance as to the amount of asset specificity or uncertainty which is required to make the move towards collaboration justifiable (Ramsay, 1996). Therefore, TCE is not a good predictive model for determining when partnering is, or is not, appropriate or possible.

According to Ramsay (1996) this all leads us to the conclusion that items of spend which fall into the strategic, leverage and bottle neck quadrants of Kraljic's (1996) purchasing classification[103], "particularly if they are for use in assembly line production processes, or are purchased under conditions of uncertainty, or entail "high" levels of asset specificity" (Ramsay, 1996, p. 15), should be managed with a supplier partnership approach. However, it is suggested that purchases suitable for partnerships only account for between 35 to 50 percent of organisations' purchased items (Ramsay, 1996). Therefore, to argue that partnering is universally applicable is potentially flawed as, it has been argued, partnering is not always appropriate as it depends upon the type of production process and the type of product being bought[104].

4.3. Appropriateness: partnering as an investment decision

It has been demonstrated that there are types of purchases for which collaborative relationships are usually unnecessary. However, even when the *type* of purchase dictates that a partnership is potentially suitable it may still not be appropriate, as the appropriateness of supply chain collaboration or partnering also has to pass a key commercial test (Koon Huat-low, 1996; Kataymam and Bennett, 1996; Ramsay 1996, Ford, 1997, Gadde and Snehota, 2000, Cox et al., 2003). Cox et al. (2003, 2005) and Gadde and Snehota (2000), maintain that to view partnerships as 'best practice' is challengeable as they will not always provide a positive economic outcome. They argue that an arm's length relationship may be appropriate under certain circumstances (other than those just dictated by the type of purchase), as the decision to partner or not is a complex investment decision. As Ramsay (1996) put it, " *[T]he formation of partnerships entails increased risk, cost and a loss of power for*

[103] Leverage purchases are those that have a high profit impact, but low supply risk. Strategic purchases have both high profit impact and high supply risk. Bottleneck purchases have low profit impact, but high supply risk Ramsay (1996).
[104] Furthermore, there are other arguments of the applicability of partnering which relate to circumstances when technology changes are evolutionary, there is quick adoption of new technologies and there are conditions of a highly concentrated market (Low, 1996; Sanderson 2008).

purchasers, and should only be considered when the benefits arising from the relationship are likely to clearly outweigh the costs" (Ramsay, 1996, p. 14).

There are several facets of this debate which need to be explored in more detail. First, it may not be possible to find a supplier willing to develop a long-term close relationship even when the type of product dictates that this could be beneficial. This is because, although there may be advantages of partnering, there are also added costs[105] and potential risks[106] for the supplier. A supplier's decision-making process must include, therefore, consideration of what the monetary benefits are likely to be from the partnership. To justify the added costs and risk for a supplier a customer must be able offer the supplier significant potential or actual sales revenue or profit, over a sustained period of time (Ramsay, 1996).

Second, there are also costs and risks for a buyer. Working closely with suppliers can require significant management time and resources. The buyer may have to make modifications to the way they work, invest in technology and processes to more accurately capture demand information and it may have to share proprietary technology / knowledge with the supplier. The establishment of a partnership, which is often accompanied by supply base reduction, can also erode the future negotiation position and power of the buyer. There may be less suitable alternative suppliers to choose from in the market place and the incumbent supplier may have gained considerable inside knowledge and power resources by working closely with a buyer (in particular over the longer term). This is why it is suggested that partnerships are often only appropriate (from a buyer's perspective) for large organisations who can afford to lose some of their power resources (Ramsay, 1996).

[105] Costs could include the time and money spend understanding the buyers businesses, investments in new technology (EDI) or modifying processes / products to better meet the needs of the specific customer (Ramsay, 1996).
[106] Risks include an increased reliance on the buyer for revenue and profit and a loss of intellectual property, etc. (Ramsay, 1996).

The decision to partner, therefore, has to be seen as being potentially beneficial (in terms of there being equal costs, risks and benefits) for both buyers and suppliers. This is obviously not always the case. Therefore, central to understanding the appropriateness of a relationship is to have a full consideration of the role risk plays in business relationships and to view relationship choice as an investment decision (Watson, 2004). However, if we view relationship choices as an investment decision then it is surely justifiable to argue that partnership sourcing cannot consequently be viewed as universally applicable.

One of the most recent versions of this way of thinking comes from Cox et al., (2005). Their work differs from other writers (Ramsey, 1996; Gadde and Snehota, 2000 etc.) primarily in the level of detail and understanding necessary to make this investment decision. According to Cox et al., (2005), a robust investment decision must go beyond an assessment of the volume of business and include an understanding of: the salience of spend to the buyer; the level of asset specificity and information asymmetry; the level of complexity and uncertainty of spend; and, the buyer-supplier power relations (Cox et al., 2003). Furthermore, there must be a debate about how the costs and benefits of a collaborative relationship will be shared; what will determine how this division will be made; and, how the actual division of benefits itself will influence the appropriate governance form (Watson et al., 2003; Cox et al, 2005).

What this 'investment' strand of the literature is drawing attention to, is the lack of clear instruction within much of the partnering literature as to the allocation of costs and benefits. For example, Mitchell (1997) states that the realisation of partnership benefits will ultimately come down to how costs and benefits are distributed throughout the supply chain. He believed there was insufficient guidance in the partnering literature on how these benefits and costs should be shared in a partnership. This is an important insight for two reasons. First, it highlights that although partnering may seem normatively appealing it lacks empirical support (Cox, 1997, 2004; Cox and Chicksand, 2008; Sanderson, 2008). Second, some commentators suggest there has been a fundamental misinterpretation concerning the sharing of risks and value from a partnership. This is in part due to the lack of a clear definition of what a partnership should result in. The predominant focus in the literature has been on how partnerships can bring about benefits or how partnerships can be implemented, but, for Mitchell, there has been far less research and discussion on how benefits (operational and commercial) should be shared. The general assumption is that a partnership should result in equal sharing of risks and rewards. However, how this might be implemented is often left unspoken.

4.4. Partnering is not possible: they do not always endure

Organisational sociologists (Aldrich and Whetten, 1981; Galaskiewicz, 1985; Oliver, 1990; Van de Ven, 1976) have also considered the formation and structure of cooperative (also understood as collaborative, close or high involvement) interorganisational relationships (IORs) by examining environmental conditions and contingent factors (Ring and Van de Ven, 1994)[107]. An important framework, which provides an additional insight into interorganisational relationships, is Ring and Van de Ven's (1994) '*Process Framework of the Development of Cooperative IORs'* (p. 97). This process framework demonstrates that the development of cooperative relationships is cyclical and not sequential. This is important because it suggests that it is not a simple sequential process to move a relationship from an arm's length one to a close one, and implies that there is no end game for relationships. This means that even when a close relationship or partnership is achieved, it is unlikely that the

[107] Oliver (1990) emphasises that the appropriateness of a governance form can only be understood by considering the reasons and the conditions under which organisations establish linkages or exchanges with each other, and the conditions (i.e. what are the underlying causes or contingencies) which predict the likelihood of the formation of types of interorganizational relationships (Oliver, 1990).

circumstances that make this relationships work and be appropriate at a point in time will prevail. If we are looking at appropriate relationship formation as an investment decision, then the cyclical nature of relationship development (and indeed how rapid these cycles are) makes the investment decision even more complicated. If considerable time and effort has to be put into creating a partnership, but this is unlikely to result in an enduring relationship, then it is possible that the up-front investment will not be recouped.

Furthermore, although stability has been cited previously as a benefit of partnering, according to Oliver (1990), cooperative IORs do no endure because they create stability (Oliver, 1990), but because they maintain a balance between *formal* (formal bargaining and legal contracts) and *informal* processes (such as sense-making in the negotiations and psychological contracts as a commitment for future action) (Oliver, 1990). This insight is important. The work of Oliver suggests that there are environmental conditions and contingent factors that make inter-organisational collaboration more favourable (over markets)[108]. Moreover, this work shows that four of the critical contingencies (*necessity, asymmetry, stability and legitimacy*) are shaped by primarily external factors[109].

If what Oliver (1990) and Ring and Van de Ven (1994) say is true, then cooperative IORs, in the form of a partnership,[110] can be *inherently* unstable. The maintenance of a balanced process for cooperative IORs is mainly driven by external factors, over which the cooperating parties have little or no influence (this is particularly the case in fast changing business

[108] There are a number of conditions that increase the likelihood of relationship formation: i) there must be a low potential of erosion of competitive position (asymmetry); ii) a balanced bargaining position between participants (reciprocity); iii) low cost for inter-organisational relationships relative to market or hierarchy alternatives (efficiency); iv) high risk in entering into new markets or activities (stability); and, v) there is also a requirement for local legitimacy in host country or new market (legitimacy) (Oliver, 1990).

[109] This adds support to the earlier discussion and clearly signals that there is not one governance form, be it a partnership or market which can be seen as universal best practice. Oliver's concludes (1990, p. 259): '*(a) that the critical contingencies of necessity, asymmetry, stability and legitimacy are shaped by primarily external factors;* (b) that efficiency contingencies are influenced largely by internal factors and the cost of the relationship itself; *and, (c) that reciprocity contingencies are affected primarily by the relative or comparative properties of the participants and their degree of congruence with one another'* (Oliver, 1990).

[110] Or other similar governance forms.

environments/sectors). This insight does not seem to have been picked up sufficiently by the partnering literature, with its focus on long-term cooperative IORs as the basis for competitive advantage.

It would seem that, based on a reading of the work already completed in the IOR literature, the partnering literature tends to ignore two important points. First, in order for cooperative IORs to be appropriate, specific critical contingencies (as expressed by Oliver) must be present (*asymmetry, reciprocity, efficiency, stability* and *legitimacy*)[111] which favour organisations working together. Even when this is the case, and a JV, partnership or other cooperative IORs is feasible (or has recently been established), the decision to do so must be made with the realisation that the process of cooperative IORs is neither linear nor static. This means that the risks associated with the relationship failing, or no longer being the most appropriate governance structure in the future, must also be part of the '*relationship investment decision'*.

This assessment of the right relational 'fit', and of the potential risks of the relationship turning sour, must be made prior to and during the course of establishing, or maintaining, a cooperative IOR. As has been argued, many of the factors that can make cooperative IORs appropriate one day (because of changing external factors) can be so wrong the next day (or month or year). Foresight and a robust assessment of the risks involved are, therefore, continually required in IORs, as is a well-devised and realistic exit strategy.

[111] Therefore, a governance form to be seen as appropriate (according to the literature as summarised by Oliver's *Critical Contingency Model*- 1990, p 249-251) must be seen to: 1) increase market power and entry barriers (asymmetry), 2) obtain synergies in technology, 3) enhance information sharing (reciprocity), 4) increase economies of scale (efficiency), 5) share risks in entering new markets (stability) and 6) enhance profile in industry (legitimacy) (Oliver, 1990)

4.5. Partnering is not possible: there are insufficient operational capabilities

A further debate in the literature is focused upon whether partnering is operationally possible. Does an organisation possess sufficient internal capabilities to implement a partnership? Some authors explain the failure of some partnerships by focusing on a range of human and organisational barriers. Boddy et al., (2000, p 1007) suggests that partnering initiatives fail due to a lack of human or organisational adaptability as partnering is, “an iterative and evolutionary learning process”, in which people interact in uncertain ways with other contextual elements such as power, culture, structure, financial resources and technology (Sanderson, 2008). There are also often insufficient skills within organisations to implement successful partnering (Ireland, 2005; Lonsdale 2005a; Sanderson, 2008). This is because partnership formation requires significant behavioural and procedural modifications (Ramsay, 1996) for both the buying and selling organisations. There may be insufficient processes, skills, knowledge or experience to implement such a significant change management exercise internally or to cascade this new thinking to collaborating firms (or indeed a whole supply chain) (Ireland, 2005).

Drawing upon a complimentary supply chain management (SCM) literature is useful at this point, as there is a growing body of evidence that any initiative to develop closer or more collaborative relationships has to also overcome implementation difficulties. It is evident in the literature that for close relationships or partnerships to be implemented and extended beyond the dyad to an entire chain, SCM should be viewed as the integration of processes across the supply chain. Hammer (2001) argues that once organisations have implemented processes internally (such as lean), these must then be integrated between organisations. It is in the integration of processes and streamlining across company processes where the greatest opportunities exist for cost reduction, enhancing quality and increasing the speed of operations, as well as the greatest challenge (Croxton et al., 2001).

When organisations seek to develop partnerships or close relationships and search for more effective information links, internal processes become interlinked and span the traditional boundaries of the firm. Partnering and SCM, therefore, calls for the implementation of new technologies and methodologies requiring considerable process re-design or the development of completely new processes at an intra- and inter-organisational level (Power, 2005). This is not easy to achieve as organisations may not have the necessary internal skill sets. Furthermore, even if the skills to develop new processes are present, considerable resources are still required to make the changes. This of course makes the prize of success all the greater. According to Power (2005), implementation difficulties mean SCM is strategic, creating inter-dependence and shared destiny between extended enterprises, delivering a source of competitive advantage for those able overcome SCM integration and implementation barriers (Power, 2005).

4.6. Partnering is not possible: power dynamics in relationships must be considered

The final reason why partnering is deemed by certain writers (for example, Kumar, 1996; Cox, 1997; Ramsay, 1996; Kumar et al., 1998; McDonald, 1999) to not always be appropriate or possible, concerns the concept of buyer-supplier power[112]. This is the main focus of the hypothesis in this thesis. Power, it is argued, can prevent non-adversarial collaborative relationships. It can do so by either preventing balanced collaboration or by preventing any sort of collaboration. In this section, we examine the concept of buyer-

[112] Some writers advocate that although there may be power unbalances in relationships 'partnering' can still be successful if the focus in the relationships is on 'joint satisfaction of common objectives regardless of the background context of inevitable imbalance' (Hingley, 2005, p. 68).

supplier power and then consider in more detail its role in restricting the circumstances of when partnering is possible.

4.6.1. Power dynamics in buyer-supplier exchanges

Power is ‘an essentially contested concept’ (Gallie, 1955), in that many disagree as to how exactly the concept should be understood and what its scope should be. Indeed, some have exploited this contestation to actually deny the importance of the concept (Williamson, 1995). However, although there is much disagreement between writers, according to Lukes (1974), there is a reasonable level of consensus over the fact that power can be defined at a high level as the ability of one actor to make a second actor act in a way that is contrary to the second actor’s interests.

It has also been noted that power is relative, that it is not like money, for example, in that it cannot be accumulated. Furthermore, no single firm has power in all contexts (Cox et al., 2000, 2002). Often firms do not have the resources to do everything themselves and will, therefore, outsource a product or service. Outsourcing can lead to mutual interest and dependency between buyers and suppliers. However, although there may be a degree of mutual interest, each firm in a buyer-supplier exchange will attempt to influence the terms of the exchange to give them maximum benefits (Rumelt, 1987). According to Cox, (2007), to be able to influence another firm’s behaviour requires them to have control of resources, as well as a degree of dependency on them by the other firm.

This then leads to the notion of understanding power in terms of dependency. Cox (2007), argues that the dominant approach to understanding the power of one player over another, is by seeing it as a function of resource dependency (or asymmetrical interdependence). Developing the work of Emerson (1962) and other authors (Blau, 1964; Thompson, 1967; Jacobs, 1974; Cook, 1977; Cook and Emerson, 1978 etc.), the basic principle of this perspective is that since all exchange transactions involve two parties, power exists in business relationships if one party needs the other party more than they need them (Cox, 2007, p. 42).

Despite the widespread adoption of this resource dependency perspective within various disciplines, including political science and sociological analysis, according to Cox et al. (2002), this literature has not made a significant impact in business management writing. There are however, a number of authors who do recognise the importance of power and dependency in buyer-supplier relationships. These writers contend that the power between two actors is essentially about the relationship between the utility and scarcity of resources each actor brings to an exchange (Emerson, 1962; El-Ansary and Stern; 1972; Jacobs; 1974, Pfeffer and Salancik. 1978; Campbell and Cunningham, 1983; Provan and Gassenheimer, 1994; Ramsay, 1994; Frazier and Antia, 1995, Cox et al., 2002; Caniel and Gelderman, 2007).

With reference to the work of these writers (in particular that of Emerson, 1962), coupled with Porter's five forces methodology (1980, 1985), Cox et al., (1999, 2000), developed a methodology for mapping the dimensions of buyer and supplier power using the constructs of resource utility, resource scarcity and information.

According to the 'Power Regimes' methodology, resource *utility* is the extent to which the goals or motivational investments of the buyer and supplier are met by the transaction. This is determined by the *operational and commercial importance* of a particular resource within a transaction, to an actor in an exchange (Cox et al., 2000; Cox et al., 2002). These two variables are represented in Figure 4.1, to follow. The utility of a resource is the same for both buyers and suppliers and can be summarised in the following classification: a residual resource (low utility) has a low degree of commercial and operational importance; a complementary resource (low-medium utility) has a high degree of commercial importance, but a low degree of operational importance; a key resource (medium-high utility) has a high degree of operational importance, but a low degree of commercial importance; and, a critical resource (high utility) has a high degree of operational and commercial importance.

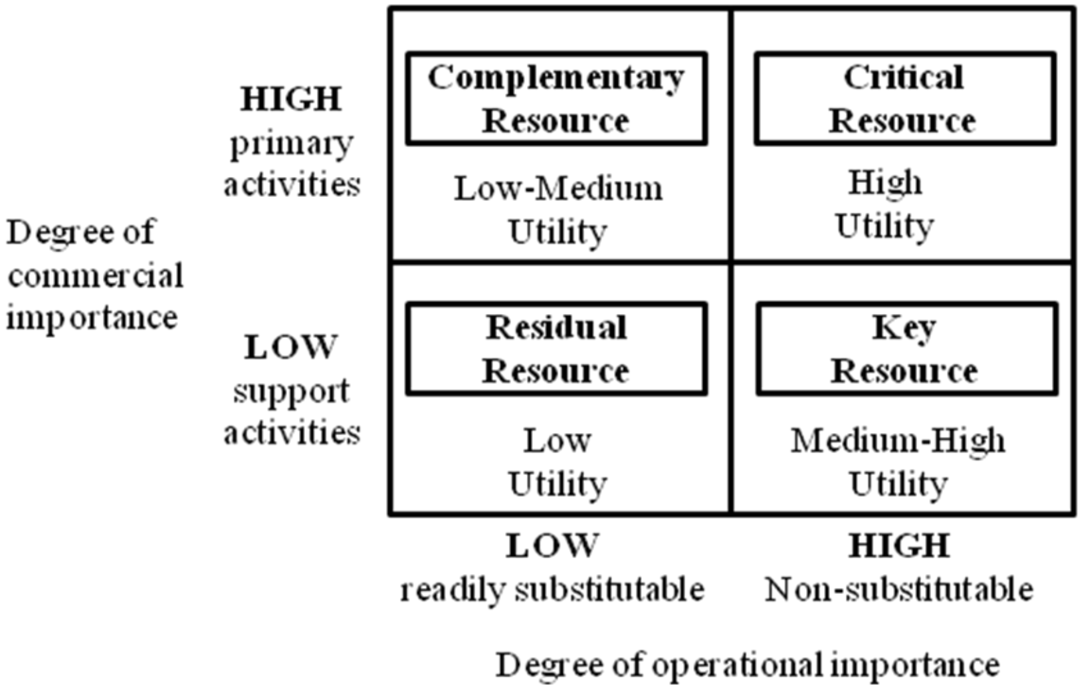

Figure 4.1: Determining the relative utility of a resource
(Source: Cox et al., (2002) p. 33)

However, whilst generally utility can be classified for buyers and suppliers in the same way, the precise factors that cause utility for buyers and suppliers are different. First, from a *buyer's perspective* utility is understood as being the extent to which the buyers goal(s), or motivational investment, are met by the supplier. There are two factors that are important here: the operational importance of a particular resource in a business and the commercial importance of the specific resource for the overall revenue generating activities of a firm (Cox et al, 2002). *Operational importance* for a buyer relates to the degree to which a particular resource (product or service) provided by a supplier is operationally critical to the firm's offering or the process that generates the offering. For example, the supply of automotive components into a car manufacturing plant operating a JIT manufacturing process.

Commercial importance for the buyer relates to whether the supply offering will have a direct impact on the commercial returns made by the firm's product offering (Cox et al., 2000, Cox et al., 2002). As can be seen in Figure 4.1, when a resource supports a primary business activity, that is those areas of a business that contribute the most to a firm's revenues and profitability, it has a high degree of commercial importance. When the resource procured maintains a support activity (those other than primary activity), it is deemed as having a low degree of commercial importance.

The same matrix (Figure 4.1) is used to assess the relative utility of a buyer for a supplier. However, a different interpretation of operational and commercial importance is required. From the supplier's perspective, *utility* is the extent to which the supplier's goals or motivational investments are met by the buyer. *Operational importance* of the buyer's expenditure is assessed against the *regularity* and *predictability* of this expenditure. When regular and predictable expenditure is offered by the buyer, then the degree of operational importance will be high, as this will give the supplier a degree of certainty, enabling them to plan and invest in future R&D activities and capital expenditure. When the buyer offers irregular and unpredictable demand, the degree of operational importance will be low.

The operational importance of a buyer for a supplier is closely linked to the issue of commercial importance. For suppliers, the degree of *commercial importance* of a buyer is the proportion of the supplier's revenue accounted for by the buyer's expenditure. If a buyer's expenditure is a relatively small proportion of total sales revenue, then the buyer will have a relatively low commercial importance for the supplier. Commercial importance for the supplier can also relate to the potential future revenue generating opportunities of doing business with a buyer (Cox et al., 2000) or, non-financial credentials offered by the buyer, for example a prestige account.

Having defined utility from a buyer's and supplier's perspective, it is now necessary to explore the second factor of mapping buyer-supplier power: the relative scarcity of a resource. The relative scarcity of a resource is determined by its *imitability* or *substitutability*. Simply put, if a particular resource is highly imitable or substitutable then it is not likely to be scarce. If a resource is very hard to imitate or substitute then it is likely that it will be scarce. Having identified the issue of scarcity, it is then a question of understanding how it works for each side in the buyer-supplier exchange.

For the buyer, it comes down to a question of supply options. A buyer needs to know how many potential suppliers for a specific good or service there are in the market place, how contested the market is, whether new suppliers can be brought in and whether there are substitute goods or services that can be used instead. In terms of the supply market, the question needs to be asked: is the supply base severely restricted (monopoly or oligopoly supply) or is there a high degree competition? However, the analysis must go deeper and ask about the imperfect imitability or imperfect substitutability of certain resources. There is an extensive literature that offers a range of explanations for these conditions (Bain, 1956; Caves and Porter, 1977; Porter, 1980, 1985, Dierickx and Cool, 1989 etc.) and the debate is covered extensively elsewhere (see Cox et al., 2002). However, the work of Rumelt (1984, 1987) is key and warrants further explanation. In developing his theory of 'isolating mechanisms', he considered the factors that make it possible for firms to earn rents. Cox et al. adapt his work and summarise the mechanisms that impede imitative competition, illustrated in Table 4.1 below (Cox et al., 2002).

Mechanism	**Characteristics**
Property Rights	The state or another legitimate authority (e.g. a firm) grants a licence or patent.
First-mover advantages	
Economies of scale	If the minimum efficient scale of a business is comparable to the size of the market and if the assets required are specialised to this use, a situation of natural monopoly occurs.
Information impactedness	This means that the knowledge on which an innovation is based remains largely tacit and uncodified. It is difficult for potential competitors to obtain critical knowledge.
Causal ambiguity	This occurs if the basis of an innovation is particularly complex and 'path dependent'. In these circumstances imitation is impossible.
Reputation effects	Buyers cannot accurately evaluate many products and services until after they are consumed, A supplier's reputation, therefore, plays a critical role in its ability to sell such 'experience' goods/services. First movers can, therefore, obtain reputational advantages.
Buyer switching costs	If early buyers of new a new product find it subsequently costly to switch to a competitors offering, then first mover has an advantage.
Buyer search cost	These are high when the buyer is required to invest substantial amounts of time and money in understanding the complexities of different supply offerings. This provides a first-mover advantage as long as followers' products or services are not significantly better.
Communication good effects	These effects arise when a product or service acts as a means of social coordination between different users (e.g. telephone networks). The first-mover's product or service may become a de facto industry standard.
Collusive cartels	Under conditions of oligopoly firms often cooperate on sourcing, pricing and output decisions. Potential market entrants are blocked by a coordinated response.

Table 4.1: Mechanisms that impede imitative competition
(Source: adapted from Cox et al., 2002, Table 2.1, p. 37.)

What is clear from this is that isolating mechanisms provide advantages for the supplier. The possession of key isolating mechanism means that they can ensure their resources remain scarce and are, therefore, able to earn rents from them. Some isolating mechanisms, such as property rights, can be enduring. Others, for example first-mover advantages or causal ambiguity, may or may not provide a lasting barrier to entry to competitors. Suffice to say, if a supplier either does not possess any isolating mechanism, or if competitors can overcome them relatively easily, then any competitive advantage they have will be temporary. As a result, the level of scarcity faced by the buyer will be short-lived.

On the supplier side, the issue of scarcity refers to the extent to which the demand of a particular buyer (whether it be significant or trivial – see supplier utility) can be replaced by that of other buyers. This takes us back to the notion that in business-to-business markets it is not just the supply-side market structure that is important, it is also the buyer-side. Buyer-side market structures can be highly fragmented and provide for many potential new customers, or can be concentrated – i.e. characterised by monopsony, duopsony or oligopsony. In short, depending upon the degree of buyer scarcity, it may or may not be possible to easily replace a specific buyer.

There is one further matter to discuss in relation to market scarcity. The buyer and supplier scarcity factors discussed above are relevant to the scaling of buyer-supplier power in the pre-contractual phase. However, pre-contractual power relations can change. In particular, asset specificity can cause previously balanced power relations to become asymmetric. Asset specific or transaction-specific investments are those investments that are made by one party to meet the requirements of a particular relationship and which would have to be completely or partly written off if that relationship ended. Therefore, if one party in the exchange makes unbalanced, transaction specific investments, for example, in equipment and training, then post-contractually, power can shift to the other party.

Various issues related to resource scarcity have, therefore, been discussed. There is, however, one final important basis for resource scarcity, which according to Cox (2001) has received very little attention in the resource dependency literature. Resource scarcity, Cox et al., (2002) argue, can be a function of information asymmetry; a concept discussed earlier (Cox et al. 2002, Lonsdale, 2005b). It can be related to the amount of private information available to each party about the transaction and the intentions of the other party in the exchange[113]. Scarcity in this respect can result in the opportunistic exploitation of superior knowledge in a number of ways. First, when one party has more information than the other they will be able to, should they wish to follow an opportunistic inclination, manipulate or distort their counterpart's perceptions of the range of viable alternatives. Pre-contractually, this can lead to adverse selection (Akerlof, 1970)[114]. Second, if the supplier has superior private information, they could use that advantage to shirk or cheat during the contract in other ways. This is referred to in the literature as moral hazard (Cox et al., 2002)[115].

Having outlined the resources within the resource dependency approach, it is now possible to show how they can be combined in order to generate buyer-supplier power positions. Campbell and Cunnigham (1983) and Cox et al., (2000), for example, show the generic power positions in the form of a classification of four different types. These are based upon the resource endowments of each party (utility, scarcity and information). This operates as follows. If the buyer is in possession of relatively scarce resources, that have a high utility for the supplier, whilst the supplier resources are relatively plentiful and of low utility to the buyer, then the power regime is best described as ***buyer dominance***. In this case the buyer

[113] Building upon the work of Simon (1955) and Akerlof (1970), Williamson (1985; 1993) spent considerable time detailing the extent to which information asymmetry and opportunism can transform who controls the relationship and its outcomes over time (Cox et al., 2002).
[114] See earlier discussion on page 53.
[115] See earlier discussion on page 54.

has good information about their position in the market and that of the supplier's market. The supplier may not have good information about the buyer or the buyers' market.

Supplier dominance is the opposite to buyer dominance in terms of scarcity, utility and information. This is a situation whereby the buyer is not in possession of relatively scarce resources, which have a high utility for the supplier, whilst the supplier will possess key resources and isolating mechanism which close the market to competitors and create barriers to entry, allowing them to earn above normal returns. In this case the supplier has full information about their position in the market and that of the buyer's. The buyer may not have full information about the supply offering and /or supply market.

Interdependence is a situation of bilateral dependency. This is created when there is relatively high utility, scarcity and good information for both the buyer and supplier[116]. Both parties are required to work closely together, with neither party having sufficient power to force the other to do something against their best interests, should that be a wish.

Finally, ***independence*** occurs when the relative scarcity and utility is low for both the buyer and supplier and information asymmetry is not a major factor of the exchange[117]. This is indicative of Adams Smith's ideal of a highly competitive supply market, in which commoditised products are sold to a well-informed and highly fragmented customer base (Cox et al., 2002).

In the context of vertical business exchanges between a buyer and a supplier there are, therefore, a number of structural power resources that can enable one exchange actor to

[116] This results in both parties having low power resources requiring them to work together.
[117] This results in both parties having high power resources and, therefore, they are not compelled to work together.

achieve their desired outcome. For buyers, the circumstances that provide power and leverage are "monopsony and oligopsony, low sunk and switching costs, regular market contestation, buying consortia and appropriate governance structure to eradicate *ex ante* and *ex post* opportunism in situations of incomplete contracting and bilateral dependency" (Cox, 2007, p. 50).

From a supplier's perspective, circumstances that can provide power are "superior endowments of capital, tangible and intangible assets, distinctive capabilities, intellectual property and know-how" (Cox, 2007, p. 50). These are the opportunities or isolating mechanisms (Rumelt, 1987) that create imperfect markets (Cox, 2007). Suppliers can also derive power from information asymmetry and sunk and switching costs.

4.6.2. Why does power matter in a relationship?

Having established that, theoretically at least, there exist different power relationships between buyers and suppliers, the question to answer is why does power matter in a relationship? There are a number of reasons why we must consider power. First, power can potentially prevent collaboration of any sort (partnering or otherwise) from developing. Second, power may not prevent collaboration, but it might prevent partnering. In this context, this may cause problems for the UK Government's sectoral objectives. Third, in circumstances of interdependence partnering will be usually possible. Fourth, even when partnering is possible, the circumstances of interdependence might be unstable and change due to natural market developments. Fifth, on top of the natural change, some firms will act opportunistically and either actively try to change the power circumstances or commit other acts of opportunism within the existing power circumstances, even when it appears to be against the longer-term interests of the firm. We will now explore each of these in turn.

First, it can be argued that power can potentially prevent collaboration of any sort (partnering or otherwise) from happening (Cox et al., 2003; Sanderson, 2008). There are a number of authors who argue that it may not be possible to find buyers or suppliers willing to enter into long-term collaborative relationships (Ramsay, 1996, Cox et al., 2003). A buyer who is post-contractually in a dominant position, for example, may not wish to collaborate with a supplier, as often long-term collaborative relationships result in an inevitable loss of power for the purchaser (Ramsay, 1996). There are a number of reasons for this. Partnerships are typically accompanied by a reduction in the buyer's supply base. The decision to focus on a smaller number of core suppliers can result in there being increased dependency on these suppliers.

In addition, the buyer may have to make relationship specific investments, resulting in high sunk and switching costs, with potentially few credible alternatives. This, therefore results in a post-contractual shift in power. Although buyers will attempt to mitigate the risk of post contractual shifts in power through the formation of robust contracts, benchmarking suppliers against the market and maintaining a credible threat of exit, many would argue that this entails having a strong belief in the notion of feasible foresight[118]. If buyers in a dominant position do not believe it is possible to foresee all potential risks and build these into the contract and, if they believe they can obtain the desired product or service satisfactorily through the market mechanism, there little or no incentive to invest in long-term collaborative relationships.

[118] See earlier discussion on page 59.

From a supplier's perspective, there is an equally compelling argument against the formation of partnerships. Developing collaborative relationships, as already argued, incurs potential costs. Although close relationships may mean that the supplier will receive significant potential or actual sales revenue, the supplier's ability to earn reasonable profits is a factor of the relative power resources between them and the buyer. Although a partnership often results in a shift of power from the buyer to supplier, this is not always the case. If the supplier finds itself in a position whereby it becomes increasingly reliant on a specific buyer for its revenue and returns, and it has not been possible to create significant isolating mechanisms or lock-in the buyer post contractually, there are serious potential commercial risks. When a dominant buyer is able, post contractually, to readily shift to an alternative supplier, they will be able to dictate the terms of the relationship and ultimately the sharing of the risk and rewards.

This can be likened to a technological 'treadmill to oblivion' for the supplier (Cox and Chicksand, 2005, 2008), whereby the supplier, due to the power dynamics, is forced to constantly innovate and pass improvement in functionality or reduced costs to the dominant buyer. The prevailing power circumstance ensures that they will only ever earn normal profits. Therefore, given the choice, many suppliers would, quite rationally, not enter into a long-term collaborative relationship.

The case of Midlands Meat Packers (MMP) emphasises the risks of entering into 'unbalanced' collaborative relationships. In February 2003, Midland Meat Packers filed for bankruptcy. They had become over-reliant upon a powerful customer (Sainsbury's) who, quite literally over-night, were able to move their business to another supplier, leaving MMP no alternative but to close its doors for good, with the loss of 350 jobs (BBC News, 2003).

Another reason why power might lead to a supplier not wishing to collaborate is suggested by Ramsay (1996). He points out that it can be very difficult for small companies to develop partnerships with their suppliers, in particular when the supplier is a large company. If we use Customer Portfolio Analysis we can see that some customers will simply not be perceived sufficiently important by large suppliers to warrant the dedication of scarce managerial and financial resources to a collaborative venture. Although Ramsay (1996) does not articulate the role power plays in inhibiting the development of partnerships, it is interesting that he notes that it is "mostly large, powerful companies that are most likely to benefit from the partnership approach" (Ramsay, 1996, p. 18). Furthermore, (quoting from a Harvard Business Review article by Burt, D., 1989) "[S]rategic manufacturing is becoming a partnership between the big corporations..." (p. 18). This would suggest that partnerships are most suitable when there is a level of interdependence between organisations. It has been argued, that this is not always the case and, therefore, power imbalances can act as a serious barrier for both buyers and suppliers entering into collaborative relationships.

Second, although power will not always prevent collaboration, it is argued that it will often prevent partnering. This is because power affects the sharing of surplus value (Cox et al., 2003). According to Cox et al., (2003), just because firms collaborate this does not mean there will always, or even usually be, an equal distribution of the risks and rewards from the collaborative activity. Therefore, although it is quite possible for firms to collaborate and derive many potential benefits, such as reduced TC's and improvements to performance (see chapter three, section 3.3.1.), a partnership, as defined in this thesis, will not be formed. This is because, according to the definition of a partnership being used in this thesis, there has to be an equal or balanced sharing of the risk and rewards from the relationship.

Power imbalances often dictate that the benefits or sharing of surplus value within a collaborative relationship are not equally distributed (Kumar, 1996; Christopher and Jutterner, 2000; Hingley, 2005; Sanderson, 2008), nor, as Gummesson (1996) notes, are parties equally committed to the relationship. The party with the greatest power will often dictate the terms of the relationship and may choose, quite logically, to retain the lion's share of the value created from the collaborative initiative. Indeed the very model of partnership relationships, often cited as having originated in the Japanese automotive industry, has arguably been based upon an incorrect assumption about the sharing of surplus value in these relationships. There is no doubt that highly collaborative relationships exist in the Japanese automotive industry. However, these relationships cannot, according to the definition presented in this thesis, be seen as partnerships. Rather, the powerful automotive manufacturers often develop highly collaborative relationships with willing supplicants, who pass on continuous improvements in functionality and reductions in costs in return for making very low margins, but with a degree of certainty (Cox et al., 2005; Cox and Chicksand, 2005, 2008). These types of relationships, according to Cox et al. (2005), Lonsdale and Watsons (2005), and Sanderson (2008), are better described as adversarial buyer-skewed relationships. It is argued, therefore by some that the power dynamics in buyer-supplier relationships cannot be ignored when developing partnerships.

Third, it is argued by some that only in circumstances of interdependence will partnering be possible. Cox et al., (2003) and Sanderson (2008) have, for example, argued that partnering is most likely to be successfully implemented under conditions of *interdependence*. This argument seems logical and concurs with the earlier work of Ramsay (1996). When a buyer and a supplier possess equal resource endowments and neither party is able to dominate the relationship, the control and the benefits of collaboration are more likely to be shared equally.

That is not to say that partnering is never possible under situations of buyer dominance or supplier dominance. It is possible that certain buyers and suppliers will set aside power advantages and not take a greater share of surplus value. It is argued, however, that such benevolence cannot be assumed.

Fourth, even when partnering is possible, the circumstances of interdependence that underpin it might be unstable and change due to natural market development. According to Oliver (1990), there are a number of conditions that increase the likelihood of relationship formation in the first instance, one of which is a balanced bargaining position between participants. Although Oliver (1990) did not talk specifically about power, she argued that collaborative relationships are inherently unstable as it is not possible to maintain a balanced process for inter-organisational cooperation. This is because there are external factors over which the cooperating parties have no influence.

It is logical, therefore, to argue that market circumstances can develop which alter the power position between buyers and suppliers. A partnership may develop, based upon a balanced bargaining position between a buyer and supplier. However, due to changes in environmental conditions this may alter, for instance, the power position in favour of the supplier (i.e. a drought may cause supply scarcity for a particular commodity). Equally, intense competition or changing economic circumstances (such as a recession) may lead to a consolidation of buyers (through merger, acquisitions or failure), resulting in a supplier becoming more dependent upon a specific buyer than was previously the case[119]. The instability of interdependent power relations will be particularly relevant in fast moving business environments. When there is a high probability of rapid market development, the

[119] An example of this is could be a component manufacture in the UK car industry. The failure of Rover Group could make a particular supplier even more reliant on other UK automotive manufacturers such as Ford and Peugeot.

power structures between buyers and suppliers are unstable and, therefore, partnerships are less likely to endure.

Finally, on top of natural market development, some firms will act opportunistically and either actively try to change the power circumstances or commit other acts of opportunism within the existing power circumstances. Under these circumstances partnering will be problematic. As has been alluded to in chapter two, there is an assumption within agency theory that some individuals within organisations will pursue their own interests (the so-called principal-agent problem[120]). Furthermore, when the circumstance arises, individuals or organisations will take advantage of any potential information asymmetries and act opportunistically for their own gain. In the present context, this opportunism can take two forms.

First, there may be a concerted attempt to alter the power position between the partners from interdependence to buyer or supplier dominance. This can be achieved post-contractually in a number of ways. From the supplier's perspective, if it is possible to create isolating mechanisms or lock-in a buyer, then it may be possible for the supplier to become dominant and earn rents or quasi-rents from the relationship (Cox et al., 2003). Conversely, buyers may be able to actively alter the power position between them and their suppliers by encouraging the supplier, for instance, to make the majority of the dedicated investments in technology, processes and capital equipment etc. (Cox et al., 2003). This may alter the power balance in favour of the buyer and enable them to pressure the supplier to pass on most of the surplus value. There are many examples of when suppliers are able to act opportunistically and take advantage of the buyers post-contractually. For example, this is often a risk

[120] Refer back to chapter two for more information and the work of Williamson, (1975) and Shelanski and Klein, (1995).

associated with large and complex IT projects. The case of the London Stock Exchange Taurus Project[121] and the NIRS2 contract between the Inland Revenue and Accenture (Cox et al., 2003), provide two examples. Other instances outside the area of IT have been identified within the UK public sector, particularly within the area of PFI (according to Lonsdale, 2005a).

Second, even if it is not possible to change the structural power position in an interdependent relationship, one party may take advantage of the assumption of 'trust', which is seen by many as a key element of the 'partnership' philosophy. The potential strategies of opportunism that could facilitate this have already been mentioned.

4.6.3. Summary of the power material

In this chapter, it has been argued that with respect to relationship management, power matters (Cox et al., 2003). Unfortunately, all too often power as a concept is dismissed as being either unimportant (Williamson, 1995) or too complicated for understanding buyer-supplier exchanges. However, the evidence that follows suggests there is very much a case to answer.

4.6.4. Sectoral evidence of the impact power has on relationship management

The final section of this chapter is aimed at providing evidence of the impact that power has on relationship management. It is the type of evidence presented below that has persuaded the author that the UK Government's assumptions within the food sector are worthy of

[121] In early 1993 the London Stock Exchange abandoned the development of its Taurus Paperless Settlement System, which had taken 10 years to develop and cost the City of London an estimated £800m (Cox et al., 2003).

challenge. The impact of power in buyer-supplier exchanges can be seen in the public and private sector and across diverse industries. There are a large number of examples in the public sector, whereby supplier-skewed adversarial collaboration has occurred post contractually, resulting in significant costs to the buyer. Some examples include the aforementioned NIRS2 contract between the UK Government's tax collecting agency the Inland Revenue and Accenture; the contract between ICL-Fijitsu and the Lord Chancellor's department for the new Magistrates Court system (Cox et al., 2003) and the failed delivery of a computer- aided London Ambulance Service dispatch system developed between 1987 and 1989. In these examples, post-contractual shifts in power resulted in the failure of the supplier to meet its contractual commitments, as the systems either did not work, or were not delivered on time or to cost. For example the price of the Magistrates Court system escalated from an initial contract price of £146 million to £557 million (Cox et al., 2003). Examples of post-contractual shifts in power are not confined to the public sector. In early 1993, the London Stock Exchange abandoned the development of its Taurus Paperless Settlement System, which had taken 10 years to develop and cost the City of London an estimated £800m (Cox et al., 2003).

Furthermore, examples highlighting the impact of power in relationships are not confined to complex IT projects. Cox et al. (2004), provide comprehensive sectoral evidence of the impact that power has on relationship management (see Cox et al., 2003, 2004, 2005 etc.). For example, in one of these studies, which looked at twelve cases from diverse industries (i.e. bio-waste, advertising, orthotics, industrial vales, aerospace), power relationships not conductive to partnering were found throughout supply networks. The appropriateness of supplier sourcing strategies were shown to be dictated by, first, the power structures present in the extended supply chain and, second, the internal capabilities to overcome obstacles to the implementation of the chosen sourcing strategy. There is insufficient space to consider this study in detail. However, highlighting two, quite different examples from this study emphasises the different role power can play in buyer-supplier exchanges.

First, when the study considered the impact of power on relationships between hospital trusts within the UK National Health Service and various suppliers (hips, orthotics and the drug Merepenin), a number of conclusions were drawn. First, internal demand management problems, such as fragmentation of spend, maverick buying, and over-specification etc. (see Lonsdale and Watson, 2005), were shown to cause hospital trusts to be in a weaker power position vis-a-vis the supplier. This was despite the fact that, due to structural power resources, they should often have been in a powerful position.

For example, within the orthotics industry, 95% of demand originates from the UK NHS and, therefore, as a customer they are the key, if not the only buyer, for many of the suppliers. However, fragmentation of spend internally and between the hospital trusts, coupled with a lack of information (and sharing of information), enabled some suppliers to act opportunistically and earn above-average margins. A further example came with a small hospital trust buying hips from a supplier, Dupuy. The trust was shown to be obtaining significantly better prices (over 20% less) than another trust in the same region, despite the fact that the other trust was buying twice the number of hips. This is a good example of the use of information asymmetry as a power resource (second-order power). In this example, simply by sharing the information of purchase prices enabled the Trust with the larger spend to use their power resources and re-negotiate far better prices with the supplier (Cox et al., 2004).

The next case is drawn from the experiences of a flight refuelling equipment assembler in the aerospace industry. The assembler wanted to develop a collaborative relationship with a sub-assembly supplier who accounted for over 40% of the overall cost of the equipment. There was the hope that the two organisations would work together to reduce costs. The problem for the flight refuelling equipment manufacturer was that the sub-assembly supplier was a very large multinational. Unfortunately, the assembler was seen as a 'nuisance' customer by the sub-assembler. As a result the sub-assembler was not willing to commit resources to further collaboration to cut costs. Furthermore, the sub-assembler was able to charge prices that included a 40% profit margin. This case, therefore, highlights that power both prevented collaboration from happening in the first instance and also affected the sharing of surplus value; in this case in favour of the dominant supplier (Cox et al., 2003).

Finally, in relation to the food industry, a great deal has been written about the impact of power on buyer-supplier relationships. There is a widespread acceptance of the increasingly powerful position[122] of the multiple retailers in the UK food industry[123] (Ogbonna and Wilkinson's, 1996; Dobson et al., 1998, Dobson, 1999; Dobson et al., 1999; Dobson, 2006; Hingly, 2000, 2005; Duffy and Fearne, 2004; Fearne et al., 2005; Tallontire and Vorley, 2005; Cox and Chicksand, 2008, etc.). With 75% of UK supermarket shopping taking place in just four firms, namely Tesco, Asda, Sainsbury's and Morrisons, this has created a powerful oligopoly capable of exerting considerable pressure on the majority of suppliers (Tallontire and Vorley, 2005; Jackson et al., 2006; Dobson, 2006). According to Tallontire and Vorley (2005), the challenge for UK food policy makers is to, "put policies in place which reassure consumers that their [food] purchases have not resulted in the exploitation and economic marginalisation of primary producers- the farmers and workers who grow and

[122] Although, according to Ogbonna and Wilkinson (1996) there are different power relationships that exist in the UK grocery industry.
[123] According to Duffy et al., (2003) the food-retailing industry is dominated by nine major multiple retailers.

harvest our food" (p. 4). However, it can be argued, that in the UK, the most serious obstacles to achieving this are the current market structure and the imbalance of power between the multiple retailers and producers (Tallontire and Vorley, 2005).

Vorley (2003b) argues that there is considerable evidence to show that powerful retail buyers are able to achieve considerable price discounts and favourable terms from their suppliers. He believes this is because they are able to bulk buy, play suppliers off against each other and ultimately threaten to terminate relationships and switch suppliers (see earlier example of Midland Meat Packers on p 119) (Vorley, 2003b). Findings from the UK Competition Commission's 2000 and 2006 Supply of Groceries inquiries support his view. Power imbalances have resulted, according to these reports, in the largest buyers, such as Tesco, consistently achieving between 4-6% below industry average discounts (Competition Commission, 2000, 2008)[124].

Furthermore, there has, over the last 10 years been a general decline of profits for many primary producers, increased farmgate to retail spreads and an exodus of primary producers, in particular, from the red meat, dairy and pig industries[125]. Although this cannot be attributed solely to the aggressive pricing and sourcing strategies pursued by the powerful multiple retailers[126], it can be argued that power imbalances have been abused. This has resulted in it no longer being economically viable for many primary producers to stay in business. The concentration of market power for the multiple retailers can be seen to have a detrimental effect on sustainability and, therefore, on the UK Governments sectoral objectives.

[124] In May 2006 the Office of Fair Trade referred the supply of groceries by retailers to the UK Competition Commission. Their final report was published in April 2008.
[125] See Appendix A9 (3), A9 (4) and A9 (5) in Competition Commission Final Report, 2008, for full information and refer back to the discussion in chapter one, section 1.4.
[126] As discussed in detail in chapter one, there are unprecedented challenges facing the UK farming and food industry (in particular for the producers).

4.7. Summary of chapter and re-statement of the hypothesis

Chapter four has highlighted that there is a growing body of literature which argues that partnering is only appropriate under certain transactional and market circumstances. This chapter contended that: first, firms buy many different types of goods and services. Many of these are very small and simple and do not require complex relationship forms to be developed in order for them to be effectively bought (4.2.); second, although, on some occasions, the type of product / service being sourced would suggest that partnering is suitable, there are different levels of risk associated with forming a partnership and, therefore, this sourcing option is not always appropriate (4.3.); third, even if the product / service being procured is suitable and a partnership can be formed, often the relationship will not endure and, therefore, partnering may not be appropriate in the long-term (4.4); fourth, there may be insufficient internal capabilities to effectively implement partnership initiatives (4.5); and, fifth, power imbalances between collaborating parties can act as a barrier to the formation of partnerships in the first instance or, if a partnership is formed without due regard to the power balance between collaborating parties, this can result in the risks and rewards from a partnership being unevenly distributed. Therefore, the resultant unbalanced relationship will not align with the working definition of partnerships adopted here (or, indeed, adopted in many sources).

In section 4.6. of this chapter, the aim was to clearly established that power exists in buyer-supplier relationships and introduce Cox et al.'s (2000, 2001) power methodology, which is based upon an understanding of the resource endowments (utility, scarcity and information) of buyers and suppliers in an exchange (4.6.1.). This section then went on to discuss why power matters in a relationship (4.6.2) and provide sectoral evidence of the impact that power has on relationship management (4.6.4).

This chapter has, therefore, attempted to demonstrate that although, as discussed in chapter three, there are many benefits to partnering, partnering may not always be appropriate and there are many potential obstacles to be overcome. Power in buyer-supplier exchanges was offered as a potential explanation for why the UK Government's farming and food sectoral objectives were only partially successful. At this point the hypothesis will be re-stated:

A policy of 'partnering' cannot provide a universal buyer-supplier solution as it can only be implemented under circumstances of interdependence. This power relationship will not always pertain within UK food supply chains, as is the case with supply chains generally. As a result, the UK Government's policy is likely to only be partially successful.

Furthermore, the hypothesis can be disaggregated thus:

i) Power can potentially prevent collaboration of any sort (partnering or otherwise) from happening;

ii) Power may not prevent collaboration, but it might prevent partnering. In this context, this may cause problems for the UK Government's sectoral objectives;

iii) Only in circumstances of interdependence will partnering be possible;

iv) Even when partnering is possible, the circumstances of interdependence might be unstable and change due to natural market development; and,

v) On top of the natural change, some firms will act opportunistically and either actively try to change the power circumstances or commit other acts of opportunism within the existing power circumstances.

Having re-stated the hypothesis, it is now necessary to show how the concepts discussed here can be operationalised, in order for the hypothesis to be tested. This is the task of the next chapter.

Chapter Five

Operationalising Power and Relationship Types

5.1. Introduction

Chapter four considered in detail the applicability of, and obstacles to, partnering. In the chapter it was argued that partnering is not always appropriate as there are different processes and types of products or services (4.2.), partnering has to be viewed as an investment decision (4.3.), partnering is not always possible as they do not endure (4.4.), and, partnering is not always possible as there are insufficient operational capabilities (4.5.). Finally, it was argued in chapter four that partnering is also not always possible due to the power dynamics in relationships. The issue of power dynamics in buyer-supplier exchange relationships was introduced (Campbell and Cunningham, 1983) and Cox et al.'s (2000) 'power methodology and power matrix' was discussed in detail, with reference to the relative utility, scarcity and information of buyer and supplier resources (4.6.). This discussion led to the hypothesis, which was stated at the end of chapter four.

The aim of this chapter is to operationalise the theoretical discussions in chapters two, three and four, so that the key concepts can be used to conduct qualitative research. Accordingly, the focus within chapter five is to move from the broad concepts of relationship management types and power to create specific indices by which these can be measured. This will be achieved through the use of two conceptual frameworks. First, the *independent variable* will be fully operationalised with a buyer-supplier power matrix. Second the *dependent variable* will be fully operationalised with a six box typology of buyer-supplier relationships.

5.2. Operationalising the concepts underpinning the power model: the independent variable

The *Power Matrix*, shown in Figure 5.1, is the analytical tool used in the thesis to map the power relationships within the chosen supply relationships and is later employed to help determine the appropriateness of particular upstream and downstream supply chain strategies (such as the choice to partner or have an arm's length relationship). The matrix is constructed around three primary variables (as discussed in section 4.6.1.), with sub-variables behind these. The three primary variables analysed are the relative utility and the relative scarcity of the resources (goods, services and money) underpinning the exchange, and the information advantages that arise in exchange transactions for buyers and suppliers (Cox et al., 2000; Cox et al., 2002; Cox et al., 2003). The questions discussed in detail in this chapter and presented in full in Appendix one, as part of the detailed power and competition analysis, aim to identify the presence, or absence of, buyer and supplier power resources. The specific transactional exchange (i.e. dyadic relationship between a buyer and supplier) can then be located in one of four basic power positions: *Buyer Dominance* (>), *Interdependence* (=), *Independence* (0) and *Supplier Dominance* (<) (Cox et al., 2000)[127].

[127] Each power position has been attributed a symbol for use when mapping buyer-supplier relationships.

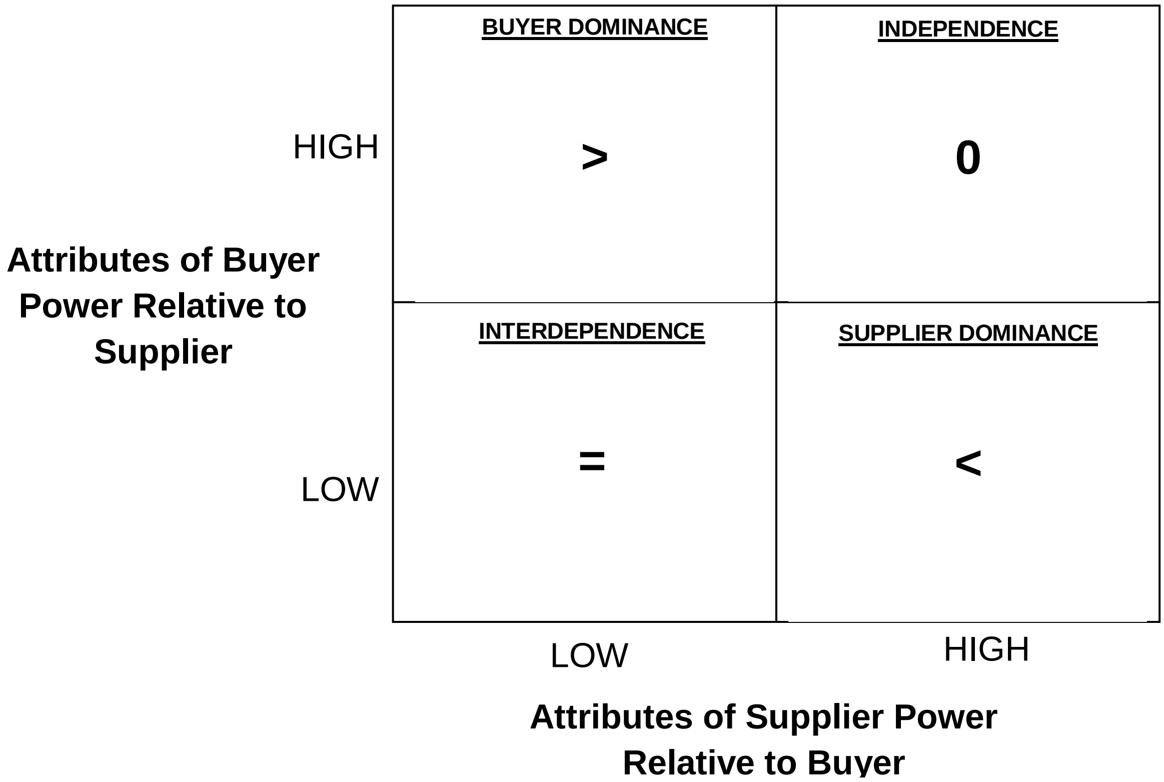

Figure 5.1: The power matrix (Source: Adapted from: Cox, A. et al., (2000) Power Regimes*:* Mapping the DNA of business and supply chain relationships, Earlsgate Press, p. 18).

The semi-structured 'power and competition analysis questionnaire' (section A, B1 and B2-see Appendix one), provided to the research respondents and used in the interviews, was piloted on practitioners (farmers, auctioneers, processors, retailers etc.). The questions have been developed from the power literature (Cox, et al., 2000; Cox et al., 2002, 2003; Ireland, 2005 etc.). The 'power and competition analysis questionnaire' had several purposes:

i) to identify the focal company's key customers and their broad marketing approach (six questions in section A). This information is required to determine the focal company's buying priorities and whether the item being procured is contributing to a differentiated or commoditised end product. The end customer's needs may require a focus on different performance objectives (quality, speed, dependability, flexibility, or cost) of the focal company, which in turn are likely to also be important in the focal company's relationship with its first-tier supplier. For example, if the end customer is primarily focused on buying a low cost product or service, then it is likely that the focal company will, therefore, choose a supply relationship which can support this;

ii) to understand the power balance in the specific dyadic relationships, based on the relative utility and scarcity of the resources exchanged between the buyer and supplier, and the information advantages that arise in these exchange transactions (27 questions in section B1 and B2). The responses to the questions, coupled with evidence from industry reports and experts, made it possible to position the dyadic relationship in the Power Matrix (see Figure 5.1);

iii) to assess whether there is a relationship between buyer and supplier power and relationship management types, something that allows the hypothesis to be tested.

Once the interviews were conducted, the responses to these questions were analysed in detail and this led to a robust understanding of buyer and supplier power resources. Positioning the key dyadic relationship in the four box power matrix was, therefore, possible. However, it must be noted that the precise positioning is determined by qualitative interpretation of the answers to the questionnaire and information provided by industry reports and experts.

To achieve the purposes, as set out above, the questionnaire is split into two sections, A and B, for logical data collection and subsequent analysis. *Section A* has 6 questions and is focused on determining the subject's marketing approach with customers (see Figure 5.2 below). *Section B* is split into two sub-sections. B1 has 18 buyer-focused questions, aimed at determining buyer and supplier power. B2 has 9 supplier-focused questions, aimed at determining buyer and supplier power (see Figure 5.2 below).

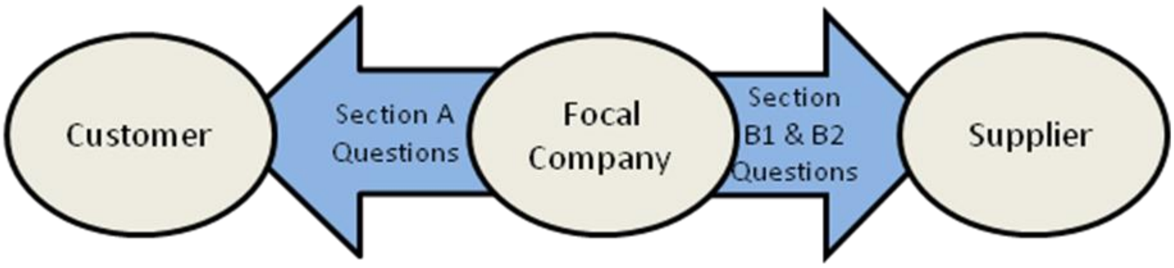

Figure 5.2: Power and competition questionnaire (Source: Author)

To follow are the questions which were used to help determine buyer and supplier power resources[128].

5.2.1. Section A questions and analysis

Table 5.1, to follow, highlights the questions that were asked as part of section A of the 'power and competition analysis questionnaire'. Section A, as stated, is focused on determining the subject's marketing approach with a key customer (see Figure 5.3 below).

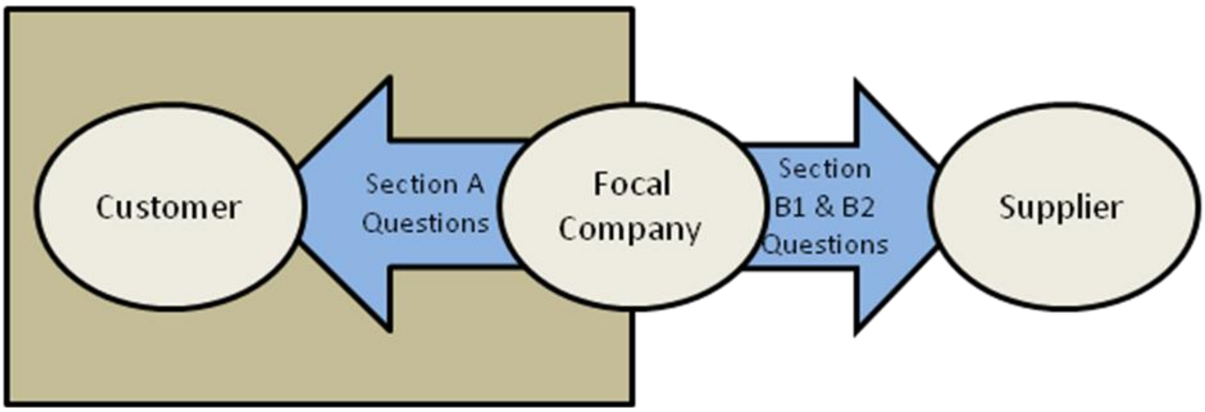

Figure 5.3: Section A questions and analysis (Source: Author)

[128] These questions, to reiterate, were devised to primarily determine: a) the relative utility of the exchange: how important or valuable is this customer or supplier to our business?; b) scarcity: how many equivalent alternatives do we have beyond this customer or supplier; and, c) information: how much do we know, or how easy / expensive would it be to find out about the customer's reservation price or the supplier's cost of production?

1. What end product and / or service is the item under investigation being bought for? 2. For this end product, who are your key channel partners (%) and what % of total turnover (for the business) is attributed to each of these? 3. For a key customer, what do you supply? 4. What performance criteria are important to your key end customers? 5. What is your customer /competitive strategy as a supplier? 6. As a supplier, how do you manage your buyer? Do you see them as a development account, key account, low value account or exploitation account?

Table 5.1: Questions aimed at determining the supplier's marketing approach (Source: Author)

Analysing section A questions: Question A1 (What end product and / or service is the item under investigation being bought for?) ascertains what specific end product the supply input transformed into (or used in). For instance, beef beasts are procured specifically for processing into a 'Lakeland' branded beef product (steaks etc.). This information and the answers to the remaining questions in section A are important for ascertaining what supply relationship and procurement priorities will be appropriate. For instance, if the end product was a low cost commodity product such as an undifferentiated meat product, then the focus of the supply relationship would be to deliver the lowest cost beef. In contrast, meat procured for the 'Lakeland' brand has to come from a specific location and be of particularly high quality.

Question A2 (For these end products, who are your key channel partners (%) and what % of total turnover (for the business) is attributed to each of these?) is used to determine the structure of demand: who are the key buyers for the product or service under investigation? For instance, for beef procured for Pioneer's 'Lakeland' beef brand, what is the portfolio of customers? Customers could include: hospitals; schools; independent restaurants; restaurant chains; and, direct sales (through factory shop) etc. This is important background information about the demand profile.

Question A3 (For the customer under investigation what do you supply?) aims to clarify what specific product is under investigation. Different customers may require different products or services. For instance, in case two, the end client is an independent restaurant; 'Caspian'. Their specific demand profile is for premium 'Lakeland' beef cuts, such as sirloin steaks, in high volumes.

Question A4 (What performance criteria are important to your key end customers?) is aimed at articulating the end market requirements. This is important because end market requirements will influence the focal organisation's marketing, operations and buying strategies. Slack et al., (2008) suggest a number of performance objectives; quality, speed, dependability, flexibility and cost. The focal company will, therefore, typically define their market position against these dimensions. For the chosen end customer, what are the key performance criteria by which the supplier's offering will be measured (i.e. providing the lowest cost solution / highest quality offering etc)?

Question A5 (What is your customer /competitive strategy as a supplier?) follows on from question A4 and considers the supplier's competitive strategy. A supplier can pursue a range of strategies to achieve competitive advantage. These can include cost leadership, differentiation and hybrid- cost leadership / differentiation strategies. The aim of this question is to determine if there is a relationship fit between the supply offering and the customer's needs[129].

[129] If the customer is looking for a low cost solution, but the supplier is offering a differentiated product offering, this relationship can potentially be misaligned and suboptimal (depending upon the underlying power resources). According to Cox et al., 2004, a relationship can be misaligned and suboptimal when a buyer and supplier are "pursuing the required commercial outcomes, but one or both parties [are] using inappropriate relationship management strategies and styles" (p.129).

Question A6 (As a supplier how do you manage your buyer? Do you see them as a development account, key account, low value account or exploitation account?), will determine how a customer is managed. Buyers manage their relationships with suppliers, but suppliers also manage their relationships with customers and often give preferential deals to different customers based upon their relative importance (their contribution to revenue and return). This question, therefore, will indicate the relative *utility* of the buyer's business for the supplier.

5.2.2. Section B1 questions and analysis

A number of questions (sections B1 and B2) were asked as part of the 'power and competition analysis questionnaire' (see Figure 5.4 below). To follow is the detailed analysis demonstrating the link between these questions and the theory underpinning the power and competition analysis. The buyer's resources are discussed first.

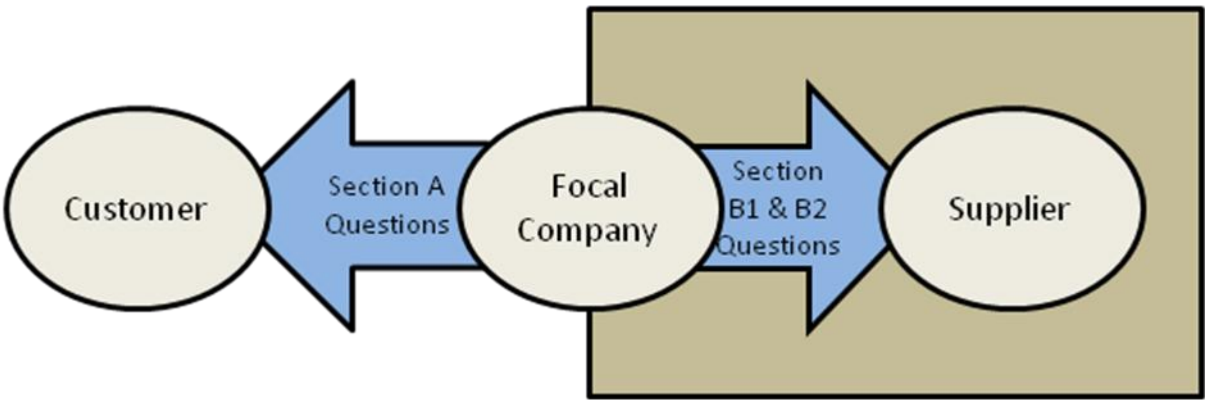

Figure 5.4: Section B1 and B2 questions and analysis (Source: Author)

Analysing section B1questions: utility for the buyer (B1.1-1.5): The first factor which needs to be operationalised is resource utility. Resource *utility* to a buyer, as discussed in chapter three, is the extent to which the buyer's goals or motivational investments are met by the transaction with a particular supplier. This is determined by *operational importance* of a supplier's offering to a business and the *commercial importance* of the supplier's offering to a firm's overall revenue generating activities (Cox et al., 2000; Cox et al., 2002). The first 4 questions are, therefore, aimed at determining the *utility* of the product or service to the buyer. These questions are listed below in Table 5.2:

1. How operationally important is the item to be sourced? (U)
2. Is the item sourced of commercial importance? (U)
3. What % of the buyers total spend is devoted to this item? (U)
4. Is reciprocity a factor in the relationship between the buyer and supplier? (U)

Table 5.2: Questions aimed at determining the utility of the resource for the buyer (Source: Author)

Questions B1.1 and B1.2 will enable us to position the resource in the four box matrix shown in Figure 5.5. As Figure 5.5 highlights, utility is a function of the degree of operational and commercial importance. If the item being sourced is both operationally and commercially important then the resource will be a critical resource and, therefore, of HIGH utility.

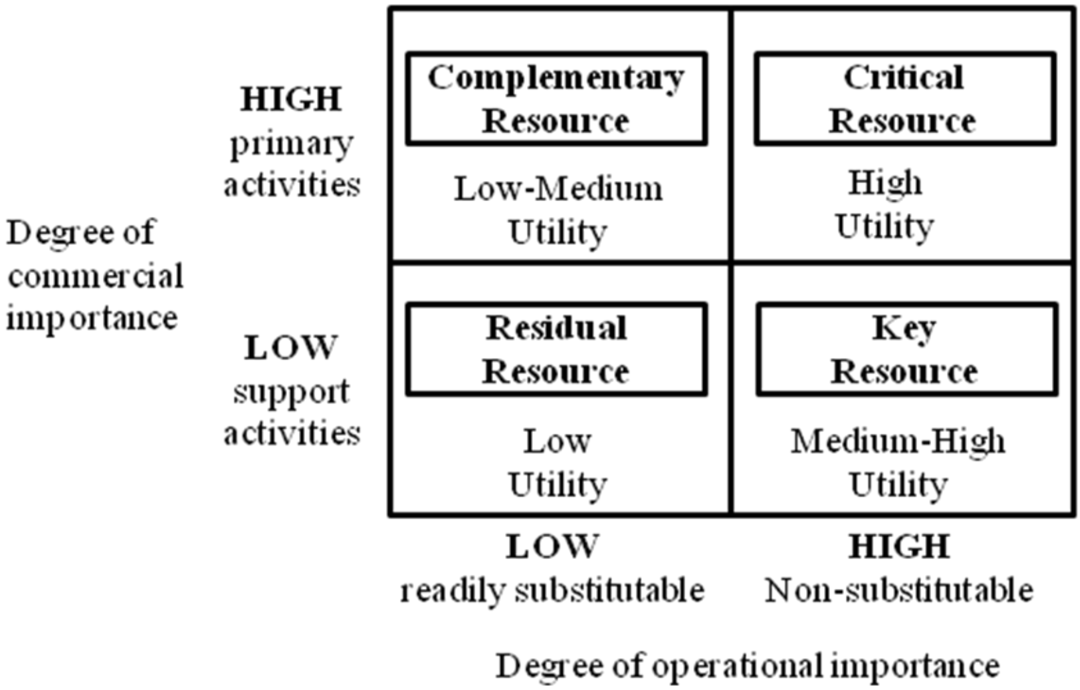

Figure 5.5: Determining the relative utility of a resource
(Source: Cox et al., (2002) p. 33)

In determining the degree of operational and commercial importance (and thereby overall utility) the answers to questions B1.1and B1.2 need to be scalable. Operational performance for the buyer is the degree to which a particular supplier's product or service is indispensable operationally to the firm's offering (Cox et al., 2000). Therefore, if the buyer cannot function without the product or service offered by a supplier then the operational importance of the item is HIGH. If the buyer can function without this product or service then the operational importance of the item is LOW.

Commercial importance for the buyer relates to whether the supply offering has a direct impact on the commercial returns made by the firm's product offering i.e. does the product or service support the firm's primary business activities. If the item sourced is a primary good and is used directly by the buyer as a way of generating revenue from customers then it will be of HIGH commercial importance. If the item being sourced is a support good or service and is not used directly, but supports the buyer's operations (indirect/non-production operations), then the commercial importance will be LOW.

Question B1.3 (What % of the buyers total spend is devoted to this item?), supports the answers to B1.1 and B1.2 and will provide further evidence of the *utility* of the purchase for the buyer. Answers to this question will be between 0% and 100%. If a HIGH percentage (over 10%) of the buyer's total spend is devoted to the specific item under investigation, this could suggest the item is a critical category of spend (i.e. the purchase is of high value in Kraljic's (1983) Purchasing Portfolio Model). If the item only accounts for a LOW percentage (less than 2%) of total spend, this would suggest the item is not a critical category of spend. If the spend is between 2-9% this could indicate MEDIUM importance.

Question B1.4 (Is reciprocity a factor in the relationship between the buyer and the supplier?) is aimed at considering the 'broader' buyer-supplier relationship. Reciprocity may occur when the buyer has to take into account that the supplier is also a customer who contributes revenue to the company. Under these circumstances the supplier may, therefore, have a higher utility than would be expected, as the supplier is also a key customer. The impact of reciprocity can, therefore, be HIGH when the supplier also provides a significant proportion of the buyer's revenue. The impact of reciprocity can be LOW when the supplier provides only a minor share of the buyer's turnover or reciprocity is NOT A FACTOR in the relationship.

Analysing section B1questions: scarcity for the buyer (B1.5- 1.15): The second factor which needs to be operationalised is the relative scarcity of a resource. From the buyer's perspective, thinking in terms of supply options, the relative scarcity of a resource is, as discussed in detail in chapter four, determined by its *imitability* or *substitutability*. If there is a demand for a particular resource and it can be easily copied by a competitor, then it is likely that many companies will seek to produce the desired good or service and the resource will not be scarce. Conversely, if there is demand for a resource, but it is difficult for firms to copy a particular resource, then it is likely to be a scarce resource[130].

Therefore, in order to ascertain the degree of relative resource scarcity, a buyer needs to know how many potential suppliers for a specific good or service there are in the market place, i.e. is the supply base severely restricted (monopoly or oligopoly supply) or is there a high degree competition[131]? The next 11 questions, shown in Table 5.3 below, are aimed at gathering this and related information, particularly that concerning lock-in, what might be called post-contractual scarcity.

5. How many potential suppliers are there for this item of spend? (S)
6. How contested is the current supply market? (S)
7. How commoditised is the supply offering? (S)
8. Are credible substitute items easily available? (S)
9. How high are the barriers to entry for new suppliers? (S)
10. How many isolating mechanisms does the supplier have against their competitors and how sustainable are they? (S)
11. Does the buyer pose a realistic threat of backward integration? (S)
12. Is it possible to take the first-tier supplier out of the chain? (S)
13. What is the current evidence of cartelisation in this supply market? (S)
14. What is the current level of lock-in by the supplier of the buyer's business? (S)
15. How high are the buyer's switching costs? (S)

Table 5.3: Questions aimed at determining the scarcity of the resource for the buyer (Source: Author)

[130] See earlier discussion in chapter four about isolating mechanisms (Rumelt, 1987).

[131] They also need to know if they are the sole customer for a particular supplier and are, therefore, a monopsonist. It is the balance between buyer resources and supplier resources which ultimately provide us with the power position between the two parties (see the next set of questions- supplier focused questions).

Question B1.5 (How many potential suppliers are there for this item of spend?) is aimed at gathering information about the existing supply market, which together with other information will help determine the overall scarcity of the supply offering. There may be FEW (3 or less), RESTRICTED (4-10) or MANY (10+) potential suppliers in the market who can supply a particular good or service. When there are few potential supply options this can indicate that there is a low degree of imitability and substitutability and, therefore, the relative scarcity of the supplier's resources is HIGH.

Question B1.6 (How contested is the current supply market?) is also aimed at gathering information about the existing supply market. This question directly links to the former question (B1.5), but is aimed at specifying the level of contestation, rather than just providing information about the number of potential suppliers in the market. The level of contestation in the supply market can be HIGH, MEDIUM or LOW. A HIGHLY contested supply market is one in which the market incumbents fiercely compete for business and where there is evidence of rapid price reductions or price wars. These items tend to be commodities because they are standardised, with low costs of switch for the buyer. A LOW contested market is one in which there is cartelised pricing and prices can be maintained (verified with QB1.13). These items tend to be differentiated products, often with high costs of switch for the buyer. If there is evidence of some price erosion and / or competition from incumbents, then the level of contestation will be said to be MEDIUM.

Question B1.7 (How commoditised is the supply offering?) is the third linked question considering the existing supply market. This question is related to the degree of product customisation. The level of commoditisation or customisation of the supply offering impacts buyer and supplier power resources in a number of ways. The level of commoditisation can be HIGH, MEDIUM or LOW. Some items sold are HIGHLY commoditised or standardised. When the supply offering is highly commoditised, this normally means that there are low barriers to entry, switching costs for the buyer are low and the intellectual properties in the item are known and can be replicated. In other words, there are few isolating mechanisms available for the supplier. If the item can only be manufactured by a few suppliers then the level is MEDIUM. Conversely, if there is a high degree of customisation or differentiation and only one or two suppliers produce the item then there is LOW commoditisation. When there is low commoditisation there is a greater potential for post-contractual supplier opportunism. This is because customised (differentiated) or bespoke solutions tend to be more complex and often relationship-specific. This results in the buyer potentially becoming locked-in to the supplier, as the costs of switch become high (with few, if any, viable alternatives).

Question B1.8 (Are credible substitute items easily available?) determines whether the current supply offering can be replaced. A substitute is not another supplier offering the same item, but a completely different item that can do what the current item does, but in a different way. For instance, a substitute to air travel could be to travel by train, car or boat. If substitutes can be used, with low switching costs, then it is difficult for the supplier to make their supply offering scarce. When there are both alternative suppliers (such as several airlines providing a service to a desired location) and ready substitutes (such as fast train connections), this would indicate a very low level of scarcity. Therefore, if substitutes could be used and there are low costs of switch then availability is HIGH. If there are substitutes, but there are substantial costs of switch, then availability (and scarcity) is MEDUIM. If there are no substitutes, or if substitutes could be used, but only over time and with great difficulty, then availability is LOW.

Question B1.9 (How high are the barriers to entry for new suppliers?) determines if, when a supplier wishes to enter into an existing market, there are HIGH, MEDIUM or LOW barriers to entry. There are a number of barriers to entry including economies of scale, product differentiation, speculative up-front investment, buyers cost of switch, access to distribution channels, learning curves and government policies. These barriers to entry can result in prohibitive costs and timescales for suppliers entering into a market. Furthermore, if existing suppliers act in a hostile manner (aggressive price cutting etc.) this will make it even more difficult for new suppliers to enter the market[132].

Therefore, if it will take time and there are high costs incurred to enter into a market then the barriers to entry are HIGH. If entry will either take time or is high cost, then barriers to entry are MEDIUM. If it takes little time and will incur only low costs, then barriers to entry are LOW. When there are high barriers to entry, this will limit any buyers attempt to increase the level of competition available in the market and provide sustainable protection for existing suppliers. This will ensure that the supplier offering remains scarce and makes it more difficult for buyers to switch.

Question B1.10 (How many isolating mechanisms does the supplier have against their competitors and how sustainable are they?) ascertains how a supplier is able to differentiate their product offering and prevent other competitors from replicating their product, or service. Isolating mechanisms can include legal property rights, economies of scale, information impactedness, causal ambiguity, reputation effects (brands), buyer switching costs, buyer search costs, network effects, collusive cartels, lack of substitution, lack of threat of backward integration and lack of disintermediation threat (Cox et al., 2001 SCM). If a

[132] For instance, think about the multiple retailers and how they resist new competition.

supplier has several (+ 3), they have MANY isolating mechanisms. When they have one or two, they have FEW isolating mechanisms. They may also possess NONE. When a supplier has many enduring isolating mechanisms[133], their product or service offering is likely to remain scarce and this is a considerable power resource endowment.

Question B1.11 (Does the buyer pose a realistic threat of backward integration?) considers whether the buyer has the time, willingness, financial resources, physical assets and or know-how to be able to do what the supplier currently does. If the buyer has all of these capabilities then they possess a HIGH threat of backward integration. If the buyer has some, but not all of these, it is a MEDIUM threat. If the buyer has none of these, then it poses a LOW threat for the supplier. If the buyer is in a position to be able to backward integrate this is an important power resource, and would indicate that the supplier is not in possession of substantial or defendable isolating mechanisms. The buyer has, therefore, a credible threat of exit from the relationship and, if the supplier cannot deliver what the buyer needs (in terms of functionality and / or cost), then the product or service could be brought in-house.

Question B1.12 (Is it possible to take the first-tier supplier out of the chain?) considers the scope for disintermediation. Sometimes suppliers add little value to the item purchased by the buyer and it may be relatively easy to cut out the middleman and buy direct. For instance, it is possible to buy beasts for beef production from either an auction or direct from farmers[134]. If a buyer can relatively easily cut out their first-tier supplier, this would indicate that what the supplier is offering is not scarce and is not protected by either isolating mechanisms or information asymmetries. If it is easy to cut out the first tier middleman then

[133] The number of isolating mechanisms (IMs) is less important that the type of IM's present and their sustainability. An assessment must be made about the degree of sustainability and how this impacts the level of competition in the market. This interpretation is crucial in determining whether the IMs can be considered as a significant power resource(s).
[134] Multiple retailers will not buy beasts through the auction market. This consolidator is seen by them as being unnecessary, when it is possible to buy direct from the producers (who are willing to sell direct and not through intermediaries).

the scope for disintermediation is HIGH. If it would take a great deal of effort or the first-tier supplier adds significant value then the scope for disintermediation is LOW.

Question B1.13 (What is the current evidence of cartelisation in this supply market?) will aim to determine, regardless of whether there are many suppliers in the market, if there is open competition. Sometimes suppliers collude to fix prices and / or agree to limit competition in some market areas. Although this may in some cases be illegal (breaking competition rules), this does not mean that informal cartels do not exist. Equally, in some cases this is common in a supply market. For example, the oil giant cartel OPEC. When there is evidence of cartelistic behaviour, the combined might of suppliers can alter the power dynamics of the supply market. If both price fixing and dividing up market share occurs, then cartelisation is HIGH. If only one of these occurs then it is MEDIUM. If neither occurs it is LOW.

Question B1.14 (What is the current level of lock-in by the supplier of the buyer's business?) assesses the ways the supplier has been able to lock-in a buyer to a long-term relationship. This lock-in can be achieved through high sunk-costs[135] caused by expensive dedicated investments by the buyer, or through the supplier providing additional products / services that spread their offering and helps to increase dependency. If the supplier is able to develop a multiple offering (product, service, training, after sales specialist care etc.) then they may be able to lock the buyer into the wider value-added relationship. Lock-in will enable the supplier to act opportunistically and potentially earn higher than industry/ sector average margins. If there is evidence of significant dedicated investments made by the buyer then lock-in is HIGH. If there is evidence of moderate levels of dedicated investments made by

[135] There are many types of sunk-costs that can be incurred. These include the time and financial costs of creating tangible assets such as buildings, tooling, machinery and equipment, as well as intangible assets, such as human know-how of specific processes or systems.

the buyer then lock-in is MEDIUM and if there is no evidence of significant dedicated investments made by the buyer then lock-in is LOW.

Question B1.15 (How high are the buyer's switching costs?) determines the cost of switch. When a buyer switches from one supplier to another there will be a cost associated with doing so. These may include exit, search, negotiation and contract design costs. To replace a supplier, therefore, may require time (entail a learning curve), be very costly and can seriously disrupt the buyer’s operational capability. If these all occur then the costs of switch are HIGH. If some exist then they are MEDIUM. If they are easily overcome with no real costs or disruptions then switching costs are LOW.

It is evident from this analysis that there are many factors related to supply scarcity. Determining overall supply scarcity is complicated and requires that the data is interpreted and a judgment made by the researcher. It is not possible to take the answers to questions B5 to B15 independently, as some answers to specific questions would override the answers to others. For instance, there may be MANY suppliers (B1.5) and a HIGHLY contested market (B1.6) etc., which would indicate a positive position for the buyer. However, if the buyer also has HIGH lock-in to the supplier (B1.14) and / or HIGH cost of switch (B1.15), then the researcher must balance these factors to arrive at the level of overall supply scarcity. The fact that there are potentially many alternative suppliers and the market is highly contested becomes largely irrelevant, if the buyer has very high costs of switching to an alternative supplier. Therefore, author judgement is required and will be provided in the case sections of this thesis.

Analysing section B1questions: information for the buyer (B1.16-1.18): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange. As highlighted in chapter four, scarcity can also be related to the amount of private information available to each party about the resource endowments (in terms of utility, scarcity and information and, therefore, power) and the intentions of the other party in the exchange. Pre-contractually this can lead to adverse selection. Post-contractually, if the supplier has superior private information, they could use their superior knowledge to ensure the buyer agrees to unfavourable contractual terms and conditions that constrain the range of options open to them post-contractually. It could also lead to moral hazard (Cox et al., 2002). To ascertain the existence and impact of private information, a number of questions, shown in Table 5.4 below, were asked:

16. Are the buyers search costs high or low? (I) 17. Does the buyer have low or high levels of information asymmetry? (I) 18. What type of product/service is being purchased (experience, search or credence)? (I)

Table 5.4: Questions aimed at determining the existence of the impact of private information (Source: Author)

Question B1.16 (Are the buyers search costs high or low?) aims to determine the costs associated with comparing one supplier or 'benchmarking' incumbent suppliers, against other potential suppliers. These costs can be related to finding, collecting and analysing information. In some cases it may be relatively easy and inexpensive to obtain standard commodity pricing and service performance (lead times, defect rates etc.) information from agencies, trade or Government bodies. For instance, DEFRA and the MLC publish farm-gate price information collected by their members for many commodities. It is possible, therefore, for buyers (such as for milk) to relatively easily compare supply offerings and determine if they are paying above average prices. However, this is not always the case.

Buyer search costs can therefore, be HIGH, MEDIUM or LOW. They are HIGH when it is difficult and costly to compare suppliers or benchmark incumbent suppliers against competitors[136]. Search costs are MEDIUM when there is limited information available or it is relatively expensive to compare suppliers or benchmark incumbent suppliers against competitors. Buyer search costs are LOW when it is easy and relatively inexpensive to monitor and benchmark supplier's performance.

Question B1.17 (Does the buyer have low or high levels of information asymmetry?) is related to the previous question. When a buyer makes a sourcing decision, information about the relationship between the quality and functionality of the item and its cost price can be either fully transparent or not readily available for the buyer (and only known to the supplier). If there are low search costs, we can assume that it will be difficult for suppliers to achieve information advantages over the buyer. If there are high search costs it is likely, although not always the case (and that is why this question is asked) that there will be high levels of information asymmetry. There may be some circumstances when, even though it may be difficult and costly to monitor a relationship or benchmark a supplier's performance, the supplier chooses to not act opportunistically (and take advantage of high information asymmetry), by providing full disclosure of their performance (and the relationship between quality, functionality and price). In some cases suppliers actually self-monitor (quality levels, delivery on-time etc.) and offer a buyer transparent and reliable information. This possibility would override the existence of potential information asymmetry.

[136] When the costs of search are high there is a greater likelihood of supplier opportunism. As has been discussed previously (see chapter four), it is possible that adverse selection may occur. In this case, due to asymmetric information between buyers and suppliers, the buyer may choose the wrong supplier and buy a 'lemon' (Akerstof, 1970).

Buyer information asymmetry is HIGH when the relationship between quality and functionality of the item and cost price is not readily available and is known only to the supplier (with the supplier having many ways of denying this information to the buyer). Information asymmetry is MEDIUM when the relationship is partially known (with scope for this information advantages to be eroded over time) and is LOW when this relationship is fully transparent and there is no defence against this.

Question B1.18 (What type of product/service is being purchased (experience, search or credence)? ascertains what type of product or service is being bought and how this will impact the power resources of buyers and suppliers. This is important, for the nature of the product may determine the search costs and ultimately influence the costs of switch for the buyer. If the good is an EXPERIENCE good, it has to be physically compared to similar items from other suppliers (think of having you hair cut or going out for a meal). The quality of the product or service can only be assessed post-contractually, that is once it has been consumed (used or experienced). There is, therefore, the risk of adverse selection or buying a 'lemon' due to information asymmetry. This problem is compounded when the product being bought is a CREDENCE good. These are items that the buyer cannot easily evaluate, even once the item has been consumed (many services such as consultancy or training fall into this category). In this case it will be relatively easy for suppliers to maintain key isolating mechanisms and use information asymmetry pre and post-contractually to earn economic rents (above average profit). Conversely, if the item being bought is a SEARCH good, the buyer can obtain information to be able to compare the item with another supplier. When there is a search good for which it is possible for the buyer to cheaply and easily obtain information to make a robust choice between supply offerings, the risk of adverse selection is reduced.

This section has explained, in detail, from the focus of the buyer, how each of the questions in section B1 of the ‘power and competition analysis questionnaire’ will enable us to determine the relative level of utility, scarcity and information resource endowments of the buyer. One of the key objectives of this section has also been to ensure that the questions are scalable. Table 5.5 below provides guidance on how the answers provided to these questions will deliver maximum levels of power resource endowments for the buyer. Some questions, as you will see are aimed at imparting richer analytical information and / or the answers to these questions will be used to support other questions.

Interview Questions:	Answers to provide maximum level of power resource endowment for the buyer
1. How operationally important is the item to be sourced? (U)	Low
2. Is the item sourced of commercial importance? (U)	Low (support good)
3. What % of the total buyers spend is devoted to this item? (U)	Low
4. Is reciprocity a factor in the relationship between the buyer and supplier? (U)	No
5. How many potential suppliers are there for this item of spend? (S)	Many
6. How contested is the current supply market? (S)	High
7. How commoditised is the supply offering (level of complexity)? (S)	Highly
8. Are credible substitute items easily available? (S)	Yes
9. How high are the barriers to entry for new suppliers? (S)	Low
10. How many isolating mechanisms does the supplier have against their competitors? (S)	None or Few
11. Does the buyer pose a realistic threat of backward integration? (S)	High
12. Is it possible to take the first-tier supplier out of the chain? (S)	High
13. What is the current evidence of cartelisation in this supply market? (S)	Low
14. What is the current level of lock-in by the supplier of the buyer’s business? (S)	Low
15. How high are the buyer's switching costs? (S)	Low
16. Are the buyers search costs high or low? (I)	Low
17. Does the buyer have low or high levels of information asymmetry? (I)	Low
18. What type of product/service is being purchased (experience, search or credence)? (I)	Search Good

Table 5.5: Analysis of answers to provide the maximum level of power resource endowment for the buyer (Source: Author)

5.2.3. Section B2 questions and analysis

Figure 5.6 below, highlights that questions were asked to the focal company about the supplier (sections B1 and B2) following the 'power and competition analysis questionnaire'. To follow is the detailed analysis demonstrating the link between these questions and the theory underpinning the power and competition analysis.

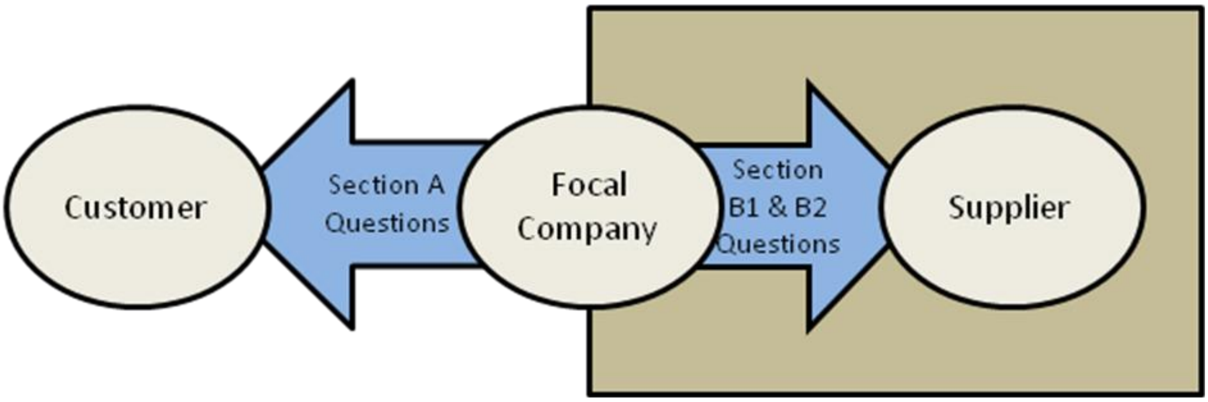

Figure 5.6: Section B1 and B2 questions and analysis (Source: Author)

Analysing section B2 questions: utility for the supplier (B2.1-2.4): The first factor which needs to be operationalised is resource utility. However, as discussed in chapter four, a different interpretation of operational and commercial importance is required for the supplier. From the supplier's perspective, *utility* is the extent to which the supplier's goals or motivational investments are met by the buyer. *Operational importance* of the buyer's expenditure is assessed against the *regularity* and *predictability* of this expenditure (Cox et al, 2000). When regular and predictable expenditure is offered by the buyer, then the degree of operational importance will be high, as this will give the supplier a degree of certainty, thereby enabling them to plan and invest in future R&D activities and capital expenditure.

When the buyer offers irregular and unpredictable demand, the degree of operational importance will be low.

The operational importance of a buyer for a supplier is closely linked to the issue of commercial importance. For suppliers, the degree of *commercial importance* can be determined by the ratio between a buyer's expenditure with a particular supplier and that supplier's total sales revenue. If a buyer's expenditure is a relatively small proportion of total sales revenue, then the buyer will have a relatively low commercial importance for the supplier. Conversely, if the buyer's expenditure is a significant proportion of total sales revenue, then the buyer will have relatively high commercial importance for the supplier. Commercial importance for the supplier can also relate to the potential future revenue generating opportunities of doing business with a buyer (Cox et al., 2000). The first 4 questions are, therefore, aimed at determining the relative utility of the customers business to the supplier. These questions are listed below in Table 5.6:

1. How significant is the buyer's spend to the operational sustainability of the supplier's business (i.e. regular and predictable)? (U) 2. How commercially important is the buyer to the supplier? (U) 3. Does the buyer provide the supplier with clear and consistent demand forecasting and capacity planning information? (U) 4. Is the buyer's business attractive for the supplier? (U)

Table 5.6: Questions aimed at determining the utility of the buyer for the supplier (Source: Author)

Questions B2.1 (How significant is the buyer's spend to the operational sustainability of the supplier's business?) and B2.2 (How commercially important is the buyer to the supplier?) are aimed at determining the utility of the buyer for the supplier. These questions will enable the four box matrix, as shown previously in the case of buyer utility (and replicated in Figure

5.7 below), to be populated. However, in this case the two major determinants: degree of operational importance and degree of commercial importance, as discussed, mean something different for the supplier.

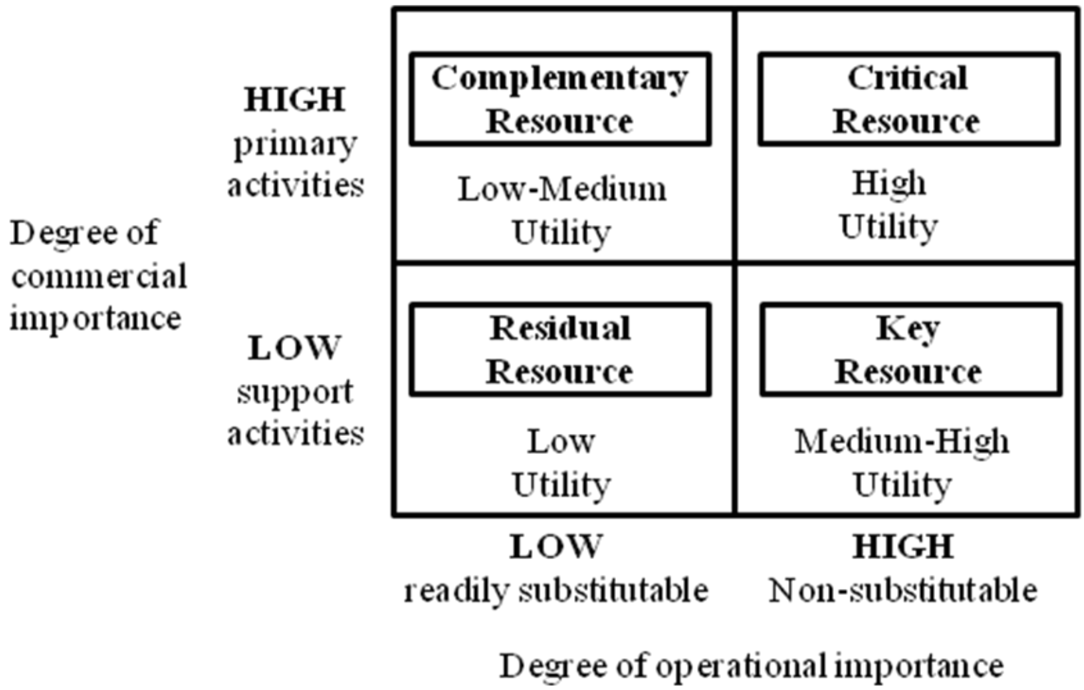

Figure 5.7: Determining the relative utility of a resource
(Source: Cox et al., (2002) p. 33)

Question B2.1 (How significant is the buyer's spend to the operational sustainability of the supplier's business?), is aimed at determining the degree of operational importance of the buyer. For this, it is necessary to ascertain if the spend is *regular* and *predictable*. If the buyer does not provide a regular and predictable demand, the buyer's expenditure will have a LOW level of operational importance. If the buyer can provide regular and predictable demand, then the buyer's spend will have a HIGH level of operational importance.

Question B2.2 (How commercially important is the buyer to the supplier?) is to establish whether the buyer has a high degree of commercial importance for the supplier. In this case, the commercial importance of the buyer to the supplier relates to the amount of the supplier's revenue that is accounted for by the buyer (a ratio between 0-100%) and the future revenue generating potential of the buyer. If the ratio between a buyer's expenditure with a particular supplier and that supplier's total sales revenue is high (more than 6%) and there is significant potential for future revenue generation, then the commercial importance will be HIGH. If the ratio is low (< 6%) and there is little or no future revenue generating opportunities, then the buyer will be of LOW commercial importance.

Question B2.3 (Does the buyer provide supplier with clear and consistent demand forecasting and capacity planning information?) further supports the answer to B2.2. If buyers are able to provide suppliers with clear and consistent demand forecasting and capacity planning information, the answer is YES (and will be viewed by suppliers as having high felicitousness). Full information about the customer's future demand, which makes demand regular and / or predictable, allows the supplier to plan the most efficient operations scheduling and to plan future investments in capital equipment or technology. This will, therefore, increase the level of the buyer's utility for the supplier. If the buyer is unable to provide this information, the answer is NO (they will have low felicitousness). This can make them less desirable as customers and potentially more difficult to service, thereby reducing the utility of the buyer for the supplier.

Question B2.4 (Is the buyer's business attractive for the supplier?) goes beyond the basic *utility* questions already asked to establish if there are other factors which make the specific customer of greater value than others. For example, being associated with a buyer's brand may provide the supplier with opportunities to enter into valuable new markets, which were previously inaccessible to them. For instance, by servicing a specific customer, this may enable the supplier to build up a profile in the public sector. This may lead, in the future, to the supplier gaining access to further lucrative, public sector contracts. There may also be scope for the buyer and supplier to work together and develop new products and / or services. This may be seen as a key advantage of doing business together, in particular if the buyer is a technological or innovation leader in its field. Therefore, if being associated with the buyer's brand provides opportunities to enter into new markets and there is scope for the buyer and supplier to work together to develop new products and / or services, then the attractiveness is HIGH. If there are no future opportunities to enter into new markets, then the buyer's attractiveness in LOW.

Analysing section B2 questions: scarcity for the supplier (B2.5-2.8): The second supplier factor which needs to be operationalised is the relative scarcity of a resource. For example, from the supplier's perspective it is important to determine how large the market for their products or services is. Is the buyer the supplier's sole customer and, therefore, a monopsonist? The next 4 questions are aimed at determining the scarcity of the buyer for the supplier. These questions are listed below in Table 5.7:

5. How many customers in total does the supplier have for this item? (S)
6. How many potential customers are there for this supplier? (S)
7. How high are the suppliers sunk costs? (S)
8. Does the supplier have the ability to forward integrate? (S)

Table 5.7: Questions aimed at determining the scarcity of the buyer for the supplier (Source: Author)

Question B2.5 (How many customers in total does the supplier have for this item?) and B2.6 (How many potential customers are there for this supplier?) are concerned with the degree of buyer scarcity. The current supplier may have MANY (>15) actual customers buying from it, MODERATE (6-14) or only a FEW[137] (<5). Furthermore, the current supplier may have MANY (>15), MODERATE (6-14) or FEW (<5) potential new customers. When a supplier has very FEW customers and this is linked to having FEW potential new customers, this would indicate that overall customer scarcity is HIGH. Under these circumstances the supplier is likely to be heavily dependent on the customer due to buyer scarcity. There are likely to be significant consequences (operationally and commercially) from losing the customer. Conversely, if the supplier has MANY customers and / or there are MANY potential new customers, then losing one customer may have little impact (operationally and commercially), as it should be relatively easy for the supplier to replace the buyer (lose without pain) (low switching costs).

In this context, Question B2.7 (How high are the suppliers sunk costs?) is, therefore, important and builds on the answer to previous two questions. This question is aimed at determining the level of lock-in by the buyer. If a supplier is locked-in they may have made dedicated investments in order to supply a specific buyer. This can include the time and financial costs of creating dedicated tangible assets such as buildings, tooling, machinery and equipment, as well as intangible assets, such as human know-how of a specific buyer's processes or systems. If the supplier has made very few dedicated investments, both tangible and intangible, then the sunk costs will be LOW. If there has been a significant dedicated investment made in the relationship then the sunk costs are HIGH. If the supplier has made some dedicated then the sunk cost is MEDIUM.

[137] This assumes that no one customer accounts for a significant proportion of company turnover and that all customers are of relative equal importance.

Question B2.8 (Does the supplier have the ability to forward integrate[138] or not?) assesses the supplier's capability to undertake the role of the buyer. If the supplier has both the financial resources and know-how the answer is YES and it can forward integrate in the supply chain. If it does not have the financial resources and know-how, then the answer is NO. When a supplier can forward integrate, if the buyer cannot deliver what the supplier needs (in terms of revenue and / or returns) the supplier may opt to do what the buyer does. This in effect reduces buyer scarcity as it is possible to create an alternative outlet for their products or services.

It was stated earlier that when analysing scarcity from the perspective of the buyer, it is not possible to take the answers to the questions in isolation. A degree of interpretation was said to be necessary. This also applies to understanding scarcity from the supplier's perspective. Whilst there may be many potential other customers, transferring existing resources dedicated for the buyer in question to another buyer might be expensive.

Analysing section B2questions: information for the supplier (B2.9): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange. To ascertain the existence of, and impact of private information, a question, shown in Table 5.8 below, was asked:

9. Does the supplier have access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.)? (I)

Table 5.8: Question aimed at determining the existence of the impact of private information (Source: Author)

[138] In the form of creating a new enterprise.

Question B2.9 (Does the supplier have access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.)?) is aimed at determining if the supplier has information about the buyer that they would prefer remains private. Private information can relate to the buyer's overall budget for a specific project or item of spend, their reservation price (i.e. the maximum they are willing to pay for a specific product or service offered by a supplier), what is specifically valued by the buyer (i.e. is it low cost or a specific functionality), and who specifies requirements (i.e. buyers for companies may focus on cost, whereas the actual users may look for specific functionality).

Access to this private information can strengthen the negotiation position of the supplier[139]. Therefore, if the supplier has access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.) the answer will be YES. If the supplier does not have access to private information the answer will be NO.

Assessing the importance and impact of access to private information about the buyer for the supplier, however, requires interpretation by the researcher. This is because the importance or impact of access to buyer's private information is relative to the overall power relationship between the buyer and the supplier in the exchange. In some circumstances, if the supplier has access to buyer's private information this could potentially tip the balance of power in favour of the supplier (when the relative power resources are fairly equal) or further strengthen a supplier's power position (when already in a strong position). However, if the buyer is in a markedly dominant position, then even if the supplier has the buyer's private

[139] For example, in 2000 the Government announced (for political reasons) that they would be increasing spend on the NHS from 5.2% of GDP up to levels comparable to other major European counties of 7.3% of GDP. This 'private information' impacted the effectiveness of NHS buyers, as this signalled to their suppliers that the budget had increased. They, therefore, increased their prices accordingly (causing huge price inflation across the NHS). Furthermore, if a supplier knows exactly how much a buyer (reservation price) is willing to pay for particular functionality they are more likely to be able to negotiate a price (for a specific functionality) at, or very close to, the reservation price. If this information is not known, it is possible that the buyer may achieve a price significantly below their reservation price (depending upon the relative power between the buyer and supplier and the respective individual negotiation skills) (Lonsdale, 2005a).

information this resource endowment will provide little leverage opportunity for the supplier. As mentioned before, in the cases the author will need to exercise judgement.

This section has explained in detail, from the focus of the supplier, how each of the questions in section B2 of the ‘power and competition analysis questionnaire’ will enable us to determine the relative level of utility, scarcity and information resource endowments of the supplier. One of the key objectives of this section has also been to ensure that the questions are scalable. Table 5.9 below provides guidance on how the answers provided to these questions will deliver maximum levels of power resource endowments for the supplier. Some questions are aimed at imparting richer analytical information and / or the answers to these questions will be used to support other questions.

Interview Questions:	Answers to provide maximum level of power resource endowment for the supplier
1. How significant is the buyer's spend to the operational sustainability of the supplier's business (i.e. ratio, regular and predictable)? (U)	Low
2. How commercially important is the buyer to the supplier? (U)	Low
3. Does the buyer provide supplier with clear and consistent demand forecasting and capacity planning information? (U)	Yes
4. Is the buyer's business attractive for the supplier? (U)	Low
5. How many customers in total does the supplier have for this for this item? (S)	Many
6. How many potential customers are there for this supplier? (S)	Many
7. How high are the suppliers sunk costs? (S)	Low
8. Does the supplier have the ability to forward integrate? (S)	Yes
9. Does the supplier have access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.)? (I)	Yes

Table 5.9: Analysis of answers to provide the maximum level of power resource endowment for the supplier (Source: Author)

5.2.4. Weighing up the two sides of the scale

Bringing together the analysis of buyer and supplier power resources enables us to plot the relationship being analysed in the four box power matrix. As Figure 5.8, to follow, highlights, when the buyer has high attributes of power relative to the supplier and the supplier has low attributes of power relative to the buyer (High/Low), then the relationship is buyer dominance. Conversely, when the buyer has low power attributes relative to the supplier and the supplier has high power attributes relative to the buyer (Low/High), then the relationship is supplier dominance. When both the buyer and the supplier have high power attributes relative to each other (High/High), then the relationship is characterised by independence. Finally, when both the buyer and the supplier have low power attributes relative to each other (Low/Low), then the relationship is characterised by interdependence.

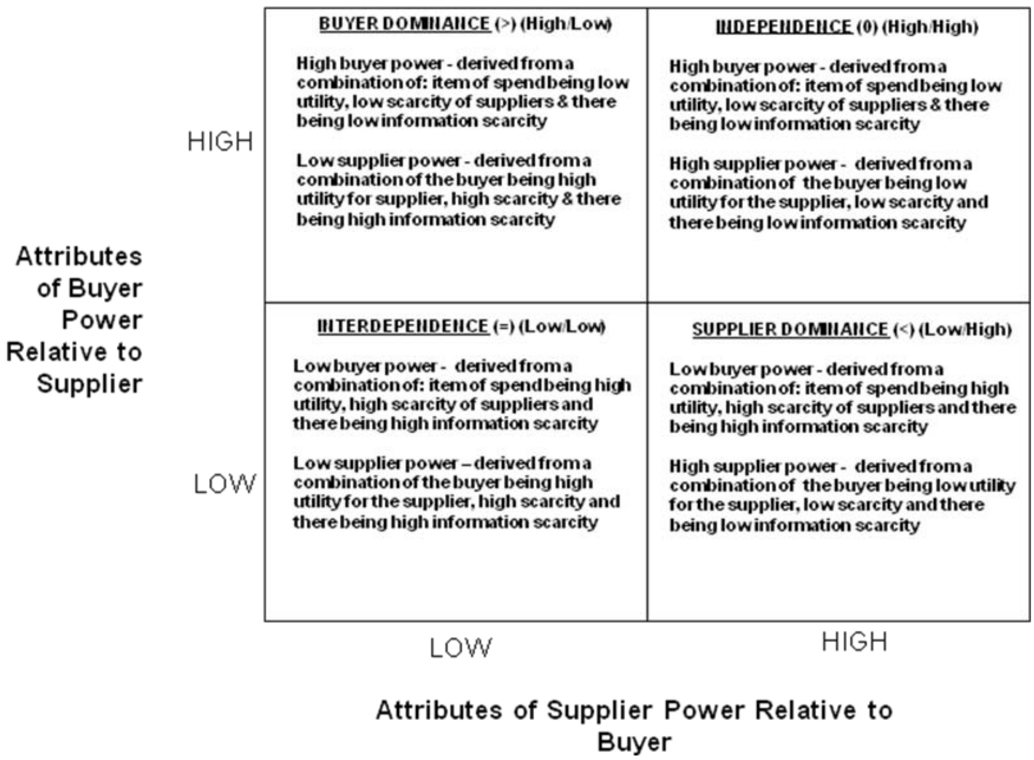

Figure 5.8: The power matrix: bringing buyer and supplier power together (Source: Author, adapted from Cox et al., 2000)

To conclude, it is, therefore, possible to plot a buyer-supplier relationship within the four box matrix. However, although the analysis aims to determine if the power attributes are best described as: High/Low; Low/High; High/High; or, Low/Low, by considering utility, scarcity and information, these three factors will, as already highlighted, not always be of equal importance. It is the role of the researcher to interpret the answers provided to determine, on balance, the overall power position. This is a key part of the task in the case section of the thesis.

5.3. A framework for buyer-supplier relationship types: the dependent variable

As previously presented (see chapter three section 3.2.), Cox et al. (2003), have developed a six box matrix which models relationship management types. In their typology (see Figure 5.9, to follow), Cox et al. (2003), make an important distinction between way of working and the sharing of surplus value.

The model has been explained in some detail in chapter three. However we need to take the theoretical underpinnings of this model and operationalise it so that it can be used for research purposes. It is necessary, therefore, to determine how relationships will, in practice, be positioned within the matrix and specify the indices by which relationship management types can be measured.

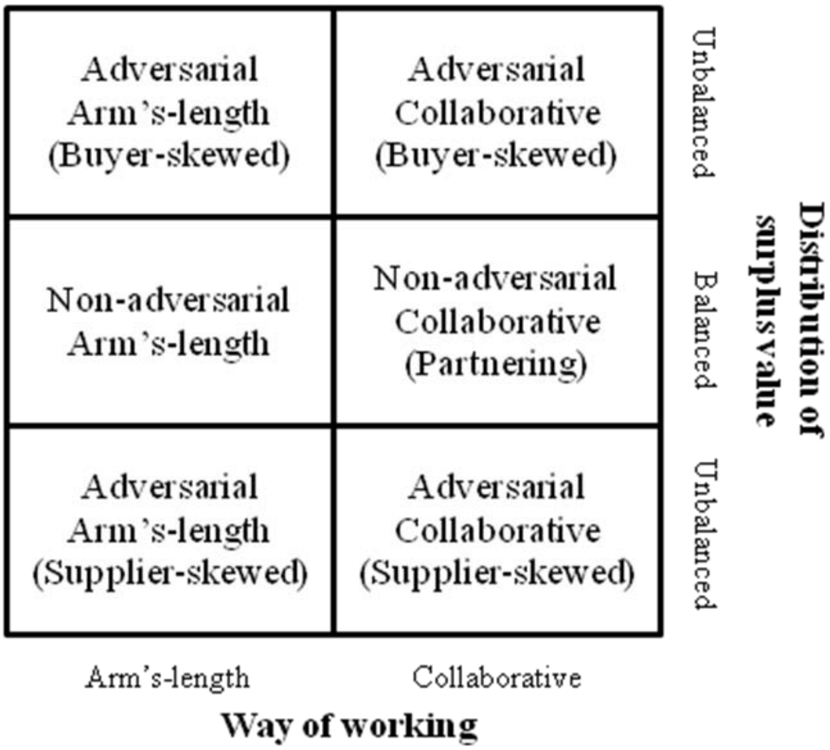

Figure 5.9: A typology of buyer-supplier relationship types
(Source: Adapted from Cox et al., 2003)

First, the way of working, (the horizontal axis of this matrix) is, as mentioned, in reality a continuum between arm's length and close forms of buyer-supplier interactions. However, for the purpose of populating the six box matrix, the following definitions (as previously discussed) will be applied. Using Cannon and Perrault's (1999) terminology, an *arm's-length relationship* is defined as***: "a relationship in which there is only basic exchange of information and products / services. The relationship may or may not be governed by legal bonds".*** *A close or collaborative relationship* will be defined as: ***"a relationship which goes beyond the basic exchange of information and products / services (including legal bonds), with evidence of the two parties being engaged in further relationship connectors (product/process information exchange, operational links, cooperative norms and relationship specific adaptations)".***

Determining if a relationship should be defined as arm's-length or close, therefore, requires a simple question to be asked: Q1: *For the relationship in question, is there only a basic exchange of information and products or services, such as a basic specification, volume and timings information from the buyer and limited specification, timing and pricing information from the supplier?* If the answer to this question is 'yes', then the relationship way of working is arm's length. All other relationships falling outside of this will be positioned in the matrix as close. However, to ensure that the correct answer has been given in the first instance and to ascertain the degree of relationship connectivity, a further question will be asked: Q2 *Can evidence be provided demonstrating that the relationship has moved beyond an arm's length relationship? What specific product / process information exchange, operational linkages, legal bonds, cooperative norms and relationship specific adaptations are present in the relationship?*

The answer to this question will provide for a detailed understanding of the relationship and give supporting evidence for a more nuanced segmentation of ways of working (which could later be used to further develop the model). At this point, however, there will be no distinction made between different degrees of close or collaborative, for it is sufficient to view the relationships under investigation as being either arm's length or close / collaborative.

Second, as the typology shows, there is also the question of how surplus value is shared (the vertical axis). This is the distribution of costs and benefits from a relationship, also known as the welfare gains from trade (Parker and Hartley, 1997, Sanderson, 2008). There are two points to make here. In an arm's length relationship, the available surplus value tends to be fixed. However, in a collaborative relationship it is possible to 'grow the pie' and, therefore, surplus value can grow through the reduction of the supplier's costs and / or the increase in the functionality of the good or service. The second point is of more concern for us here. That is, how are the gains from this relationship, be it arm's length or collaborative, shared between the two parties (Sanderson, 2008)?

There are three possible outcomes suggested by the typology. First, there can be a relationship in which the buyer attains the majority of the surplus value, with the buyer paying a price which is substantially lower than their utility function and the supplier receiving normal profit (or slightly above). This is known as adversarial buyer-skewed. Second, the supplier can receive a larger part of the surplus value than the buyer and is therefore able to earn significant profits (an economic rent), resulting in the buyer paying a price very close to their utility function. This is known as adversarial supplier-skewed. Thirdly, gains from the relationship can also be shared in an approximately equal way. This is described as non-adversarial (Cox et al., 2003, Sanderson, 2008). The diagram below illustrates the concept of surplus value.

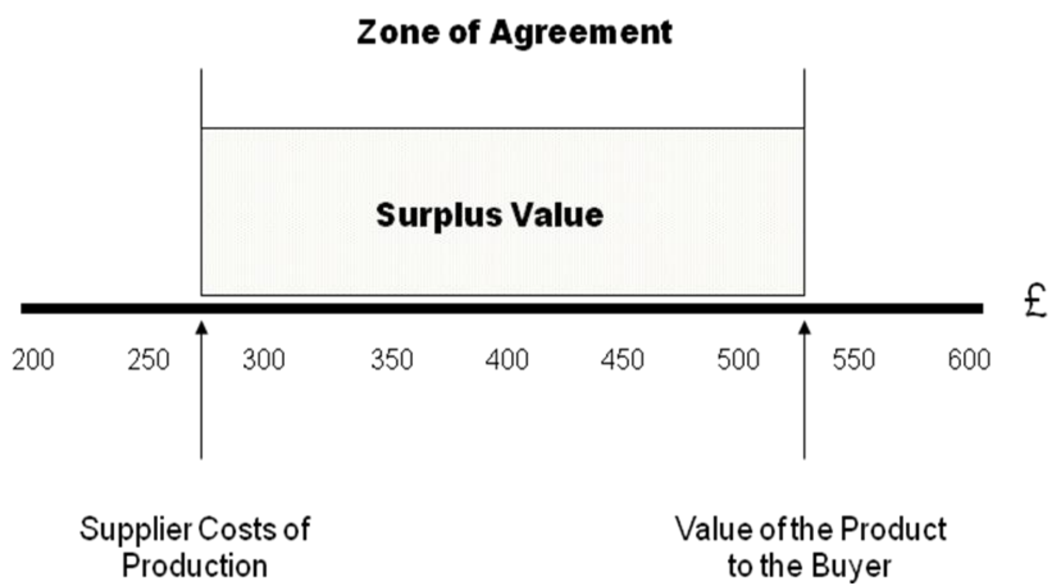

Figure 5.10: The surplus value diagram (Source: Watson, 2008, MBA slide)

Determining the relative share of surplus value is more complicated than the way of working. This will require collecting evidence to establish who the major beneficiary in the relationship is. This can be achieved by determining which party to the transaction has achieved their commercial goals (strategic ends) and whether one party receives more of the surplus value than the other. In order to create indices by which surplus value can be measured, a number of questions must be asked and information gathered to position the relationships accurately. These questions are:

Q1- What are the commercial goals for the buyer and supplier (i.e. strategic ends, such as security of supply) of entering into this relationship?

Q2- Were these commercial goals fully or partially realised?

Q3- Is there an equal distribution of relationship-specific investments?

Q4- If not, who has invested more in relationship-specific adaptations (what evidence is there to support this)?

Q5- What profit margins does the supplier make?

Q6- What evidence is there in the contract (or agreement) to indicate an equal or unequal sharing of the surplus value (payment terms, length of contract, detrimental clauses, allocation of risks etc.)?

From answers to these six questions it will be possible to ascertain whether the relationship is adversarial buyer-skewed, non-adversarial, or adversarial supplier-skewed. As this is, in reality, a continuum, there may be times when all the answers to these questions do not fit neatly into one of the three boxes (shown in Table 5.10 below). There may be crossovers, for instance, between non-adversarial and supplier-skewed adversarial. Here, a judgment will need to be made as to who, on balance, gains more of the surplus value from the relationship. If it favours the supplier then the relationship will be deemed as being supplier-skewed adversarial. If it is very difficult to determine any obvious beneficiary, then the relationship will be classified as non-adversarial. As is often the case, at the extremes it is relatively easy to categorise the sharing of surplus value, but in the middle it is often more problematic.

Buyer-skewed adversarial	Non-adversarial	Supplier-skewed adversarial
Buyer's commercial goals fully achieved	Each Party's commercial goals partially realised	Supplier's commercial goals fully achieved
Supplier invested more in relationship-specific adaptations	Equal distribution of relationship specific adaptations	Buyer invested more in relationship-specific adaptations
The buyer is paying a price which is substantially lower than their utility function (reservation price)	The buyer is paying a price which is mid-way between their utility function (reservation price) and the supplier's mean cost of production	The buyer is paying a price very close to their utility function (reservation price)
The supplier is receiving only normal profit (or slightly above)	The supplier is able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage)	The supplier is able to earn sustained above average profits for industry sector (comparable companies operating at the same supply chain stage)
The terms of the contract or agreement favour the buyer (i.e. pricing, payment terms, exit clauses, etc)	The terms of the contract or agreement favour neither the buyer or supplier (i.e. pricing, payment terms, etc)	The terms of the contract or agreement favour the supplier (i.e. pricing, payment terms, exit clauses etc)

Table 5.10- Characteristics of equal and unequal sharing of surplus value (Source: Author)

By combining these three possible scenarios (as categorised above) with the two categories of interaction (arm's length or close), we have six possible relationships (as demonstrated in Figure 5.9). What this shows is that even if buyers and suppliers enter into highly collaborative relationships (way of working), this does not necessarily mean that the gains from the relationship will be shared equally. The concept of partnering should, therefore, more precisely be defined using Cox et al.'s model as *non-adversarial collaboration*, whereby the commercial and operational costs and benefits are shared equally (Cox et al., 2003; Sanderson, 2008). The questions discussed above were laid out in the 'relationship management type questionnaire' provided to the research respondents. The questionnaire can be found in Appendix two.

5.4. Conclusions to operationalising power and relationship types

This chapter has demonstrated it is possible to operationalise the conceptual frameworks presented in the four box power matrix and the six box relationship management type matrix. Nevertheless, as highlighted, operationalising the two frameworks is going to require interpretation. However imperfect this is, it will allow the author to test the hypothesis. It will be possible to assess whether partnering is prevented by imbalances of power. This will be an important finding in the context of the patchy success of the UK Government's farming and food policy.

Chapter six will now consider, in detail, the study's data gathering process, how and why it was chosen, developed, tested and conducted.

Chapter Six

Methodological Structure of the Research Study

6.1. Introduction

Chapter five operationalised the relationship management types and the concept of power. Indices were created by which types of relationships could be defined and by which the relative power of a buyer and supplier, in a specific relationship, could be determined.

Chapter six, will now focus upon explaining how the research study was conducted, and why this was the case. According to Gummerson (1991) choosing appropriate research design and methods is guided by a number of factors. This includes research objectives; questions, antecedent literature and the philosophical position you take. Furthermore, it is argued that all research is grounded in philosophical assumptions, based upon: ontology, which is the theory of the nature of reality (discussed in 6.2.1.) and, epistemology, which is concerned with how ontological assumptions are manifested in research i.e. the best way of enquiring into the nature of the world (discussed in 6.2.2). These philosophical assumptions (ontology and epistemology), will, in turn, support different approaches to enquiry i.e. methodology, a combination of techniques to enquire into a specific situation (discussed in 6.3.), and the specific methods adopted i.e. individual techniques for data collection and analysis (discussed in 6.4.) (Burrell and Morgan, 1979; Easterby et al., 2006).

This chapter will, therefore, first consider the research philosophy: the ontological and epistemological foundations of the study (6.2.) before considering the research design (6.3.) and specific techniques adopted in this study (6.4.).

6.2. The research philosophy: ontological and epistemological foundations

The purpose of this section is to explore the ontological and epistemological foundations of the study. According to Cox (1997) and Stoker (1995), acknowledging the importance of ontological and epistemological issues is crucial. In debating the production of knowledge, social scientists use terms for describing complex understandings of the social world: *"[A]n ontological position refers to a view about the nature of social existence and social beings. An epistemology expresses a view about how we know what we know and in particular about what constitutes an adequate explanation of a political event or process. Different broad ontological and epistemological positions inform different methodological orientations or preferences"* (Stoker, 1995 pp.13-14).

The next section (6.2.1.) will, therefore, first consider ontology by briefly outlining key aspects within the ontological debate, before moving on to consider epistemology (5.2.2). The aim is to clearly state the ontological and epistemological foundations of this study.

6.2.1. Ontological assumptions

In philosophy, ontology studies 'being' or 'existence', and, therefore, it has strong implications for the concepts of reality. Ontology has one basic question: "What actually exists?"[140] Discussions concerning ontology in the social sciences are centred on two opposing positions; namely objectivism and subjectivism. Objectivism has the core assumption that ontological reality is a concrete structure and that, "social entities exist in reality external to social actors concerned with their existence" (Saunders et al., 2007, p 108.). Subjectivism, on the other hand, has the core assumption that ontological reality is a projection of human imagination, whereby "social phenomenon are created from the perceptions and consequent actions of those social actors concerned with their existence" (Saunders et al., 2007, p 108.).

From this study's perspective, this debate is important. To take an objectivist view of buyer-supplier interactions would assume that these actors *do not* have many different interpretations of the situations they find themselves in. Placing this study on this continuum is, however, somewhat problematic. On one hand we can take the viewpoint that there is an objective reality which can be 'known'. This, therefore, enables us to develop a hypothesis and then to test it, as we have done in this research study. On the other hand, exchange relationships take place in complex and socially constructed environments. Social actors such as buyers and suppliers may well place different interpretations on the same situation. There can, for that reason, be different 'realities', based on the information they have (or lack of it, due to information asymmetry), which will affect their actions and the nature of the social interaction. For instance, the decision to form a partnership, or not (as discussed within this study), will be based upon an understanding of the interaction within their specific environment.

[140] The theory of reality is concerned with the existence of entities, the fundamental nature of 'being' and the extent to which social structures are independent of the individuals from whom they are composed (Brandon-Jones, 2006).

On balance, this research study is more in line with an objectivist perspective. The researcher believes that an ontological reality is a concrete structure and that there is only one ‘reality’. From this perspective, although many of the concepts that enable us to study power (utility, scarcity and information) in buyer-supplier exchanges do not physically exist, it is still possible, as demonstrated in chapter four, to objectively quantify buyer and supplier power resources. In addition, it is possible to know the impact power can have on exchange relationships and, therefore, ‘predict’ the likely outcome of an exchange relationship.

This study does, however, acknowledge that individuals within a transactional exchange can be influenced by their own view of reality (based on bounded rationality and in some cases culture). Therefore, actors within this study may well adhere more towards subjectivism. The role of the researcher within this study was also to determine if the outcome of buyer-supplier exchange relationships (including actions, motivations and intentions) was in any way influenced by actors having different (all be it, often erroneous) views of reality i.e. one party may base their decision to partner on inaccurate / limited information (bounded rationality) about the potential outcomes of this relationship.

6.2.2. Epistemological assumptions

Epistemology is essentially about understanding what can be known and how knowledge can be observed. It is also concerned with how ontological assumptions (how you know the world) are manifested in research. In this study, behavioural assumptions and circumstances facing an actor, such as information asymmetry, opportunism and contractual uncertainty, (along with other factors) have been discussed. Many of these concepts are at the heart of the power and competition methodology. However, we must consider whether it is possible to objectively discover (as a positivist believes) the 'truth' of these 'behavioural assumptions' (amongst other factors under investigation), or whether the 'truth' is constructed from people minds and is, therefore, influenced by factors such as race, gender, or specific life experience (Pearson, 2008).

There are a number of dominant paradigms in the literature which need to be considered before defining this study's epistemological approach. At the extremes are positivism and anti-positivism (interpretivism). These paradigms disagree on the extent to which knowledge is objectively knowable (can be acquired), or subjectively knowable (comes from personal experience) (Brandon-Jones, 2006).

Positivism, with its roots in natural sciences, argues that it is possible to know the world through experience and observation. The 'truth' of a statement can be determined through empirical observation. Therefore, it is possible to examine available data and claim to generate general and sustainable propositions about human behaviour (March and Stoker, 1995). The positivist paradigm looks for statistical generalisability, validity, reliability and repeatability (Srivatava and Teo, 2005).

According to Stoker (1995) a positivist will argue *"that it is possible to know the world through experience and observation. The truth or otherwise of a statement can be determined through systematic empirical observation"* (Stoker 1995, p. 14). Therefore, positivist social scientists would examine the available data and claim to produce general and sustainable propositions about human behaviour. Positivist researchers are, therefore, likely to use a highly structured methodology to enable repeatability. Although a positivist approach is often associated with studies that focus on statistical analysis, according to

Saunders et al., (2007), it is “perfectly possible to adopt some of the characteristics of positivism in your research, for example hypothesis testing and use largely qualitative methods” (p 104).

Anti-Positivism (Interpretivism), with its roots in social sciences, recognises the importance of perception and interpretation in the process of defining, collecting and analysing research evidence. Using a more holistic way of thinking there is the assumption that the ‘truth’ is inherently evasive. Truth emerges from a composite picture of how people think about a certain issue, which is determined by interpretation and is guided by their prejudices. There is also no attempt to grant absolute explanatory powers to the variables affecting a phenomenon (dependent and independent variables are not identified) (Srivatava and Teo 2005). Therefore, there is a need to conduct research amongst people rather than seeing them as objects, such as a car, or a computer. The anti-positivist paradigm is less concerned with issues of generalisability, as the phenomena (business situations) under investigation are highly complex and are in the context of an ever-changing world. Methods of entering the social world of the research subject, to understand their view of the world, can be achieved through on-site observation and interviews (Saunders et al., 2007).

Sitting between these two extremes is *realism*. Within this paradigm there is the assumption that there is a reality which is independent from the mind. Realism is more towards the positivist end of the epistemological continuum, as it assumes a scientific approach to developing knowledge. This assumption, will in turn, underpin the method of data collection and subsequent analysis.

The main difference between positivism and realism[141], is that from a realist perspective, although knowledge has a universal character (as a positivist would also argue), the ability of the individual to fully understand the social world is severely limited. The role of the researcher is, therefore, to explain events with reference to the actions of individuals and organisations in a structural context. With positivism, it is not necessary to determine the structural context, as there is an observable social reality from which it is possible to generate law-like observations, which are similar to those produced by physical and natural scientists (Stoker, 1995).

There is much debate centred upon the appropriateness of the epistemological approach adopted for a particular study. Positivists are criticised for making the assumption that it is possible to generate truth and are charged with ignoring many of the complexities of human behaviour (Kuhn, 1962, Brandon-Jones, 2006). Research based upon the interpretevist paradigm has, therefore, become increasingly important (Vessey et al., 2002). This, it is argued, is particularly the case for investigating businesses, which are often complex and unique, being a function of a specific set of circumstances. Yet this way of thinking has also been criticised. It is argued, that interpretivism focuses too heavily upon individual cases rather than observing general truths (Popper, 1963). Furthermore, very few institutionalised procedures have been developed for conducting interpretivist research (Srivatava and Teo 2005).

Having briefly considered the epistemological debate we need to outline the epistemological foundations of this study. This study is underpinned by the belief that it is possible to

[141] There are two types or realism; *direct realism* and *critical realism*. According to Saunders et al., (2007) critical realists assume there are two steps to experiencing the world: "[F]irst, there is the thing itself and the sensation it conveys. Second, there is the mental processing that goes on sometime after that sensation meets our senses" (p. 105). Direct realism assumes there is only step 1 (Saunders et al., 2007).

determine the truth or otherwise and, therefore, know the world, through systematic empirical observation. In this thesis a hypothesis has been developed from a reading of the literature, which will then be tested using a structured methodology to enable repeatability. This study is, therefore, largely positivist. Although positivist research is typically associated with statistical studies, it can also, as emphasised, be effectively employed for qualitative research. It has, however, to be acknowledged that the perception of individuals participating in the study may affect the information collected. Participants may have adjusted their response to questions so as to be seen in a certain light, or because of their own bounded rationality. This is partly the reason why, as will be discussed in some detail (see 6.3.), the methodological approach employed within this study needs to be robust, enabling information provided by participants to be verified and cross-checked through the use of multiple sources of information. To some extent, therefore, this study sits between positivism and critical realism as an understanding of the structural context of a buyer-supplier exchange is still important.

Having established the epistemological foundations underpinning this study we will now consider the appropriate research approach.

6.2.3. Research approach

Stoker (1995) argued that there is another common distinction which relates to *"how the observer forms his or her theories*". This can be through deductive reasoning, *"which emphasises the value of drawing conclusions from first principles through a process of conceptual analysis and reflection,"* or inductive reasoning which, *"draws its conclusions by empirical observations and search for patterns and generalisations"* (Stoker, 1995, p. 14). Broadly speaking it is possible to link research approaches with research philosophies (6.2.1

and 6.2.2). Deduction "owes more to positivism and induction to interpretivism" (Saunders et al., 2007, p. 117).

Methodological assumptions are centred upon different approaches to inquiry and method selection. According to Burell and Morgan (1979) this can take the form of either *Rationalism* or *Ideographic.* Rationalism looks for laws and generalisations, with methodological issues being the measurement of concepts and identification of themes. Rationalism often uses *deductive reasoning*, which tests pre-defined theory in an attempt to build on existing theory and knowledge. A deductive approach to research is defined by Saunders et al., (2007) as an "approach involving the testing of theoretical propositions by the employment of a research strategy specifically designed for the purpose of its testing" (p. 596).

Deductive research will, therefore, follow a number of steps: 1) a hypothesis will be deduced from theory; 2) the hypothesis will be expressed in operational terms and propose a relationship between two specific concepts, or variables; 3) will test this operational hypothesis; 4) will examine the outcome of the enquiry; and, 5) if required, modify theory based upon findings [142].

Common methods of deduction are surveys, inventory studies and demographic analysis, which provide data that can be statistically analysed to test the relationship between clearly defined variables. Research must therefore be able to be replicated, verified and generalised (Bryman, 1988).

[142] Deduction also possesses a number of important characteristics: 1) provides an explanation of the causal relationships between variables, 2) have control to allow the testing of a hypothesis, 3) use a highly structures methodology to allow for replication, 4) will need to be operationalised in a way which allows facts to be measured quantitatively, and, 5) can allow for generalisation (Saunders et al., pp 117-118).

There are also *ideographic* assumptions, where the focus is on first-hand knowledge which is used to explain and understand what is unique to a particular individual. The ideographic style requires getting close to the subject and follows the notion of *inductive reasoning*. An inductive approach to research is defined by Saunders et al., (2007) as an, "approach involving the development of a theory as a result of the observation of empirical data" (p. 117).

Through the collection of observations from cases and based upon a researcher's own knowledge or experience, a hypothesis can then be developed, which may lead to general conclusions, or theories. According to Eisenhardt (1989b), inductive research can be appropriate when there is little known about a phenomenon, or if the current perspective is inadequate as there is little empirical substantiation. This approach tends to use participant observation, open-ended interviewing, or personal documents so that a researcher can view the world as the subject does.

Cox (1997) has spent considerable time arguing the need for business research to move away from an inductive and empiricist approach towards one that is deductive. This is because with an inductive approach concepts are then driven by observation and anecdotal evidence, rather than from theory and first principles. A deductive approach requires research starting from a theoretical specification of causality, which is then tested empirically to prove, or disprove, the causality of the original theory (Cox, 1997).

The research approach adopted within this work is one primarily of deduction. There was a relatively tight structure set up before the interviews were started, clear questions were devised, a hypothesis was developed from theory and a review of previous research, and empirical data was collected to test this hypothesis (Yin, 1994, Ireland, 2005).

The key reason why deduction was deemed appropriate for this study was to address Cox's (1997) criticisms of many of the previous studies into buyer-supplier relationships. By following a deductive approach, conclusions will be drawn from first principles and consequently the study will not run the risk of being driven by observation and anecdotal information. It was feasible to use a deductive approach because there was a wealth of literature on interorganisational relationships, collaboration and partnering and, therefore, it was possible to define a theoretical framework, develop a hypothesis and provide an explanation of the causal relationships between variables.

6.3. The research design

Having considered the ontological and epistemological foundations of this study and highlighted the research approach adopted within this study, we will now consider the research methods used to enquire into the nature of buyer-supplier exchange relationships. The choice of appropriate research design is, as discussed, influenced by the ontological and epistemological foundations of the study, research approach and also by the practicalities of conducting research within a limited timeframe and with financial constraints.

Before assessing which method(s) (6.3.2.) and individual technique(s) (6.3.3.) of data collection are the most appropriate for this study, it is first necessary to determine what type of data needs to be collected.

6.3.1. Data to be collected

Chapter five has outlined in detail the operationalisation of the two specific models which flow from the theory and enable the hypothesis to be tested. Indices were created allowing buyer-supplier relationships to be positioned within the power and the relationship management type matrices. Data was collected which is relevant for all of the indices identified in chapter five. Data collection was achieved through the completion of two questionnaires: the 'power and competition analysis questionnaire' (33 key questions) and the 'relationship management type questionnaire' (8 key questions). Answers to the questions within these questionnaires will be fully validated and cross-referenced from multiple sources, including industry and Government body reports, as well as industry expert consultation (see later discussion in 6.4. for more information).

The two questionnaires have been carefully designed to be able to fully test the hypothesis' independent and dependent variables. In this study the hypothesis states that the independent variable, the power position between the buyer and supplier, can cause changes in the dependent variable: the appropriate relationship management type.

6.3.2. Methods of data collection

To collect the necessary data (as identified in chapter five) the research design has to be considered in more detail. The decision needs to be made as to what methods, or combination of methods, are appropriate for collecting data, so as to be able to populate the two matrices. It is argued that the key to good research design is to determine a general plan of how the research question is going to be answered (Silverman, 2003; Saunders et al., 2007). There are, however, no hard and fast rules concerning the appropriateness of specific methods of data collection[143].

Before discussing the research method(s) adopted for this study in detail (6.3.3.), it is first required to have an awareness of the different potential methods of data collection. This brief discussion is important as it demonstrates that due consideration has been given to the adoption of the most appropriate methods of data collection for this specific study (based upon the ontological and epistemological foundations, as previously discussed). What follows, therefore, is a brief outline of the key methods of data collection as identified by Saunders et al., (2007), namely: experiment; survey; case study; action research; grounded theory; and, ethnography.

The first method of data collection to be discussed is *experimental research*. The experiment is a classical form of research that owes a great deal to the natural sciences (Saunders et al., 2007). This form of research is used when it is important to establish definitive cause-and-effect relationships (Sekaran, 2003). The researcher will seek to manipulate independent variables, control intervening variables, and systematically observe any changes which occur (Gill and Johnson, 1997). An experiment may take place in either a contrived environment (lab experiment), or a natural environment (field experiment), with, in most cases, there being multiple factors acting on an independent variable (Sekaran, 2003).

The second method of data collection to be discussed is the *survey*. This is typically associated with the deductive approach (Saunders et al., 2007), and is a popular research design within the purchasing and management literature (Babbar and Prasad, 1998). The

[143] Furthermore, it is argued, individual researchers may chose different ways of collecting data, such as looking at statistics, interviewing people, or through observation (from different viewpoints / for different attributes) (Livingstone, 1987).

objective is to answer who, what, where, how much and how many questions (Saunders et al., 2007) and examine the relationship between variables through statistical analysis using quantitative techniques (Flynn et al., 1990). Considerations for the design of survey research will include access to subjects, sample size (studies that sample widely are often known as cross-sectional surveys), data collection methods (questionnaire), analysis and measurement.

The third method of data collection to be considered is the *case study approach*. Case study research is defined by Yin (1994, 2003) as, "an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are clearly not evident" (p. 13)[144].

The case study approach is useful in answering the 'how', 'why' and 'what' questions, as this method offers in-depth analysis with a strong emphasis on the context in which the complex phenomena actually take place (Yin, 2003, Saunders et al., 2007). Outcomes and processes are measured using multiple data collection techniques and unlike the experiment, variables are not controlled or manipulated through any form of intervention. Triangulation here refers to the use of different data collection techniques under one study, which will help verify that the data is in fact telling you what you believe it is telling you. For instance, qualitative information gathered within a semi-structured interview could be backed up by a questionnaire, survey, or by documentary evidence (Saunders et al., 2007) and can be quantitative in nature. Ideally, case study research will allow for the study of a number of cases in as much detail as possible, drawing on as much information, from as many people and as many perspectives as possible (Yin, 2003).

[144] Furthermore, the case study inquiry "copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulated fashion, and as other result benefits from the prior development of theoretical propositions to guide data collection and analysis" (Yin, 2003, p13-14).

There is, however, not just one approach to case study research. As Yin (2003) notes, there are, in fact, four case study approaches, based upon two discrete dimensions: single case v. multiple case and holistic case v. embedded case. A *single case* can be used when it is representative of a critical, extreme, or unique case, whilst *multiple cases* are used when there is a need to establish if findings of the first case concur in other cases and there is the ability to generalise from these findings. According to Yin (2003), there are advantages and disadvantages to both single and multiple-case designs. Multiple-case evidence, however, is viewed by many as being more compelling and robust. Furthermore, there are substantial analytical benefits to having two or more cases. The decision should, however, not be taken lightly, as even with only two cases it must be possible to have direct replication. A replication logic is different to that of a sampling logic, which means that the choice of cases is important. Multiple-cases are not chosen on the basis of a 'sample', but instead they must be able to predict similar results, or predict contrasting results, but for predictable reasons (Yin, 2003).

Finally, if multiple-case studies are chosen, they can be either *holistic or embedded cases*. A holistic case study is used when the researcher is interested in the organisation as a whole, whereas *embedded case* studies are appropriate when researching a number of logical sub-units within an organisation as a whole.

The fourth method of data collection is *action research*. An action research approach is reflective and experimental in design and involves the active intervention by the researcher, followed by the careful consideration of the effects (Flynn et al., 1990.) This can be viewed as a collaborative approach between a researcher and a client, to diagnose a problem and produce a solution (Bryman and Bell, 2003). This makes this approach different from others, in that there is an explicit focus on action and the promotion of change within an organisation, rather than the observation of a phenomenon it its specific environment (Marsick and Watkins, 1997).

Finally, there are *grounded theory research* and *ethnography research* approaches to data gathering. Both of these approaches are rooted within the inductive approach. According to Goulding (2002), a *grounded theory* approach is helpful for researchers to predict and explain behaviour, with the emphasis on developing and building theory based upon observation. Data collection will start with little formation of a theoretical framework and theory will emerge from observation to be tested further. *Ethnography* emanates from anthropology and its purpose is to describe and explain the social world, through long-term immersion of the researcher in the social world under investigation.

6.3.3 Discussion of research methods and thesis position

Having briefly outlined the different methods of data collection, it is pertinent to now justify the method of data collection adopted in this study. According to Silverman (2003), there is no one method of data collection that is more valid than another, or gets us closer to the 'truth' as *"it all depends upon our research question. And all research questions are inevitably theoretically informed"* (Silverman, 2003, pp.76-7). Moreover, these strategies are not mutually exclusive and a combination of approaches (mixed methodology) is also appropriate (Saunders et al., 2007).

Some of the above mentioned methods of data collection clearly belong to either a deductive or inductive approach. Therefore, although it is acknowledged that it is often too simplistic to make these clear distinctions, methods of data collection based principally upon an inductive approach were eliminated. *Grounded theory* would have required a very long time-period to complete and was seen to be too resource intensive for this study. As there was already a considerable body of literature on the research topic, grounded theory was not a good fit. This was also the case with *ethnography,* which would have required the researcher to be involved in participant observation through immersion in the research setting. There was insufficient time and opportunity for the researcher to get to the root of 'what is happening', through full participation in the lives of the subjects, by becoming a member of the group, or business. This would be impossible considering the number of cases required to make the research generalisable. *Action research,* was also seen as being inappropriate as the aim of the research was towards the *pure research* end of the spectrum, whereby there was the desire to expand the general body of literature and develop a universal set of findings that are of significance and of value to society in general, rather than developing a specific set of actions for the participating organisations. An *experimental strategy* was also rejected as being inappropriate for the study of business and management situations, as it requires a controlled environment, where variables can be manipulated by the researcher (Sekaran, 2003).

The *survey method* was not used in this study for a number of reasons. First, although this method can be useful for obtaining quantitative data, it has been criticised for not providing 'rich data' (Dale, 1992). Second, surveys have to be carefully designed to produce standardised questions, to reduce the risk of misinterpretation and to ensure consistent responses (Robson, 1993). As this study requires respondents to answer a large number of complex questions in the form of two questionnaires, the risk of misinterpretation and lack of consistency is too great. Furthermore, it was unlikely that there would be an adequate response rate (Pearson, 2008) to a postal (or email) survey for such a detailed questionnaire. To ensure that robust and reliable data was collected, it was felt that face-to-face, or telephone interviews would be more appropriate (see next section).

The decision was made, therefore, to adopt an embedded multiple- case research method of data collection. This method was seen as being the most appropriate for understanding buyer-supplier exchange relationships and to provide maximum analytical benefits. The cases were seen as embedded (and not holistic), as although it is desirable to have a company-wide perspective on the specific commodity under investigation, the power and competition analysis is typically conducted with individuals representing a small number of functions (marketing, operations and procurement), within the organisations as a whole.

The case study approach has, however, been criticised by some writers. First, if results have come from a single or small number of cases studies, then they will tend to be context specific and cannot, therefore, necessarily be generalised. Second, even when multiple cases are used, which would in theory enable results to be more generalisable (based upon the observation of patterns across varying situations), there is still a problem with drawing generalisable conclusions about events and causal relationships within a specific set of circumstances (Gray, 2004). These criticisms are, however, levelled at a descriptive, barefoot empiricist approach to case studies, based upon induction. As previously argued an inductive approach to research, regardless of the specific research method adopted, is flawed, as concepts are driven by observation and anecdotal evidence, rather than being deductively formed from theory. As the use of case studies in this study are based upon deductive reasoning, whereby a prior theory is then empirically tested for validity, the latter criticisms do not hold true.

To conclude, the embedded multiple-case approach is wholly consistent with the needs of this study[145]. The selection of cases is discussed in detail in the next section (6.4.).

6.4. Selection of cases

The selection of cases within this study has been based upon replication logic rather than a random sampling method. As has already been highlighted, the replication logic dictates that cases must be selected carefully rather than by a random selection process. The chosen cases must be able to either predict similar results or predict contrasting results, but in a manner that is predictable (Yin, 2003, p. 47). The selected cases must also be able to successfully test the proposition (hypothesis) that a, **'[A] policy of 'partnering' cannot provide a universal buyer-supplier solution as it more likely to be successfully implemented under power circumstances of interdependence. This power structure will not always pertain within UK food supply chains, as is the case with supply chains generally. As a result, the UK Government's policy is likely to only be partially successful'.**

Furthermore, the cases must also be able to successfully test the disaggregated hypothesis:

> i) Power can potentially prevent collaboration of any sort (partnering or otherwise) from happening;
>
> ii) Power may not prevent collaboration, but it might prevent partnering. In this context, this may cause problems for the UK Government's sectoral objectives;
>
> iii) Only in circumstances of interdependence will partnering be possible;
>
> iv) Even when partnering is possible, the circumstances of interdependence might be unstable and change due to natural market development; and,

---

[145] The case study, it is argued, can be used to explore themes and subjects from a focused range of people, organisations, or contexts. It is also argued, when properly designed and constructed, cases are a powerful research strategy for investigating business related phenomenon (Ellram, 1996; Lee, 1989; Stuart et al., 2002; Bonoma, 1985).

v) On top of the natural change, some firms will act opportunistically and either actively try to change the power circumstances or commit other acts of opportunism within the existing power circumstances[146].

To re-iterate, the objective of the research is, therefore, to establish a common, although not absolute, link between the power position and the resulting relationship type. The hypothesis states that interdependence gives the 'best chance' for partnering[147]. In the real world, however, there will not always be interdependence and, therefore, we would expect that even if buyers or suppliers are trying to pursue partnering, a range of relationship management types will be adopted.

In order to provide a 'fair test' of the above hypothesis, there were a number of key issues influencing the selection of cases. First, the cases should represent dyadic buyer-supplier relationships within the UK food industry, where either the buyer or the supplier is attempting to develop a partnership. Second, some of the cases need to have interdependent buyer-supplier power relationships, where we would expect partnering initiatives to be successful. Third, other cases must be non-interdependent (buyer dominance, supplier dominance, or independent), where we would expect efforts to be less successful.

Having established that the selection of cases must provide a 'fair test' for the hypothesis, a decision has to be made as to the specific number of cases to be selected. As highlighted, a multiple-case approach will be adopted. However, there is a question as to how many cases are needed to test the hypothesis robustly. There is much discussion elsewhere (Yin, 2003;

[146] Although, as discussed in chapter four, power can potentially prevent collaboration of any sort (partnering or otherwise) from happening, the selected cases do not aim to test this. Each of the selected cases was involved in a 'partnership' at the time of the research and, therefore, it these cases cannot provide evidence to demonstrate that power can prevent collaboration. The focus of the research is on points ii) to v) of the disaggregated hypothesis.

[147] Although, as discussed in chapter three, this can only be the 'best chance', as there may well be other reasons to partner, such as for ethical reasons.

Eisenhard, 1989b, etc.) about what constitutes an adequate number of cases. There are, nevertheless, no rules governing this decision. Eisenhardt (1989b) suggests a number of between four and ten cases as being appropriate.

Balancing the complex and in-depth nature of data collection, and the limited time and resources available to conduct this study, with the need to capture a variety of power relationships (so as to be able to provide a fair test), five detailed cases, examining dyadic buyer-supplier relationships were deemed sufficient.

To identify appropriate case study organisations initial interviews were set up with various food supply chain participants. These focal companies were asked to identify potential commodities to be investigated, as well as key suppliers and customers. The aim was to determine the overall characteristics (at least broadly speaking) of the proposed dyadic buyer-supplier relationship to be investigated. These initial interviews were then supplemented with consultation with industry experts and a study of market reports, to ascertain the validity of interviewees' perceptions about the specific industry they were servicing. Five focal companies were chosen, based upon the following criteria:[148]

1) The focal company and / or their first-tier supplier are attempting to develop a partnership;
2) The focal company and their first-tier supplier have interdependent buyer-supplier power relationships, where we would expect partnering initiatives to be successful (or question 3);

[148] The selection of cases was also due to practical and access reasons. Although it may have been desirable to draw cases from a broader variety of food sectors other than meat and dairy, the author had the support of the MLC and RMIF who provided access to initial contacts and robust supporting information. It would have also been desirable to consider a dyadic relationship between a multiple retailer and one of their suppliers (i.e. Tesco's and Cadbury's Schweppes), but the level of access for the desired level of research was denied.

3) The focal company and their first-tier supplier have non-interdependent (buyer dominance, supplier dominance, or independence) buyer-supplier relationships, where we would expect efforts to partner to lead to failure;
4) The focal company was willing to be transparent and open with the researcher, to ensure full and reliable data can be collected;
5) The focal company would provide access and support for the researcher to conduct research activities with identified supply and customer organisations; and,
6) The focal company would dedicate sufficient resources and time to support the research activities[149]. Between 8-12 hours direct contact time was deemed as necessary[150] for scoping, gathering industry background information, completing research questionnaires, verification of information collected and feedback. Further time may be necessary for support activities, such as provision of reports, collection of data and verification of information.

Based upon a number of target focal companies, five cases were selected as providing a suitable mix based upon the above criteria. Whitbread, for instance was not selected, as there were serious doubts about their willingness to meet, in particular, criteria 5, and 6. The Table 6.1 below shows the cases analysed against the 6 criteria listed above. It should be noted that a number of the cases come from the same supply network (cases two, three and five).

[149] Assurances were required, that the identified first-tier supplier, would also be willing to dedicate between 4-8 hrs for scoping, gathering industry background information, completing research questionnaires, verification of information collected and feedback.
[150] The amount of time needed to conduct the research also depended upon the complexity of the focal organisation. For instance Caspian (the focal organisation in case two) is a medium sized restaurant. To visit the restaurant, understand the business, their processes and to gather information related to power and relationships management type was far less time consuming than understanding a much larger organisations such as Cadbury's Schweppes (the focal organisation in case four) and their specific processes etc.

Case	Dyadic relationship under investigation: Focal company and 1st tier supplier	Selection Criteria 1: Relationship Management Type with 1st Tier	Selections criteria 2 & 3: Estimated 1st Tier Power Structure	Selection criteria 4,5, 6:
1	Focal company : Graham WFF Franchisee (ready-meals home delivery service provider) 1st tier supplier: Apetito (ready-meal food manufacturer)	Partnership relationship pursued by buyer and supplier	=	Yes
2	Focal company: Caspian (Restaurant) 1st tier supplier: Pioneer Foodservices (catering butcher)	Partnership relationship pursued by buyer and supplier	=	Yes
3	Focal company: Pioneer Foodservices (catering butcher) 1st tier supplier : Harris & Hetherington (H&H) (auctioneer/ meat procurer)	Partnership relationship pursued by buyer and supplier	**0** / <	Yes
4	Focal company : Cadbury's Schweppes (branded confectionary manufacturer) 1st tier supplier: DFB (milk cooperative):	Partnership relationship pursued by buyer	<	Yes
5	Focal company: H&H (auctioneer / meat procurer) 1st tier supplier: S&J Dodd (suckler beef farmer)	Partnership relationship initially pursued by supplier	>	Yes

Table 6.1: Selection of cases (Source: Author)

As this analysis highlights there are different focal organisations, which meet the six selection criteria, as discussed previously. To follow is a brief summary of the key dyadic relationships to be analysed.

Case one investigates the dyadic relationship between Graham W Davis's Birmingham and Dudley Wiltshire Farm Foods franchise and Apetito, the franchise owner and manufacturer of ready meals. The focal company is the Birmingham and Dudley Wiltshire Farm Foods Franchise, owned by Graham and Marilyn Davis, based in Lye (West Midlands). This franchise provides a home meal delivery service for a predominantly elderly cliental. The first-tier supplier is Apetito, one of Europe's leading manufacturers of quality frozen foods (ready-meals). Apetito supplies a range of 'traditional' menus (meals) for their Wiltshire Farm Foods franchisees.

Case two investigates the dyadic relationship between the restaurant Caspian Flame Grill based in Workington, Cumbria and the catering butcher, Pioneer Foodservices based in Carlisle, Cumbria. The focal company is a 150 seat restaurant with a strong focus on providing high quality and affordable meals, with a wide selection of predominantly meat-based dishes. The first-tier supplier is Pioneer Foodservices, an important regional catering butcher and foodservice organisation, supplying premium 'Lakeland' branded beef (along with other meats and food produce).

Case three investigates the dyadic relationship between Pioneer Foodservices and the auctioneers, Harris and Hetherington (H&H). The focal company is Pioneer Foodservices who are a regional catering butchers based in Carlisle in the North West (NW) of England. They are traditional butchers who have developed the 'Lakeland' beef brand for sale to a variety of end customers. Pioneer's 1st tier supplier for beef to be processed into their 'Lakeland' beef branded products is H&H, an important local (NW) livestock auction company. H&H procure beef for Pioneer either directly from their network of farmers, or through the auction market. They also act as the gatekeeper between the farmers and Pioneer's contract slaughterers (Rose County).

Case four investigates the dyadic relationship between Cadbury's Schweppes and their 1st tier milk supplier, Dairy Farmers of Britain (DFOB). The focal company is Cadbury's Schweppes (CS), an internationally recognised confectionary manufacturer, for which milk is a key ingredient for the production of one of its important brands: Dairy Milk Chocolate. Fresh milk (not powdered or concentrate) is essential, as part of the brand image. The 1st tier supplier is Dairy Farmers of Britain (DFOB), a large national dairy cooperative. DFOB act as the consolidator and coordinate the supply of raw undifferentiated milk to CS[151].

Case five investigates the dyadic relationship between H&H and their 1st tier beef supplier, Stedman and Judy Dodd. The focal company is an important livestock auction company, with its headquarters in Carlisle. H&H source high quality suckler beef, either through their auction ring or their network of farmers, to be processed into premium quality 'Lakeland' beef. S&J Dodd are one of H&H's important suppliers, producing high quality suckler beef on their mixed farm (West View Farm) based in Temple Sowerby, Cumbria.

Having considered the selection of cases in some detail it is now crucial to identify appropriate data gathering techniques to be used in this study.

6.5. Selecting appropriate data gathering techniques

Having established that this study will be using an embedded multiple-case method of data collection and having discussed the choice of five case studies, there are a number of further decisions which need to be made. These decisions relate to the individual techniques and approach adopted for secondary and primary data collection.

Secondary data can be quantitative and qualitative, as well as raw or compiled data. The importance of secondary data and how it was used in this study will be discussed first (6.5.1.), before the collection of primary data is considered in some detail (6.5.2.). Various techniques of primary data collection will be highlighted (observation, semi-structured, in-

[151] DFOB has a national membership with a variety of sized independent dairy farmers who, as members, are contracted to supply the co-operative with milk.

depth and group interviews and questionnaires) and the specific techniques used in this study will be outlined.

6.5.1. Collection of secondary data for this study

Secondary data can be in the form of: a) documentary written materials (i.e. reports, journal, newspapers) or non-written materials (i.e. media accounts- television); b) multiple sources that are area based (i.e. financial times country reports) and time series based (i.e. industry statistics reports, Government publications); and, c) surveys, including censuses (i.e. Government Census), continuous and regular surveys (i.e. Government or Organisation) and ad hoc surveys (i.e. Government and Academic) (Saunders et al., 2007).

The collection of secondary data was an integral part of the overall data collection strategy for this study. As emphasised in Figure 6.1 and shown in the preceding section (6.5.2.), secondary data was needed to verify key information obtained from interviewees in stage 1 and stage 2 of the research. After stage 1 and stage 2 of the data collection, information provided by the primary research was verified and enhanced by cross-referencing it with a number of secondary sources of information. This included documentary written material, such as the focal organisation's databases (financial and process / production information), promotional brochures, relevant journal articles and, in some cases, newspapers. Multiple sources were also used such as area based and time series based Government publications (i.e. NW Food Alliance reports / publications, industry statistics provided by BPEX, MLC and RMIF), books and journals (academic and practitioner). A number of surveys (censuses, continuous / regular and ad hoc surveys) published by Government and Industry bodies were also consulted when necessary (i.e. Farm Number census provided by MLC publications, Farm Income Surveys- DEFRA, BPEX and MLC). These sources were carefully selected based upon the relevance, reliability, scope and breadth of the data provided. There was a large amount of secondary data (in a variety of forms, as discussed) providing extensive industry and sector analysis. Government reports and surveys, in particular, were seen as providing robust and reliable information as the statistics and information were gathered from primary research and data gathering from industry participants.

6.5.2. Collection of primary data for this study

6.5.2.1 Specific primary data collection techniques

Primary data can be collected in a number of ways: through observation, semi-structured, in-depth and group interviews and questionnaires. Observation can be either through participation (with the aim of discovering the meanings that people attach to their actions), or structured observation (which is more concerned with the frequency of those actions) (Saunders et al., 2007). Due to the positivist nature of the research, observation as a method of primary data collection was rejected.

As has already been highlighted, questionnaires were used to collect primary data. It was, however, felt that the questionnaires would not be effective if used in conjunction with a survey method (for a number of reasons as previously discussed). The decision was therefore made to conduct face-to-face interviews, following two semi-structured questionnaires. The questionnaires used for primary data collection can be seen in Appendix one and two. Careful attention was paid in their design, with each question being painstakingly chosen to identify key variables to test the hypothesis (see chapter five for more information).

Furthermore, by using face-to-face interviews it was possible for the researcher[152] to ensure that the respondent fully understood the questions and, therefore, gave meaningful answers. This added to the validity of the questionnaire, has meant that none of the completed questionnaires were deemed as being unusable. The questionnaire had both closed (yes / no, or high, medium or low) and open-ended questions. This allowed the researcher maximum flexibility to collect both detailed specific data (i.e. data to ascertain levels of relative buyer, or supplier power) as well as broader 'feelings', or 'perceptions', which ensured the collection of rich qualitative data.

Having established the specific techniques of data collection this section will now discuss the specific data collection strategy and process.

6.5.2.2 Data collection strategy and process: identifying participants to interview

As highlighted in Figure 6.1 to follow, stage 1 of the data collection was to complete the 'power and competition analysis questionnaire', followed by the completion of the 'relationship management type questionnaire', in stage 2[153]. These questionnaires formed the basis of semi-structured, face-to-face interviews, with appropriate people within the focal company and the 1st tier supplier. Table 6.2, to follow, shows the individuals who were interviewed for each case and why they were selected. As this table highlights the interviewees included representatives, when possible (or necessary) from procurement, operations and marketing (and / or high level managers / directors).

[152] Using the question guidance set out in the full questionnaire. See Appendix one and two.
[153] Questionnaires can be found in Appendix one and two.

Case	Interviewees	Expertise
Case 1: Graham Davis WFF – WFF apetito	• Graham Davis, WFF Franchise owner • Marilyn Davis, WFF Franchise owner • Graham Bagley, Operations Manager WFF Franchisee • Kate Holden, WFF Marketing Manager • John Ryman, Planning Manager, apetito • Dick Richards, Meat Buyer, apetito • Catherine Harris, Purchasing Manager, Apetito • Helen Rookley, apetito Marketing Manager • Richard Woodward and Ian Stone. Account Managers, apetito	• Company wide perspective, finance, operations, marketing and sales. • Company wide perspective, but with focus on marketing and sales. • End-customer delivery and operations •WFF marketing and franchisee management • Apetito operations and production planning • Company wide perspective and purchasing • Company wide perspective and purchasing • Apetito and WFF marketing • Major accounts and apetito customer relations / marketing
Case 2: Caspian - Pioneer	• Sohrab Padidar, Proprietor, Caspian Flame Grill Restaurant • Jillian Pallister, General Manager, Caspian Restaurant • Barry Garret, Commercial Director, Pioneer Foodservices • David Jenkins, Sales Director, Pioneer Foodservices	• Company wide perspective, finance, operations, marketing and sales. • Company wide perspective, operations and purchasing • Company wide perspective, finance, operations, procurement, 'Lakeland' brand developer and manages the H & H relationship • Company wide perspective (son of the owner), marketing and sales focus.
Case 3: Pioneer – H & H	• Barry Garret, Commercial Director, Pioneer • David Jenkins, Sales Director, Pioneer • Trevor Hebden, Managing Director, H & H • Tim Bastable, H & H, Project Consultant • Robert Addison, H & H, Auctioneer • Robert Taylor, H & H, Senior Auctioneer	• Company wide perspective, finance, operations, procurement, 'Lakeland' brand developer and manages the H & H relationship • Company wide perspective (son of the owner), marketing and sales focus. • Group wide perspective, finance, marketing and sales • H & H Ltd focus, finance, operations, marketing and sales • H & H Ltd focus, operations, purchasing • H & H Ltd focus, operations, purchasing
Case 4: CS – DFB	• Craig Mallet, Category Manager, CS • Phil Watson, Account Manager, CS • Andrew Gaskell, Milk Buyer, CS • Stephen Bradley, Milk Consultant, contracted by CS • Phil Scott, Accounts Manager, DFB • Richard George, Dairy Farmer, DFB	• Company wide perspective and milk purchasing • Marketing focus and client management • Milk purchasing and supplier relationship management • Milk industry expert • Company wide perspective, marketing and account management • Company wide perspective and milk industry knowledge
Case 5: H&H – S&J Dodd	• Trevor Hebden, Managing Director, H&H • Tim Bastable, Project Consultant, H&H • Robert Addison, Auctioneer, H&H • Stedman and Judy Dodd, Owners, West View Farm	• Group wide perspective, finance, marketing and sales • H & H Ltd focus, finance, operations, marketing and sales • H & H Ltd focus, operations, purchasing • Company wide perspective, finance, operations and sales. Milk industry expert.

Table 6.2: Individuals selected for interview (Source: Author)

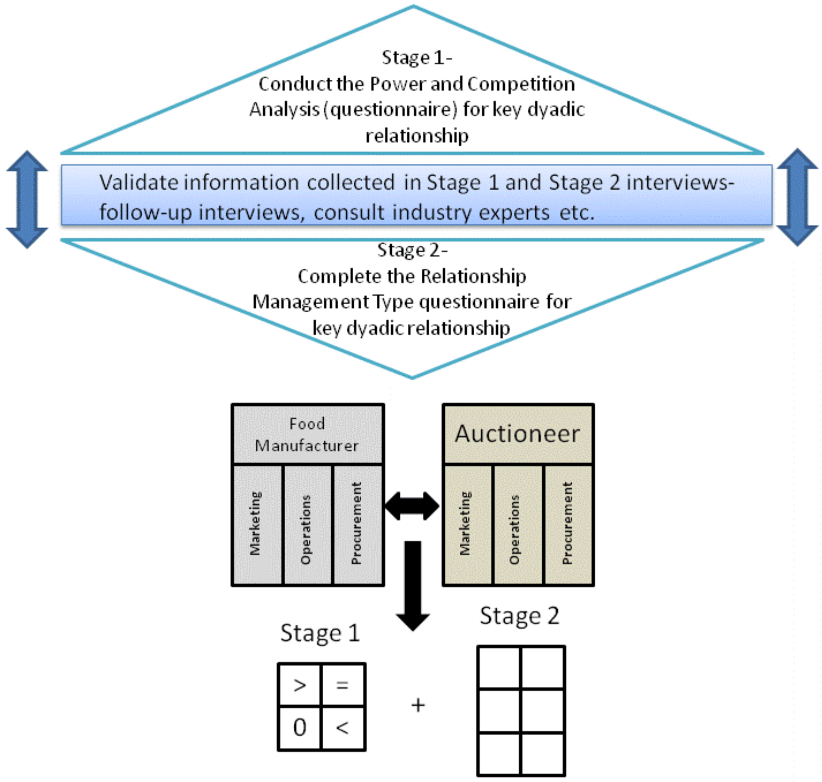

Figure 6.1: Data collection strategy and process: stage 1 and 2 (Source: Author)

When it was not possible to get full information in one 'sitting' or supporting evidence was required, further interviews were conducted (face-to-face, or on the telephone) and relevant data was gathered (this included checking details with industry experts from the MLC, RMIF etc.). By the end of the stage 1 of the research the aim was to have:

1) Agreed upon the specific commodity under investigation and the key relationship to be analysed[154];
2) Gathered general background information about the sponsoring organisation, including the size of the organisation; general organisational structure and broad details about the sector/s that the organisation competes in; and,
3) Conducted a full power and competition analysis using the devised questionnaire and plot the chosen dyadic relationship in the four box power matrix. To complete this it

[154] For instance: Pioneer Foodservices was the focal company in case three. It was agreed that we would be investigating the relationship with H&H, the procurement partners for beef bought for their high-end, branded beef product, 'Lakeland' beef.

will be necessary, as highlighted in Figure 6.2 below, to validate buyer answers with the 1st tier supplier.

By the end of stage 2 of the research the aim was to have:

1) Completed the 'relationship management type questionnaire' and plot the dyadic relationship under investigation in the six box matrix; and,
2) To have gathered sufficiently robust information to provide a 'fair test' of the hypothesis and to be able to draw meaningful and generalisable conclusions about the nature of power and its effects on buyer-supplier exchange relationships.

As Figure 6.2 below highlights, to operationalise the power matrix, in stage 1 of the research, a number of research steps are required.

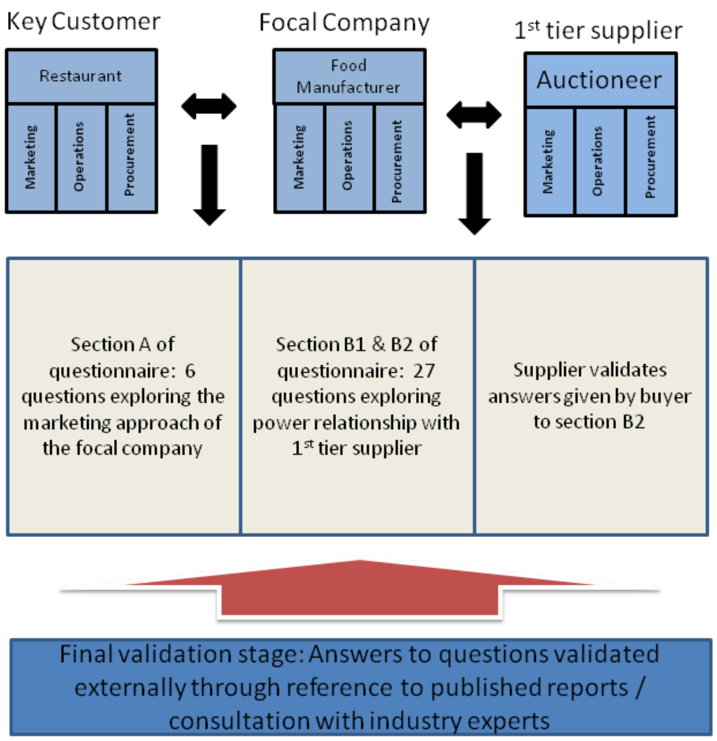

Figure 6.2: Stage 1 of data collection strategy and process (Source: Author)

It was first necessary to complete section A of the questionnaire. This was aimed at determining the subject's marketing approach with a key customer (see chapter five for more detail). To complete section A of the questionnaire marketing and sales representatives (or someone with a good knowledge of the company as a whole) from the focal company were interviewed to gather information about the chosen end customer.

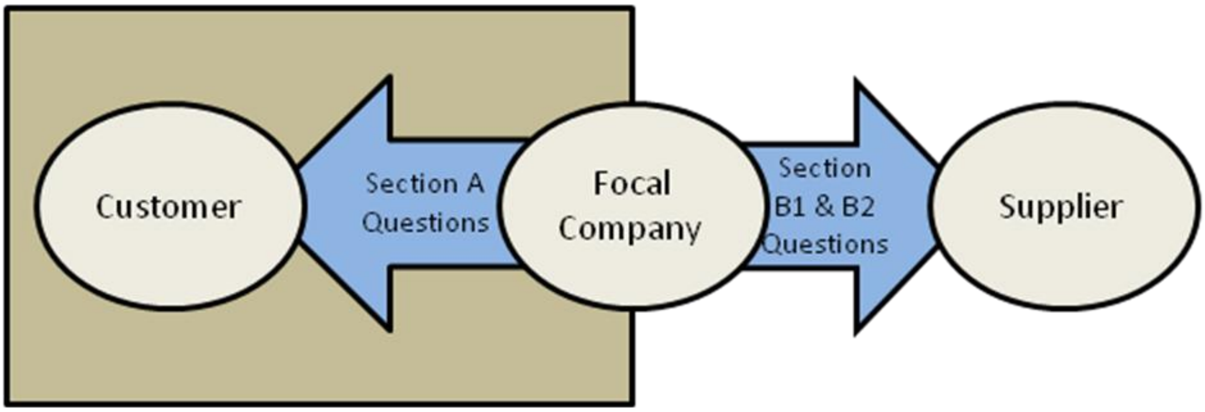

Figure 6.3: Section A questions and analysis (Source: Author)

It was then necessary to complete sections B1 and B2 of the questionnaire in order to determine the relative power between the buyer and supplier and plot the relationship within the four box power matrix (see Figure 6.4 below and discussion in chapter five).

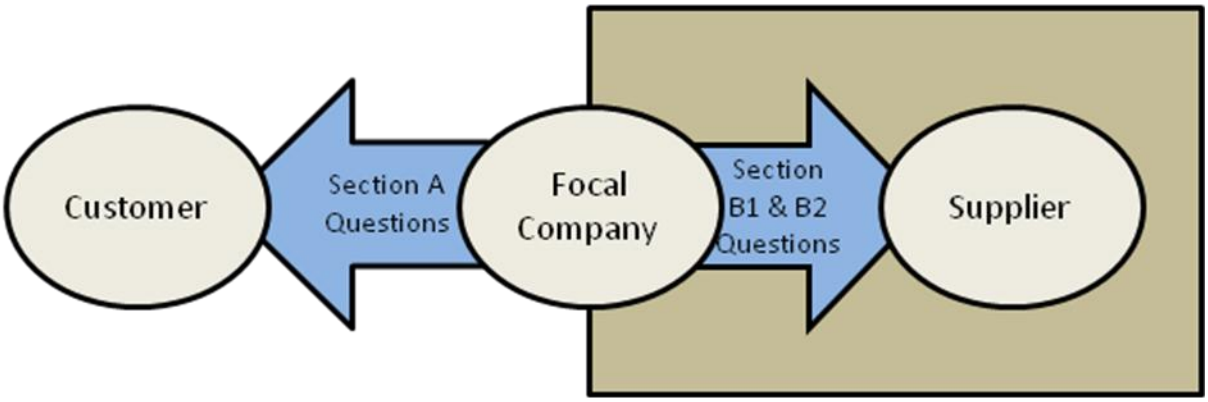

Figure 6.4: Section B1 and B2 questions and analysis (Source: Author)

To conduct a full power and competition analysis it was preferable to talk to marketing, operations and procurement professionals (and / or, if possible, someone with an overview of the whole company).

Once the 'power and competition analysis questionnaire' had been completed by the focal company it was then necessary to validate the information provided. This was achieved by simply asking the same set of questions to the supplier as well. This could be completed by interviewing a sales and marketing representative from the supplier (or other senior individuals with the relevant knowledge).

In this way, by obtaining information from both buyers and suppliers, this methodological approach was robust, as it was possible to verify buyer and supplier assumptions about the relationship. When there were anomalies or contradictions between the information provided by a buyer and the supplier, other people (such as finance) were consulted when necessary. In order to further validate information gathered within the interviews, multiple sources of evidence were used to check financial and background industry information, from existing published reports and through further consultation with experts from industry bodies including the Red Meat Industry Forum (RMIF) and Industry Consulting (IC), part of the Meat and Livestock Commission (MLC).

Stage 2 of data collection simply entailed asking the questions, set out in the 'relationship management type questionnaire', to the same individuals identified in stage 1 of data collection, in both the focal organisation and their 1st tier suppliers. These questions were typically asked after the completion of the power and competition analysis[155] and when

[155] In some instances, when time permitted, both the 'power and competition analysis questionnaire' and the 'relationship management type questionnaire' were asked back-to-back. It was also necessary to sometimes asks stage 2 questions in separate interviews.

possible evidence was asked for[156]. As the information provided was specific to the individual relationship it was only possible to validate the responses between the organisations[157].

At this point it is important to highlight the timing of the data collection stage. Initial scoping for the selection of cases and background interviews commenced in June 2003. The primary data was then collected over a two year period, from March 2005 to March 2007 (see Appendix three for the full list of interviews and supporting documentation). In some circumstances follow-up interviews were later conducted in March 2009. The cases presented in this thesis, therefore, represent findings from a defined period of time and the dynamics of the relationships and industries analysed were accurate at the time of the research.

Having determined, in detail, who will be interviewed and the process which was followed for robust primary data collection, it only remains to briefly discuss whether the data will be analysed qualitatively or quantitatively.

6.5.2.3. Analysis of primary and secondary data

Quantitative data refers to numerical data, or relevant data which can be usefully quantified to answer the research question and meet the objectives of the research. Quantitative data can be a product of many of the research methods and specific techniques discussed thus far. For instance, survey-based research can produce both quantitative and qualitative data. In

[156] For instance, if there was a contract in place between the focal organisation and its 1st tier supplier this was viewed (when possible), with the most important aspects of the contract being discussed and noted down.
[157] As this information was private, relationship specific information, it was rarely necessary (or possible) to validate responses with external sources or experts.

contrast, qualitative data refers to all non-numeric data or data that has not been quantified (Saunders et al., 2007).

The decision has been made to analyse the data collected within this study qualitatively. There are a number of reasons for this. Whilst there was potential scope to analyse some of the data collected in the questionnaires quantitatively, it was felt that this would potentially be seen as a quick fix, involving very little direct contact in the field (Glaser and Strauss, 1967). To really understand buyer-supplier relationships and to be able to plot relationships on the relationship management type and power matrices, it was necessary to collect both numeric and non-numeric data, through in-depth contact with the subjects under investigation. Furthermore, the data collected cannot be readily analysed quantitatively. This is because looking for statistical correlations based upon multiple variables, which may (or subsequently may not) be sufficiently defined and then trying to draw conclusion about the meanings of these correlations, would potentially result in spurious conclusions being drawn from subsequent analysis. This is particularly relevant when trying to understand the complex phenomenon of buyer-supplier exchange relationships (Ireland, 2005).

Qualitative research has also been criticised. First, some would argue that qualitative research is unreliable as there are questions over, "the degree of consistency with which instances are assigned to the same category by different observers or by the same observer on different occasions" (Hammersley, 1992, p 67). Second, the validity of qualitative research can be, it is argued, a problem (Cox, 1997; Bryman, 1988). According to some, qualitative analysis of data tends to be anecdotal, having drawn conclusions and explanations from brief conversations, unstructured interviews and personal experiences (Hammersley, 1992; Bryman, 1988).

These two criticisms are, however, not valid in the context of this research. For one, this research has been based upon deductive reasoning and, therefore, the collection and subsequent analysis of data is not anecdotal in nature (see earlier discussion). Furthermore, this research has included a clear documentation and robust justification of the specific methodological approach.

Having clearly established the methodological structure of this study in this chapter, we will now move onto the detailed case chapters. Chapter seven discussed case one, which investigates the dyadic relationship between Graham W Davis's Birmingham and Dudley Wiltshire Farm Foods franchise and apetito, the franchise owner and manufacturer of ready meals. Chapter eight discusses case two, which investigates the dyadic relationship between the restaurant Caspian Flame Grill and the catering butcher, Pioneer Foodservices. Chapter nine discusses case three, which investigates the dyadic relationship between Pioneer Foodservices and the auctioneers, Harris and Hetherington (H&H). Chapter ten discussed case four, which investigates the dyadic relationship between Cadbury's Schweppes and their 1st tier milk supplier, Dairy Farmers of Britain. Finally, chapter eleven discusses case five, which investigates the dyadic relationship between H&H and their 1st tier beef supplier, Stedman and Judy Dodd.

Chapter Seven

Case one: The Graham W. Davis Wiltshire Farm Foods Franchise (WFF) and Wiltshire Farm Foods-apetito Relationship

7.1. Background to the Graham W. Davis WFF franchise and WFF- apetito relationship

Before analysing the power dynamics and the relationship management approach between the Graham W. Davis Wiltshire Farms Foods (WFF) franchisee and the Wiltshire Farm Foods (WFF) franchisor, apetito, using the two methodologies explained in full in chapter five and six, we need to provide some background information. First, typical franchisee-franchisor relationships will be discussed. Second, information will be provided highlighting the development of the specific WFF franchisee (Graham W. Davis) - WFF franchisor relationship. This will include information about how this specific franchise works and any potential constraints on this relationship.

The relationship under investigation has to be first understood in the context of a typical franchisee – franchisor relationship. According to the British Franchise Association, "[a] franchise is an agreement or license between two parties which gives a person or group of people (the franchisee) the rights to market a product or service using the trademark of another business (the franchisor)". Furthermore, "[b]oth franchisor and franchisee have a strong vested interest in the success of the brand and keeping their customers happy" (whichfranchise, 2009).

There is a variety of types of franchise, which differ in the way that they work However, the two most prominent forms of franchising are 'business format franchising' (i.e. fast food restaurants, estate agents, hairdressers) and 'product and trade name franchising' (whichfranchise, 2009). In this case, the WFF franchise is best described as the latter, as there is no royalty fee[158] and the franchisee sells products, which are made by the franchisor, in return for the provision of trademarks and logo's, national advertising campaigns and operating advice / support.

Having briefly introduced the broad concept of the franchisee-franchisor relationship, we need to now consider the specific relationship for the WFF franchise. In this case the franchisee is Graham W Davis and wife Marilyn and the franchisor is Wiltshire Farm Foods, an important business division of apetito. Both companies work closely together and view the relationship as an important 'partnership'[159]. Graham W. Davis and his wife Marilyn bought a WFF franchise in October, 1993. They saw a small advertisement in the Birmingham Post and subsequently were invited to Trowbridge to meet with the then owner of WFF, Ben Walden. The couple paid £16,000 for a territory of 2 postcodes in West Birmingham (half of postcode B) and Dudley (DY) and started their business with a small vehicle, on a part-time basis. The start was slow, selling only £400 worth of products in the first month and just over £10,000 in the first year. A year later they purchased two further postcodes; Wolverhampton (WV) and Worcester (WR) for £4,000 each, followed in 1997 by

[158] Although there is an initial investment required. Buying a WFF region can cost up to £100k. Interview with Helen Rookley, apetito, WFF on 18/7/2006.
[159] Interview with interview with Dick Richards and Catherine Harris on 14/6/2006 and Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.

Hereford (HR), for £8000. After nearly 14 years (two contracts of 7 years: 1993-2007) of holding a WFF franchise, they have 18 members of staff[160] and 8 delivery vans[161]. The annual turnover of this WFF franchise has been growing, on average, by 15-20% per year (23% in 2005, 14% in 2006) and reached £1.6 million in 2005/2006. However, as overheads and operation costs have increased, net margins have decreased and the company has only been able to sustain margins by increasing sales. Orders from end customers must be received at least 48 hrs before delivery[162]. The franchisee receives 10-12 pallets twice a week (Tuesday and Thursday) from WFF (apetito) and provides a bundled product-service package to its end customers, who are predominantly elderly people, who may also have hearing, seeing and moving difficulties. Consequently, the end customer often needs extra care, requiring a high degree of trust with their meal provider.[163] Although the relationship between the WFF franchisee and the WFF franchisor had been working well, aspects of WFFs' (apetito) service had been, according to the franchisee, substandard. There had been problems with the delivery service, including, accuracy, consistency, reliability and convenience. Graham and his wife Marilyn felt that for the 'partnership' to develop further, the way of working needed to be modified[164].

To understand how the relationship between Graham W. Davis and WFF franchisor functions, we must first gain a better understanding of how this specific franchise was run. The owner of the WFF franchise is, as mentioned previously, apetito. Apetito is one of Europe's leading suppliers of quality frozen food and catering solutions, with 48 years of specialist knowledge (www.apetito.com). They are also the largest supplier of food and

[160] 7 drivers, 3 pickers in cold room, 1 manager, 1 assistant manager, 5 office staff and 1 accountant.
[161] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Graham Davis and Graham Bagley on 12/3/2009.
[162] See Figure A4.1 in Appendix four, which show in detail the order and delivery processes for both the franchisee and franchisor.
[163] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[164] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.

catering systems and services to the elderly across Europe[165]. The group employs 6,858 people and apetito UK's turnover was £80 million[166] in 2006[167].

Apetito UK sales are growing by 8-9% per year, with the business split into five main business units: Apetito Services, Community Meals, Wiltshire Food and Farms (WFF) franchises, Food Service and Healthcare (see Figure 7.1 to follow). The key relationship between the WFF franchisee and WFF franchisor is highlighted in Figure 7.1[168].

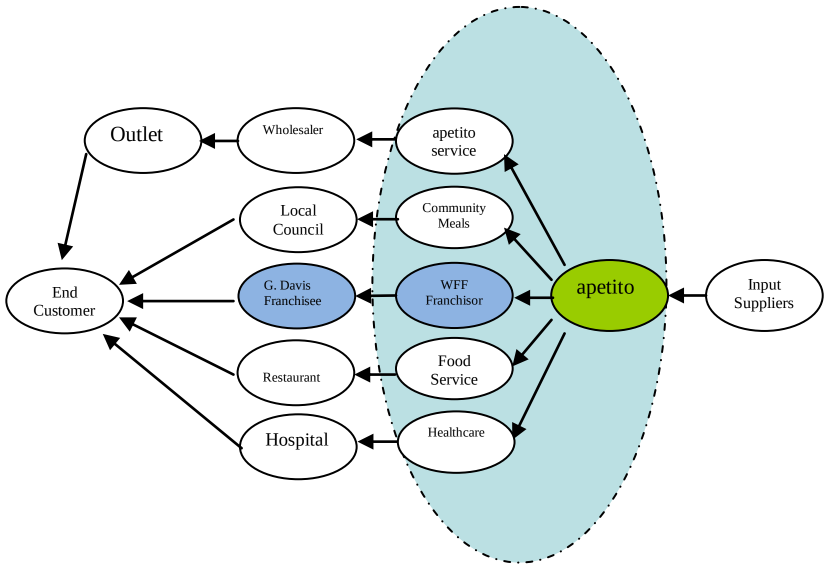

Figure 7.1: apetito business structure (Source: Author)

Wiltshire Farm Foods[169] was bought by apetito in 1996. As a division of apetito, WFF, offers a comprehensive range of (175 complete meals) frozen ready meals and desserts, 'delivered direct to the door by a personal, caring service'[170]. WFF is targeted at non-ethnic, elderly (75+) people. The range of products has been specifically developed for Wiltshire Farm Foods by apetito and includes four 'easy-to-reference menus'; traditional, a la carte, gourmet

[165] This enables the company to share best practice between their businesses in Germany, Netherlands, France and the UK.
[166] The group has an annual turnover of E 512 million.
[167] Supporting document D3 and interview with Dick Richards and Catherine Harris on 14/6/2006.
[168] Supporting document D3 and interview with Dick Richards and Catherine Harris on 14/6/2006.
[169] Was originally a part of Waldens Wiltshire Foods and was founded in Trowbridge in 1928.
[170] Source: www.wiltshirefarmfoods.com.

and light bites[171]. Sales have grown rapidly year-on-year, at a rate of over 20% per annum. WFF has over 100,000 customers (in 2005/2006)[172].

The WFF division employs 6 people to look after 58 WFF franchisees in the UK[173]. Retail sales for apetito reached £38m in 2005, with WFF sales of £22.3m. WFF sales are significant, contributing towards almost 30% of apetito UK's overall sales[174]. The franchisor relies heavily on franchisees for their sales and service commitment, investment and local knowledge, to generate its profits. Whilst apetito meals are shipped to franchisees as pure products, franchisees are responsible for adding service elements onto the brand and products[175].

There are two types of WFF franchisees: traditional (23 franchisees)[176] and modern[177] (35 franchisees). Most of franchisees sell between £500k and £1m per year, with a £1m turnover being a realistic target for modern franchisees[178]. WFF sets a standard factory price (which provides a 30-40% gross profit for apetito) for franchisees, which is independent of the volumes purchased. Recommended retail prices are available to end customers, being published in its brochures (and online). However, final retail prices may vary (plus or minus 10%), depending upon the location of the end customer (distance to the nearest franchisee)[179].

[171] With meat choices including beef, pork lamb, venison, chicken, turkey, duck and fish.
[172] Interview with Helen Rookley on 18/7/2006.
[173] Operations are mostly franchised, with a few exceptions (which are owned by apetito).
[174] Supporting document D2 and interview with Helen Rookley on 18/7/2006.
[175] Table A4.1 in Appendix four shows the share of responsibilities between the WFF franchisor and the franchisee. Information provided for Table A4.1 by interviews with Helen Rookley on 18/6/2006 and interview with Dick Richards and Catherine Harris on 18/7/2006.
[176] Traditional franchisees are made up of companies who bought WFF franchises at an early stage of the development of the WFF network. About 40% (23 franchisees) of all operations are of this type. As the selection procedure in the early stage of businesses development was less professionally structured, most of these franchisees, it is believed, are unable to deliver as good a performance as the new franchisees. It has been estimated that this has led to a potential loss of sales of £10m per annum for apetito. Specifically, the performance of a small number of traditional franchisees has disappointed WFF. However, according to its contract with these early partners, WFF lacks a mechanism to control the performance of this type of franchisees, nor provides for the ability to terminating their franchise statuses, based purely upon their poor sales performance (interview with Helen Rookley on 18/7/2006).
[177] The rest of franchisees (60%, 35 franchisees) are those who received WFF franchise licences in recent years, going through a much tougher selection and training procedures. These modern franchisees are, according to apetito, normally very competently run and perform well. WFF also obtains better control over its franchisees' business and franchise status (contract review between 7-11 years), which is determined and supported by the updated contracts (interview with Helen Rookley on 18/7/2006). .
[178] According to apetito, even the worst performing franchisee can make a £100k gross profit per year (interview with Helen Rookley on 18/7/2006).
[179] So as to guarantee that franchisees obtain a 30-40% gross profit.

Franchisees businesses are run independently and are not required to provide account information to WFF. However, WFF is aware of franchisees' activities and has developed a franchisees' club, which provides a platform for franchisees to exchange information and experiences. Currently, WFF hold quarterly regional meetings and an annual national weekend[180]. Apetito felt, however, that they lack a detailed understanding of the franchisees businesses. This was, it was felt, reducing their ability to maximise the benefits of these relationships[181].

7.2. Power and competition analysis- WFF franchisee (Graham W. Davis) and WFF franchisor (apetito)

7.2.1. Understanding the focal companies marketing approach: questionnaire part A

Figure 7.2, to follow, highlights that the first stage of the power and competition analysis was to complete section A of the 'power and competition analysis questionnaire'[182]. Section A, as stated previously, is focused on determining the subjects marketing approach with a key customer. This information helps us to better contextualise the relationship between the WFF franchisee (Graham W. Davis) and the WFF franchisor (apetito), when conducting section B1 and B2 of the 'power and competition analysis questionnaire'.

[180] Interview with Helen Rookley on 18/7/2006.
[181] Interview with Dick Richards and Catherine Harris on 14/6/2006.
[182] See Appendix 1 for the questionnaire.

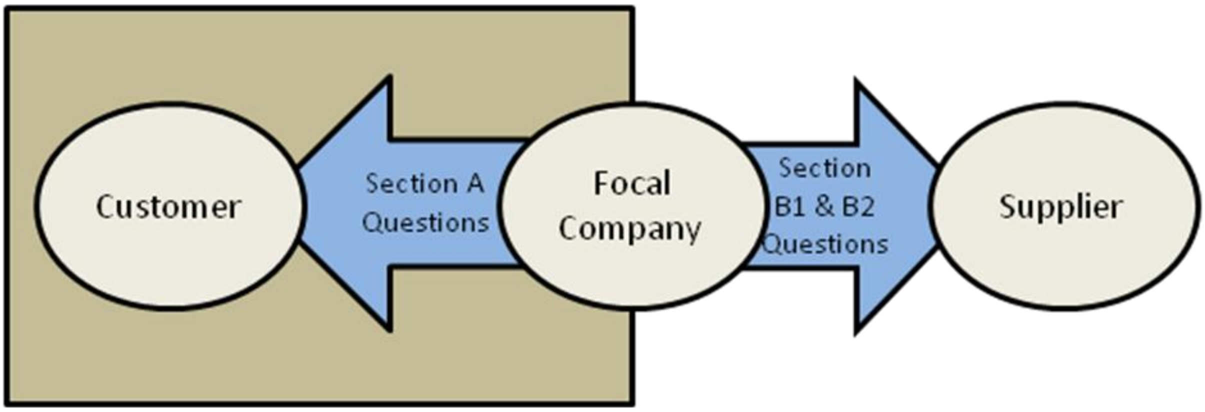

Figure 7.2: Section A questions and analysis (Source: Author)

What follows is not a description of all of the answers provided to each question in section A and B of the questionnaire (see Appendix one for the full questionnaire), but a high level analysis, focusing upon the significance of key answers. The aim is to provide evidence for determining the power balance between the WFF franchisee and WFF franchisor, enabling the relationship to be accurately plotted in the four box power matrix.

Graham W. Davis's WFF franchisee's marketing approach: There are a number of key aspects of the Graham W. Davis's WFF franchisee's marketing approach, which should be highlighted. However, this case is different to the other cases presented in this thesis, as it is concerned with the marketing of the franchisors products. For this reason, the marketing approach adopted by the franchisee (Graham W. Davis), reflects the broader WFF franchisor's marketing approach. Part of the franchisor's responsibility (see Table 1 in Appendix four) is to promote the brand through national TV campaigns[183], national press advertising (i.e. SAGA Magazine) and various local marketing champagnes.[184]

[183] 90 spots on channel 4 and 14 on itv 1 (influencer trial) between 20th February and 17th November 2006.
[184] Supporting document D2 and interview with Helen Rookley on 18/7/2006.

Wiltshire Farm Foods offers a choice of over 175 complete meals and desserts delivered frozen direct to the customer's door[185]. The end product is a bundled product and service, whereby the reliability of delivery and the trust build up between WFF franchisee drivers and the end client, is paramount[186]. The buyers of WFF products and services are individual customers, predominantly elderly (75 years +[187]) and non-ethnic. However, increasingly family members such as sons and daughters (influencers) and other interested parties (multipliers), such as doctors, nurses and carers, are a key audience for the purchase of WFF products[188].

The Graham W. Davis franchisee makes approximately 1800 deliveries per week, with a total customer base of over 4000[189]. For individual customers targeted by the WFF franchisee, the key performance objectives are the provision of low cost, dependable and flexible products and service. Meals are priced competitively, ranging from £2.15[190] to £4.50[191] for main courses and 70p for a dessert (in 2006)[192]. A dependable and flexible service is also paramount due to the potential vulnerability of the clientele. The service requires personal contact by the delivery driver, who, if necessary, will enter the premises of the clients and put the products into the freezer[193]. Ordering should be simple, either by the telephone (WFF 0800 number), online[194] or by order forms picked up by the franchisee delivery agent. The

[185] These includes PET (plastic eating tray) individual meals and desserts, foil individual meals and desserts, foil multi-portion entrée and desserts, unbaked pastries, baked pastries and pureed and soft diet meals.
[186] Supporting document D2 and D3, interview with Helen Rookley on 18/7/2006 and interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[187] Average age for Graham Davis customers is 82 years old. Interview with Graham Davis and Graham Bagley on 12/3/2009.
[188] Supporting document D2, interview with Helen Rookley on 18/7/2006 and interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[189] The majority of customers receive a delivery to every two weeks (14 frozen meals), however, although not encouraged, customers can make smaller orders and this will be accommodated. Furthermore, some customers use the service infrequently. Interview with Graham Davis and Graham Bagley on 12/3/2009.
[190] Cottage Pie, with peas and diced swede. Information from supporting document D5 and interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[191] Roast beef in red wine gravy, with roast potatoes, mashed potato and romano beans. Information from supporting document D5 and interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[192] They must also be convenient (8 minutes in the microwave).
[193] Who needs, therefore, to be friendly, caring, reliable and trustworthy (having been police checked). Interview with Graham Davis and Graham Bagley on 12/3/2009.
[194] This is becoming more relevant for an increasing number of sons and daughters purchasing on behalf of their parents. Indeed, according to Graham Davis (interview on 12/3/2005), 20% of new clients come from the internet.

dependability of the service; ordering and delivery is very important to the end customer, as well as the flexibility to choose a wide variety of meal options[195].

The WFF brand is nationally recognised as providing low-cost and reliably delivered meals, direct to the home. The primary basis of competitive advantage for the WFF brand is a hybrid-cost strategy, focusing on the quality (eating and presentation) and choice of meals, coupled with the reliable and personal service of the delivery drivers (with this reputation endorsed by the Queen's Award). Due to the price-sensitivity of the end customer, this does not however, enable them to earn a premium over competitors. Effective delivery scheduling (by the franchisees), friendly and efficient 0800 customer order and on-line order services, production efficiencies, economies of scale, waste reduction (by apetito) and the franchisees club, are all key aspects of lowering costs and improving service, to support their competitive strategy[196].

Although each individual account (for the franchisee) is of low value, the business is based upon volume and, therefore, each customer is important. All customers are treated as a key account, as the delivery of poor products and / or service, could create a bad reputation and result in the loss of customers[197].

To conclude, this analysis of section A of the completed questionnaire determines that the marketing approach of the WFF franchisee and franchisor is to focus upon:

[195] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[196] Interview with Helen Rookley on 18/7/2006, interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Graham Davis and Graham Bagley on 12/3/2009.
[197] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.

- Delivering a wide choice of (over 175) complete meals and desserts, delivered frozen, direct to the customer's door, targeting the 75+ 'grey' and non-ethnic market segment.
- Providing a bundled product and service, whereby the reliability of delivery and the trust build up between the WFF franchisee drivers and the end clients is of key importance.
- The provision of low cost, dependable and flexible products and service.
- A hybrid-cost strategy based on the quality and choice of meals, coupled with the reliable and personal service of the delivery drivers (with their reputation endorsed by the Queen's Award).
- On treating each customer as important and, therefore, as a key account.

7.2.2. Understanding the relative power resource endowments of the buyer and supplier: questionnaire part B1 and B2

Figure 7.3, to follow, highlights that the second stage of the power and completion analysis was to complete sections B1 and B2 of the 'power and competition analysis questionnaire'.

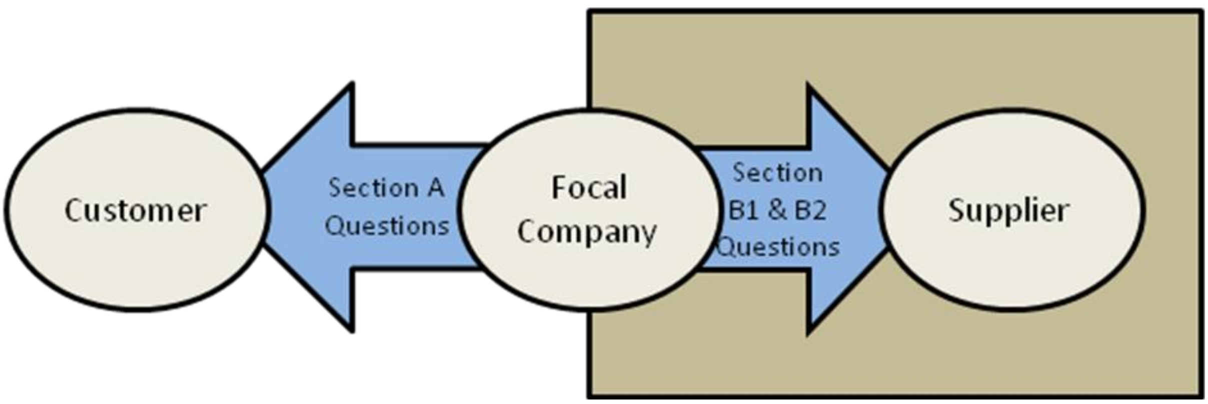

Figure 7.3: Section B1 and B2 questions and analysis (Source: Author)

As established in chapters four and five, in determining the overall power position between the buyer, the WFF franchisee and the WFF franchisor the analysis must consider the relative power resource endowments of the two parties. In order to achieve this we need to analyse the relative utility, scarcity and information resource endowments of the buyer and the supplier.

7.2.2.1. Determining the power resource endowment of the buyer

Analysing section B1questions: utility for the buyer (B1.1-1.5): The first factor which needs to be analysed, therefore, is resource utility[198]. The resource utility of the WFF franchisor product and service offered by apetito falls into the critical resource quadrant of the matrix shown in Figure 7.4 below.

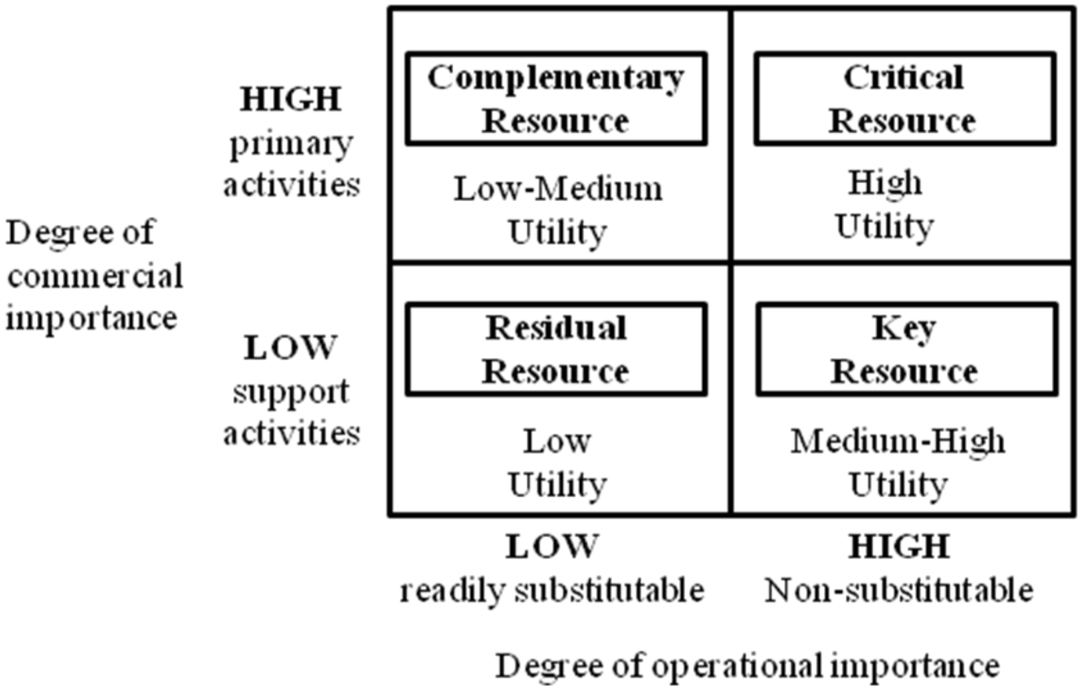

Figure 7.4: Determining the relative utility of a resource
(Source: Cox et al., (2002) p. 33)

[198] Resource *utility* to a buyer, as discussed in chapters four and five, is the extent to which the goals or motivational investments are met by the transaction. This is determined by the *operational importance* of a particular resource to a business and the *commercial importance* of the resource to a firms overall revenue generating activities (Cox, Sanderson and Watson, 2000; Cox et al., 2002).

This is because, the WFF franchisor's product and service is both operationally and commercially important. The franchisee[199], as the buyer, cannot function operationally without the product and service offered by the WFF franchisor. A fundamental aspect of this franchisee-franchisor relationship is the provision of a wide range of healthy, tasty and innovative complete frozen meals. Furthermore, it is crucial for the franchisee's operations that orders sent through direct from the franchisee to the WFF franchisor (currently twice a week) and orders received through the franchisors WFF's telesales centre (0800 number) and internet site, are processed accurately and effectively[200]. If the franchisor fails to deliver, on time, what is required or if the products are sub-standard (or incorrect), this will directly impact the service offered by the WFF franchisee[201].

The commercial importance for the product and associated service offered to the franchisee by the WFF franchisor is also high. The franchisor delivers a primary good (frozen ready meals and desserts), which is directly used by the buyer as a way of generating revenue from customers[202]. There is further evidence to support that, for the franchisee, the WFF franchisor's product and service is a critical resource of high utility (see Figure 7.4). 100% of the franchisees total primary supply chain spend, approximately £1million, was spend on WFF products and service in 2005/2006[203]. For this reason, the item (product and service) is a critical category of spend[204].

[199] Graham and Marilyn Davis.
[200] With the right quantity (and type) of products being delivered to the franchisees cold store, ready for them to be distributed to the end customer (currently 3 days notice is required by apetito).
[201] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[202] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[203] They do not buy products from other suppliers. Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[204] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Rookley on 18/7/2006.

Analysing section B1questions: scarcity for the buyer (B1.6- 1.16): The second factor which needs to be operationalised is the relative scarcity of a resource[205]. On balance, the scarcity of the WFF franchisor's (apetito) supply offering is high[206]. When we analyse the supply market for Graham Davis we cannot consider the supply market for frozen ready meal products, which is dominated by the multiple retailer's own labels[207]. We need understand the market for alternative, comparable franchises, for which the facilities, knowledge and resources owned by Graham Davis could be redeployed.

At the end of the contract (7-11 years), both parties could choose to terminate the partnership. There are a number of potential 'suppliers', who could provide similar products / service (i.e. a frozen ready meals franchise), including Home Farm Foods[208], Sussex Farmhouse Meals, www.CookFood.net, and many smaller local operations. There are, however, very few franchisors with the degree of coverage, or availability, for the specific region currently covered by the Graham Davis WFF franchise. For instance there was, at the time of the research, Home Farm Foods franchises for sale, but not in the current area serviced by this franchisee[209]. For this reason there are very few (1-3) actual suppliers who can now supply, or with limited effort, become suppliers of this resource. This indicates that there is a low degree of imitability and substitutability and, therefore, the relative scarcity of the supplier's resources is high.

This view is supported by a number of other factors. First, although there seems to be a reasonable level of contestation, thereby reducing the scarcity of the supply offering, the

[205] As previously discussed from the buyer's perspective, thinking in terms of supply options, the relative scarcity of a resource is determined by its *imitability* or *substitutability*.
[206] When considering the answers provided to questions B1.5 – 1.15 (see Appendix one) it is not possible to see each answer as being of equal importance, or as providing, on its own, an indication of supply scarcity. The answers have to be considered in the context of other questions and interpreted. A number of factors will, therefore, enable us to determine the overall level of resource scarcity.
[207] The sales of ready meals (chilled, frozen and room temperature) are dominated by the major supermarket chains, which accounted for two-thirds of sales by value in 2001, 'Ready Meals in the UK', Mintel Report, August 2002.
[208] Now Oakhouse Foods. Interview with Graham Davis and Graham Bagley on 12/3/2009.
[209] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.

overall level of contestation is medium to low. There are, as mentioned, a number of alternative suppliers in the market (i.e. Home Farm Foods, Sussex Farmhouse Meals, www.Cookfood.net). These suppliers also compete (to some extent) with local authority run 'Meals on Wheels' services, such as 'Meals Direct' offered by Birmingham City Council[210]. Furthermore, there is also competition from the large multiple retailers, such as Tesco's Direct, Sainsbury's etc. who provide a delivery service of their own range and some branded (e.g. Heinz), competitively priced complete frozen meals and dessert. However, suppliers such as Tesco's cannot be viewed as direct competitors for the target market, as they are unable to provide comparable service levels. The WFF franchise provides a more personal and caring service[211] and is supported by a range of ordering methods[212]. The 'Meals on Wheels' market, although similar (75+), also differs from the one targeted by WFF[213]. WFF customers are typically more affluent individuals (or families), rather than those people who have their meals subsidised and supplied by the local authority[214]. Therefore, on balance the level of contestation in the supply market for home delivered frozen ready meals is viewed as being medium to low.

Second, although great efforts are made by the chefs at apetito to create tasty and nutritious meals, thereby differentiating their products, the product itself (frozen ready meals and desserts) can be viewed as commoditised or standardised. Furthermore, to a large extent, the service offered by the franchisor to the franchisee is standardised. The order processing, delivery etc. is the same offered to all 58 franchisees[215]. However, the WFF franchisor offers a customised service, compared to those offered by alternative franchises operating in the

[210] See document D4- Birmingham City Council, 2008.
[211] Drivers will put meals in the freezer if necessary.
[212] Including, telephone ordering, ordering direct from the drivers, as well as ordering online.
[213] Meals and wheels services are offered to councils by another division of apetito. This service requires the delivery of hot food, to be delivered on a daily basis to the end customer. Meals and wheels is subsidised by the local authorities and typically cost between £5-6 per meal (paid in part by the local authority to people eligible- elderly and immobile). Interview with Dick Richards and Catherine Harris on 14/7/2006 and interview with Graham Davis on 12/3/2009.
[214] And do not require their food delivered hot. They are mobile and capable enough to heat their food up in a microwave.
[215] Interview with John Ryman on 18/7/2006 and interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.

same market (such as Home Farm Foods). For example, the WFF franchisee club is customised to meet the specific needs of the WFF franchisees. Furthermore, the franchisor has adapted products and services based upon franchisee feedback (such as developing new meal options)[216]. For this reason the supply offering is best described as having a medium level of commoditisation.

Third, at present a substitute for the role of the franchisor cannot be found. Therefore, substitute availability is low. Fourth, the barriers to entry into the ready meals franchise market are high. There are significant infrastructure costs, such as manufacturing facilities, logistics networks, information systems, telesales centres etc. for new, similar franchises (who supply the product and service) to enter into this market. There are also significant, but less tangible costs, including the cost of creating brand recognition for the new franchise and building up a reputation for providing a trusting service[217]. Furthermore, a new franchise would have to rely on franchisees having the infrastructure (cold store, delivery vans and clients) to support the development of the new supplier. This acts as a barrier to entry, as there are significant set-up costs for franchisees[218]. It would take considerable time and there are high costs incurred to enter into this market and, therefore, the barriers to entry are high.

Fifth, at present the WFF franchisor, apetito, have several enduring isolating mechanisms. The franchisor has the legal property rights of the WFF brand, economies of scale advantages in manufacture and the network of franchisees, a degree of causal ambiguity, as it would be difficult for competitors to determine how apetito is successful[219] and reputation effects (the

[216] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Graham Davis and Graham Bagley on 12/3/2009.
[217] Such as achieving The Queens Awards For Enterprises: Innovation awarded to WFF in 2005)
[218] Interview with Rookley on 18/7/2006 and interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[219] In both the manufacture of products and the running of the franchise.

WFF brand is well established and trusted in the market place). The WFF franchisor, therefore, has a high number of isolating mechanisms.

Sixth, Graham Davis does not have the time, willingness, physical assets and know-how to do what the WFF franchisor does. The capital costs associated with setting up a manufacturing facility to produce their own ready meals profitably are prohibitive[220]. The WFF franchisee, therefore, possess a low threat of backward integration for the supplier. Seventh, it would be possible for ready meals to be made on contract for Graham Davis. However, the buyer has little knowledge of food preparation and there would be significant commercial and operational risks of doing so[221]. The scope for disintermediation is low. Eighth, although, at present there is no evidence of cartelisation in this supply market (which would indicate a competitive market), the nature of the franchisee-franchisor market negates this being a determining factor in the relationship[222].

Ninth, there is significant lock-in by the supplier of the buyer's business. The franchisor is able to develop a multiple offering (product, service, training, after sales specialist care etc.). Furthermore, the nature of the franchise relationship means that a long (7-11year) and binding contract is signed between the two parties. There are also considerable sunk costs in terms of tangible dedicated investments made by the franchisee. These include: the initial purchase of the franchise (£16,000 in 1994[223]); training; purchase of delivery vans (bearing the WFF logo); and, subsequent adoption of processes and information systems to integrate

[220] It is possible for Graham Davis to contract a third party (such as Northern Foods) to produce frozen ready meals on their behalf and for them to target customers direct with their own products. However, he would lose the right to use the WFF brand and sales support (telesales centre and web site). There would also be significant costs in developing and marketing a new brand and associated infrastructure costs. Although this could be done, it is highly unlikely that the franchisee would do so. Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Graham Davis and Graham Bagley on 12/03/2009.

[221] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Graham Davis and Graham Bagley on 12/03/2009.

[222] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.

[223] And the subsequent purchases of three further postcodes for £16,000.

into the franchisors production process[224]. There are also significant, but less tangible sunk costs, such as the time spent developing the WFF brand in the region[225]. For these reasons, lock-in is high.

Finally, it would be difficult for Graham Davis to switch to a new franchise. It would be possible to utilise existing resources to, for instance, switch to a Home Farm Foods franchise. However, a franchise would have to be purchased and there would be other costs (both time and money) associated with gaining an understanding the new supplier's products, processes and services[226]. The switching costs are best viewed as high.

Taking into account all factors related to supply scarcity, as discussed, and using the researcher's judgement, on balance, the scarcity of the WFF franchisor's supply offering is high. This is because, although some factors, such as the level of contestation (medium-low), commoditisation (medium) and evidence of cartelisation (low), indicate that the supply offering is potentially less scarce, other factors are seen to be of more significance. For example, there are few potential suppliers, high barriers to entry, high lock –in and high costs of switch for the buyer etc. (see answers to questions 5 to15 in Table 7.1, to follow).

Analysing section B1questions: information for the buyer (B1.17-1.19): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange[227]. There is information scarcity for Graham Davis, the franchisee. First, the search costs for the WFF franchisee are medium. Although, it is possible to find, collect and analyse information about other potential franchises (margins made, profitability of

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[224]Interview with John Ryman on 18/7/2006 and interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[225] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[226] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Graham Davis on 12/3/2009.
[227] As highlighted in chapter three and four, scarcity can also be related to the amount of private information available to each party about the resource endowments (in terms of utility, scarcity and information and, therefore, power) and the intentions of the other party in the exchange. To ascertain the existence of, and impact of private information, a number of questions were asked.

franchisees, how they operate etc.) it is very difficult to accurately benchmark the WFF franchisors performance (such as accuracy and reliability of delivery etc.) with other potential franchisors. It would take considerable time and resources to gather information[228] and it would be difficult to ensure like-for-like comparisons are being made.

In addition, it is possible for the franchisor to achieve some information advantages over the buyer. The franchisee does not have full transparency of costing information about the bundled product and service offered by the franchisor and would find it difficult to fully understand the relationship between quality and the functionality of the item and its cost price. The franchisee is, however, aware of the gross margins made by the supplier[229]. The buyer has medium to high levels of information asymmetry against it.

Finally, the service provided by the franchisor is both a search good and to some extent a credence good. It is possible for the WFF franchisee to obtain information to be able to compare the prices of the standard product (a frozen ready meal) with other suppliers and, to a lesser extent, the services (the costs of running a telesales centre, distribution costs etc.). However, the service provision and support (including the national advertising campaigns), as well as the investment in innovative new product development, makes it very difficult to compare the WFF franchisor's service provision with other potential suppliers[230]. The WFF franchisor, therefore, provide both search and credence goods.

From this analysis, although there are only medium search costs for the buyer, the buyer has medium to high levels of information asymmetry and the goods they are buying are both a

[228] This information is not readily available or published.
[229] Interview with Helen Rookley on 18/7/2006 and interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.
[230] Interview with Helen Rookley on 18/7/2006 and interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.

search and credence, therefore, it is suggested that there is information scarcity for the franchisee[231].

7.2.2.2. Summarising the power resource endowment of the buyer

Table 7.1, to follow, shows the answers to the questionnaire[232], provided by the franchisee and the franchisor[233]. This table provides a template to help interpret these answers. Column one lists the questions, column two highlights the answers to these questions which will provide the maximum level of resource endowments for the buyer and column three list the answers provided by the franchisee and franchisor. However, as has been already highlighted (see chapter five), viewing the answers to the questions alone as providing the maximum level of resource endowment for the buyer is not possible. Answers to the questions have to be interpreted in the light of replies to other questions[234].

To summarise, from the author's interpretation of the information provided by Graham Davis, and apetito, which was then verified by independent sources,[235] the purchase of the franchisor's products and service is of high utility for the franchisee. Furthermore, the scarcity of the supplier for the franchisee is high and there is information scarcity for the franchisee. However, in order to plot the relationship within the four box power matrix these findings must be weighed against the relative power resource endowments of the supplier.

[231] And, therefore, there is an information advantage for the WFF franchisor, apetito.
[232] Shown in Appendix one.
[233] And verified by an independent third party when possible. See chapter six for more information.
[234] In particular for determining the scarcity of supply for the buyer.
[235] Verified through interviews and information provided by Martin Palmer of the MLC, data produced by DEFRA and the British Franchise Association.

Interview questions	Answers to provide maximum level of resource endowment for the buyer	Answers provided by the franchisee and validated by franchisor
1. How operationally important is the item to be sourced? (U)	Low	High
2. Is the item sourced of commercial importance? (U)	Low	High
3. What % of the total buyers total spend is devoted to this item? (U)	Low	High
4. Is reciprocity a factor in the relationship between the buyer and supplier? (U)	Not a factor	Not a factor
5. How many potential suppliers are there for this item of spend? (S)	Many	Few
6. How contested is the current supply market? (S)	High	Medium-Low
7. How commoditised is the supply offering? (S	High	Medium
8. Are credible substitute items easily available? (S)	High	Low
9. How high are the barriers to entry for new suppliers? (S)	Low	High
10. How many isolating mechanisms does the supplier have against their competitors and how sustainable are they? (S)	Low	High
11. Does the buyer pose a realistic threat of backward integration? (S)	High	Low
12. Is it possible to take the first-tier supplier out of the chain? (S)	High	Low
13. What is the current evidence of cartelisation in this supply market? (S)	Low	Low
14. What is the current level of lock-in by the supplier of the buyer 's business? (S)	Low	High
15. How high are the buyer's switching costs? (S)	Low	High
16. Are the buyers search costs high or low? (I)	Low	Medium
17. Does the buyer have low or high levels of information asymmetry? (I)	Low	Medium-High
18. What type of product/service is being purchased (experience, search or credence)? (I)	Search Good	Search / Credence

Table 7.1: Summary of answers provided by the WFF franchisee and franchisor (Source: Author)

7.2.2.3. Determining the power resource endowments of the supplier

Analysing section B2 questions: utility for the supplier (B2.1-2.4): The first factor which needs to be operationalised is resource utility[236]. The resource utility of the franchisee Graham Davis for the franchisor falls into the *critical resource quadrant* (high utility) of the matrix shown in Figure 7.5, to follow.

[236] However, as discussed in chapter five, a different interpretation of operational and commercial importance is required for the supplier. From the supplier's perspective, *utility* is the extent to which the supplier's goals or motivational investments are met by the buyer. *Operational importance* of the buyer's expenditure is assessed against the *regularity* and *predictability* of this expenditure. For suppliers, the degree of *commercial importance* can be determined by the ratio between a buyer's expenditure with a particular supplier and that supplier's total sales revenue, and the potential future revenue generating opportunities of doing business with a buyer (Cox, Sanderson and Watson, 2000).

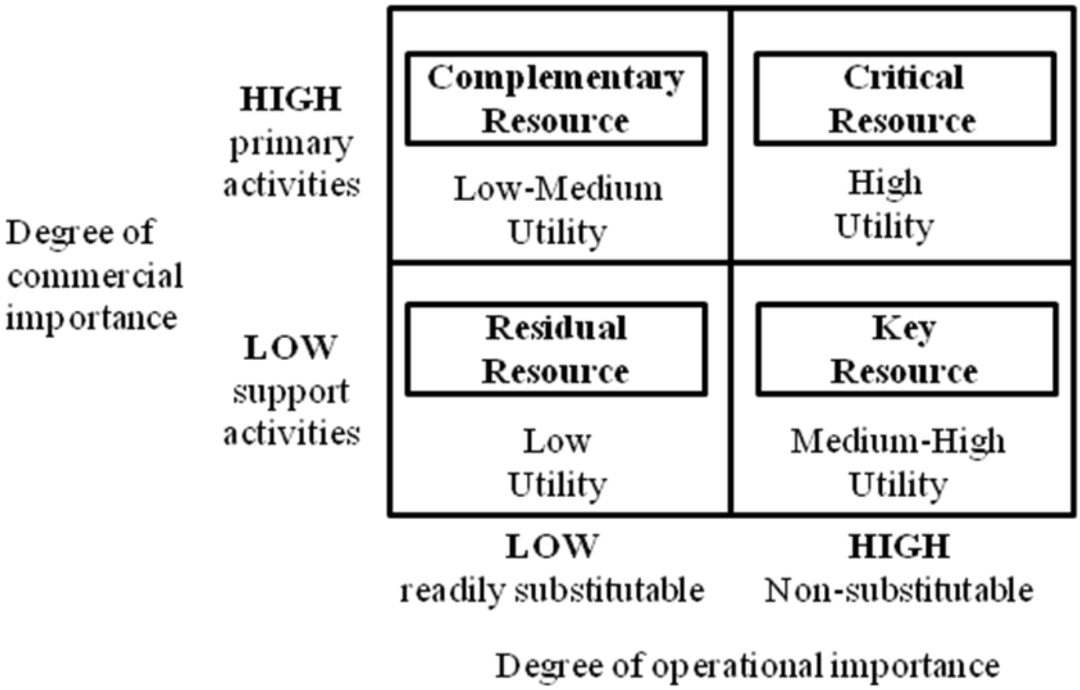

Figure 7.5: Determining the relative utility of a resource
(Source: Cox et al., (2002) p. 33)

This is because the WFF franchisee's business is both operationally and commercially important for the franchisor. Operationally, Graham Davis franchisee's business is important as the purchase is both regular and predictable. As a franchisee, with a long-term relationship with the franchisor, there is detailed spend data available making it possible to accurately predict the volume (and type) of orders that the franchisee will place. At the time of the research, 10-12 pallets of product are ordered and delivered twice a week (Tuesday and Thursday)[237]. This allows the WFF franchisor to plan R&R activities and invest in new technology / capital equipment. The franchisee, therefore, has a high level of operational importance.

On the commercial side, the relationship is of medium to high commercial importance. There are a number of factors which inform this interpretation. In 2005/6 the total expenditure of the franchisee with WFF, apetito was £1million. This accounted for just below 4.5% of the

[237] Interview with interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.

total revenue for the WFF franchise (£22.3m)[238]. Although, at present the ratio is moderate (<5%), there is a significant future earning potential from the relationship, as the franchisee is growing on average by 15-20% per annum[239]. On balance, therefore, the utility of the franchisee for the franchisor is high. However, it could be argued that from this information alone, the utility of the franchisee more accurately falls on the cusp of the critical and key resource quadrants (see Figure 7.5).

There is, however, other information providing further evidence of the high level of resource utility of the franchisees business for the franchisor. First, the franchisee provides the franchisor with very clear and consistent demand forecasting and capacity planning information. Weekly firm orders are provided to the franchisor by Graham Davis. Furthermore, there are regular discussions and constant two way communication about future demand. This is necessary as there are also orders placed direct with the franchisor (by telephone or on the internet), which are allocated to the specific franchisee (through postcode address software). In addition, the buyer's attractiveness is high. This is because, of the 58 franchises operating, Graham Davis is one of the top three revenue generating franchisees, and is reportedly one of the best run operations in the WFF network[240]. .

Analysing section B2 questions: scarcity for the supplier (B2.5-2.8): The second factor which needs to be operationalised is the relative scarcity of a resource[241]. The scarcity of the franchisee, Graham Davis, as a customer for apetito can be viewed as high. There are a number of factors which are important in making this assessment. First, at the time of the

[238] Interview with interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006, supporting document D3 and interview with Dick Richards and Catherine Harris on 18/07/2006.
[239] Interview with interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Dick Richards and Catherine Harris on 18/07/2006.
[240] Interview with interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Dick Richards and Catherine Harris on 08/11/2006.
[241] From the supplier's perspective it is important to determine how large the market for their products or services is.

research there were 58 franchisees in operation throughout the UK. Although, there is potential to expand the network[242] and sell new franchises, there is a limited potential to grow. This is due to the cost for franchisees in setting up and the moderate level of contestation in the market (potential franchisees may opt, for instance, for a Home Farm Foods franchises instead). Therefore, apetito, the WFF franchisor, has a moderate number of customers, with a few potential customers to supply to in the future[243]. Second, there are switching costs for the WFF franchisor. Although there are no specific dedicated investments made by the franchisor to supply to this specific franchisee, significant time has been spent developing the relationship and promoting the WFF brand in the franchisees region. It would not be easy to replace the revenue (£1m) generated by the franchisee and, therefore, the franchisor would incur substantial commercial and operational risk from walking away from this relationship. The cost of switch is high[244]. Finally, the franchisor does not have control of the franchisee's customer database. Furthermore, the franchisor, although possessing the financial resources and potential know-how (through owning some of the franchises) to operate Graham Davis's WFF, there is no desire to forward integrate in the supply chain[245]. The WFF franchisor has a low ability to forward integrate.

On balance, the key factor dictating that the franchisee's resources are scarce, is the difficultly for the franchisor to readily replace a franchisee of Graham Davis's size.

Analysing section B2questions: information for the supplier (B2.9): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange. There

[242] In 2008 there were 60 franchises operating.
[243] Interview with interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Dick Richards and Catherine Harris on 18/7/2006 & 08/11/2006.
[244] Interview with interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Dick Richards and Catherine Harris on 18/7/2006 & 08/11/2006.
[245] Interview with interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006, interview with Graham Davis and Graham Bagley on 12/3/2009 and interview with Dick Richards and Catherine Harris on 18/7/2006 & 08/11/2006.

is information scarcity for, apetito, the franchisor. This is because, although apetito has access to some private buyer information (budgets etc.), they lack key information about the end-customer. For instance, although there has been an attempt to rectify this gap in knowledge, through the franchisee club (established in 2006), the franchisee still possesses key information, including, end-customer feedback about products, prices and service, and the database of end-customers. 85% of this franchisee's sales are through direct contact with their end customers and, therefore, it is possible for the franchisee to keep this information private. As the franchisor does not have access to significant private information and the franchisee has the key role of being the eyes and ears of the whole franchise operation, there is, therefore, information scarcity for apetito[246].

7.2.2.4. Summarising the power resource endowment of the supplier

Table 7.2, to follow, shows the answers to the questionnaire[247] provided by the franchisee and franchisor[248]. This table is in the same format as Table 7.1, shown previously. Furthermore, as has already been highlighted, it is not possible to view the answers in isolation to provide the maximum level of resource endowment for the buyer. Again, answers to the questions have to be interpreted in the light of replies to other questions[249]. To summarise, from the author's interpretation of the information provided by apetito and Graham Davis, which was then verified by independent sources,[250] the franchisee is of high utility for the WFF franchisor. Furthermore, the scarcity of the buyer is high and there is information scarcity for the franchisor.

[246] Interview with interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006, interview with Graham Davis and Graham Bagley on 12/3/2009 and interview with Dick Richards and Catherine Harris on 18/7/2006 & 08/11/2006.
[247] Shown in Appendix 1
[248] Verified by the franchisee and independent third parties- see chapter six for more information.
[249] In particular for determining the scarcity of supply for the buyer.
[250] Verified through interviews and information provided by Martin Palmer of the MLC, data produced by DEFRA and the British Franchise Association.

Interview questions	Answers to provide maximum level of resource endowment for the supplier	Answers provided by the franchisee and validated by the franchisor
1. How commercially important is the buyer to the supplier? (U)	Low	High
2. How significant is our spend to the operational sustainability of the supplier's business (i.e. ratio, regular and predictable)? (U)	Low	Medium-High
3. Does the buyer provide supplier with clear and consistent demand forecasting and capacity planning information? (U)	No	Yes
4. Is the buyer's business attractive for the supplier? (U)	Low	High
5. How many customers in total does the supplier have for this for this item? (S)	Many	Moderate
6. How many potential customers are there for this supplier? (S)	Many	Few
7. How high are the suppliers switching costs? (S)	Low	High
8. Does the supplier have the ability to forward integrate? (S)	High	Low
9. Does the supplier have access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.)? (I)	Yes	No

Table 7.2: Summary of answers provided by the franchisee and the franchisor (Source: Author)

7.2.3. The final analysis: weighing up the two sides of the scales

Bringing together the analysis of buyer and supplier power resources enables us to plot the Graham Davis WFF franchisee and WFF franchisor (apetito), relationship in the four box power matrix. It is evident that the relationship is best described as interdependence. For this relationship to be described as interdependence the analysis would have to indicate both the buyer and the supplier having low power resources (Low / Low). When we consider the analysis given thus far, we can argue that the buyer’s power resources endowments are low as the products and services being procured are of high utility and the supplier’s resources (franchisor) are scarce. There is also information scarcity for the franchisee. Furthermore, the supplier’s power resource endowments are low, as the utility and scarcity of the buyer’s resources are high, and there is information scarcity for the franchisor. We can see in Figure 7.6, shown below, that the relationship is interdependent. There is, in other words, a high, if not complete, degree of mutual dependence

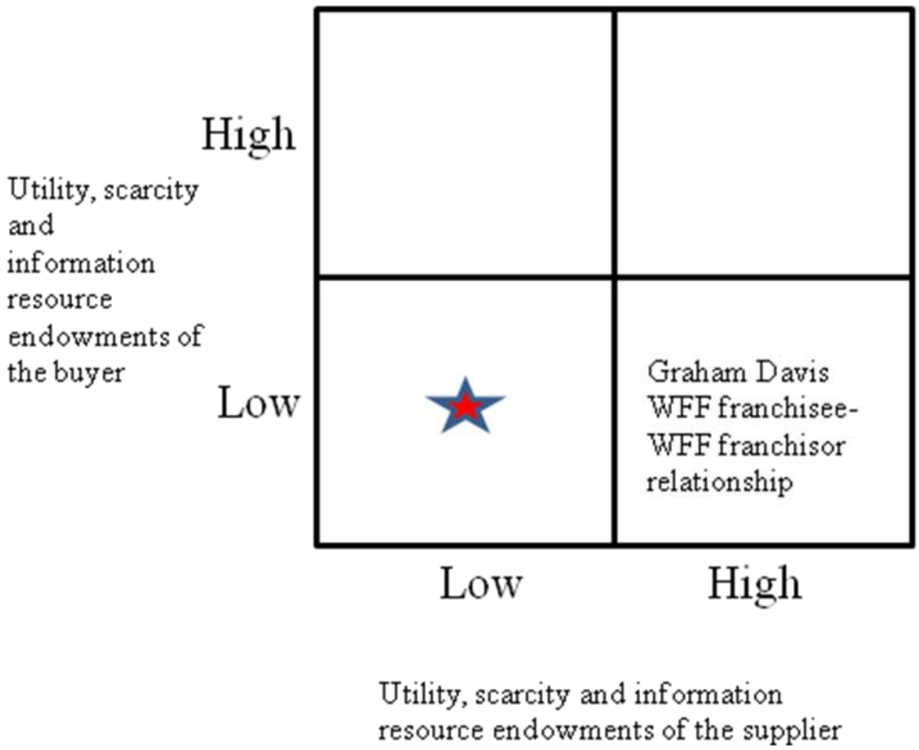

Figure 7.6: Graham Davis WFF franchisee – WFF franchisor power analysis (Source: Author)

7.3. Determining the relationship type for the Graham Davis WFF franchisee – WFF franchisor relationship

As previously presented, Cox et al. (2003) have developed a six box matrix which models relationship management types. In their typology, reproduced in Figure 7.7 below, they make an important distinction between the way of working and the sharing of surplus value.

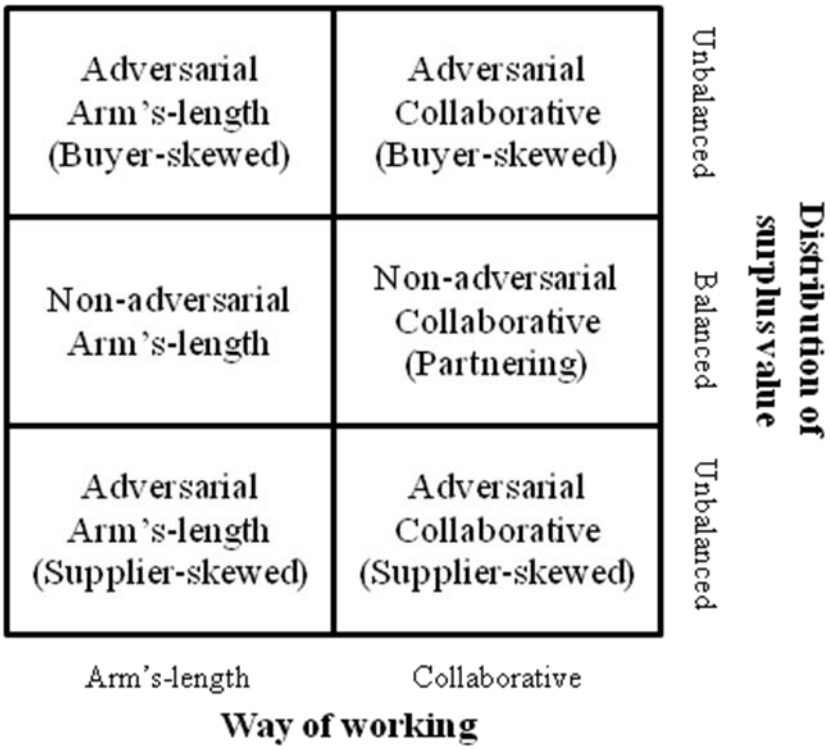

Figure 7.7: A typology of buyer-supplier relationship types (Source: Adapted from Cox et al., 2003)

To position the Graham Davis WFF franchisee – WFF franchisor relationship in this matrix, as previously discussed, it is necessary to ask a number of questions to both parties to determine whether the relationship is best described as arm's length or close and who benefits most (see the 'relationship management type questionnaire' in Appendix two).

7.3.1. The level of relationship connectivity: way of working

First, it is necessary to establish the way of working between Graham Davis and the WFF franchisor. Table 7.3, to follow, summarises the answers provided by the franchisor and franchisee, relating to their way of working and the level of relationship connectivity. It is evident from the research that this relationship had moved beyond there being only a basic exchange of information and products or services[251]. There is evidence of collaboration across all five connectivity measures. Accordingly, this relationship was defined as close by both the franchisee and franchisor.

Relationship connectivity measure	Evidence provided by franchisee and franchisor
Product / process information exchanges	• Transparency of gross margin information • Monthly estimated demand information • Twice weekly firm order sent as a CSV file to apetito (see footnote for more information) • Twice weekly (Tuesday and Thursday) delivery of products to franchisee cold room • Feedback on customer satisfaction / input into new product development • Two way communication (telephone / email) to reconcile centrally received (0800 number) orders and franchisee customer orders • Quality control data collected on delivery accuracy and product quality
Operational linkages	• Monthly estimated demand schedule and twice weekly orders sent by email (CSV file) to franchisor • apetito coordinate delivery schedule for twice weekly delivery to franchisee's cold store • Delivery and quality information collected by franchisee and emailed to apetito quarterly
Legal bonds	• 7 year contract obliging the franchisee to purchase products and services from the franchisor in return for product development and WFF brand promotion
Cooperative norms	• Meetings between franchisee owner and the WFF marketing team to plan local media campaigns / input into national advertising initiatives • Open, two-way communication for tackling quality or other issues, such as late deliveries or inadequate stock • Extensive feedback on the quality (eating & appearance), packaging etc. of apetito's products and input into the new product development process for new meals (based upon customer feedback) • Franchisee run trials of new product lines with select customers • Franchise club, for two-way communication and sharing of experience / joint problem solving within the WFF network
Relationship specific adaptations	• Both parties processes and procedures (menus, ordering and delivery) are aligned, based upon the initial franchise agreement • No direct relationship specific adaptations in IT systems as a CSV file can be created by Microsoft Excel, which can then be inputted into apetito's SAP system (supply chain management system)

Table 7.3: Evidence of the level of relationship connectivity (Source: Author) [252] [253] [254]

[251] Such as a basic specification, volume and timings information from the buyer and limited specification, timing and pricing information from the supplier.

[252] CSV (Comma Separated Values) "is a specially formatted plain text file which stores spreadsheet or basic database-style information in a very simple format, with one record on each line, and each field within that record separated by a comma. CSV files are often used as a simple way to transfer a large volume of spreadsheet or database information between programs, without worrying about special file types. For example, transferring a home-made address book from Excel into a database program such as Filemaker Pro could be done by exporting the file as a CSV from Excel, then importing that CSV into Filemaker" (http://8help.osu.edu/1701.html).

[253] See Figure A4.1 in Appendix four for more information about the franchisees' order procedure.

[254] Information to populate this table was provided by interviews with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006, Graham Davis and Graham Bagley on 12/3/2009, John Ryman, Helen Rookley, Richard Woodward and Ian Stone on 18/7/2006, Dick Richards and Catherine Harris on 18/7/2006 and 08/11/2006, and Kate Holden on 08/11/2006.

7.3.2. Sharing of surplus value

The second factor to be analysed is the sharing of 'surplus value'. Questions were asked (see Appendix two) to ascertain if there was an equal or unequal sharing of the surplus value and, if unequal, whether this favoured the franchisee or the franchisor. Table 5.10 shown on page 170, in chapter five, highlights the characteristic of equal and unequal sharing of surplus value[255]. To follow is a discussion of the answers given to the relationship management type questionnaire, which will provide evidence of the level of equity in the relationship[256].

The relationship between the franchisee and the franchisor was seen to favour the supplier and is, therefore, supplier-skewed adversarial in nature. This assessment was based upon the interpretation of the researcher. The justification for this assessment is as follows:

Commercial goals partially realised by both parties: The franchisee's commercial goals were partially realised. From the perspective of the franchisee the product and service is of critical importance (operationally and commercially). Furthermore, the regional promotion of the WFF brand helped them achieve a growth rate of 15-20% p.a. These strategic ends were largely delivered by the franchisor. However, net profits of 12.5% are maintained only through turnover growth, as costs have increased. This is, in part, due to the franchisors poor delivery performance. The franchisee had to increase its own stock levels to prevent stock-outs of some key products during periods of high demand.

[255] As you can see, there are five key characteristic: commercial goals, relationship-specific adaptations, the price paid for the good or service, supplier profit levels and contract terms. Each of these characteristics can be viewed as being on a continuum from favouring the buyer, to favouring the supplier, with equal in the middle.
[256] Information was provided by both the buyer and the supplier.

Furthermore, although the franchisee has input into new product development, this was seen as inadequate. The franchisee wanted to have much more control over product development (utilising their extensive market knowledge), as well as having a greater role in decisions relating to marketing, branding, packaging and market development. This involvement, it was felt, would help deliver the strategic goal of continued growth (which has shown signs of slowing). Although the new franchisee club was a step in the right direction, it was felt that the franchisees knowledge was underutilised[257].

From the franchisor's perspective, their commercial goals were also partially realised. Although, the performance of the franchisee helped to deliver the strategic goal of continued growth of the WFF franchise (8-9% overall p.a.), it was felt that a new type contract would help incentivise the franchisee further. The equitable split of gross margins on products (30-40%) maintained by +/- 10% price flexibility, did not, it was felt, reflect the investment made by apetito in delivering considerable cost savings, through efficiency initiatives, as well as the considerable investment made in promoting the brand nationally. A 60/40 split of gross margins, in favour of the franchisor, it was felt, would help apetito to achieve the desired levels of profitability[258].

The buyer invested more in relationship- specific adaptations: The nature of the franchisee-franchisor relationship entails an amount of relationship specific adaptations to be made by both parties. However, on balance, the franchisee has had to make more relationship specific adaptations. The franchisee has had to make investments in infra-structure (cold stores, vans bearing the WFF logo etc.), as well as adopting the franchisors order procedure (i.e. CSV file emailed twice a week to be inputted into the franchisor order database). Training has been

[257] Interviews with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006, interview with Graham Davis and Graham Bagley on 12/3/2009.
[258] Interview with Dick Richards and Catherine Harris on 18/7/2006 and 14/3/2007.

undertaken by franchisee staff relating to products, processed and market knowledge (in particular at the beginning of the relationship). However, no specific IT software is required by the franchisee and many of the tangible investments made by the franchisee are transferable (with some write-offs). There are however, less tangible investments that have been made, such as locally run advertising campaigns / promotion and input into new product development for the WFF brand[259].

The franchisor has made few dedicated investment in the specific franchisee. The menus are not specific to the franchisee (although some meals have been developed as a result of feedback) and their processes, delivery and training is generic for all franchisees, new and old. There has, however, been considerable investment in developing the brand through national and more specific regional campaigns benefiting the franchisee. Therefore, if the franchisee chose to not renew the contract, then the investment in promoting the region may potentially be ineffective, if an alternative franchisee cannot be quickly found to service the region[260].

The buyer is paying a price which is very close to their utility function (reservation price): The role of the franchisor is viewed as being of high utility and there is evidence that the franchisee is paying a price which is very close to their reservation price. Graham Davis stated that "with the levels of stock that we must keep on site and the price sensitivity of our customers, it is not possible for us to absorb any more price rises set by apetito"[261].

[259] Interviews with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006, interview with Graham Davis and Graham Bagley on 12/3/2009.
[260] Interview with Helen Rookley on 18/7/2006, interview with Dick Richards and Catherine Harris on 18/7/2006 & 08/11/2006 and interview with Kate Holden on 08/11/2006.
[261] This is supported by the fact that Graham Davis is actively looking at supplying a range of other products (other than the WFF range) which have a higher potential margin as a ways of coping with higher overheads and fixed costs. Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006.

The supplier is able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage): The gross margins for the WFF division were purportedly 30-40%, with net margins of around 12%. These figures are significantly higher than the frozen food sector[262], but in line with similar operations in the home delivery frozen food sector[263].

The terms of the contract or agreement favour the supplier (i.e. pricing, payment terms, etc): The franchisee-franchisor contract, on balance, marginally favours the supplier. Within the terms of the contract, the franchisee has the responsibility to deliver excellent customer service, including driver delivery etiquette (training for drivers is provided), order processing (see Figure A4.1, in Appendix four), etc. Payment terms between the franchisee and franchisor are standard (30 days payment, unless authorised otherwise). In return the franchisor has a commitment to promote the brand nationally (budget is set at about £2 million per year), to provide and manage sales through 0800 telesales operation (supported by a computerised ordering system) and website, as well as providing 'innovative catering solutions'. Both parties are locked into a 7 year contract that would be very difficult to break. The franchisor is unable to terminate the contract due to poor performance of the franchisee, and the franchisee is unable to terminating the contract based on poor delivery accuracy[264]. Although, the terms of the contract seem relatively balanced and there is a commitment to provide both parties with comparable gross margins (30-40%), with a price mechanism[265] to help maintain this, when apetito wish to raise their prices they are able to do so. Furthermore, there is no stipulation in the contract to ensure that benefits, including new product

[262] Gross margins in the frozen food sector are lower than the typical 25% (49% of grocery producers) gross margins made in the grocery sector. According to the British Frozen Food Federation there is inadequate statistic in this sector and, therefore, obtaining good data is problematic. Furthermore, apetito is not, at least for the WFF business unit competing directly in the retail (i.e. Northern Foods, McCain Foods Ltd, and Permira) or foodservice (i.e. Lamb Western and Bernard Mathews) frozen food market. The Competition Commission, 2007, Research on the Supplier to the UK Grocery Market.
[263] Interview with Kate Holden Marketing Manager on 08/11/06- it was not possible to verify these figures.
[264] Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Kate Holden on 8/11/2006.
[265] Retail prices can vary by +/- 10%.

development and efficiency savings, from a closer working relationship between apetito and the franchisee, will be passed onto the buyer in the form of lower product prices[266].

Table 7.4, to follow, highlights that although this relationship can be viewed as supplier-skewed adversarial in nature, this was not clear-cut. As Table 7.4 shows, some characteristics of the relationship were non-adversarial in nature and even those which were deemed as supplier-skewed adversarial, were often, as discussed, only marginally in favour of the supplier. To arrive at this interpretation, therefore, the researcher had to weigh-up the evidence provided.

Buyer-skewed adversarial	Non-adversarial	Supplier-skewed adversarial
Buyer's commercial goals fully achieved	Each party's commercial goals partially realised	Supplier's commercial goals fully achieved
Supplier invested more in relationship-specific adaptations	Equal distribution of relationship specific adaptations	Buyer invested more in relationship-specific adaptations
The buyer is paying a price which is substantially lower than their utility function (reservation price)	The buyer is paying a price which is mid-way between their utility function (reservation price) and the supplier's mean cost of production	The buyer is paying a price very close to their utility function (reservation price)
The supplier is receiving only normal profit (or slightly above)	The supplier is able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage)	The supplier is able to earn sustained above average profits for industry sector (comparable companies operating at the same supply chain stage)
The terms of the contract or agreement favour the buyer (i.e. pricing, payment terms, exit clauses, etc)	The terms of the contract or agreement favour neither the buyer or supplier (i.e. pricing, payment terms, etc)	The terms of the contract or agreement favour the supplier (i.e. pricing, payment terms, exit clauses etc)

Table 7.4: The sharing of surplus value in the franchisee-franchisor relationship (Source: Author)

266 Interview with Graham Davis, Marylyn Davis and Graham Bagley on 16/11/2006 and interview with Kate Holden on 8/11/2006.

Taking the way of working and sharing of surplus value together, it is now possible to plot the franchisee - franchisor relationship in the six box relationship management type matrix. As is highlighted in Figure 7.8 below, the relationship is best described as supplier-skewed adversarial collaboration.

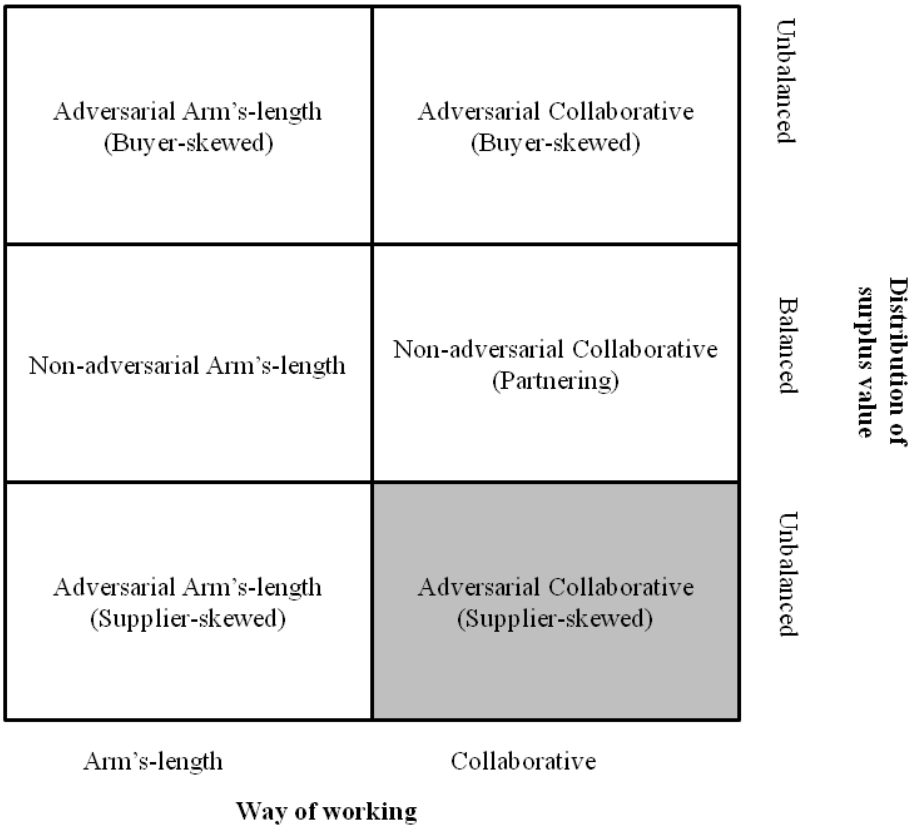

Figure 7.8: The franchisee-franchisor relationship type
(Source: adapted from Cox et al., 2003)

7.4. Conclusions to the case

The long-term partnership between Graham Davis and the WFF franchisor (apetito) is of interest for a number of reasons. According to the hypothesis, under situations of interdependence, if there is a link between the power resource endowment of buyers and suppliers and the relationship management type, you would expect the relationship in question to be managed in the middle right box of the six box matrix, as non-adversarial collaboration. However, the analysis presented in this case does not seem to support the hypothesis, as the power position between Graham Davis and the WFF franchisor has been analysed as interdependence, but the relationship management type is best described as supplier-skewed adversarial collaboration.

However, before coming to the conclusion that that there is no link between the power resource endowments of buyers and suppliers and relationship management type, we need to fully understand and interpret this outcome. The very nature of the franchisee – franchisor relationship intuitively dictates there being a high degree of co-dependency. The relationship must be close in order to deliver to end-customer the desired product and service. The franchisee is the 'eyes and ears' of the partnership and the franchisor must respond to end-consumer needs and deliver the right products and overarching message (through the WFF brand promotion). The brand is only strong if the two parts of the business work closely together. If one part falters, through poor service provision or substandard products, then the franchise as a whole diminishes. According to British Association of Franchises, the franchise strength is defined by the weakest franchise (www.thebfa.org).

Although there little doubt that there is a high degree of co-dependency in the relationship, this has not led, as the hypothesis suggests, to an equal sharing of the risks and rewards from this specific franchisee-franchisor relationship. There are two potential explanations for why the relationship is being managed as supplier-skewed adversarial collaboration and not as non-adversarial collaboration. First, it is possible to argue that the power methodology is insufficiently robust to pick up the true nuances of this relationship. Although the relationship has been analysed and interpreted as interdependence, it may more accurately be described as falling on the cusp of interdependence and supplier dominance. This is because, in the analysis, although both parties were depicted as having low power resource endowments, one of the primary basis for buyer scarcity was the difficultly for the franchisor of finding another equitable partner to replace Graham Davis. This position may have been overstated, and, if this is the case, then the relationship will move towards supplier dominance. With the relationship falling on the cusp of interdependence and supplier dominance (in either the interdependence or supplier dominant quadrants), then supplier-skewed adversarial collaboration is an equally likely outcome to non-adversarial collaboration. With this interpretation, the hypothesis is still supported. Second, as alluded to earlier on in the analysis, it is also possible that the type six box relationship matrix is insufficiently robust to accurately interpret the data provided. As has been discussed, determining the sharing of surplus value, in particular, is difficult and requires considerable, often subjective, interpretation. If it is more accurate to depict the relationship as falling on the cusp of non-adversarial and supplier-skewed adversarial collaboration, it is possible to argue that there is a link between power and relationship management type. The power relationship could, in this case, be accurately described as interdependence; however, the six box relationship type methodology is insufficiently nuanced.

Furthermore, it is important to note that we cannot assume that all of the relationships between the franchisor and the 58 franchisees have the same power dynamic and, therefore, should be managed in the same way. It is not possible to provide an analysis for another WFF franchisee-franchisor relationship to emphasise this point. However, interviews with WFF staff indicated that there are franchisees who contribute less to the franchisor in terms of turnover (some are smaller than £150K per year) and /or are performing badly in terms of growth (expected to be in the region of 20% per annum), or service performance (complaints from end customers etc)[267]. Therefore, some franchisees would potentially have less power resources and could be lost without too much pain (these could be readily replaced). Furthermore, there are ‘new style’ contracts in place, with the lesser franchisees, which do not offer equitable terms and in many ways favour the franchisor. Therefore, the relationship management approach, with these franchisees, is clearly supplier-skewed adversarial collaboration. This demonstrates that power circumstances and relationship management approaches are specific to individual relationships. It is wrong to assume that franchisee-franchisor relationships should be managed just one way.

This also leads us to conclude that the franchisee and franchisors power circumstances are not static. As the WFF franchise expands, the power resources of individual franchisees can diminish. With the negotiation of new type contracts, when apetito is in a more powerful position, they quite rationally choose to manage their relationships as supplier-skewed-adversarial collaboration. At the time of the research, apetito were only just beginning to realise the importance of better understanding franchisee’s businesses. There are a number of steps that can be taken to enhance the franchisors power resources. First, old style contracts could be replaced with a new style contracts[268]. Second, the franchisor could gain more control and visibility of the end customer database[269]. Third, they could utilise the franchisee club[270] to get closer to real-time market information, which will help them to improve their marketing, new product development, production planning, logistics etc. and, thereby, strengthening the overall WFF brand.

[267] Interview with Kate Holden, Dick Richards and Catherine Harris on 8/11/2006.

[268] This is increasingly possible with the growth of the franchise (there are now over 60 franchises, servicing over 200,000 customers, up from 100,000 at the time of the research and growth of the end market driven by an aging population. Interview with Dick Richards and Catherine Harris on 14/6/2006 and interview with Graham Davis and Graham Bagley on 12/4/2009.

[269] If this can be achieved then the franchisees will lose a key power resource endowment.

[270] Which provides an opportunity for franchisees to exchange market information and experiences.

With this greater control over the franchisee's business and an improved power position, it may well be possible to fully realise their commercial goals of achieving a 60/40 (or better) split in gross and net margins[271]. A change of power circumstances, to clear supplier dominance, would enable a change of management approach to supplier-skewed adversarial collaboration (although this does not have to be pursued). There is evidence to suggest from interviews and the drive to establish new type contracts that this is just what WFF intends, when possible, to do. Their ability to do so, as indicated, will be down to the relative power resources of the franchisor and the individual franchisee[272].

[271] As highlighted both Graham Davis and WFF are making in the region of 30-40% gross and 12% net margins.
[272] Along with the negotiation skills of both parties at the time of the contract renewal.

Chapter Eight

Case two: Caspian Flame Grill Restaurant and Pioneer Foodservices Relationship

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8.1. Background to the development of the Caspian and Pioneer relationship

Before analysing the power dynamics and the relationship management approach between Caspian and Pioneer, using the two methodologies explained in full in chapter four and five, we first need to provide some background information about the historical development of this relationship. Caspian Flame Grill restaurant in Workington was established in 1998, by Sohrab Padidar[273]. Having bought a green field site (one acre), Sohrab laid the foundations for a 70 seat restaurant and takeaway, with room for future expansion. In 2000, the restaurant was expanded to 130 seats and following on from the success of the business, it was further expanded to 180 seats in 2005[274]. At the time of the research the restaurant employed between 50-55 full and part-time time staff, including three chefs, three managers and a full time book keeper[275].

Sohrab's aim was to start small, focus on the takeaway side of the business, whilst building up a reputation in the Workington community for providing good value and high quality dishes prepared on a flame grill. The business' success has allowed Caspian to increase their prices by 10% every year since the restaurant opened. This highlights the growing popularity

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[273] Sohrab is a businessman originating from Iran.

[274] Interview with Sohrab Padidar (owner) and Jillian Pallister (general manager) on 15/6/2005 and telephone interview with Sohrab on 11/03/09.

[275] Interview with Sohrab Padidar (owner) and Jillian Pallister (general manager) on 15/6/2005.

of the restaurant and the change in emphasis from takeaways and lower priced meals to a higher priced menu. The shift in focus has been gradual, but calculated, with the aim of developing a high volume business, catering for a wide range of clientele, but with a growing emphasis on more expensive meat dishes, such as fillet, sirloin and rump steaks[276].

Prior to opening the new restaurant, Sohrab had several takeaway businesses in Carlisle[277] and had developed a good working relationship with their supplier Pioneer. Although Pioneer had been supplying Sohrab's businesses since 1984, the relationship was best described as functional[278]. However, with the phenomenal growth of the new restaurant, Caspian's owner, Sohrab, wanted to develop closer ties with Pioneer (or an alternative supplier), as he needed a reliable partner (both service provision and products) who could handle a much higher volume of business (for instance up to 200 rump steaks per week)[279]. Furthermore, the supplier must be capable of being a one-stop shop, delivering the majority of the restaurant's food requirements (including meat, vegetables and ambient supplies). Before 2002, the restaurant had chosen to stock Aberdeen Angus beef steaks (supplied by Pioneer), due to its good eating quality, brand reputation and its high marketability.

The further expansion of Caspian's restaurant in 2000 (and changing focus) coincided with the development of Pioneers new branded 'Lakeland' beef product. In 2002, Sohrab was one of the first restaurants to offer the newly developed 'Lakeland' beef product, to differentiate his offering by stocking the best local beef. 'Lakeland' beef was considered by Jillian Pallister, the general manager and Sohrab as a perfect fit for the restaurant. 'Lakeland' beef's eating quality was deemed to be superb and the provenance (CA & LA postcodes and

[276] Priced in 2005 at £12 for a 10 oz fillet and £9 for 10oz rump steak. Interview with Sohrab and Jillian Pallister on 15/6/2005. Telephone interview on 11/3/09 Sohrab was keen to emphasise that prices in this region were traditionally much lower than in the South of England and £10-16 for a main course in 2006 was seen as a relatively 'high' price by the local (often farming-based) community.
[277] Having started with a hot dog van in 1984 - telephone interview with Sohrab on and on 11/3/09.
[278] Telephone interview with Sohrab on 11/3/2009.
[279] Interview with Sohrab and Jillian Pallister on 15/6/2005 and telephone interview with Sohrab on 11/3/09.

traditionally reared) fitted in perfectly with their high quality, 'locally' sourced supply concept. In November, 2002, Caspian and Pioneer signed a new annual contract for the supply of 'Lakeland' beef (along with other meats and foodstuff), heralding the start of, what both firmly believed, would be an enduring new partnership.

As case three (chapter nine) highlights in some detail, a number of local Cumbrian businesses had developed a partnership in 2000 to establish a premium branded product; 'Lakeland' beef. Pioneer Foodservice, a Carlisle-based, family run secondary beef processor and catering butcher, with over 120 years of trading history, was the key partner in conceptualising and promoting the brand, which was officially launched in 2002.

According to Barry Garret, the commercial director or Pioneer Foodservices, with any such endeavour there are many difficulties and costs in attempting to launch a new product. He estimated that the development and early promotion of the brand cost in the region of £80-90,000[280]. Part of the difficulty for Pioneer was that the 'Lakeland' beef brand was competing with well established international beef brands such as 'Aberdeen Angus', along with successful regional brands such as Udale's 'Cumbrian Fellbred' branded beef products and good quality 'Cumbrian' beef supplied by local butchers[281]. A number of strategies were seen as key for promoting the brand[282], one of which was to establish local 'flagship' restaurants to promote the 'Lakeland' beef brand. This would increase end-customer brand awareness in the North West. It was not enough to supply restaurants with 'Lakeland' beef, they needed local consumers to know they were eating 'Lakeland' beef and for this to become a key driver in their selection of restaurants.

[280] Interview with Barry Garret on 15/6/2005.
[281] Interview with Dudley Carrathus of Udales on 26/11/2003.
[282] Along with promotion of the new brand by the telesales force and field agents, advertising in the local press and pursuing editorial coverage- Interview with Barry Garret and David Jenkins on 14/6/2005.

It was evident to Sohrab, the Caspian's owner and Barry Garret and David Jenkins of Pioneer (as well as the other 'Lakeland' partners) that it was desirable for both parties to work closely together (see Figure 8.1 below). Caspian was chosen as a key 'flagship' restaurant to actively promote the 'Lakeland' beef brand, by advertising the brand on the menu, as well as displaying a prominent 'Lakeland' beef plaque on the premises. In return, Pioneer would ensure that the majority of all Caspian's food supply needs were reliably met. Furthermore, Caspian would be able to sell a 'good story'[283]; buying 'Lakeland' beef was an effective way of supporting the local farming community[284]. By 2004, the 'Lakeland' brand was heralded (as the Pioneer- H&H case in chapter nine highlights) as a success (MacKenzie, J, 2005), with the brand enabling Pioneer to differentiate its products from other catering butchers in the region. The new brand also gave Caspian a clear way of differentiating their own business, which according to Sohrab, contributed to the restaurants phenomenal growth from a turnover of £600,000 in 1998/9 to £1.7 million in 2005[285].

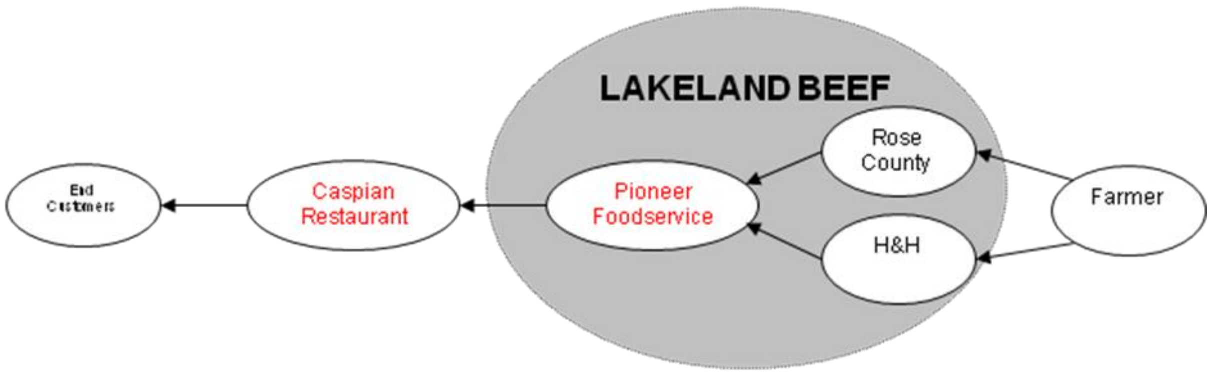

Figure 8.1: Caspian - Pioneer partnership (Source: Author)

Having described the development of the relationship between Caspian and Pioneer Foodservices, we will now analyse the Caspian Restaurant and Pioneer Foodservices

[283] Interview with Barry Garret on 15/6/2005
[284] Which had been rocked by a number of crises- see chapter one.
[285] Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/09.

partnership, using the power and competition analysis and relationship management type methodologies.

8.2. Power and Competition Analysis- Caspian and Pioneer foodservices

8.2.1. Understanding the focal companies marketing approach: Questionnaire part A

Figure 8.2, to follow, highlights that the first stage of the power and completion analysis was to complete section A of the 'power and competition analysis questionnaire'. Section A, as stated previously, is focused on determining the subjects marketing approach with a key customer. This information helps us to better contextualise the relationship between Caspian and Pioneer Foodservices, when conducting section B1 and B2 of the 'power and competition analysis questionnaire'.

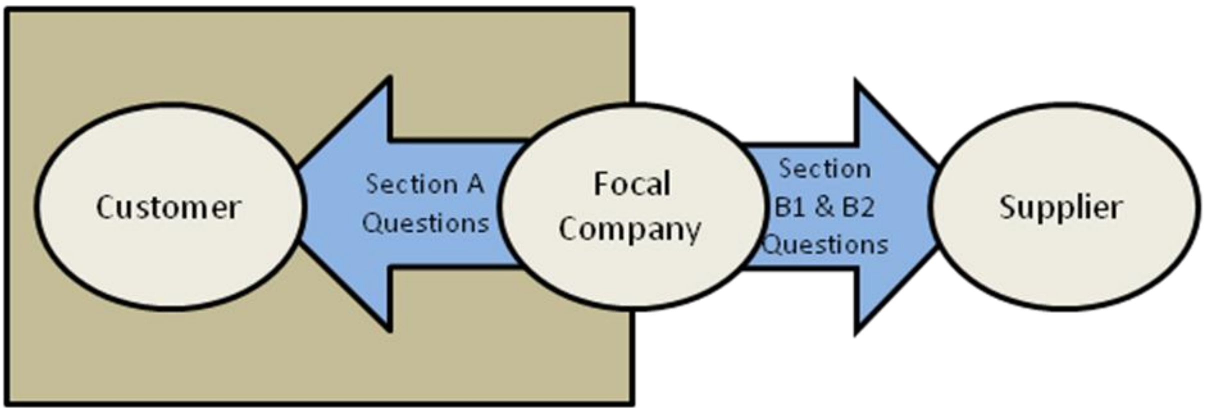

Figure 8.2: Section A questions and analysis (Source: Author)

As emphasised in the previous case (chapter seven), what follows is a high level analysis focusing upon the significance of key answers. The aim is to provide evidence for determining the power balance between Caspian and Pioneer, enabling the relationship to be accurately plotted in the four box power matrix.

Caspian's marketing approach: There are a number of key aspects of Caspian's marketing approach which should be highlighted. The end customers are clients eating at the Caspian Flame Grill restaurant. The restaurant serves a variety of dishes, including, beef, lamb, pork, chicken and fish, as well as providing an extensive Pizza menu. However, due to the flame grill method of cooking, the focus is on meat dishes, with beef being the most popular (35% of all sales). Premium 'Lakeland' beef (along with other products) are being procured as raw ingredients for Caspian's menu[286].

The restaurant has no single significant customer, but a large number of individual clients. The restaurant's clientele are from around Workington. The aim was to develop a good base of 'all year round' local customers (85% of business), as the location is off the main tourist routes. However, during the peak holiday times (April-September) tourists are still an important target market (15%)[287].

The end-customers are diverse, but increasingly include discerning 'meat-eaters', who are willing to pay a premium (in the locality) for good quality food. The target market is now less price sensitive[288], as Caspian is positioned as a medium to high quality eating establishment, with starters averaging at £5 and main dishes varying between £10-18 (in 2005). The most important performance criteria for the end customer are quality (both service and product-taste and appearance) and dependability (service and product).

[286] Interview with Jillian Pallister and Sohrab on 15/6/2005.
[287] Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/09- Tourist are attracted to the restaurant because of its growing regional reputation.
[288] According to Barry Garret (interview on 15/6/2005) and confirmed by Sohrab (interview on 11/3/09) the key success of the restaurant or its USP is that it is high quality (expensive) and flame grilled.

Dependability is critical as customers want to be able to visit regularly and have the same experience. Speed of service is important[289], but this type of the restaurant does not dictate that the food is served 'quickly'[290].

Caspian's competitive advantage is based upon a hybrid strategy. They are able to charge a premium for serving high quality, locally produced products. The success of the restaurant is based on providing high quality service and products, as well as the specific method of cooking the food; flame grilled[291]. This forms the basis of their differentiation strategy. However due to the scale of the operation, Caspian also concentrates on cost. By developing a high volume business on a green field site, the restaurant has cost advantages, due to economy of scale, enabling them to offer good value meals[292].

A restaurant is only as good as its reputation and, therefore, each customer is viewed as a key account. The reputation of the restaurant can be damaged if a client has a bad experience; either service or poor quality food (taste or presentation). This is particularly important due to the reliance on local clients returning to the restaurant and not on tourists who may never or infrequently return[293].

To conclude, this analysis of section A of the completed questionnaire determines that the marketing approach of Caspian is to focus on:

- Customers (target market) who are meat lovers and who are willing to pay a premium (for the locality) for high quality, flame grilled meat (with beef being the most popular dish).

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[289] In terms of seating guests, taking orders, delivering drinks and food.
[290] Interview with Jillian Pallister and Sohrab on 15/6/2005.
[291] Furthermore, there are no other specialist flame grill restaurants within a 30 mile radius.
[292] Interview with Jillian Pallister and Sohrab on 15/6/2005.
[293] Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/09.

- Local customers who will return regularly.
- Quality and dependability (service and product) as the key performance criteria for end customers.
- Differentiating the restaurant on the basis of preparation method (flame grilled) and quality and provenance of meat i.e. the 'Lakeland' brand, whilst delivering good value for money dishes by focusing on costs advantages based upon economies of scale.
- Treating each customer as a key account.

Caspian's aim was, therefore, to manage their upstream partnership with Pioneer to be able to support this marketing approach.

8.2.2. Understanding the relative power resource endowments of the buyer and supplier: Questionnaire part B1 and B2

Figure 8.3, to follow, highlights that the second stage of the power and completion analysis was to complete sections B1 and B2 of the 'power and competition analysis questionnaire'. In determining the overall power position between the buyer, Caspian, and their first tier supplier for beef, Pioneer Foodservices, as described in detail in chapter four and five, the analysis must consider the relative power resource endowments of the two parties. In order to achieve this we need to analyse the relative utility, scarcity and information resource endowments of the buyer and the supplier.

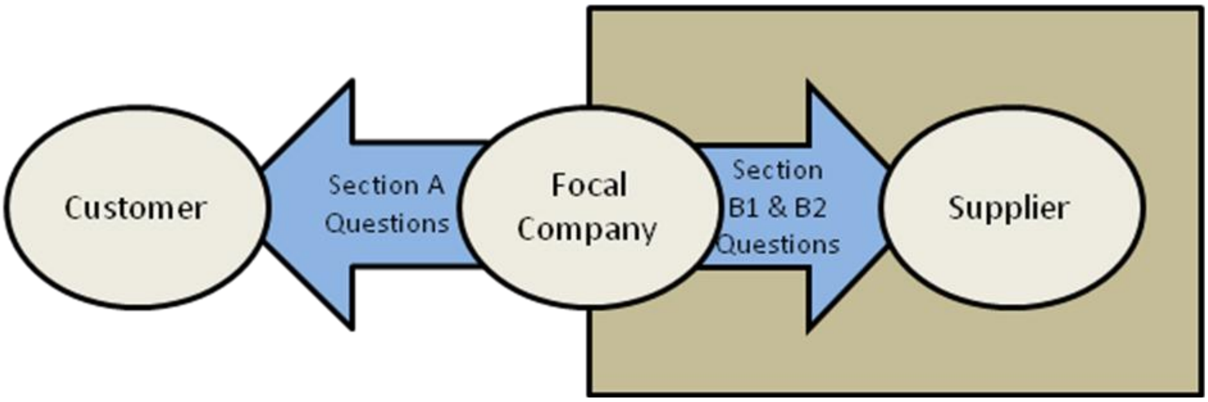

Figure 8.3: Section B1 and B2 questions and analysis (Source: Author)

8.2.2.1. Determining the power resource endowment of the buyer

Analysing section B1questions: utility for the buyer (B1.1-1.5): The first factor which needs to be analysed, therefore, is resource utility[294]. The resource utility of the 'Lakeland' beef supply service offered by Pioneer falls into the *critical resource quadrant* of the matrix shown in Figure 8.4, to follow.

This is because Pioneer's Lakeland products and service are both operationally and commercially important. Operationally, Caspian cannot function without the products (raw materials such as beef and lamb etc.) or the service (i.e. the flexible service enabling them to place an order every night for either 1 rib-eye or 60 rib-eye steaks, to be delivered the next day). The resource, catering service, is, therefore, indispensible operationally to the firms offering: the selection of dishes offered on their menu[295].

[294] Resource *utility* to a buyer, as discussed in chapters four and five, is the extent to which the goals or motivational investments are met by the transaction. This is determined by the *operational importance* of a particular resource to a business and the *commercial importance* of the resource to a firms overall revenue generating activities (Cox, Sanderson and Watson, 2000, Cox et al., 2002).
[295] Interview with Jillian Pallister and Sohrab on 15/6/2005.

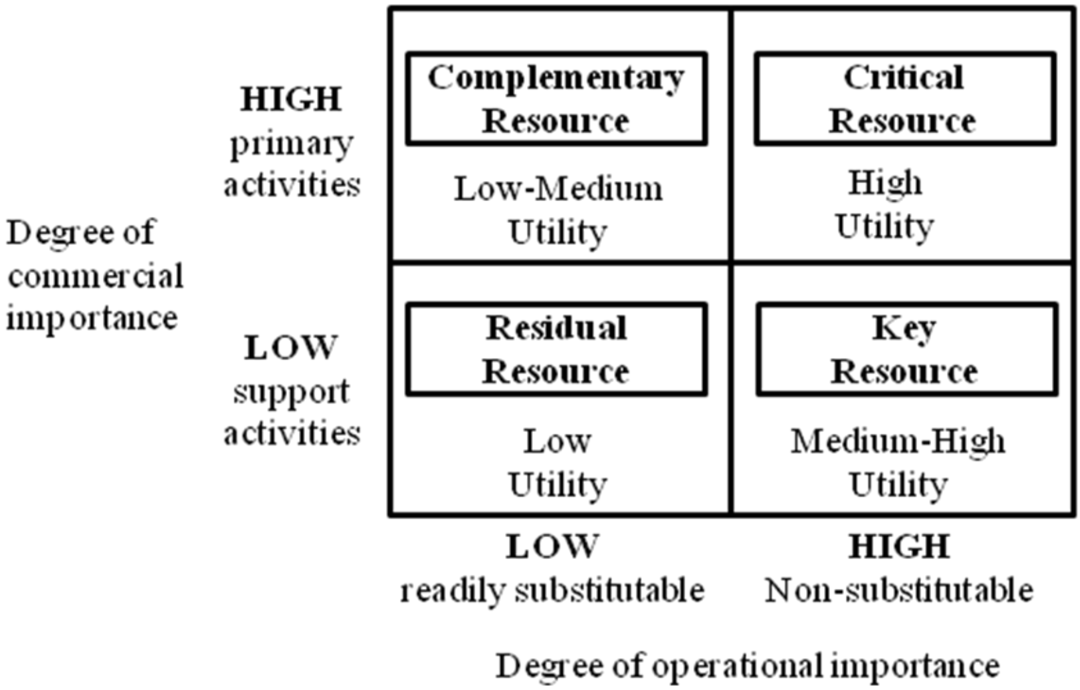

Figure 8.4: Determining the relative utility of a resource
(Source: Cox et al., (2002), p. 33)

The commercial importance for Caspian is also high as the products and services offered by Pioneer support the firm's primary business activities. The service (order process and delivery) offered by Pioneer delivers primary goods ('Lakeland' beef), which are directly used by the buyer as a way of generating revenue from customers. Furthermore, the inclusion of the 'Lakeland' beef brand on the menu enables them to charge a premium for using high quality local produce[296].

There is further evidence to support that, for Caspian, the product (Lakeland beef) and service offered by Pioneer is a critical resource of high utility (see Figure 8.4). Caspian's total spend in 2005 was approximately £550,000, of which 75% was with Pioneer (£412,500). 100% of all the restaurant's beef requirement was supplied by Pioneer and 35% of total spend with Pioneer was for 'Lakeland' branded beef, approximately £144,375. This accounted for over

[296] Interview with Jillian Pallister and Sohrab on 15/6/2005.

20% of the buyer's total spend. For this reason, the item (service and product) is a critical category of spend[297].

Analysing section B1questions: scarcity for the buyer (B1.6- 1.16): The second factor which needs to be operationalised is the relative scarcity of a resource[298]. On balance, the scarcity of the Pioneer's supply offering is high[299]. Caspian could potentially source beef and other food products from a relatively large pool of suppliers. However, to understand the true resource scarcity of Pioneers offering we need to segment the supply market (for both fresh and frozen produce). There are several categories of suppliers: regional processors / catering butchers such as Pioneer, national processors / catering butchers, smaller independent local butchers, cash and carry's and supermarkets, some of which specialise in fresh produce, others frozen and a few fresh, frozen or ambient (dry) produce.

There are a number of independent catering butcher's with a strong regional presence such as: Altham's Catering Butchers, based in Morecombe, Lancashire, offering a extensive range of meat produce, including Certified Aberdeen Angus (no dry food)[300]; Cranston's, an established traditional butchers, with a Cumbrian Food Hall in Penrith and butchers in Penrith, Carlisle, Brampton, Hexham, and Allendale[301]; Haigh's Butchers (in Workington); and, Udales Speciality Foods, owners of 'Cumbrian Fellbred' (branded beef), based in Milnthorpe, Cumbria[302] (and who currently supply Caspian's with duck)[303].

[297] Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/09.
[298] As previously discussed, from the buyer's perspective, thinking in terms of supply options, the relative scarcity of a resource is determined by its *imitability* or *substitutability*.
[299] When considering the answers provided to questions B1.5 – 1.15 (see Appendix one) it is not possible to see each answer as being of equal importance, or as providing, on its own, an indication of supply scarcity. The answers have to be considered in the context of other questions and interpreted. A number of factors will, therefore, enable us to determine the overall level of resource scarcity.
[300] Servicing hotels and restaurants throughout the Lake District and surrounding area. Interview with Jillian Pallaset, and Sohrab on 15/6/2005 and supplementary information from: http://www.j-c-althams.com/about.htm.
[301] See www.cranstons.net.
[302] Interview with Dudley Carrathus on 27/11/2003.
[303] Telephone interview with Sohrab on 3/11/09.

There are also a number of national catering butchers such as Fairfax Meadows[304], 3G Food Services and Seafood Solutions[305] and JJ Foodservices, based in Enfield. There are also a large number of smaller local butchers, such as Denny's[306] and Harrison's butchers (based in Workington), who could also supply meat produce. Furthermore, there is an extensive range of large and small cash and carrys, many of which stock fresh meat, along with a wide range of other products. The most prominent cash and carry is Booker, with three outlets in Carlisle and one in Workington[307]. Hotels and restaurants can also purchase meat and food products from a range of local supermarkets (large nationals like ASDA, Tesco's, Morrison's and Sainsbury's and regional retailers such as Booths)[308]. Finally, there are large specialist regional frozen food suppliers such as Henry Colbeck, based in Newcastle, capable of supplying a wide range of frozen and other products in the North East of England, Cumbria and Scotland[309].

There are, however, a number of attributes which reduce the real choice open to Caspian. First, Caspian wanted a 'one-stop-shop'; a supplier capable of delivering not just meat produce, but also fruit and vegetables and ambient food (gravy etc.). Pioneer can deliver an extensive range of fresh meat, frozen foods, dry goods, fruit and vegetables and wine and spirits[310], whereas, Althams, Udale, Fairfax Meadows, small catering butchers and independent butchers are unable to do so[311]. Second, they wanted a regionally recognised beef brand to fit with their market focus. Although cash and carries, such as Booker, provide

[304] With depots in Derby, London, Tyne and Wear and Canterbury. Information from: http://www.fairfaxmeadow.co.uk/
[305] With depots in Hull, Andover, Towbridge, Stevenage, South West and Wigan. Information from: http://www.3gfoodservice.co.uk/
[306] Interview with Liz Clarke on 11/11/2003.
[307] Bookers have 172 branches nationwide. Interview with Pallister and Sohrab on 15/6/2005. Supplementary information from: http://www.booker.co.uk/
[308] Interview with Barry Garret and David Jenkins on 16/11/2005, Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/09. Information was verified by an internet search and discussion with Martin Palmer, Industry Consulting, MLC on 11/7/2006.
[309] Interview with Jillian Pallister, and Sohrab on 15/6/2005: and telephone interview with Sohrab on: 11/3/09. Further information provided by: http://www.colbeck.co.uk/aboutus.aspx.
[310] Interview with Barry Garret on 15/6/2005. Literature provided and reference to: http://www.pioneerfoods.co.uk/
[311] Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/09 and Barry Garret on 10/10/2005.

an extensive range of produce, they do not, purportedly, offer the same service levels (including delivery) as Pioneer. In addition, they do not stock locally branded beef products, instead concentrating on low cost imported beef. For these reasons there are few actual suppliers who can now supply, or with limited effort, become suppliers of this resource[312]. This indicates that there is a low degree of imitability and substitutability and, therefore, on balance, the relative scarcity of the supplier's resources is high.

This view is supported by a number of other factors. First, as highlighted, the food service supply market is highly fragmented, with many independent, local, regional and national suppliers, indicating a high level of contestation. However, many catering butchers only specialise in supplying meat and some food service organisations have an emphasis on fish (3G), or fresh produce. There are also successful regional suppliers who heavily promote Cumbrian beef, such as John Geldard's Plumgarths Farm Shop in Kendal[313], but there are few successful regional beef brands other than Lakeland and Cumbrian Fellbred and even fewer suppliers capable of delivering a wide range of meat and other products. The level of contestation for catering butchers is medium to high, but for those also capable of stocking a wide range of non-meat produce, the level of contestation is medium to low[314].

Second, the service offered by Pioneer to Caspian is the same as offered to all customers, so in that respect it is commoditised. However, from a service perspective, service levels are deemed to be higher than the industry norm. Pioneer are flexible, customer-focused and have very quick response times[315]. From a product perspective, the product 'Lakeland' beef, is a differentiated branded beef product and cannot be viewed as a commodity. Furthermore,

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[312] Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/09. Information was verified by an internet search and discussion with Martin Palmer, Industry Consulting, MLC on 11/7/2006.
[313] Interview with John Geldard on 27/11/2003.
[314] Interview with Jillian Pallister and Sohrab on 15/6/2005.
[315] Next day delivery for orders faxed through the night before (with weekly frozen deliveries on Wednesday)- Interview with Jillian Pallaster and Sohab on 15/6/2005 and telephone interview with Sohrab on 3/11/09

Pioneers ability to deliver a complete range of products suggests that their supply offering is not commoditised. Very few other suppliers can do so. For these reasons the supply offering is best described as having a low level of commoditisation. There will potentially only a few suppliers that could offer the same products (locally reared branded beef and a wide range of other products) and service (24hr order service and next day delivery)[316].

Third, at present a substitute for the 'one-stop-shop' delivery of a wide range of products, including a recognised Cumbrian branded beef product, is unlikely. It is possible for Caspian to split their supply into meat, fish, other fresh produce, ambient and frozen, buying good quality locally reared beef from a number of sources (Fellbred, Plumgarths, Cranston's etc.) and to buy non-meat products from a variety of local or national suppliers[317] including cash and carry's (for example, Booker in Workington). However, this would require considerable time to develop new supply relationships[318], as well as increase transaction costs[319]. Therefore, substitute availability is low.

Forth, for a traditional retail butcher, wanting to develop their business into a small-scale catering butcher, there are moderate barriers to entry. Existing facilities can be utilised and these suppliers already possess expertise and would require only small infrastructure costs (extra delivery vans, storage space etc.). However, the cost of setting up a medium to large scale catering butchers, with the required expertise and associated health and safety costs, who can also competitively stock a wide range of dry goods, is prohibitive. It is unlikely that many 'one-stop-shops' could establish themselves, particularly within the NW. Furthermore, for branded beef, the barriers to entry are medium to high. Although, many small and large

[316] Interview with Jillian Pallister and Sohrab on 15/6/2005.
[317] Of the 30% of purchases not supplied by Pioneer and high proportion (25%) is for frozen products such as pizzas, supplied by Henry Colbeck. Pioneer cannot compete on price with this supplier: Interview with Jillian Pallister and Sohrab on 15/6/2005.
[318] According to Sohrab (telephone interview on 3/11/09) "it would take 6 – 7 months to switch to another supplier, due to the very large volumes of business. Very few suppliers can handle the volume".
[319] Interview with Jillian Pallister and Sohrab on 15/6/2005.

catering butchers, meat wholesalers and individual farmers could develop and supply new branded beef products, the cost of doing so is considerable (£80-90,000 for Pioneer to develop the 'Lakeland' brand) and there is competition from local brands, such as Lakeland and Fellbread, and popular national and international, brands such as 'Aberdeen Angus'. This would make it difficult for new entrants to differentiate themselves. It would, therefore, take considerable time and there are, at a 'one-stop-shop' and branded beef suppler level, high costs incurred to enter into this market and, therefore, the barriers to entry are high[320].

Fifth, at present Pioneer have several isolating mechanisms, such as economies of scale and reputation effects. Although Caspian have relatively low search costs (it is easy to find out information pricing information about other suppliers products and services) and relatively low sunk-cost (they have not made any dedicated investments in processes or technology), the specialised 'one-stop-shop' service offered by Pioneer would be difficult to replace. Due to the scale of operations at Pioneer, they are able to offer their own branded beef (and other meat) product and non-meat products at competitive prices. Furthermore, Pioneer has a long tradition in the NW and is respected for the close links they maintain with the local farming community[321]. On balance Pioneer, have a medium to high number of isolating mechanisms.

Sixth, Caspian do not have the time, willingness, financial resources, physical assets and / or know-how to be able to do what Pioneer currently does[322]. Caspian, therefore, pose a low threat of backward integration for the supplier.

[320] Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on: 11/3/09. Interview with Barry Garret on 10/10/2005. Information was verified by an internet search and discussion with Martin Palmer, Industry Consulting, MLC on 11/7/2006.
[321] Interview with Jillian Pallister, and Sohrab on 15/6/2005 and interview with Barry Garret on 15/6/2005.
[322] Interview with Jillian Pallister, and Sohrab on 15/6/2005.

Seventh, at present it would take a great deal of effort (time and money) for Caspian to establish direct relationships with farmers or primary producers, with little advantage of doing so[323]. The scope for disintermediation is, therefore, low. Furthermore, there is no evidence of price fixing and dividing up market share and, therefore, cartelisation in Pioneer's supply market is low.

In addition, the contract is a 1 year supply contract (negotiated each November), which Caspian can terminate at any time. There is little lock-in (sunk costs) in terms of tangible dedicated investments made by the buyer, although new menus would have to be produced removing the 'Lakeland' brand. There are, however, considerable intangible sunk costs in the relationship. Pioneer has provided a very good service for many years and it would be difficult 'psychologically' to choose an alternative supplier. Furthermore, the restaurant has built its reputation around the 'Lakeland' brand. For these reasons lock-in is medium to high[324].

Finally, there are, on the face of it, relatively low costs of switch. There are no exit penalties in the contract[325] and there is good information about the supply base[326]. However, the search for alternative suppliers and the negotiation and formation of a new contract would come at a cost (both time and money). Furthermore, as the 'Lakeland' brand is published in the menu and on Caspian's premises, a move over to an alternative supplier could pose a potential threat to the restaurant both commercially and operationally[327]. On balance, the switching costs are best viewed as medium to high.

[323] Interview with Jillian Pallister, and Sohrab on 15/6/2005.
[324] Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/09.
[325] There is also no period of notice. Interview with Jillian Pallister, and Sohrab on 15/6/2005.
[326] Through the internet and organisations such as NW Food Alliance and Food North West.
[327] Will a new supplier be able to deliver high quality product and the desired level of flexibility of service? Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/2009.

Taking into account all factors relating to supply scarcity as discussed, on balance, the scarcity of Pioneer's supply offering is high. This assessment is based upon Caspian's desire to have a 'one-stop-shop' supplier and a locally recognised beef brand. These choices drastically reduce their supply options[328].

Analysing section B1questions: information for the buyer (B1.17-1.19): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange[329]. There is information scarcity for the buyer, Caspian. There are a number of information advantages for Pioneer. First, Caspian's search costs are medium to high. It is possible to monitor the relationship (find, collect and analyse information about Pioneer's performance, such as delivery on-time and order accuracy). However, it is very difficult to benchmark Pioneer's performance with other comparative suppliers, other than the cost of the products on offer[330].

In addition, information about the relationship between quality and functionality concerning Pioneer's 'Lakeland' beef product and associated service is not transparent or readily available to the buyer. Caspian does not know what margins are being made on 'Lakeland' beef and it is inherently difficult to value (and make the link between quality and functionality) branded beef. Caspian believe that Pioneer make 25-30% net margins on their 'Lakeland' beef products[331], however, margins may in fact be much higher, as high as 40%[332]. Furthermore, the eating quality of the product can be affected (positively and

[328] If, however, they were willing to split their purchasing spend between a number of suppliers, potentially one for meat, one for fresh produce, one for dry or ambient food and one for frozen, this would significantly reduce the level of supply scarcity. For beef and meat, for instance, there are, as highlighted, a number of locally produced sources which would fit in well with the restaurants ethos of high quality and local produced produce, such as Cumbrian Fellbred and Plumgarths Farm Shop produce.
[329] As highlighted in chapter four and five, scarcity can also be related to the amount of private information available to each party about the resource endowments (in terms of utility, scarcity and information and, therefore, power) and the intentions of the other party in the exchange. To ascertain the existence of, and impact of private information, a number of questions were asked.
[330] Interview with Jillian Pallister and Sohrab on 15/6/2005.
[331] Telephone interview with Sohrab on 11/3/09.
[332] Interview with Barry Garret on 15/6/2005.

negatively) by the preparation method and therefore, the 'quality' attributes of the beef product are not necessarily easy to assess. Lastly, Pioneer offers a bundled product and service, also supplying goods other than 'Lakeland beef', making it more difficult to assess the true value of a single product. The buyer, therefore, has high levels of information asymmetry[333].

Finally, the service provided by Pioneer is both a search good and an experience good. It is possible for Caspian to obtain information to compare the prices of standard products and other branded beef products (such as Udales, Cumbrian Fellbred), along with aspects of the service provision (payment terms, service levels etc.) with other suppliers. However, it is only possible to assess the service provision (order taking and delivery) once the service has been experienced. Caspian want complete flexibility[334] and is not possible to compare Pioneer's service provision with other potential suppliers until after Caspian moves to an alternative supplier[335]. Pioneer provides both a search and experience good.

For Caspian, due to the relatively high search costs, high levels of information asymmetry and the nature of the service and products being supplied (both search and experience good), this analysis suggests that there is information scarcity for the buyer.

Table 8.1 to follow shows the answers to the questions as detailed in Appendix one. As discussed previously in chapter seven, this table provides guidance to help interpret these answers. Furthermore, it is not possible to view the answers to the questions alone, as providing the maximum level of resource endowment for the buyer. As demonstrated with

[333] Interview with Jillian Pallister and Sohrab on 15/6/2005 and telephone interview on 11/3/09.
[334] As previously highlighted, they want the flexibility to order one or sixty fillet steak and to put an order in the night before, being sure that their order, including 'Lakeland' beef products, will be delivered the next day.
[335] Interview with Jillian Pallister, and Sohrab on 15/6/2005.

this analysis, answers have to be interpreted in the light of replies to other questions, in particular, for determining the scarcity of supply for the buyer.

Interview questions	Answers to provide maximum level of resource endowment for the buyer	Answers provided by Caspian and validated by Pioneer
1. How operationally important is the item to be sourced? (U)	Low	High
2. Is the item sourced of commercial importance? (U)	Low	High
3. What % of the total buyers total spend is devoted to this item? (U)	Low	High
4. Is reciprocity a factor in the relationship between the buyer and supplier? (U)	Not a factor	Not a factor
5. How many potential suppliers are there for this item of spend? (S)	Many	Few
6. How contested is the current supply market? (S)	High	Medium-Low
7. How commoditised is the supply offering? (S	High	Low
8. Are credible substitute items easily available? (S)	High	Low
9. How high are the barriers to entry for new suppliers? (S)	Low	High
10. How many isolating mechanisms does the supplier have against their competitors and how sustainable are they? (S)	Low	Medium-High
11. Does the buyer pose a realistic threat of backward integration? (S)	High	Low
12. Is it possible to take the first-tier supplier out of the chain? (S)	High	Low
13. What is the current evidence of cartelisation in this supply market? (S)	Low	Low
14. What is the current level of lock-in by the supplier of the buyer 's business? (S)	Low	Medium-High
15. How high are the buyer's switching costs? (S)	Low	Medium-High
16. Are the buyers search costs high or low? (I)	Low	Medium-High
17. Does the buyer have low or high levels of information asymmetry? (I)	Low	High
18. What type of product/service is being purchased (experience, search or credence)? (I)	Search Good	Search / Experience

Table 8.1: Summary of answers provided by Caspian (Source: Author)

To summarise, from the author's interpretation of the information provided by Caspian and Pioneer (and when possible verified by independent sources[336]), the purchase of Pioneer's products and service is of high utility for Caspian. Furthermore, the scarcity of the supplier for Caspian is high and there is information scarcity for Caspian. However, in order to plot the relationship within the four box matrix these findings must be weighed against the relative power resource endowments of the supplier. This is the purpose of the next section.

[336] Interviews and information provided by Martin Palmer of the MLC (11/7/2006), Dr Martin Grantley-Smith of the RMIF (2/5/2006) and data produced by DEFRA.

8.2.2.2. Determining the power resource endowments of the supplier

Analysing section B2 questions: utility for the supplier (B2.1-2.4): The first factor which needs to be operationalised is resource utility[337]. The resource utility of Caspian's business for Pioneer falls into the key resource quadrant (medium to high utility) of the matrix shown previously, in Figure 8.4.

This is because, from an operational point of view, Caspian's business with Pioneer is both regular and predictable. This allows Pioneer to plan R&R activities and in new technology / capital equipment. Caspian spend in the region of £412,500 a year with Pioneer and £144,375 specifically on 'Lakeland' beef products[338]. Orders are placed daily for fresh and weekly for frozen (delivered on Wednesday) food products. It is possible for Pioneer to analyse Caspian's spend data to predict with some accuracy[339] the quantity and mix of 'Lakeland' beef products required[340]. However, daily and weekly fluctuations are not known and cannot be predicted[341].

On the other dimension, the relationship is of medium to high commercial importance for Pioneer. There are a number of factors which impact this. First, Caspian spend in the region of £412,500 a year with Pioneer and £144,375 specifically on 'Lakeland' beef products[342]. For 'Lakeland' beef, Caspian is viewed as a key account and they are the top individual

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337 However, as discussed in chapter four, a different interpretation of operational and commercial importance is required for the supplier. From the supplier's perspective, *utility* is the extent to which the supplier's goals or motivational investments are met by the buyer. *Operational importance* of the buyer's expenditure is assessed against the *regularity* and *predictability* of this expenditure. For suppliers, the degree of *commercial importance* can be determined by the ratio between a buyer's expenditure with a particular supplier and that supplier's total sales revenue, and the potential future revenue generating opportunities of doing business with a buyer (Cox, Sanderson and Watson, 2000).
338 Approximately 10,300 kg's at an average price on £14/kg in 2005. Prices ranged from £7-10/kg for rib-eye/sirloin, to £18/kg for fillet steak. Interview with Barry Garret on 15/6/2005 and Jillian Pallister and Sohrab on 15/6/2005.
339 Based upon typical weather conditions and there being no special circumstances, such as an outbreak of foot and mouth.
340 Including known peaks due to an influx of tourist between April and September / October.
341 Interview with Jillian Pallister and Sohrab on 15/6/2005, interview with Barry Garret on 15/6/2005 and telephone interview with Barry Garret on 10/10/2005.
342 Interview with Jillian Pallister and Sohab 15/6/2005 and Barry Garret on 15/6/2005.

customer in terms of volume and value in the restaurant / hotel sector[343]. However, at present the overall ratio is still relatively low at 3%[344], for total branded beef sales. Second, business with this customer has significantly grown between 1998 and 2005 and is likely to continue to grow. There is a future earning potential for the relationship (although not significant; Caspian is not about to set up a chain of restaurants).[345] On balance, therefore, the relationship is of medium to high commercial importance.

Further information provides evidence of the level of resource utility of Caspian's business for Pioneer. Caspian is an attractive for Pioneer for a number of reasons: they buy products other than 'Lakeland' beef[346]; they buy predominantly high value cuts such as fillet and rib-eye steaks, where net margins are in excess of 40%; (most importantly); and, they have a very good local reputation. Caspian is, therefore, a key partner for developing brand awareness for 'Lakeland' beef. As a 'flagship' restaurant they actively promote the brand[347]. Many of Caspian's clients are local farmers and the high volume of Caspian's business means that the 'Lakeland' brand get's maximum exposure[348]. Therefore, the buyer's attractiveness is high.

There is, however, one aspect which would indicate that Caspian has a low utility for Pioneer. Due to the nature of the business, Caspian is unable or does not attempt to provide Pioneer with very clear and consistent demand forecasting and capacity planning information. Caspian orders products on a daily (and weekly) basis, based upon known bookings, current stock levels and their experience of what mix of products is necessary. Pioneer have to use

[343] A high proportion of their spend is for the most expensive beef cuts (fillet), where net margins are in excess of 40%.
[344] Interview with Jillian Pallister and Sohab on 15/6/2005, Barry Garret on 10/10/2005 and telephone interview with Sohab on 11/3/09. Specific figures were not made available. However, Pioneer's turnover was reported by Barry Garret as being in the region of £30 million. Caspian accounted for total sales of £412,500, which was 1.375% of total turnover. The spend on all beef was approximately £4,368,000 (see case three, chapter nine). Taking an average gross margin of 35%, total sales of beef would be £5,896,800. Of this 80% is for branded beef = £4,717,440. 60% of branded beef sales were to the hotel and restaurant sector = £2,830,464. Caspian's spend on beef was estimated at £144,350. Therefore, the Caspian account, specifically for this sector accounted for just over 5% (5.1%) of branded beef sales or 3% of total branded beef sales.
[345] Interview with Jillian Pallister and Sohrab on 15/6/2005 and Barry Garret on 15/6/2005.
[346]As highlighted previously, their total spend was approximately £412,500.
[347] On the menu as well and on the premises with literature and a plaque.
[348] Interview with Jillian Pallister and Sohrab on 15/6/2005, telephone interview with Sohrab on 11/3/09 and Barry Garret on 15/6/2005.

their own historical sales data to aid medium to long-term demand forecasting and capacity planning decisions[349]. At present Caspian is not able to provide Pioneer with clear and consistent demand forecasting and capacity planning information.

Overall, taking into consideration the factors discussed here, it is evident that Caspian's business can be viewed as medium to high utility. The importance of Caspian as a 'flagship' restaurant for the 'Lakeland' brand cannot be underestimated.

Analysing section B2 questions: scarcity for the supplier (B2.5-2.8): The second factor which needs to be operationalised is the relative scarcity of a resource[350]. The scarcity of Caspian as a customer for Pioneer is medium to high. There are a number of factors which are important in making this assessment. First, to answer this we need to understand Pioneer's customer base. Pioneer has many current (well over a 1000) and many potential (over 100) further customers. In 2005, 'Lakeland' beef was sold through a number of outlets, including their own restaurant, independent hotels and restaurants, the public sector (schools and hospitals), direct sales through their own butchers (and factory shop) and independent contracted caterers. The total sales of branded beef were estimated at £4,717,440 (80% of total beef sales of £5,896,800- see footnote 344 for more information). 60% of all branded beef sales were to independent hotels and restaurants (sales estimated at £2,830,464). Pioneer, have a large total number of customers, yet within the independent hotels and restaurant sector, an important and growing market for the 'Lakeland' beef brand, there are key accounts, with well known and high profile restaurants such as Caspian and Fantails and a long tail of smaller customers[351]. Caspian is Pioneer's largest single customer for 'Lakeland' beef in this

[349] Interview with Jillian Pallister and Sohrab on 15/6/2005.
[350] From the supplier's perspective it is important to determine how large the market for their products or services is.
[351] Interview with Jillian Pallister and Sohrab on 15/6/2005, Barry Garret and David Jenkins on 16/11/2005 and telephone interview with Sohrab on 11/3/09.

sector, accounting for approximately 5.1% of total turnover (with estimated sales of £144,375- see footnote 344). Although, there are many current and many potential future individual customers (buying from a range outlets), there are a few (<10) current large, high profile and attractive restaurant accounts and few (<10) potential comparable future accounts[352].

In addition, in this case, although there are no significant switching costs for Pioneer in terms of dedicated investments made to supply Caspian, significant time has been spend developing the relationship. If Caspian no longer stocks and promotes 'Lakeland' beef, instead choosing a rival local brand, such as 'Cumbrian Fellbred' or international brand, Aberdeen Angus, Pioneer would incur some commercial and operational risk from walking away from this relationship. Therefore, the cost of switch is medium[353]. Lastly, Pioneer possesses the financial resources and know-how to forward integrate in the supply chain[354]. However, they did not want to develop further restaurants as this was not seen as being core to their business[355]. Pioneer have a high ability to forward integrate, but are very unlikely to do so.

Taking into account these factors, on balance, the scarcity of Caspian as a customer for Pioneer is medium to high. Although the costs of switch for Pioneer are moderate, Caspian is a 'flagship' restaurant for the 'Lakeland' brand and they are a high profile customer who would be difficult to replace.

Analysing section B2questions: information for the supplier (B2.9): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange. Pioneer

[352] Interview with Barry Garret on 15/6/2005.
[353] Interview with Jillian Pallister and Sohrab on 15/6/2005 and interview with Barry Garret and David Jenkins on 16/11/2005.
[354] They have their own restaurant on their Carlisle site.
[355] Interview with Barry Garret and David Jenkins on 16/11/2005.

has partial access to private information relating to Caspian's business. Pioneer has information about Caspian's overall spend on 'Lakeland', what is specifically valued by the buyer and who specifies requirements. However, it is not clear to Pioneer what Caspian's reservation price is for the 'Lakeland' beef brand and associated service[356].

Interview questions	Answers to provide maximum level of resource endowment for the supplier	Answers provided by Caspian and verified by Pioneer
1. How commercially important is the buyer to the supplier? (U)	Low	High
2. How significant is our spend to the operational sustainability of the supplier's business (i.e. ratio, regular and predictable)? (U)	Low	Medium-High
3. Does the buyer provide supplier with clear and consistent demand forecasting and capacity planning information? (U)	No	No
4. Is the buyer's business attractive for the supplier? (U)	Low	High
5. How many customers in total does the supplier have for this for this item? (S)	Many	Few
6. How many potential customers are there for this supplier? (S)	Many	Few
7. How high are the suppliers switching costs? (S)	Low	Medium
8. Does the supplier have the ability to forward integrate? (S)	High	High
9. Does the supplier have access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.)? (I)	Yes	Partial

Table 8.2: Summary of answers provided by Caspian and Pioneer (Source: Author)

Table 8.2, above, shows the answers to the questions as detailed in Appendix one. As previously highlighted, answers have to be interpreted in the light of replies to other questions. To summarise, from my interpretation of information provided by the buyer and the supplier (and verified when possible by independent sources[357]), the customer is of medium to high utility for Pioneer and the scarcity of the buyer for the supplier is medium to

356 Interview with Barry Garret and David Jenkins on 16/11/2005.
357 Interviews with other supply chain actors and industry experts; e.g. interview with Martin Palmer of the MLC on 11/7/2006 and secondary research from DEFRA, internet searches etc.

high. Furthermore, Pioneer has only partial access to private information of the buyer and, therefore, there is scarcity of information.

8.2.2.3. The final analysis: weighing up the two sides of the scales

Bringing together the analysis of buyer and supplier power resources enables us to plot the Caspian- Pioneer relationship in the four box matrix. It is evident that the relationship is best described as interdependent. For this relationship to be described as interdependent, the analysis would have to indicate that the buyer and supplier both have low power resources (Low/Low). When we consider the analysis given thus far, we can argue that the buyer's power resource endowments are low as the purchase of Pioneer's products and service is of high utility for Caspian. Furthermore, the scarcity of the supplier for Caspian is high and there is information scarcity for Caspian. The power resource endowments of the supplier are also relatively low as the customer is of medium to high utility for Pioneer and the scarcity of the buyer for the supplier is medium to high. Furthermore, Pioneer has only partial access to private buyer information; therefore, there is some information scarcity. We can see in Figure 8.5 below, that the relationship is in the interdependence position, however favouring the supplier. This is because, the analysis demonstrates that Pioneer have marginally more power resource endowments than Caspian, but there is still a relatively high degree of co-dependency.

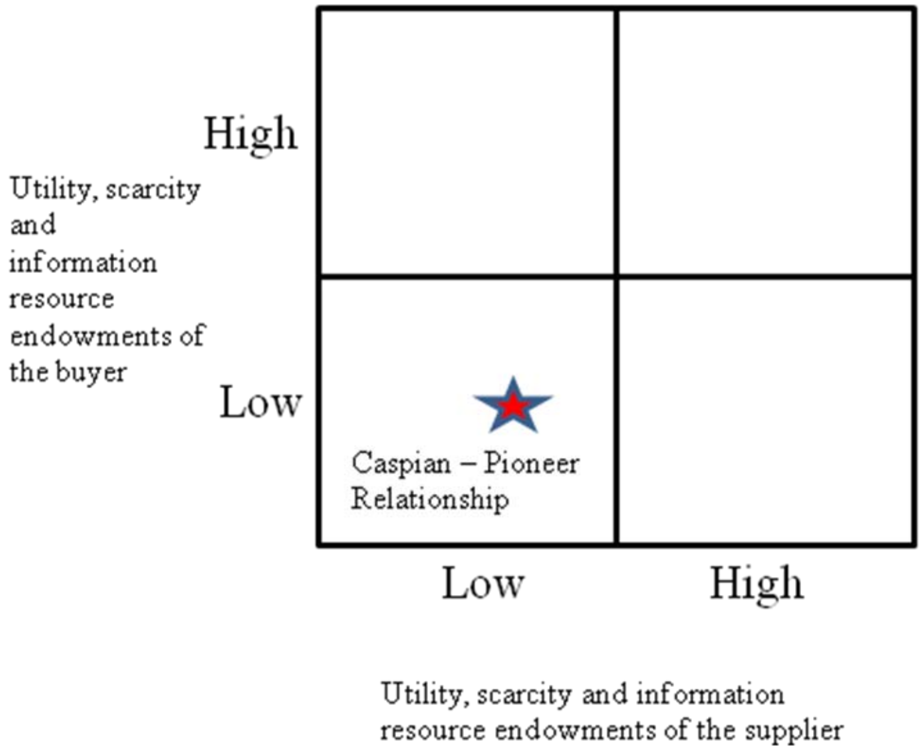

Figure: 8.5: Caspian-Pioneer power analysis (Source Author)

8.3 Determining the relationship type for the Caspian - Pioneer relationship

As previously presented, Cox et al. (2003) have developed a six box matrix which models relationship management types. In their typology, shown in Figure 8.6, to follow, they make an important distinction between way of working and the sharing of surplus value.

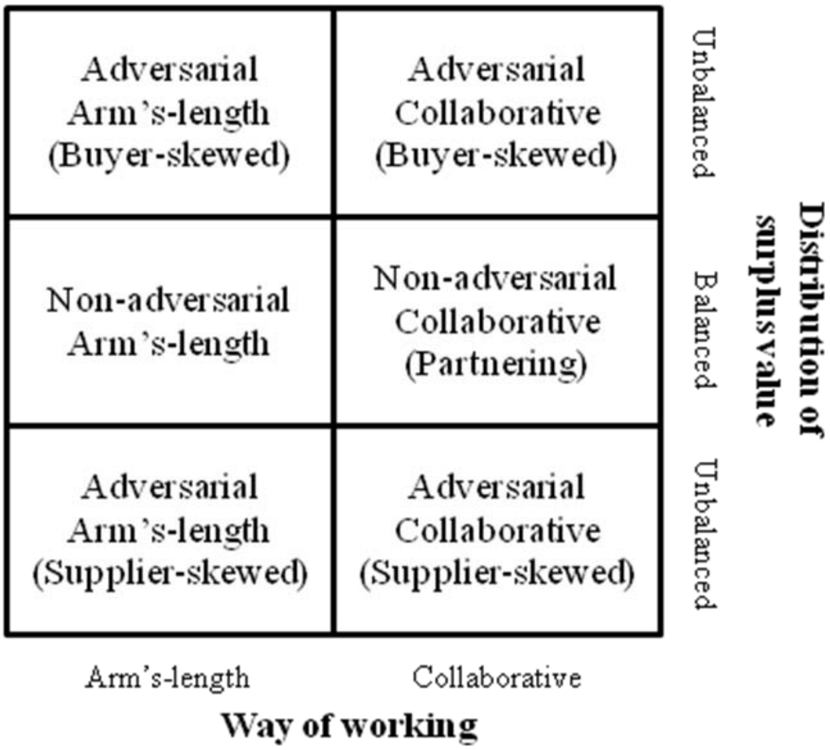

Figure 8.6: A typology of buyer-supplier relationship types (Source: Adapted from Cox et al., 2003)

To position the Caspian - Pioneer relationship in the matrix shown above, as previously discussed, it is necessary to ask a number of questions to both parties to determine whether the relationship is best described as arm's length or close and who benefits most (see Appendix two).

8.3.1 The level of relationship connectivity: way of working

First, it is necessary to establish the way of working between Caspian and Pioneer. As can be seen in Table 8.3, to follow, it is evident that this relationship had moved beyond there being only a basic exchange of information and products or services[358]. Table 8.3 highlights evidence of collaboration between Caspian and Pioneer across the five connectivity

[358] Such as a basic specification, volume and timings information from the buyer and limited specification, timing and pricing information from the supplier.

measures. The only connectivity measure, for which neither party could demonstrate a link, was for relationship specific adaptations. However, this relationship was defined as close by both the buyer and the supplier.

Relationship connectivity measure	Evidence provided by Caspian and Pioneer
Product / process information exchanges	• Order sheet (list of products and quantities) for fresh food faxed through to Pioneer every evening for next day delivery (within a 1hr time window) • Order sheet for frozen food faxed through every Tuesday evening for Wednesday delivery • Yearly new menu meeting (November), to discuss changes to the menu i.e. putting Cumberland Sausage on the menu and reducing 32oz steak to 28oz steak • Planning for price rises: quarterly meetings / discussions about meat and other products price changes • Regular communication (email and telephone) regarding quality of produce
Operational linkages	• The order system (based upon fax and email) is simple and effective • Orders must be received by 12p.m. each evening to be picked and delivered the next day • Frozen food orders (based on fax and email) must be received by 12p.m. on Tuesday evening for next day delivery • Caspian are given a 1 hr delivery slot confirmed by fax, email or telephone
Legal bonds	• Yearly contract negotiated every November, covering product mix, quality and service expectations • Some product prices will be fixed in the contract based upon negotiations • Most products will be re-negotiated on a quarterly basis • There is no extended tie-in or a penalty clauses for either party
Cooperative norms	• Open, two-way communication for tackling quality or other issues • Bi-annual strategy meetings and regular informal discussion's, relating to the continued development and promotion of the 'Lakeland' brand • Joint focus on supporting the local farming community. Many of Caspian's customers are farmers or are involved in the rural community and want to see a local business supporting other local firms.
Rel. spec. adaptations	• No direct relationship specific adaptations

Table 8.3: Evidence of the level of relationship connectivity (Source Author)[359]

8.3.2 Sharing of surplus value

The second factor requiring analysis is the sharing of surplus value. As previously highlighted, questions were asked to ascertain if there was an equal or unequal sharing of the surplus value and, if unequal, did this favour Caspian or Pioneer. Table 5.10 shown on page

[359] Information to populate this chart was consolidated from a number of interviews: interview with Barry Garret on 15/6/2005 and 10/10/2005, Barry Garret and David Jenkins on 16/11/2005, Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sohrab on 11/3/09.

170, in chapter five, highlights the characteristic of equal and unequal sharing of surplus value[360]. To follow is a discussion of the answers given to the relationship management type questionnaire (see Appendix two), which will provide evidence of the level of equity in the relationship[361].

The relationship between Caspian and Pioneer was seen to be equal and, therefore, non-adversarial in nature. The justification for this assessment will follow.

Each party's commercial goals were partially realised: From Caspian's perspective, it was critically important (operationally and commercially) to secure the reliable delivery of competitively priced, high quality, locally branded beef (on a large scale). Pioneer has consistently provided a flexible and dependable service, delivering high quality 'Lakeland' beef (along with other products)[362]. It was also important to be able to buy the majority of fresh, frozen and ambient (dry) food at a competitive price, from a 'one-stop-shop', to reduce transaction costs and save time/effort on managing multiple relationships. It was, however, not possible to increase the amount of goods purchased (above 75%) from Pioneer, as, in particular, for frozen goods (pizza's), Pioneer was not competitive. In this respect the commercial goals of Caspian were partially realised.

From Pioneer's perspective, an important commercial goal was to develop the Caspian account to ensure they received a regular and predictable revenue stream. This was achieved, having grown the business with Caspian from approximately £134,400 in total and £33,600 for beef in 1998/9, to £412,500 in total and £144,375 for 'Lakeland' beef products by

[360] As you can see there are five key characteristics: commercial goals, relationship-specific adaptations, the price paid for the good or service, supplier profit levels and contract terms. Each of these characteristics can be viewed as being on a continuum from favouring the buyer, to favouring the supplier, with equal in the middle.
[361] Information was provided by both the buyer and the supplier.
[362] Interview with Jillian Pallister and Sohrab on 15/6/2005.

2005[363]. The strategic goal was to continue to grow the revenue generating potential of the 'Lakeland' beef brand partnership with Caspian. A further important goal was for Caspian to act as a 'flagship' restaurant to raise the profile of the restaurant. The significant growth of the restaurant ensures that 'Lakeland' brand awareness has been maximised from this partnership. Although Pioneer has grown the percentage of Caspian's business that it captures from 70% to 75%, the aim was to supply Caspian with up to 90% of their total spend. Pioneer has been unable to do this primarily because they have not been able to be competitive for frozen pizzas. In this respect the commercial goals of Pioneer were partially realised[364].

Equal distribution of relationship-specific adaptations: Neither Caspian or Pioneer have made significant relationship-specific adaptations. From Caspian's perspective there was no need to adapt their processes, or systems or invest in any unique technology to be able to work closely with Pioneer. Furthermore, Pioneer did not adapt their standard service, products or processes specifically for Caspian. The order processing procedure is the same for Caspian and other customers[365].

The buyer is paying a price which is mid-way between their utility function (reservation price) and the supplier's mean cost of production: Pioneer make in the region of 40% gross margins on 'Lakeland' beef[366]. However, Caspian are still able to make in excess of 45% gross margins on beef products on their menu. Furthermore, they are able to pass price rises onto their end-customers to maintain these margins. Therefore, the buyer is paying a price

[363] Interview with Barry Garret on 15/6/2005: Confirmed by Jillian Pallister and Sohrab on 15/6/2005 and by telephone interview with Sohrab on 11/3/09. These figures were estimated. In 1998/9 the estimated total purchase spend was £192,000 (based on a turnover of £600,000). At this time approximately 70% of spend was with Pioneer and the spend on beef was estimated at 25% of this. Total spend was £134,400 and spend on beef was £33,600.
[364] Interview with Barry Garret on 15/6/2005 and Jillian Pallister and Sohrab on 15/6/2005.
[365] Interview with Barry Garret on 15/6/2005 and Jillian Pallister and Sohrab on 15/6/2005.
[366] With margins for other products being typically less that 20%.

which is mid-way between their utility function and the supplier's mean cost of production. If Caspian is pushed towards a price which is close to their utility function, such as for pizzas, they source from alternative suppliers[367]. However, the balance of power suggests such a push is unlikely.

The supplier is able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage): It is difficult to assess the average profits made by Pioneer and compare this with comparable companies. First, precise profit figures were not made available, although it was suggested profits were in excess on £1.5 million or approximately 5%[368]. Second, Pioneer is quite unique in the sector, as discussed, in terms of their regional presence, wide range of products they stock and ownership of a premium beef brand; 'Lakeland'. Profits for large food service organisations vary greatly, but 3-10% is seen as being comparable[369]. Furthermore, specifically for branded beef, a 40% gross margin is a comparable figure to branded beef products such as Udales Cumbrian Fellbred.[370] Therefore, information was hard to come by here, but profit levels of Pioneer seemed to be comparable with the industry average.

The terms of the contract or agreement favour neither the buyer or supplier (i.e. pricing, payment terms, etc.): The contract in place between Caspian and Pioneer favours neither the buyer or the supplier. It is a one year contract (negotiated every November), outlining product ranges, service and delivery expectations and prices. The price on some products are fixed for the year. However, most are flexible, based upon quarterly reviews (or less if necessary). Caspian have no minimum or maximum order commitment and there are no

[367] Interview with Barry Garrett on 15/6/2005, Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sobrab on 11/3/09.
[368] Interview with Barry Garret on 15/6/2006.
[369] Interview with Martin Palmer, MLC on 11/7/2006.
[370] Interview with Dudly Carrathus on 27/11/2003 and interview with Martin Palmer, MLC, on 11/7/2006.

extended tie-ins or penalties written into the contract. It is a simple supply contract, with standard 30 days payment terms[371].

Table 8.4, shown below, highlights that this relationship can be viewed as non-adversarial in nature. The analysis demonstrates that there was a relatively equal sharing of the risks and rewards from the relationship. However, as highlighted, it was not always possible to gather robust information for all of the measures and, therefore, to arrive at this overall interpretation, the researcher was required to use his judgement.

Buyer-skewed adversarial	Non-adversarial	Supplier-skewed adversarial
Buyer's commercial goals fully achieved	Each party's commercial goals partially realised	Supplier's commercial goals fully achieved
Supplier invested more in relationship-specific adaptations	Equal distribution of relationship specific adaptations	Buyer invested more in relationship-specific adaptations
The buyer is paying a price which is substantially lower than their utility function (reservation price)	The buyer is paying a price which is mid-way between their utility function (reservation price) and the supplier's mean cost of production	The buyer is paying a price very close to their utility function (reservation price)
The supplier is receiving only normal profit (or slightly above)	The supplier is able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage)	The supplier is able to earn sustained above average profits for industry sector (comparable companies operating at the same supply chain stage)
The terms of the contract or agreement favour the buyer (i.e. pricing, payment terms, exit clauses, etc)	The terms of the contract or agreement favour neither the buyer or supplier (i.e. pricing, payment terms, etc)	The terms of the contract or agreement favour the supplier (i.e. pricing, payment terms, exit clauses etc)

Table 8.4: The sharing of surplus value in the Caspian-Pioneer relationship (Source: Author)

[371] Interview with Barry Garrett on 15/6/2006, Jillian Pallister and Sohrab on 15/6/2005 and telephone interview with Sobrab on 11/3/09.

Taking the variables of way of working and sharing of surplus value together it is possible to plot the Caspian and Pioneer relationship in the six box relationship management type matrix. The relationship was undoubtedly collaborative and as demonstrated, there was an equal sharing of the risks and rewards from the relationship. Therefore, as can be seen in Figure 8.7 below, the relationship management type is best described as non-adversarial collaboration**.**

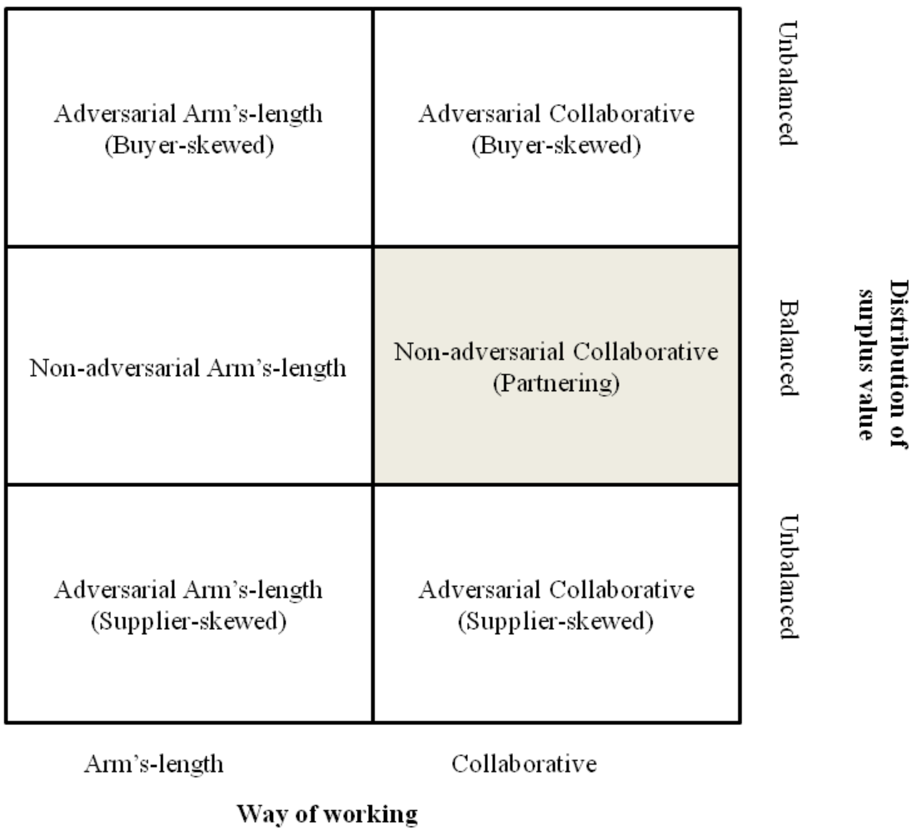

Figure 8.7: The Caspian-Pioneer relationship type
(Source: Author, adapted from Cox et al., 2003)

8.4. Conclusions to the case

The long-term partnership between Caspian and Pioneer demonstrates a number of interesting points. According to the hypothesis, under situations of interdependence, if there is a link between the power resource endowment of buyers and suppliers and the relationship management type, you would expect the relationship in question to be managed in the middle right box of the six box matrix, as non-adversarial collaboration. The analysis presented in this case supports the hypothesis, as the power position between Caspian and Pioneer has been analysed as interdependence and the relationship management type is best described as non-adversarial collaboration.

This partnership is based upon a long-term personal relationship between Caspian's owner Sohrab Padidar and the (now) Commercial Director of Pioneer, Barry Garret. They have been working together for over 20 years[372]. As Sohrab stated; "I have often told Barry if you were to cut him in half he would have Pioneer printed through him."[373]

The growth of Caspian Flame Grill restaurant and the development of the 'Lakeland' beef brand acted as the catalyst for the firms to form a partnership. In 2002, Caspian was chosen as a 'flagship' restaurant to actively promote the brand, taking a key role in developing brand awareness. As Barry Garret said; "The success of the brand is about getting local people interested and talking about 'Lakeland' beef"[374]. For Caspian, stocking the 'Lakeland' brand enabled them to pursue a strategy of differentiation and cost leadership (hybrid). According to Sohrab; "Few local suppliers can supply the quantity and quality of meat at the price that Pioneer can. When I've been approached by some local suppliers and told them the volumes I deal in, they go white".[375] The products and service offered by Pioneer has enabled Caspian to migrate away from takeaway's (low value), towards a medium- high priced restaurant. Furthermore, Pioneer as the chosen supply partner is now responsible for supplying up to 75% of all of Caspian's food requirements.

[372] Since Sohrab first set up a takeaway business in Carlisle, in 1984.
[373] Telephone interview with Sohrab on 11/3/09.
[374] Interview with Barry Garrett on 15/6/2005.
[375] Telephone interview with Sohrab on 11/3/09.

This case clearly demonstrates that both parties are dependent upon each other. Furthermore, their way of working is close. This level of closeness did not developed over night and it was only with the conception of the 'Lakeland' beef brand that the relationship moved from arm's length to close. The analysis demonstrates this is a partnership (as defined in chapter three), as the sharing of surplus value in the relationship is reasonably balanced. This, it is argued, is because the underlying power position between the buyer, Caspian, and the supplier, Pioneer, is interdependence. It would be difficult for either party to gain the lion's share of the surplus value in the relationship and to, therefore, manage the relationship in an adversarial manner. Nor does it seem that either of them would wish to.

Chapter Nine

Case three: The Pioneer Foodservice and Harrison & Hetherington Relationship

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9.1. Background to the development of the Pioneer and Harris & Hetherington relationship

Before analysing the power dynamics and the relationship management approach between Pioneer and Harrison & Hetherington (H&H), using the two methodologies explained in full previously, we first need to provide some background information about the historical development of Pioneers' 'Lakeland' beef brand and how this acted as the catalyst for the companies to develop a collaborative relationship.

As discussed in the previous chapter, in June 2000, three firms in the Lakeland region of the North West of England [376] met to explore the opportunity of developing a supply chain partnership. Most beef processors in this market, such as Pioneer Foodservices, simply buy from abattoirs (primary processors) and sell undifferentiated beef products to their end clients. This means that the buyer, in this case Pioneer, normally has limited leverage and must accept prevailing market-based quality standards and prices, which are, in general, centred on supply market competition. Furthermore, as Pioneer's products were undifferentiated, it was not possible to create any significant leverage over customers to earn

[376] The Lakeland region, encompassing Cumbria and the Lake Land District is in the heart of the major beef farming pastures of the North of England.

above average industry margins (presently 20-30% gross margins[377]). The Lakeland initiative was aimed at changing this set of circumstances.

The companies involved in the partnership were initially Pioneer Foodservice, a Carlisle-based, family run secondary beef processor and catering butcher, with over 120 years of trading history, Bowland Food, a medium-sized abattoir, and, Harrison & Hetherington Ltd (H&H), a major regional farmstock auctioneers, brokers and valuers[378]. The three companies believed that there must be a better way to structure the relationships in their current beef supply chain and differentiate their products to achieve a higher share of the catering service market (restaurants, butchers and independent caterers etc.) and to make returns that were above standard industry norms[379].

The initial idea was to improve service and quality levels and brand their premium beef products. They soon discovered that this required not only considerable managerial effort and financial investment, but also very different expertise than they currently possessed. They decided, therefore, that the best way to progress was through developing a partnership. In order to achieve this they needed to work together and share the risks and responsibilities generated from the collaborative approach. Within this new relationship framework, H&H was responsible for sourcing beef of a superior 'standard' specification (R4L or better on the Euro Grid carcass classification[380]) from farm-assured producers in CA (Cumbria) and LA (Lancashire) postcode areas, either through the auction ring (Borderway, Kirby Stephen or Lockerbie) or direct from the farm. Bowland Food provided a beast slaughtering and primary

[377] Figures provided by Martin Palmer (Industry Consulting) of the MLC- meeting on 11/7/2006.
[378] H&H Ltd is part of the H&H Group plc.
[379] Interview with Barry Garret and Tim Bastable on 23/5/2005.
[380] See supporting document D4. The Euro Grid is an independent, MLC operated, carcass classification for the meat industry. A slaughtered carcass is graded on a classification grid against two variables, conformity and fatness. On the horizontal axis, for conformity, there are eight grades from E (excellent) to P- (poor). On the vertical axis, for fatness, there are seven grades from 1 (low) to 5H (very high). This means that there are 58 potential grades. However, the most common type of steer beef carcass, according to the MLC (2002), would have a conformation of R and a fat class of 4L (MLC, 2002).

processing service for the branded beef products. Pioneer Foodservice played a central role in developing and selling the brand within the regional catering service market, by improving service, product quality and creating brand recognition, through their existing portfolio of customers[381].

In 2002, after a year's delay due to the outbreak of foot and mouth, the jointly developed 'Lakeland' beef brand was officially launched. By 2004, after two years of heavy promotion, which significantly increased the recognition of the 'Lakeland Beef' brand within the North West of England, the brand was heralded as a success (MacKenzie, J, 2005). The 'Lakeland' beef brand enabled Pioneer to differentiate its products from other catering butchers in the region. The new brand also gave Pioneer's existing business clients a way of differentiating their own businesses[382]. New routes to market, such as schools, hospitals and Pioneer's own restaurant, were also promoted (see Figure 9.1 to follow). The 'Lakeland' beef brand business continued to expand and by 2004 as many as 120 carcasses per week were bought to be further processed by Pioneer (up from 20 in 2002).

However, after 2003, the relationship between Pioneer and Bowland faltered. There are a number of factors that contributed towards the deterioration of trust within the relationship (which we are unable to focus on in this case). An important consideration for Pioneer was the traceability and quality of their products. These were key determinants for the success of the 'Lakeland' beef brand. With the initial partnership structure, Bowland owned the carcass and sold primal cuts to Pioneer, to be further portioned to end customer specifications. Without owning the carcass, Pioneer felt unable to ensure that they were receiving the desired levels of quality and traceability. Pioneer looked, therefore, for another partner to be part of

[381] Interview with Barry Garret and Tim Bastable on 23/5/2005.
[382] A majority of whom were restaurants and independent contracted caterers. See case two, chapter seven, Caspian- Pioneer relationship for more information.

the long-term development of the 'Lakeland' beef brand. In 2004, Rose County Foods became the new slaughter and primary processor for the brand, with Pioneer this time owning the carcass.[383]

Pioneer and H&H's relationships was undiminished by the break-up of the Pioneer- Bowland relationship. H&H continued to be responsible for procuring beast on behalf of Pioneer for the 'Lakeland' brand and they were now responsible for coordinating the delivery of beasts to Rose County's abattoir in Clitheroe.

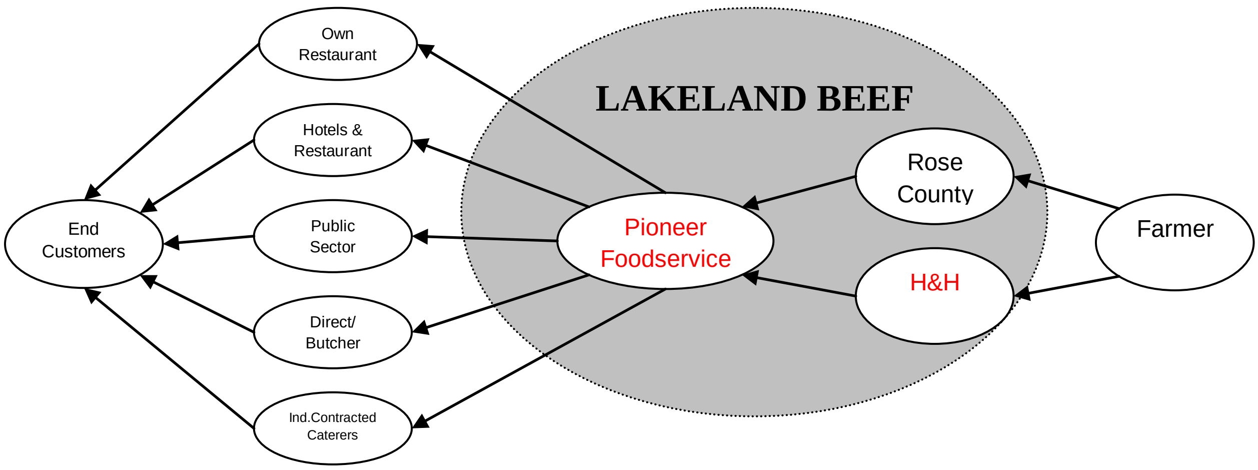

Figure 9.1: Pioneer – H & H 'Lakeland' beef partnership (Source: Author)

Having described the historical conception and development of the 'Lakeland' beef brand, we will now analyse the Pioneer Foodservices and H&H relationship, using the power and competition analysis and relationship management type methodologies.

[383] They now have to manage the carcass balancing problem. The issue of carcass balance is a crucial issue for primary processors (and ultimately whoever owns the carcass). It is difficult to sell all the various cuts of the beast in equal proportions and typically a large retailer customer is required to sell off all the high volume, low value cuts as mince meat. Therefore, a balancing partner is required. See Cox et al., 2007 and Cox and Chicksand, 2008 for more information. Interview with Barry Garret and Tim Bastable on 23/5/2005.

9.2. Power and Competition Analysis- Pioneer Foodservices and H&H

9.2.1- Understanding the focal companies marketing approach: questionnaire part A

Figure 9.2, to follow, highlights that the first stage of the power and completion analysis was to complete section A of the 'power and competition analysis questionnaire'. By determining the subjects marketing approach with a key customer, this will help us to better contextualise the relationship between Pioneer Foodservices and H&H, when conducting section B1 and B2 of the questionnaire.

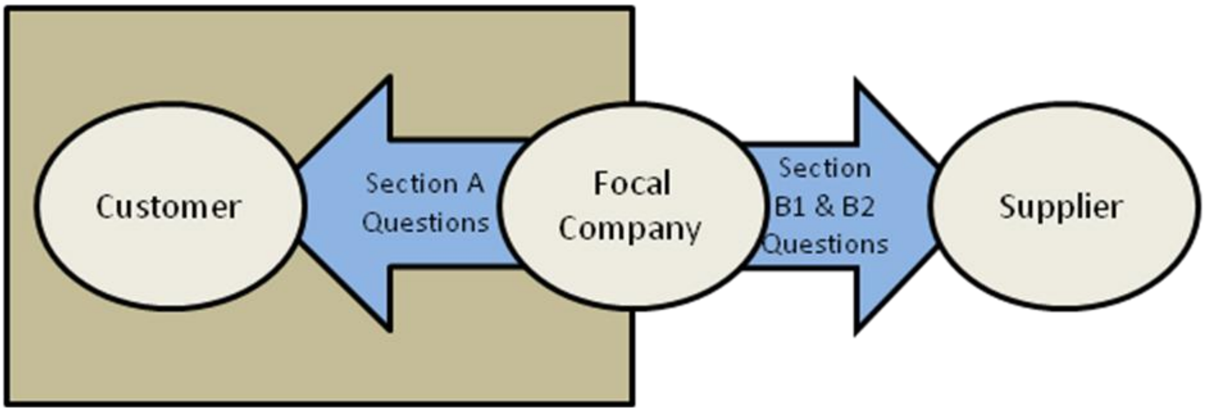

Figure 9.2: Section A questions and analysis (Source: Author)

As highlighted previously, what follows is a high level analysis, focusing upon the significance of key answers to the questionnaire. The aim is to provide evidence to determine the power balance between Pioneer and H&H, enabling the relationship to be accurately plotted in the four box power matrix.

Pioneers marketing approach: There are a number of key aspects of Pioneer Foodservice's marketing approach which should be highlighted. This case is concerned with the procurement of prime cattle of a specific high quality (R4L on the Euro Grid) and location (from the CA and LA postcode areas), for processing into 'Lakeland' beef branded products (such as rump and sirloin steaks). There are a number of end-customers for Pioneer's 'Lakeland' beef branded products (see Figure 9.1, shown previously), including their own restaurant, independent hotels and restaurants, the public sector (schools and hospitals), direct sales through their own butchers (and factory shop) and independent contracted caterers. In 2005, 60% of all branded beef sales (which accounted for 80% of total beef sales) were to independent hotels and restaurants.

One of Pioneer's key customers is the 150 seat Flame Grill restaurant Caspian (see case two, chapter eight), based in Workington. Caspian require a range of premium cuts of beef, including rump and sirloin steaks of a specific conformity[384], to be delivered at a designated time. For Caspian, price is less of an issue, whereas consistent eating quality and reliable service from Pioneer is of more value[385]. For customers like Caspian, the key performance objectives are quality, flexibility and dependability. Caspian are looking for consistently high quality beef products and service. Orders placed with Pioneer each evening must be accurately delivered the next day[386]. Dependable quality of products and service is, therefore, a key selection criteria, as well as flexibility; one day Caspian may require a few products, the next many, due to a function or high levels of advanced bookings[387].

Caspian is managed as a key account. There are a number of reasons for this. First, Caspian, as an individual account, contributes significantly to revenue. This was estimated at just over 5% of total revenue for 'Lakeland' beef[388]. Second, and arguably of more importance, this

[384] Size and shape.
[385] Interview with Jillian Pallister and Sohrab (owner) on 15/6/2005.
[386] By one of Pioneers fleet of 30 refrigerated vans.
[387] Interview with Barry Garret on 1/6/2005 and verified by Jillian Pallister and Sohrab on 15/6/2005.
[388] See case two in the previous chapter for more information.

account is of high value, due to the nature of their spend. They purchase primarily high value premium 'Lakeland' beef cuts and, therefore, very good returns, in excess of 40% gross margins, are made from this account. Furthermore, Caspian advertised 'Lakeland' beef in the restaurant. This is a valuable marketing opportunity for Pioneer as Caspian is a very popular regional restaurant[389].

Pioneer's strategy for competitive advantage is, therefore, based upon a differentiation strategy. The development of the premium quality 'Lakeland' beef brand, along with superior, dependable and flexible service enables Pioneer to charge premiums over and above those achieved when selling undifferentiated commoditised beef products. Gross margins have risen from less than 30% for undifferentiated meat products, to, on average, over 40% for 'Lakeland' beef products[390].

To conclude, this analysis of section A of the completed questionnaire determines that the marketing approach of Pioneer is to focus upon:

- Delivering high quality 'Lakeland' beef products, such as sirloin and rump steaks, to a range of end customers, of which, independent hotel and restaurants are the most significant segment (60% of 'Lakeland' beef sales).
- End customers, such as the restaurant Caspian, who value high quality and dependable products and service, along with a flexible service provision.
- Managing key accounts by delivering a superior product and service so as to benefit from high margins (returns) and marketing potential.
- Pursuing a differentiation strategy for both their products and service offering.

[389] See case two, chapter eight, for more information.
[390] Interview with Barry Garret and Tim Bastable on 23/5/2005 & Barry Garret on 1/6/2005.

Pioneer's aim was, therefore, to manage their relationship with H&H, to be able to support this marketing approach.

9.2.2. Understanding the relative power resource endowments of the buyer and supplier: questionnaire part B1 and B2

Figure 9.3, to follow, highlights that the second stage of the power and completion analysis was to complete sections B1 and B2 of the 'power and competition analysis questionnaire'. As previously stated, determining the overall power position between the buyer and supplier requires that the relative power resource endowments of the two parties are analysed. This is achieved by determining the relative utility, scarcity and information resource endowments of the buyer and the supplier.

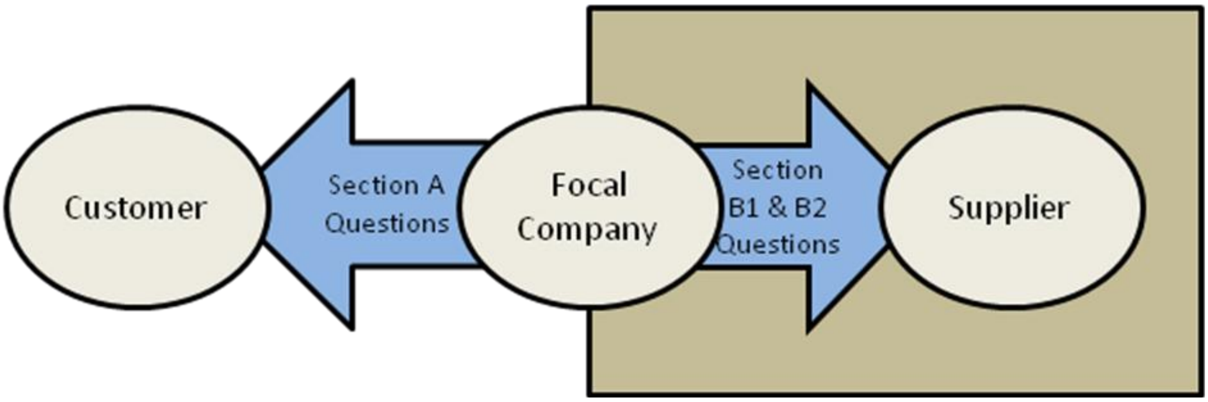

Figure 9.3: Section B1 and B2 questions and analysis (Source: Author)

9.2.2.1. Determining the power resource endowment of the buyer

Analysing section B1questions: utility for the buyer (B1.1-1.5): The first factor which needs to be analysed, therefore, is resource utility[391]. The resource utility of the beef procurement service offered by H&H falls into the critical resource quadrant of the matrix shown in Figure 9.4 below.

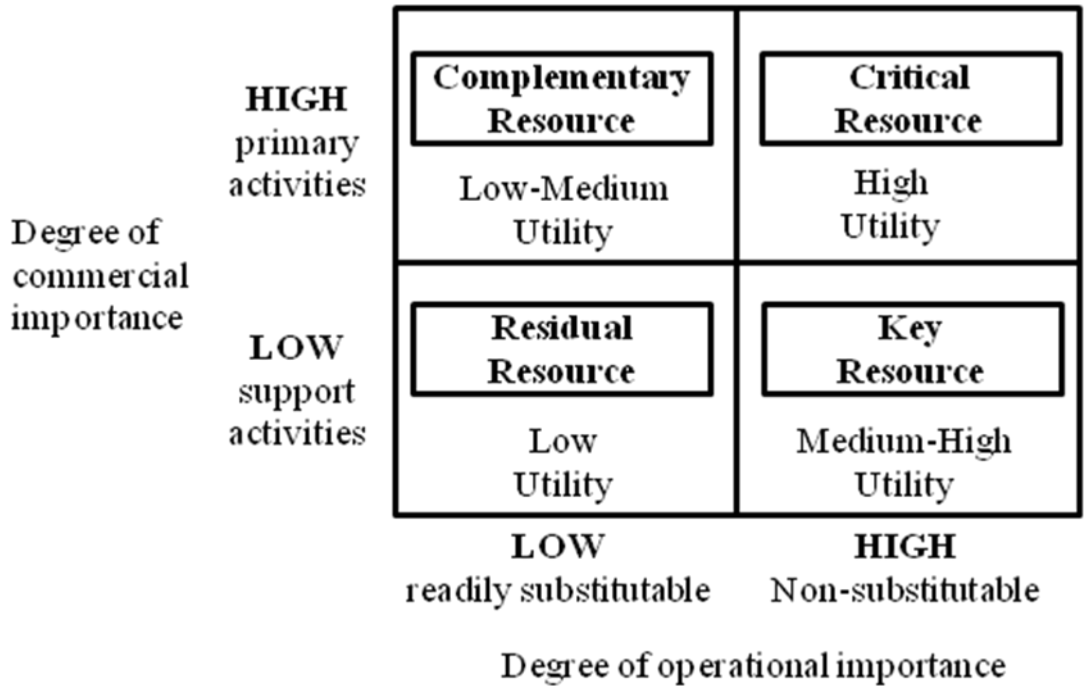

Figure 9.4: Determining the relative utility of a resource
(Source: Cox et al., (2002), p. 33)

This is because H&H's service is both operationally and commercially important. Pioneer, as the buyer, cannot function without the service (i.e. the resource, the procurement role, is indispensible operationally to the firms offering: 'Lakeland' beef). The procurement and securing of the right quality beast by H&H is crucial as the production of 'Lakeland' beef branded products requires constant, uninterrupted delivery of the right quality beast to be

[391] Resource *utility* to a buyer, as discussed in chapters four and five, is the extent to which the goals or motivational investments are met by the transaction. This is determined by the *operational importance* of a particular resource to a business and the *commercial importance* of the resource to a firms overall revenue generating activities (Cox et al., 2000; Cox et al., 2002).

slaughtered (by Rose County) and delivered as primal cuts to Pioneer, to be further processed to their end-customer's requirements. Pioneer do not have the necessary internal expertise (expert herdsmen) or the external relationship to source beef themselves, through either the auction ring or direct from farmers[392].

The commercial importance for Pioneer is also high as the service offered by H&H supports the firm's primary business activities. H&H delivers a primary good (beef), which is used directly by the buyer as a way of generating revenue from customers[393]. This importance of H&H's service can also be understood by considering relevant spend statistics. H&H's services cost Pioneer approximately £190,800 in 2004/5[394]. This fee was estimated to be less than 5% of the total buyers spend. However, the beef procured on behalf of Pioneer by H&H, was estimated as costing £4,368,000, in 2004/5. This was a significant category of spend, accounting for over 20% of the total buyers spend[395]. For this reason, the item (service and product) is a critical category of spend.

Analysing section B1questions: scarcity for the buyer (B1.5- 1.15): The second factor which needs to be operationalised is the relative scarcity of a resource[396]. On balance, although it requires considerable interpretation, the scarcity of the H&H's supply offering is best described as medium to high[397]. There are a number of factors here that need to be understood. The livestock auction market industry has undergone considerable consolidation

[392] Interview with Barry Garret and David Jenkins on 14/6/2005.
[393] Interview with Barry Garret and David Jenkins on 14/6/2005.
[394] This calculation was estimated for 2004/2005 and is based upon a commission of 3.3%, for 120 beast / week, with an average cost of £700/beast: 6240 * £700 = £4,368,000 * 0.033 = £144,144. However, only 25% of beasts supplied were bought at auction, the other 75% were supplied direct from farmers. There is, therefore, a further £46,800 handling fee (4680 beast * £10). The total fee for H&H was £144,144 + £46,800 = £190,800. These figures were provided by Barry Garret of Pioneer on 23/5/2005 and confirmed by Tim Bastable at the same meeting.
[395] Interview with Barry Garret on 1/6/2005 and interview with Barry Garret and David Jenkins on 14/6/2005.
[396] As previously discussed from the buyer's perspective, thinking in terms of supply options, the relative scarcity of a resource is determined by its *imitability* or *substitutability*.
[397] When considering the answers provided to questions B1.5 – 1.15 (see Appendix one) it is not possible to see each answer as being of equal importance, or as providing, on its own, an indication of supply scarcity. The answers have to be considered in the context of other questions and interpreted. A number of factors will, therefore, enable us to determine the overall level of resource scarcity.

in the face of pressures from outbreaks of foot and mouth and BSE. Since auctions reopened in February 2002, there were approximately 130 markets (in 2004/5) selling prime stock[398]. Within the North West there were, in 2005, a number of local auctions: Longtown, Carlisle, Wigton, Cockermouth, Ulverston, Lancaster and Gisburn. Therefore, it would seem that there are a reasonable number of potential suppliers in the market. However, the role of H&H is to not only act as an auction market, but to have a local presence as well. Beef must be procured from the CA and LA postcodes and, therefore, Pioneer requires a procurer with their own network of local farmers. Although, there are other suppliers or individuals (dealers), who could potentially perform the procurement role, H&H are the largest regional auctioneers and have an established and longstanding regional reputation. Moreover, trust is a key issue for farmers and although farmers can sell beasts direct to processors, when dealing with H&H, there is the added security of knowing they will be paid[399]. For these reasons there are few actual suppliers who can now supply, or with limited effort, become suppliers of this resource. This indicates that there is a low degree of imitability and substitutability and, therefore, the relative scarcity of the supplier's resources is high.

This view is supported by a number of other factors. First, although there is potentially a substitute for the procurement role, as it could be brought in-house or Pioneer could create, for instance, an e-marketplace, this could only be developed over time and with great difficulty[400]. Therefore, substitute availability is low.

[398] The majority of throughput for beef is from the sales of stores and breeding bulls (80%), with 39% of finished cattle being sold through auctions (in 2004/5)- interview with Martin Palmer on 11/7/2006.
[399] When Midland Meat Packers went bankrupt, farmers who had been supplying direct ended up losing money. High profile failures such as this have an impact on the selling behaviour of farmers. This is because there is no such risk selling through auctions as farmers are typically paid for what is sold on the day, or day after the auction. However, when selling direct, farmers will typically be paid within 30 days and run the risk of not being paid if the processor runs into financial problems. Interview with Barry Garret and David Jenkins on 14/6/2005 and Barry Garret, Robert Taylor and Robert Addison on 12/10/2005.
[400] Interview with Barry Garret and David Jenkins on 14/6/2005.

Second, at an auction level, the barriers to entry are high. There are significant infrastructure costs and stringent health and safety restrictions. Furthermore, a new auction would also have to attract a large number of farmers willing to sell their beasts to encourage buyers to attend. This would be very difficult to achieve. As a meat procurer, acting as an intermediary between the farmer and processor (also buying from auctions), it is possible for an individual with the right knowledge and contacts to set up as a dealer with low costs. However, there are prohibitive timescales for a new supplier (meat procurer) to establish themselves, potential economies of scale barriers (if they do not have a large number of farmers willing to sell to them, they will not be able to supply the desired volumes), and, they may not have access to distribution channels. Incumbent meat procurers, such as H&H, have long-established existing relationships with buyers, of which new suppliers would find it hard to break into[401]. Therefore, the barriers to entry at an auction level and as a meat procurer are high.

Third, Pioneer stated that they do not have the know-how and have no desire to take on the procurement role, focusing instead on their core competence (food processing and sales)[402]. Therefore, Pioneer poses a low threat of backward integration for H&H. Fourth, it would take a great deal of effort for Pioneer to establish direct relationships with farmers. Furthermore, H&H adds value by acting as a consolidator and meat procurer, with their in-depth knowledge of the supply market. Therefore, the scope for disintermediation is low[403].

In addition, although Pioneer has incurred low financial costs (sunk costs) in creating any specific tangible assets such as buildings, tooling, machinery and equipment for the relationship with H&H, they have incurred significant intangible sunk costs. H&H have

[401] Interview with Barry Garret and Tim Bastable on 23/5/2005 and Barry Garret and David Jenkins on 14/6/2005.
[402] Interview with Barry Garret on 1/6/2005 and Barry Garret and David Jenkins on 14/6/2005.
[403] This is based upon Pioneers perception. Interview with Barry Garret and David Jenkins on 14/6/2005.

provided a very good service to Pioneer for many years. Furthermore, considerable time has been spent working together to develop the 'Lakeland' beef brand, as well as building human know-how of specific processes and systems to support the relationship[404]. There is, therefore, a medium to high level of lock-in by the supplier of the buyer's business.

Finally, it would seem that there are relatively low switching costs, as there is no contract in place between Pioneer and H&H and there is relatively good information about the supply base. However, the search for an alternative supplier would come at a cost, in terms of both time and money. Furthermore, a move to an alternative supplier could potentially pose a threat to Pioneer, both operationally and commercially. On balance, therefore, the switching costs are medium.

There are, however, also a number of other factors indicate that H&H's services are less scarce. First, there was no evidence of price fixing and dividing up market share and, therefore, cartelisation in H&H's supply market is low[405]. This could indicate that H&H is operating in a relatively competitive market. Next, the auction service provided by H&H can be viewed as a commoditised or standardised service offering, whereas the procurement role (acting as an auctioneer and an agent / dealer working directly with a network of farmers) can be viewed as partially customised.[406] H&H do not, however, have to specifically tailor auctions or the way they deal direct for farmers for Pioneer, and for this reason the supply offering is best described as having a medium to low level of commoditisation[407].

[404] For instance, the system in place for managing the relationship with Rose County. Interview with Barry Garret and David Jenkins on 14/6/2005.
[405] Interview with Barry Garret and David Jenkins on 14/6/2005.
[406] Pioneer wanted to ensure they have adequate supply of the right quality beast (R4L), from a regionally restricted area (postcodes CA and LA) and, therefore, require a degree of customisation.
[407] Interview with Barry Garret and David Jenkins on 14/6/2005 and Barry Garret, Robert Taylor and Robert Addison on 12/10/2005.

Finally, H&H have several isolating mechanisms, such economies of scale and reputation effects. However, their position is not as strong as it would at first seem. Pioneer's sunk costs are primarily intangible as they have not made any relationship specific investments in processes or technology. The medium to high level of lock-in is, therefore, largely based upon 'psychological', intangible investments made in this relationship. As demonstrated when Pioneer terminated the relationship with Bowland, if necessary they are willing to switch suppliers. Ultimately it is Pioneer who owns the 'Lakeland' brand. Pioneer's search costs are also relatively low, as it is easy to find information about margins, commissions and prices paid by other dealers (including other processors or auctioneers). Furthermore, Pioneer could potentially gain the skills to take over the procurement role (hire their own herdsman) and work direct with farmers by setting up a farmers club[408]. H&H, therefore, have only a moderate number of isolating mechanisms, which are not necessarily enduring[409].

Taking into account all factors related to supply scarcity as discussed, on balance, the scarcity of the H&H's supply offering is medium to high. The primary basis for this degree of supply scarcity, it would seem, is centred upon the knowledge of H&H's expert herdsmen, their reputation in the marketplace and the relationships they have established with the farmers. Although it would seem that there are few comparable suppliers, Pioneer could potentially obtain the expertise internally by hiring an expert fieldsman, thereby reducing their reliance on H&H's procurement role. Furthermore, Pioneer's perception of H&H's value, could potentially reduce their willingness or ability to either switch suppliers or alternatively opt for a disintermediation strategy. This could, therefore, it is argued, be artificially increasing the level of supply scarcity.

[408] As previously indicated they have a disintermediation threat, even if they do not acknowledge it.
[409] Interview with Barry Garret on 1/6/2005 and interview with Barry Garret and David Jenkins on 14/6/2005

Analysing section B1questions: information for the buyer (B1.16-1.19): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange[410]. The degree of information scarcity for Pioneer is not clear-cut: On one hand, as previously highlighted, Pioneer's search costs are relatively low. This is because it is possible to compare supply offerings (find, collect and analyse information about suppliers) and it is feasible, to some extent, to benchmark H&H's performance with alternative suppliers. It is relatively inexpensive to obtain information about prices being paid to farmers for specific graded beef, from other auctions or from agencies, trade or government bodies, such as DEFRA and the MLC[411].

However, on the other hand, as the pivotal gateway for the two-way information flow between Pioneer and individual farmers, H&H can maintain a degree of information asymmetry over Pioneer. Pioneer would find it difficult to obtain private information about the specific relationship dynamics between H&H and farmers, the number of beasts being finished by farmers in the region or how H&H decide to allocate beasts to specific customers. Pioneer could potentially fill these information gaps by setting up a farmer's club, although this is not necessarily an easy or inexpensive undertaking[412]. H&H would, however, find it difficult to achieve a significant information advantage over the buyer, as Pioneer knows where each beast is procured from[413], they receive detailed (kill) data from Rose County about the quality and conformity of prime cattle being procured, and they have full information about the prices being paid for beasts at auction, or direct from farmers[414]. All things considered, the buyer has a medium level of information asymmetry.

[410] As highlighted in chapters three and four, scarcity can also be related to the amount of private information available to each party about the resource endowments (in terms of utility, scarcity and information and, therefore, power) and the intentions of the other party in the exchange.
[411] Interview with Barry Garret and David Jenkins on 14/6/2005 and 16/11/2005 and Barry Garret, Robert Taylor and Robert Addison on 12/10/2005.
[412] A Pioneer initiated farmers club could still be managed by H&H.
[413] Pioneer can, if necessary, talk directly with individual farmers.
[414] Interview with Barry Garret and Tim Bastable on 23/5/2005 and Barry Garret and David Jenkins on 14/6/2005.

Lastly, the service provided by H&H is both a search good and to some extent a credence good. It is possible for Pioneer to obtain information to be able to compare the simple auction service with other suppliers (costs such as commission, service provision, payment terms etc.). However, H&H's role as meat procurer, whereby they procure beast direct from farmers and manage / co-ordinate the relationship between farmers and the contract slaughters, Rose County (i.e. delivery of beasts to abattoir), can be seen as a credence good. It is difficult to evaluate, even after the service is provided, the true value of this service. This makes it very difficult to compare H&H's service provision with other potential suppliers[415].

This analysis indicates that although Pioneer's search costs are relatively low, due to the pivotal position of H&H as the intermediary between Pioneer and the farmers, and the nature of the service offered by H&H (credence good), on balance, there is moderate information scarcity for the buyer.

Table 9.1, to follow, summarises the answers to the questions. As previously discussed, these answers have to be interpreted in the light of replies to other questions and require the researcher's judgement[416]. To summarise, from the author's interpretation of the information provided by Pioneer and H&H[417], the purchase of H&H's service is of high utility for Pioneer. Furthermore, the scarcity of the supplier for Pioneer is medium to high and there is moderate information scarcity for Pioneer. In order to plot the relationship within the four box matrix, however, these findings must be weighed against the relative power resource endowments of the supplier.

[415] Interview with Barry Garret and Tim Bastable on 23/5/2005 and Barry Garret and David Jenkins on 14/6/2005.
[416] In particular for determining the scarcity of supply for the buyer.
[417] And verified by independent sources: interviews and information provided by Martin Palmer of the MLC on 11/7/2006, Dr Martin Grantley-Smith of the RMIF on 2/5/2006 and data produced by DEFRA.

Interview questions	Answers to provide maximum level of resource endowment for the buyer	Answers provided by Pioneer and validated by H&H
1. How operationally important is the item to be sourced? (U)	Low	High
2. Is the item sourced of commercial importance? (U)	Low	High
3. What % of the total buyers total spend is devoted to this item? (U)	Low	High
4. Is reciprocity a factor in the relationship between the buyer and supplier? (U)	Not a factor	Not a factor
5. How many potential suppliers are there for this item of spend? (S)	Many	Few
6. How contested is the current supply market? (S)	High	Medium
7. How commoditised is the supply offering? (S	High	Medium-Low
8. Are credible substitute items easily available? (S)	High	Low
9. How high are the barriers to entry for new suppliers? (S)	Low	High
10. How many isolating mechanisms does the supplier have against their competitors and how sustainable are they? (S)	Low	Medium
11. Does the buyer pose a realistic threat of backward integration? (S)	High	Low
12. Is it possible to take the first-tier supplier out of the chain? (S)	High	Low
13. What is the current evidence of cartelisation in this supply market? (S)	Low	Low
14. What is the current level of lock-in by the supplier of the buyer 's business? (S)	Low	Medium-High
15. How high are the buyer's switching costs? (S)	Low	Medium-High
16. Are the buyers search costs high or low? (I)	Low	Low
17. Does the buyer have low or high levels of information asymmetry? (I)	Low	Medium
18. What type of product/service is being purchased (experience, search or credence)? (I)	Search Good	Search / credence

Table 9.1: Summary of answers provided by Pioneer Foodservice and H&H

9.2.2.2. Determining the power resource endowments of the supplier

Analysing section B2 questions: utility for the supplier (B2.1-2.4): The first factor which needs to be operationalised is resource utility[418]. The resource utility of Pioneer's business for H&H is difficult to determine, however, on balance, it falls into the key resource quadrant (medium to high utility) of the matrix shown previously in Figure 9.4. This is because Pioneer's business with H&H is operationally important and is of medium to high commercial importance (rather than high commercial importance). From an operational perspective, the analysis is more clear-cut. Pioneer's spend is both regular and predictable.

[418] However, as discussed in chapter three, a different interpretation of operational and commercial importance is required for the supplier. From the supplier's perspective, *utility* is the extent to which the supplier's goals or motivational investments are met by the buyer. *Operational importance* of the buyer's expenditure is assessed against the *regularity* and *predictability* of this expenditure. For suppliers, the degree of *commercial importance* can be determined by the ratio between a buyer's expenditure with a particular supplier and that supplier's total sales revenue, and the potential future revenue generating opportunities of doing business with a buyer (Cox, Sanderson and Watson, 2000).

As discussed previously, H&H will typically procure 120 beasts per week for Pioneer, either through the auction market or direct from farmers. This allows H&H to plan research and development activities and invest in new technology / capital equipment. Pioneer will, therefore, have a high level of operational importance[419].

Commercially, the relationship is more difficult to determine, but weighing up all the factors, Pioneer is best described as being of medium to high commercial importance for H&H. There are a number of factors which impact this. In 2004/2005 it was estimated that the total expenditure with H&H by Pioneer was approximately £190,800. Turnover, for H&H, according to company accounts for 2005, was £3,569,000. The Pioneer account attributed just over 5.3% of turnover and, therefore, is an important account[420]. Furthermore, the account is commercially important for H&H for a number of other reasons. First, the relationship helps H&H to achieve its commercial goals of becoming less dependent upon prime cattle markets. In addition, as the 'Lakeland' beef brand grows, the volumes of business is expected to increase[421]. There is, therefore, future earning potential from the relationship.

Further information provides more evidence of the medium to high level of resource utility of Pioneer's business for H&H. Pioneer provides H&H with clear and consistent demand forecasting and capacity planning information. Weekly slaughter schedules are provided by Pioneer. Furthermore, there are monthly meetings between H&H and Pioneer giving forward (monthly) projections of future demand, with constant two-way communication about

[419] Interview with Barry Garret, Robert Taylor and Robert Addison on 12/10/2005.
[420] Information provided by document D5.
[421] With the number of beast having over a relatively short period of time, risen from 20 to 120 beast per week. Interview with Barry Garret, Robert Taylor and Robert Addison on 12/10/2005 and Barry Garret and David Jenkins on 16/11/2005.

significant change in demand or supply circumstances. At present Pioneer are viewed by H&H as having high felicitousness.

Additionally, Pioneer is a very well respected and longstanding regional employer. However, buying on behalf of Pioneer is unlikely, in the short-term, to provide H&H with many opportunities to enter into valuable new markets, although it is possible they could take on a category management role for other processors. However, there may be some scope in the future for the Pioneer and H&H to work together and develop new products and / or services. This could include a farmers' club run by H&H for Pioneer or on-line auctions[422]. On balance, therefore, the buyer's attractiveness is medium.

There are a number of reasons why the Pioneer relationship is not seen to be of high commercial importance for H&H, even though over 5% of turnover is attributed to the buyer's expenditure, there is future earning potential from the relationship and Pioneer provides H&H with clear and consistent demand forecasting and capacity planning information. First, the future earning potential from Pioneer is uncertain and will only be significant if the 'Lakeland' brand can become nationally recognised. There are many obstacles to achieving this. Additionally, the buyer's attractiveness is only medium, as it is unlikely that Pioneer will provide H&H with many opportunities to enter into valuable new markets.

Analysing section B2 questions: scarcity for the supplier (B2.5-2.8): The second factor which needs to be operationalised is the relative scarcity of a resource[423]. The scarcity of Pioneer as a customer for H&H can be viewed as medium. There are a number of factors which are

[422] Interview with Barry Garret, Robert Taylor and Robert Addison on 12/10/2005
[423] From the supplier's perspective it is important to determine how large the market for their products or services is.

important in making this assessment. First, indicating that the relative scarcity of Pioneer's resources resources is low, H&H currently has well over 100 actual customers buying from it, with potentially over 100 further customers. Customers can range from small independent caterers and butchers, to medium and large processors (both primary and secondary). Therefore, it would seem that H&H have many customers with a high potential to supply to new customers in the future[424]. Furthermore, H&H does not possess the financial resources, know-how, or desire to forward integrate in the supply chain[425]. H&H, therefore, have a low ability to forward integrate.

However, there is also evidence that the relative scarcity of Pioneer's resources for H&H is better described as medium. First, although H&H has many customers, less than ten other customers are of comparable size and importance. Furthermore, although H&H has a high potential to supply to new ones, losing a key customer such as Pioneer would have an operational and commercial impact. They may be able to replace the buyer's business with smaller accounts, but it would not be easy to find a similar significant and reputable account. Switching costs are, therefore, medium[426]. In addition, although there are no real sunk costs for H&H in terms of dedicated investments made in order to supply Pioneer, significant time has been spent developing the relationship and the 'Lakeland' beef brand. There are, therefore, considerable intangible sunk costs in the relationship. H&H would incur some commercial and operational risk from walking away from this relationship and, therefore, the sunk costs are also medium[427].

[424] Interview with Barry Garret, Robert Taylor and Robert Addison on 12/10/2005
[425] Interview with Barry Garret, Robert Taylor and Robert Addison on 12/10/2005.
[426] Interview with Barry Garret, Robert Taylor and Robert Addison on 12/10/2005
[427] Interview with Barry Garret, Robert Taylor and Robert Addison on 12/10/2005.

Taking into consideration the factors discussed here, on balance, the scarcity of Pioneer as a customer for H&H is best viewed as medium.

Analysing section B2questions: information for the supplier (B2.9): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange. There is no information scarcity for the supplier. H&H have full access to private information relating to the Pioneer's overall budget for beef procurement, their reservation price, what is specifically valued by the buyer and who specifies requirements. This access to private information is a potentially important power resource endowment for H&H. However, Pioneer wants H&H to have this information as the relationship is based upon full transparency and trust. It can be argued, therefore, that access to buyer private information provides only a limited resource endowment for H&H[428].

Table 9.2, to follow, shows the answers to the questions as detailed in Appendix one. As previously highlighted, the answers to the questions cannot be viewed alone. As demonstrated with this analysis, answers have to be interpreted in the light of replies to other questions. To summarise, from the author's interpretation of the information provided by Pioneer and H&H (and verified by independent sources[429]), Pioneer is of medium to high utility for H&H. The scarcity of the buyer for the supplier is medium and there is no information scarcity for H&H.

[428] Interview with Barry Garret, Robert Taylor and Robert Addison on 12/10/2005.
[429] Interviews and information provided by Martin Palmer of the MLC on 11/7/2006, Dr Martin Grantley-Smith of the RMIF on 2/5/2006 and data produced by DEFRA.

Interview questions	Answers to provide maximum level of resource endowment for the supplier	Answers provided by Pioneer and verified by H&H
1. How commercially important is the buyer to the supplier? (U)	Low	High
2. How significant is our spend to the operational sustainability of the supplier's business (i.e. ratio, regular and predictable)? (U)	Low	Medium-High
3. Does the buyer provide supplier with clear and consistent demand forecasting and capacity planning information? (U)	No	Yes
4. Is the buyer's business attractive for the supplier? (U)	Low	Medium
5. How many customers in total does the supplier have for this for this item? (S)	Many	Moderate
6. How many potential customers are there for this supplier? (S)	Many	Few
7. How high are the suppliers switching costs? (S)	Low	Medium
8. Does the supplier have the ability to forward integrate? (S)	High	Low
9. Does the supplier have access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.)? (I)	Yes	Yes

Table 9.2: Summary of answers provided by Pioneer and H&H (Source: Author)

9.2.2.3 The final analysis: weighing up the two sides of the scales

Bringing together the analysis of buyer and supplier power resources enables us to plot the Pioneer – H & H relationship in the four box power matrix. It is evident, that the relationship is one of supplier dominance, but as the relationship is, in many ways equal, it tends towards interdependence (see Figure 9.5 below). This is because, for this relationship to be described as supplier dominance, the analysis would have to indicate the buyer having low power resources and the supplier having high power resources (Low-High). This is evidently not the case. When we consider the analysis given thus far, we can argue that the buyer power resource endowments are low. This is because the resource purchased is of high utility for the buyer, scarcity of supplier for the buyer is medium to high and there is moderate information scarcity for the buyer. However, the supplier power resource endowments are more accurately described as medium and not high. Although Pioneer is of medium to high utility for H&H, the scarcity of the buyer is medium and there is no information scarcity for the supplier. Arriving at this conclusion requires considerable interpretation and the author's judgement. As can be seen in Figure 9.5 below, this relationship is best described as supplier dominance, but on the cusp of interdependence.

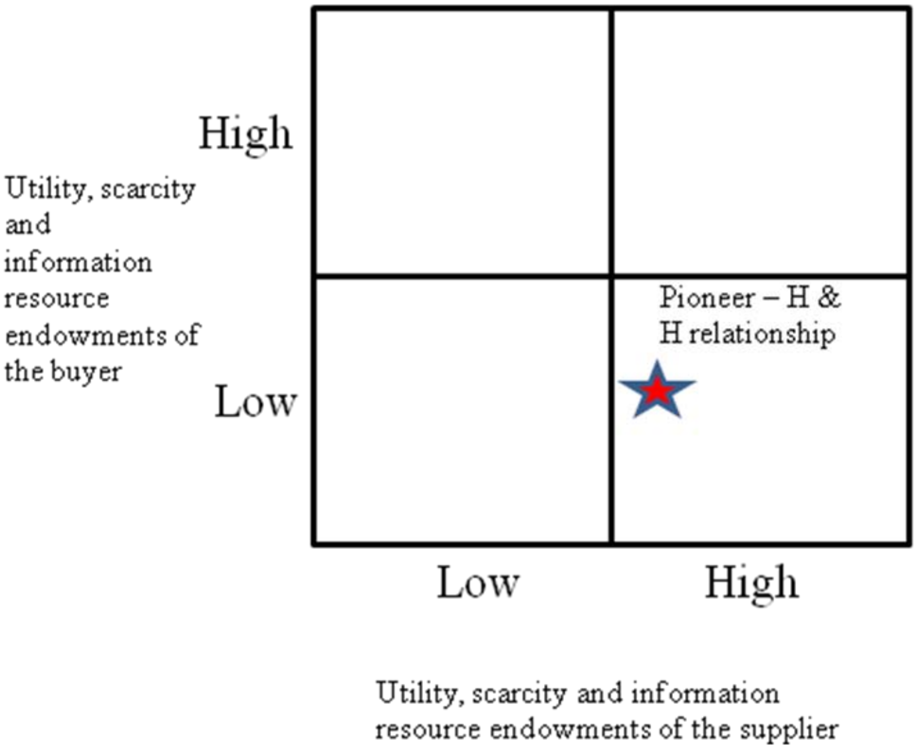

Figure 9.5: Pioneer – H & H power analysis (Source: Author)

9.3. Determining the relationship type for the Pioneer – H & H relationship

To position the Pioneer- H&H relationship in the six box relationship type matrix (Cox et al., 2003), shown in Figure 9.6, to follow, it is necessary to ask a number of questions to both parties to determine whether the relationship is best described as arm's length or close and who benefits most.

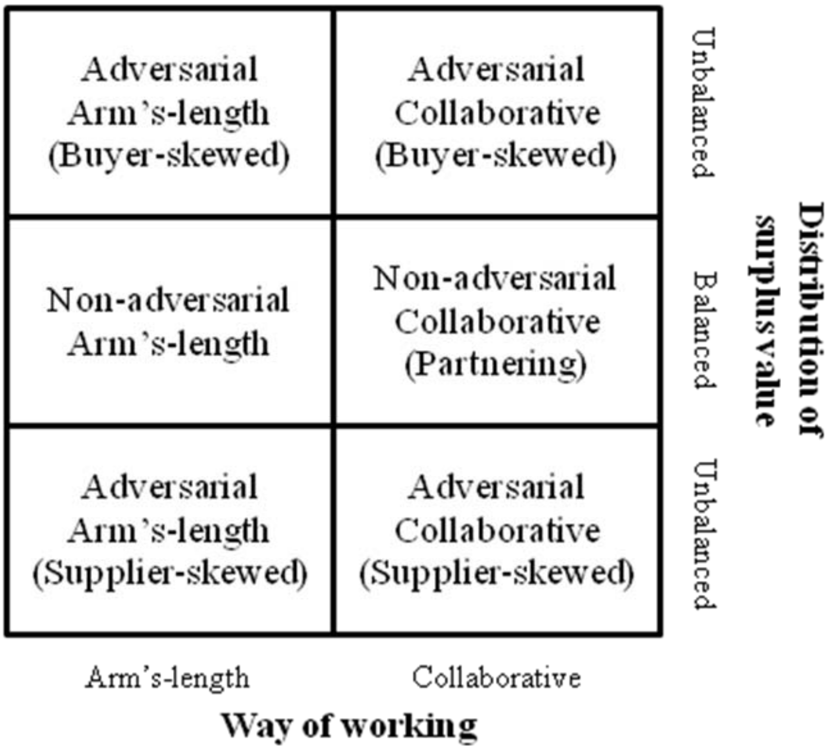

Figure 9.6: A typology of buyer-supplier relationship types (Source: Adapted from Cox et al., 2003)

9.3.1. The level of relationship connectivity: way of working

First, it is necessary to establish the way of working between Pioneer and H&H. Table 9.3, to follow, highlights the evidence provided by Pioneer and H&H as to the degree of connectivity in the relationship. Although there was no contract between Pioneer and H&H and no evidence of relationship specific adaptations, this relationship had moved beyond there being only a basic exchange of information and products or services.[430]. Accordingly, this relationship was defined as close by both Pioneer and H&H.

Relationship connectivity measure	Evidence provided by Pioneer and H&H
Product / process information exchanges	• Open costing arrangement, based upon agreed commissions for purchase of beasts through auction or direct from farmers • Joint demand and supply forecasting schedules • Weekly purchase orders detailing purchase price of beasts and origin (i.e. specific farm) • Elimination of cost's through management of pick-up of beast from farm for delivery to abattoir
Operational linkages	• Monthly forecast demand schedule sent by fax or emailed to H&H • Weekly firm demand schedule emailed / faxed to H&H each Thursday and purchases confirmed by email or fax • H&H coordinate collection of purchased beast from auction / farms for delivery to Rose County abattoir on Tuesdays and Thursdays. Delivery schedule confirmed by email or fax • Kill sheets, in the form of excel spread sheets, received from Rose County weekly, to be analysed by H&H and reported back to Pioneer by email or fax
Legal bonds	• No legal bonds
Cooperative norms	• Monthly strategy meeting addressing potential demand and supply constraints • Open, two-way communication for tackling quality or other issues • Social gathering between staff • Joint development and promotion of the 'Lakeland' beef brand • Joint attendance at functions / events promoting the 'Lakeland' beef brand • Open – book policy
Rel. spec. adaptations	• No direct relationship specific adaptations

Table 9.3: Evidence of the level of relationship connectivity (Source: Author) [431]

9.3.2. Sharing of surplus value

The second factor which needs analysing is the sharing of surplus value. Questions were asked, as discussed previously, to ascertain if there was an equal or unequal sharing of the surplus value and, if unequal, who benefitted? Table 5.10 shown on page 170, in chapter

[430] Such as a basic specification, volume and timings information from the buyer and limited specification, timing and pricing information from the supplier.
[431] Information to populate this table came from several interviews: Barry Garret and David Jenkins on 14/6/2005 & 16/11/2005 and Barry Garret, Robert Taylor and Robert Addison on 14/6/2005.

five, highlights the characteristic of equal and unequal sharing of surplus value[432]. The discussion to follow highlights the answers given to the relationship management type questionnaire, which is aimed at providing evidence of the level of equity in the relationship. From the research undertaken, the relationship between Pioneer and H&H was viewed by the author as being equal and, therefore, non-adversarial in nature. The justification for this assessment follows.

Each party's commercial goals partially realised: Both Pioneer's and H&H's commercial goals were partially realised. From Pioneer's perspective, it was critically important (operationally and commercially) to secure the right quality prime cattle (R4L and from the CA/LA postcode). Furthermore, it was important that there was dependable and reliable co-ordination of the delivery of prime cattle, either purchased from the auction or from farmers, to Rose County's abattoir, along with an assessment of the quality of beast (kill sheets[433]) and delivery of primal cuts to Pioneers factory. The relationship with H&H delivered these strategic ends. However, Pioneer also wanted to gain more control over the quality of the beasts and build up stronger relationships with farmers, to be able to influence their breading and feeding programs etc (such as the level of fat striation or marbling in the beef). This was not happening. There was also evidence that information was not being clearly communicated by the intermediary, H&H[434], about Pioneers preferences (fat content, etc.)[435].

From H&H's perspective, an important commercial goal was to develop the Pioneer account so as to ensure that they received a regular and predictable revenue stream. This was

[432] As you can see, there are five key characteristic: commercial goals, relationship-specific adaptations, the price paid for the good or service, supplier profit levels and contract terms. Each of these characteristics can be viewed as being on a continuum from favouring the buyer, to favouring the supplier, with equal in the middle.
[433] A kill sheet provides information about how usable meat can be recovered from a carcass (i.e. carcass yield). In supporting document D2, the yield was 74%, with 26% waste (6% fat and 21% bones).
[434] Interview with S&J Dodd on 21/6/2005.
[435] Interview with Barry Garret and David Jenkins on 14/6/2005 & 16/11/2005 and Barry Garret, Robert Taylor and Robert Addison on 14/6/2005.

achieved, having grown the business with Pioneer from 20 cattle per week, up to on average, 120 cattle per week. The strategic goal was to continue to grow the revenue generating potential of the 'Lakeland' beef brand partnership with Pioneer. The demand is expected to grow to 250 beasts per week. However, the commercial goals were only partially realised as H&H also wanted to be able to sell its value-added meat procurement service at a higher rate than the standard (3.3%) commission. The aim to grow the return from this relationship has not been realised[436].

Equal distribution of relationship specific adaptations: Neither Pioneer nor H&H have made significant relationship specific adaptations. From Pioneer's perspective, there was no need to adapt their own processes or systems, or invest in any unique technology to be able to work closely with H&H. From the sales desk, using their own client management system, weekly demand is estimated and the collated information is emailed or faxed through to H&H. The system has changed little over the years and is very simple. Every Thursday, H&H are requested to purchase a specific number of beasts against pre-agreed specifications. H&H can buy beast in the same manner as they would for any of their other customers. H&H simply look at the number of beasts destined for their auctions over the weekend, talk to their network of farmers and match demand with the right quality and quantity of beasts, through either purchasing beasts from the auction ring or direct from farmers. The only slight adaptation (not typically done for many of their other customers) is their role in managing the relationship with the Rose County abattoir. Kill sheets are sent to both Pioneer and H&H to ensure the right quality beast are being procured[437].

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[436] Interview with Barry Garret, Robert Taylor and Robert Addison on 14/6/2005.
[437] Interviews with Barry Garret and David Jenkins on 14/6/2005 & 16/11/2005 and Barry Garret, Robert Taylor and Robert Addison on 14/6/2005.

The buyer is paying a price which is mid-way between their utility function (reservation price) and the supplier's mean cost of production: The role of meat procurement is viewed by Pioneer as being of high utility. Pioneer relies on H&H to consistently source the right quality beef and manage the delivery of beasts to Rose County's abattoir. In return for this service, H&H charge Pioneer a standard 3.3% commission for beast purchased through the auction and 3.3% commission, plus £10 per head, for beasts bought direct from farmers. According to Barry Garret, "H&H provide a critical service. They know the farmers and they know what we want. We can rely on them 100%, to week on week source the right quality beef for 'Lakeland'"[438]. There is evidence, therefore, that Pioneer's reservation price is potentially higher than the standard 3.3% commission rate and £10 direct sourcing fee charged by H&H. However, it is difficult for H&H to create an acceptable pricing structure to capture extra revenue and return. It would not be possible to charge a higher commission for beasts bought at the auction. However, H&H could potentially increase their revenue and return by charging a higher fee for sourcing direct (currently £10 per head) and creating a handling fee for all beasts supplied to Rose County. At present, H&H are making a reasonable profit from their role as meat procurers. With the current pricing structure, net profits were almost 11%, with H&H making a profit of £381,000 in 2005 on a turnover of £3,569,000[439]. However, this profit margin is for the business as a whole and it can be argued that higher returns are made from other customers, who require much less interaction than Pioneer.

The supplier is able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage): H&H are unable to earn better than average profits for the industry sector. Commission rates of between 3.3-3.5% were standard for the

[438] Interviews with Barry Garret and David Jenkins on 14/6/2005.
[439] Information from supporting document D5 and interviews with Barry Garret and David Jenkins on 14/6/2005 & 16/11/2005 and Barry Garret, Robert Taylor and Robert Addison on 14/6/2005.

industry at the time of the research. Furthermore, H&H's net profit of just less than 11% was in line with the estimated 8-12% net margins made by comparable companies operating at the same supply chain stage[440].

The terms of the contract or agreement favour neither the buyer or supplier (i.e. pricing, payment terms, etc.): As is typical in much of the UK food industry, there was no formal contract between Pioneer and H&H for their role as meat procurers. However, the agreement is relatively balanced. Pioneer is charged a standard commission by H&H (3.3% commission and £10 direct sourcing fee) and in return Pioneer has standard 30 days payment terms[441]. Furthermore, the agreement between Pioneer and H&H is characterised by an equal commitment to the relationship and clear two-way communication. In this respect, both parties try to ensure that neither party is hampered by poor demand or supply information, which could be time-consuming or costly to resolve.

Table 9.4, to follow, highlights that this relationship can be viewed as non-adversarial in nature. The analysis demonstrates that there was an equal sharing of the risks and rewards from the relationship. However, to arrive at this overall interpretation the researcher's judgement was required as it was often difficult to obtain the relevant information.

[440] Interview with Barry Garret, Robert Taylor and Robert Addison on 14/6/2005 and verified by interview with Martin Palmer of Industry Consulting, MLC on 11/7/2006.
[441] Interview with Barry Garret, Robert Taylor and Robert Addison on 14/6/2005.

Buyer-skewed adversarial	Non-adversarial	Supplier-skewed adversarial
Buyer's commercial goals fully achieved	Each party's commercial goals partially realised	Supplier's commercial goals fully achieved
Supplier invested more in relationship-specific adaptations	Equal distribution of relationship specific adaptations	Buyer invested more in relationship-specific adaptations
The buyer is paying a price which is substantially lower than their utility function (reservation price)	The buyer is paying a price which is mid-way between their utility function (reservation price) and the supplier's mean cost of production	The buyer is paying a price very close to their utility function (reservation price)
The supplier is receiving only normal profit (or slightly above)	The supplier is able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage)	The supplier is able to earn sustained above average profits for industry sector (comparable companies operating at the same supply chain stage)
The terms of the contract or agreement favour the buyer (i.e. pricing, payment terms, exit clauses, etc)	The terms of the contract or agreement favour neither the buyer or supplier (i.e. pricing, payment terms, etc)	The terms of the contract or agreement favour the supplier (i.e. pricing, payment terms, exit clauses etc)

Table 9.4: The sharing of surplus value in the Caspian-Pioneer relationship (Source: Author)

Taking the variables of way of working and sharing of surplus value together, it is now possible to plot the Pioneer's and H&H's relationship in the six box relationship management type matrix. As demonstrated, the relationship between Pioneer and H&H is collaborative and there is a relatively equal sharing of the risks and rewards from the relationship. As can be seen in Figure 9.7, to follow, the relationship is best described as non-adversarial collaboration.

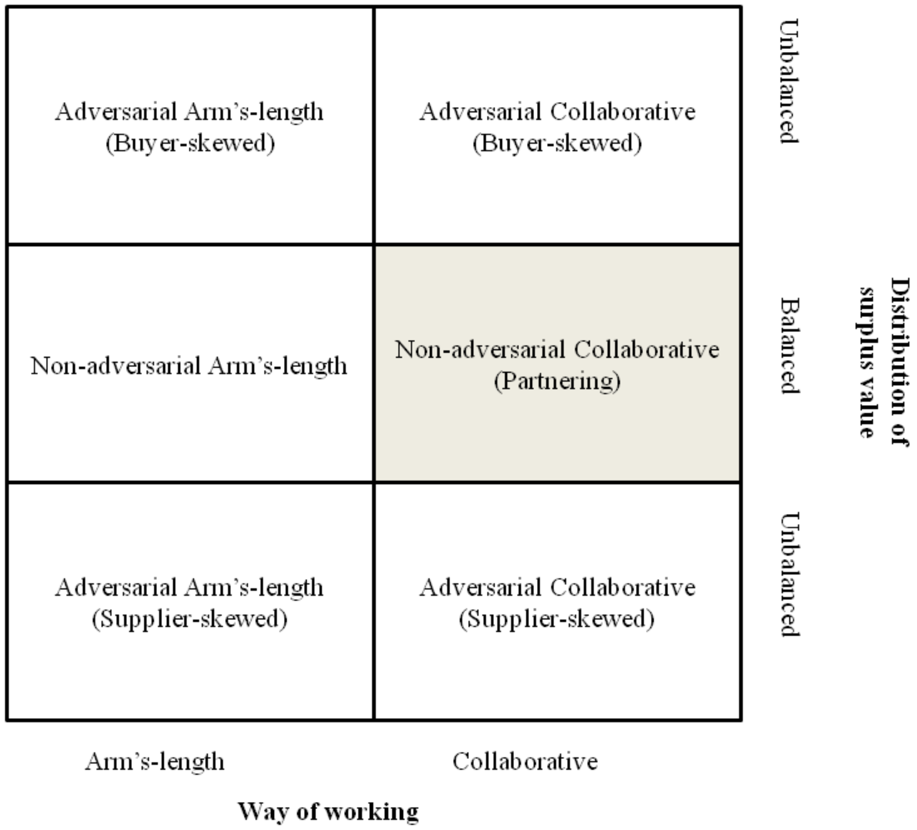

Figure 9.7: The Caspian-Pioneer relationship type
(Source: Author, adapted from Cox et al., 2003)

9.4. Conclusions to the case

The Pioneer and H&H partnership is a very interesting case for a number of reasons. According to the hypothesis, under situations of supplier dominance, if there is a link between the power resource endowment of buyers and suppliers and the relationship management type, you would expect the relationship in question to be managed in the bottom right or left boxes of the six box matrix, as supplier-skewed adversarial collaboration or arm's length. The analysis has, however, demonstrated that although the power relationship between Pioneer and H&H is one off supplier dominance, the relationship type in this case is best described as non-adversarial collaboration. This would suggest that the hypothesis developed has been challenged.

There are, however, a number of issues already raised in the power and relationship management type analyses, which need to be developed further. It is the author's belief that this case does still demonstrate a positive link between power and relationship management types. It can be argued, however, that the power model is potentially too crude. The relationship between Pioneer and H&H has been analysed as supplier dominance. However, it was stated quite clearly that it was on the cusp of interdependence, as the power relationship was not Low / High, but more accurately Low/ Medium. What this case suggests, therefore, is that in situations where supplier dominance is on the cusp of interdependence, non-adversarial collaboration is possible and may indeed be logical.

There are a number of reasons for this. First, if H&H pursues a more adversarial relationship management approach, whereby they gain a greater proportion of the share of the surplus value in the relationship (by increasing their charges, tightening payment terms etc.), because of the prevailing power circumstances (supplier dominance on the cusp of interdependence), they will run the risk that this relationship management strategy is not sustainable over time and this could damage the relationship. It would be evident (due to the inability to effectively use information asymmetry as a significant power resource for H&H) to Pioneer that H&H was gaining more from the relationship. This could, therefore, potentially drive Pioneer to pursue relationships with other suppliers. Alternatively, if the cost of ownership of this service rose to a position close to their reservation price, then the potential to develop a strategy of disintermediation would become more viable and they may choose to bring the procurement role in-house.

Contrary to our initial concerns that the hypothesis is not supported, this case supports the hypothesis, demonstrating that there is a link between the power position of buyers and suppliers and relationship management types. H&H are unable to take advantage of their power position because it is not strong enough to do so and, therefore, are pursuing the most logical economic policy of giving up some potential short-term gains (supplier-skewed adversarial) in favour of a strategy to share benefits equally. This is a wholly logical decision under the prevailing power circumstances.

This interpretation of the case comes with another potentially important observation. There was also a real 'desire' to make the partnership between Pioneer and H&H work[442], due to the personal beliefs of the individuals and firms collaborating. Pioneer, as an important regional employer, with a long-standing history of engagement with the local community, is still a family-run company. According to Barry Garret, employees rarely ever leave Pioneer, because the company is a champion of employees and local business development in the North West[443]. Furthermore, there are no external stakeholders influencing the decisions made by the Board of Directors. This view is succinctly summed up when we consider the attitude of the Commercial Director Barry Garret: "*This [Pioneer] is a family run business. We do OK.... we are not interested in making a bigger profit at the expense of our local business partners. We've been here for 150 years and want to be here for another 150 years. It is important to be seen as supporting local businesses, including the auctions. Farmers, who are also our customers for 'Lakeland' products, want to see us supporting the local auction system and paying [a] top-price for what they produce [beasts]"*[444].

This attitude was also reflected by Trevor Hebden, the Managing Director of H&H when he said: *"Our relationship with Pioneer is special. If we can work together to grow the brand [Lakeland beef], then everyone benefits. Auctions play an important role in the rural*

[442] Due to the power circumstances and, in this case, the inherent unsustainability of an adversarial relationship management approach.
[443] Interview with Barry Garret and Tim Bastable on 23/5/2005.
[444] Interview with Barry Garret on 1/6/2005.

community, which is often overlooked [by Government and researchers]... and like Pioneer, we are looking to help business grow for the long-term survival of the community".[445]

This would indicate that there can also be strong ideological and social factors influencing the formation of partnerships. From this perspective, it may be unlikely that even if H&H (or conversely Pioneer) was in a more clearly dominant position, whether they would pursue the economically logical outcome, and use their power position to manage this relationship adversarially. This debate is picked up again and explored further in the conclusions (see chapter twelve).

[445] Interview with Trevor Hebden and David Richards on 1/6/2005.

Chapter Ten

Case four: The Cadbury Schweppes and Dairy Farmers of Britain (DFOB) 'Cadbury's Dairy Milk' Relationship

10.1. Background to the development of the Cadbury Schweppes and DFOB relationship

Before analysing the power dynamics and the relationship management approach between Cadbury Schweppes (CS) and Dairy Farmers of Britain (DFOB), using the two methodologies explained in full in chapter four and five, we first need to provide some background information about the long-term relationship between the two organisations and the set of specific circumstances driving this relationship.

CS is a major global company[446] in beverages and confectionary, manufacturing, marketing and distributing products, such as Cadbury's Dairy Milk Chocolate, in over 200 countries. DFOB is a large farmer-owned co-operative[447] with brands such as Dairygate organic and liquid milk, Capricorn goat's cheese and Somerset brie. These two organisations have

[446] CS employs over 55,000 people worldwide. Their turnover in 2005 was £6,432 million (rising to £7,427 million in 2006). Information from supporting document D3: Cadbury's Schweppes Annual Report and Accounts, 2006, pp 96. CS was at the time of the research: #1 in confectionary, #1 in functional confectionary, #2 in chewing gum and # 3 in soft drinks within the global confectionary market. Major brands include Cadbury's Dairy Milk, Cadbury Roses, Flake, Schweppes, Dr Pepper, and Maynard's Wine Gums. There are a number of UK (8) factories, including the Marlbrook Factory which manufactures crumb, the Chirk Factory which processes cocoa into cocoa liquor and Bournville Factory which makes Cadbury's Dairy Milk branded products. Information from interview with Craig Mallet on 10/3/2005 & 16/5/2005 and supporting documents D2 & D5.

[447] DFOB was created in 2002 by the merger of Zenith Milk and The Milk Group. It is one of four farmer owned co-operatives (the others being: First Milk, Milk Link and UDF) with 3300 members and employing 2650 people in 2005. DFOB had a turnover of £565 million for year end 31 March 2005 (rising to £602 million in 2006) (DFOB Financial Report and Accounts, Year End to 31 march 2006, pp 31), servicing a £100 million debt. In august 2004, DFOB purchased Associated Co-operative Creameries (ACC) from the Co-operative Group for £78.8 million, acquiring ten processing sites. This was a strategic acquisition, as it moved the company 'further up the supply chain' into dairy processing in a big way. The acquisition made them the largest integrated UK dairy co-op. DFOB's capacity in April 2005 was 1.9 billion litres (14% of UK milk supply), with a processing capability of 1.0 billion litres. They have a wide product portfolio including; liquid milk, cheese, cream, SMP, UHT, butter and desserts, with brands such as Dairygate organic and liquid milk, Capricorn goats cheese and Somerset brie. Interview with Phil Scott on 11/11/2005 and information from company website: http://www.dfob.com.

developed a long-term partnership based upon trust. At the time of the research, DFOB provided CS with 100% of its milk requirement to a high service level[448].

CS has relied heavily upon the support of their sole milk supplier since 1990 (previously as Milk Marque, then The Milk Group, before becoming DFOB in 2002[449]), with both firms working closely together[450]. However, in 2005, the procurement team at CS felt that the current 'partnership' should be reassessed. According to Craig Mallet, the milk category manager, this 'partnership' had worked well for many years, with DFOB holding the contract to supply milk unchallenged[451]. However, changing circumstances surrounding the 'partnership' gave rise to a number of potential concerns. For milk, one of the key ingredients for the Cadbury's Dairy Milk (CDM) brand, there were potential supply issues on the horizon. First, unique to the industry, the Dairy Milk brand is built around the premise that each bar of chocolate is made with a glass and a half of fresh milk. This means that the milk used can only be sourced from within the UK due to its perishable nature[452]. Second, the supply market for fresh milk was going through a period of unparalleled upheaval, driven by changes to the CAP subsidy system and shifting dynamics within the UK and global dairy industry (see discussion in chapter one for more information). Third, through the acquisition of Associated Co-operative Creameries (ACC), DFOB significantly changed its strategic direction, moving into dairy processing in a major way, with 10 new processing facilities[453].

Having outsourced the responsibility for the management, procurement and delivery of milk to DFOB, CS was in the uncomfortable position of not having an expert milk buyer within the organisation, at such a volatile time. Although there was no reason to doubt the

448 Interview with Craig Mallet on 10/3/2005.
449 Interview with Craig Mallet on 10/3/2005.
450 For instance, when dealing with unforeseen shut-downs at a CS factory. Interview with Craig Mallet on 10/3/2005.
451 Interview with Craig Mallet on 10/3/2005.
452 Whereas other chocolate manufacturers also use milk concentrates and powdered milk.
453 Interview with Craig Mallet on 10/3/2005.

dedication of DFOB, it was felt that if the sourcing of milk was not managed properly, this could be a potential risk to the CDM brand. For these reasons CS were keen to better understand the dynamics of their 'partnership' with DFOB[454].

Before completing a power and competition analysis it is necessary to briefly highlight the process of making a CDM chocolate bar, define CS's overall milk requirement, clarify potential operational constraints, and, consider the critical role that DFOB plays as sole milk supplier.

A CDM fruit and nut bar, for example, has several supply chains feeding into the product, not just milk. These supply chains are milk[455], raisins[456], almonds[457], sugar[458], and Cocoa[459] (Cadbury, 2009). Furthermore, there are a number of key stages performed at different CS sites to produce a bar of CDM chocolate. Chocolate crumb is produced at the Marlbrook Factory[460], with chocolate crumb having a number of key inputs: sugar, milk, and cocoa liquor[461]. Crumb is then transported by specialised Chocolate Crumb Silos to CS Bournville for further processing into CDM and other products[462].

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[454] Interview with Craig Mallet on 10/3/2005.

[455] The milk that goes into CS chocolate bars comes from the United Kingdom. It is bought from a farmer-run cooperative (DFOB). Here CS has direct dealings with the co-operative but not with the individual farmers (Cadbury, 2009).

[456] The raisins in a CS chocolate bar come from Turkey. Raisins are bought from a family-owned Turkish processing plant near Izmir, which buys its raisins from around 1,000 small farmers. The raisins are traceable back to the original farms. The processing plant maintains close relations with the farmers to ensure quality (Cadbury, 2009).

[457] The almonds in a CS chocolate bar come from California. CS buys the almonds from a processor who in turn buys them from the farmer (Cadbury, 2009).

[458] The sugar CS buys comes from the UK and mainland Europe. CS buys it from sugar processors (British Sugar). The sugar processor buys sugar beet direct from the farmer (Cadbury, 2009).

[459] Cocoa for a CS chocolate bar is sourced from Ghana. CS buys cocoa from the Ghanaian government Cocoa Board (COCOBOD), which controls the cocoa trade in Ghana. Between COCOBOD and the farmer there are licensed buying companies. They buy cocoa from the farmer (half a million small farmers) and transport it to the seaport (Cadbury, 2009).

[460] The process of making crumb includes these three ingredients going into the following process : 1) Evaporation 2) Batch Formation 3) Heat treatment 4) Vacuum cooking 5) Vacuum oven drying 6) Tower Drying 7) Crumb Chocolate Storage. Information from supporting document D5 and interview with Andrew Gaskell and Mark Brook on 01/11/2005.

[461] 1) Sugar: 50,000 tonnes of sugar per annum is procured from British Sugar and delivered by road tanker. Sugar is stored in two 200 tonne silos, 2) Milk: On average 550-600,000 litres of milk per day is delivered by tanker by DFOB. 40-50% of milk is delivered direct from local producers, with 50-60% as bulk deliveries (both organised by DFOB). Chilled milk is stored in 3 milk tanks, with a capacity of 390,000 litres. This is, however, not typical, as most other processors have storage facilities amounting to double their daily usage, 3) Cocoa liquor intake: The cocoa processing factory at Chirk provides over 12,500 tonnes of cocoa liquor per annum. This arrives in heated road tankers and is pumped into storage tanks. Information from supporting document D5 and interview with Andrew Gaskell and Mark Brook on 01/11/2005.

[462] Information from supporting document D5 and interview with Andrew Gaskell and Mark Brook on 01/11/2005.

Having briefly highlighted the process of making a CDM chocolate bar, CS's overall milk requirement will now be defined. Table 10.1, shown below, summarises CS's specific requirement for milk[463].

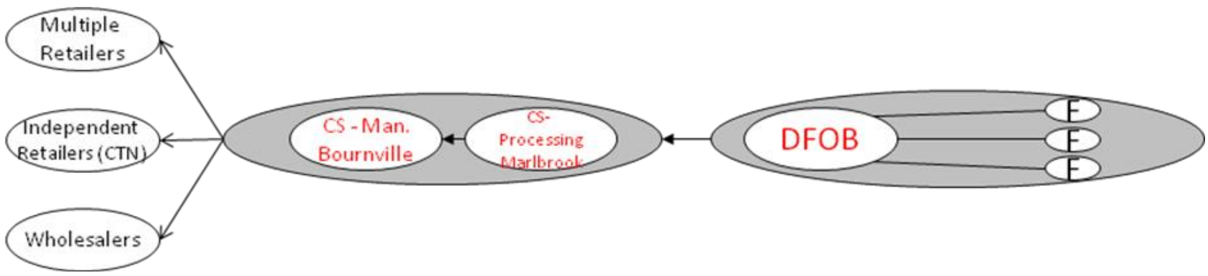
Key requirement	Delivery specifics
Budget volume	200,000,000 litres per annum
Budget spend	£40-42,000,000 per annum
Supplier	Dairy Farmers of Britain *(Sole Supply)*
Milk storage	390,000 litres
Demand profile	550-600,000 litres / day (30 tankers)
Milk delivery	Between 11pm-6am (CIP regime)
Service level	*High* (including Milk testing)*
Number of cows required	30,000
Number of farmers	250

Table 10.1: CS milk Requirement (Source: Adapted from CS presentation, supporting document D6)[464]

It is also important to note that the perishability of milk is a key constraint in the production of crumb. Fresh milk can only be stored for up to 4-5 days, but it is usually processed within 36 hours if delivered at 6 degrees centigrade. Furthermore, the quality of milk is also an issue, in terms of how it affects the level of processing. Standard milk, which typically contains 3.3% protein and 4% fat, will require more processing than higher quality milk with a higher fat content[465].

[463] To be delivered to the Marlbrook factory, as a key ingredient for the production of crumb.
[464] Interview with Craig Mallet on 16/5/2005- table adapted from supporting document D6.
[465] Interview with Craig Mallet on 10/3/2005 and interview with Andrew Gaskell and Mark Brook on 01/11/2005.

Lastly, there are a number of reasons why CS as a customer is seen as requiring high service levels*. First, CS have limited storage facilities for fresh milk (390,000 litres), which is only approximately 65% of the daily requirement, compared to the industry norm of 2 times daily requirement. This results in there being a large number of daily deliveries, with the risk of a shut-down if the supply of milk is not maintained. There is also a very limited window for delivery (11p.m. to 6a.m.), due to local traffic restrictions[466]. Second, CS requires total flexibility, to vary the daily volume from 475K litres to 600K litres per day. Therefore, DFOB must be able to trade any unwanted milk. Third, there are unplanned shut-downs, at various CS factories. DFOB must be able to divert milk supply to other customers at no extra cost to CS. Fourth, CS has no input into the quality of milk supplied and relies upon DFOB, to test, monitor and maintain quality of all milk supplied, even if supplied direct by DFOB's network of local farmers[467]. The relationship under investigation is shown in Figure 10.1, below.



Key: CTN = confectionary, tobacco & newsagents, CS – Man. = Cadbury Schweppes Manufacturing, F = DFOB farmer members

Figure 10.1: Cadbury's Schweppes – DFOB partnership for CDM chocolate (Source: Author)

[466] This is not typical for a comparable processing facilities who have 24hrs delivery.
[467] Interview with Craig Mallet on 10/3/2005 and interview with Andrew Gaskell and Mark Brook on 01/11/2005.

Having explored the CS – DFOB relationship for the CDM brand, we will now analyse the CS – DFOB relationship, using the power and competition analysis and relationship management type methodologies.

10.2. Power and competition analysis- CS and DFOB

10.2.1. Understanding the focal company's marketing approach: questionnaire part A

Figure 10.2, as previously discussed in the other case chapters, highlights that the first stage was to complete section A of the power and completion analysis. Determining the subject's marketing approach with a key customer will help us to better contextualise the relationship between CS and DFOB when completing section B1 and B2 of the power and competition analysis questionnaire.

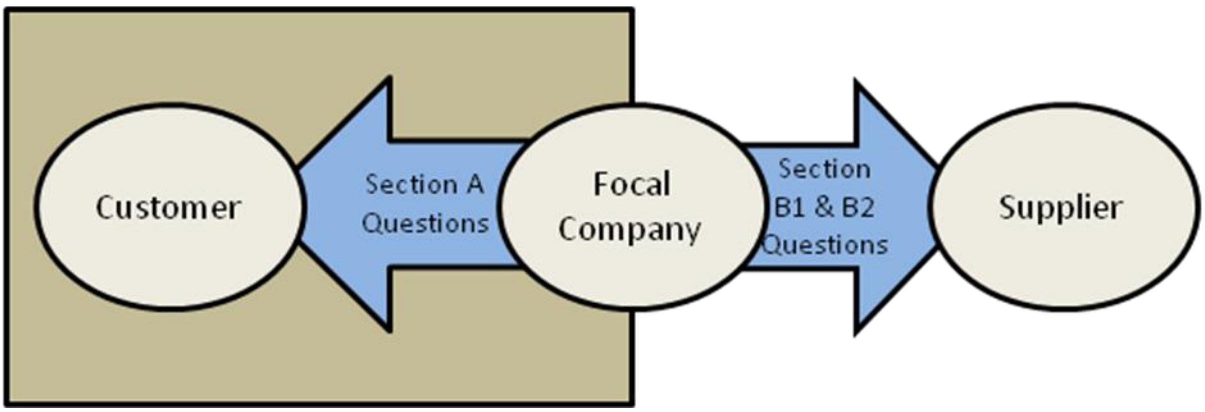


Figure 10.2: Section A questions and analysis (Source: Author)

What follows is not a description of all of the answers provided to each question in section A and B of the questionnaire, but a high level analysis, focusing upon the significance of key answers. The aim is to provide evidence to determine the power balance between the CS and DFOB, enabling the relationship to be accurately plotted in the four box power matrix.

Cadbury Schweppes marketing approach: There are a number of key aspects of CS marketing approach which should be highlighted. The market is split into three main segments (see Figure 10.1, shown previously): 'grocery' or multiple retailers (Tesco's, Asda, Morrisons etc.); independent retailers including, 'impulse' outlets (vending machines at schools, train stations etc.), convenience stores (symbol groups such as One Stop, Spar etc.) and CTN outlets (confectionary, tobacco and newsagents); and wholesalers, such as Palmer and Harvey[468].

56% of CDM branded product sales are through the grocery route to market (£135m in 2005 from sales of approximately £241m), of which £25m or 18.5% is with Tesco. Wholesale is also a very important route to market, valued at £85m in 2005, (or 35% of sales). The remainder of CDM (9%) is sold through either impulse (own vending machines), convenience or CTN outlets[469].

Tesco is an important customer, supplied with a large range of CDM products[470]. Tesco's primary strategic focus is low cost. This is evident from their drive to cut costs by backhauling[471] at CS's central warehouse and innovations in packaging, such as shelf-ready packaging. Although cost is the primary driver, quality, speed, dependability and flexibility

[468] Information from supporting document D1 and interview with Phil Watson on 31/10/2005.
[469] Figures provided by Phil Watson, CS Marketing. Interview on 31/10/2005 and supporting document D1.
[470] Including snacking today (single bars), large block (220g), multi-packs (fun sized), selection boxes (sharing occasions and giving) and other confectionary items (crisp, drinks and functional products, including sugar-based and Halls products). Interview Phil Watson on 31/10/2005 and supporting document D1.
[471] This is where goods are collected from the despatch point directly following a delivery.

are all still important. There is, however, the assumption that this level of service is expected as part of CS's standard product and service offering[472].

CS's strategy for competitive advantage is based upon a hybrid-cost strategy. The CDM brand is internationally recognised, allowing CS to differentiate and charge a premium over own-label chocolate products. The use of a glass and a half of fresh milk in every chocolate bar, which is promoted on CDM packaging, is one of the major differentiators for the brand. However, CDM does not compete directly with premium priced block chocolate such as Lindt and Green and Black and, therefore, CS must also be focused upon cost. Production efficiency, economies of scale and waste reduction[473] are all key aspects of lowering costs to support their competitive strategy[474].

Tesco is managed as a key account. This individual account contributes 18.5% of grocery business revenue (value of £25m) and approximately 10% of CDM sales. Although very small profit margins are made on products sold to Tesco[475], this is a crucial account for market share penetration, which is a key focus for CS. CS has increased its share of the grocery confectionary market by 0.3%, up to 26.1% in 2005, as compared with its rivals Masterfoods (17.1%), Nestle Rowntree (13.6%) and Wrigley's (4.7%)[476]. This relationship is increasingly significant given that alternative outlets such as convenience and, in particular, CTN are becoming less important year-on-year. Furthermore, the 'convenience' sector is now dominated by the multiple chains (Tesco's Express, Sainsbury's Local etc.)[477].

[472] Interview Phil Watson on 31/10/2005 and supporting document D1.
[473] As highlighted previously, through delivery and packaging innovations.
[474] Interview with Craig Mallet on 16/5/2005 and Phil Watson on 31/10/2005.
[475] In some cases products are sold as loss-leaders. Interview with Phil Watson on 31/10/2005.
[476] Supporting Document D1: CS Management Report: Channel Market Overview Grocery Retailers- P10 2005.
[477] Own-vending machines are being challenged in schools due to the recent drive to improve healthy eating, driven by celebrities such as Jamie Oliver. Interview with Phil Watson on 31/10/2005.

To conclude, this analysis of section A of the power and competition questionnaire determines that the marketing approach of CS focuses upon:

- Delivering high quality CDM products based on the promise that CS will only use fresh liquid milk for these products.
- A range of end-customers, but increasingly on the large multiple retailers and wholesalers.
- Managing key accounts such as Tesco by delivering a high quality product and service and working together to cut costs in the supply chain through innovative operations practice (i.e. back hauling and shelf-ready packaging).
- Pursuing a hybrid-cost strategy for products and service.

CS's aim was, therefore, to manage the relationship with DFOB, to be able to support this marketing approach.

10.2.2. Understanding the relative power resource endowments of the buyer and supplier: questionnaire part B1 and B2

Figure 10.3, to follow, highlights that the second stage of the power and completion analysis was to complete sections B1 and B2 of the 'power and competition analysis questionnaire'. In determining the overall power position between Cadbury Schweppes and DFOB the analysis must consider the relative power resource endowments of the two parties. To do so, we need to analyse the relative utility, scarcity and information resource endowments of the buyer and the supplier.

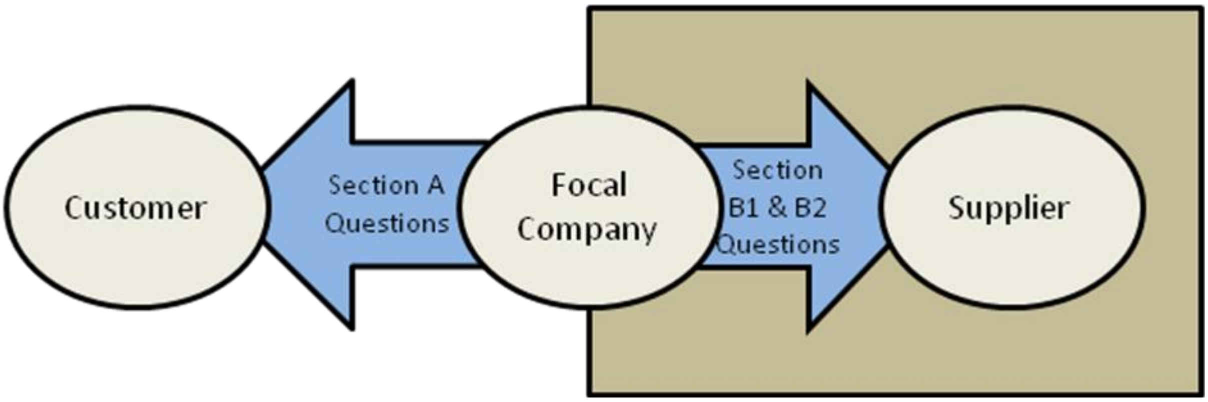


Figure 10.3: Section B1 and B2 questions and analysis (Source: Author)

10.2.2.1. Determining the power resource endowment of the buyer

Analysing section B1 questions: utility for the buyer (B1.1-1.5): The first factor which needs to be analysed is resource utility[478]. The resource utility of the milk procurement and delivery service offered by DFOB falls into the critical resource quadrant of the matrix shown in Figure 10.4, to follow.

This is because both the operational importance and commercial importance of the service offered by DFOB for the buyer is high. CS cannot function without the service as the procurement role for delivering milk is operationally indispensible to the firm's offering: CDM chocolate. The procurement and securing of milk supply by DFOB is crucial, as the production of CDM branded products requires constant, uninterrupted delivery of milk to CS's crumb manufacturing Marlbrook factory. CS does not have the necessary internal expertise or the external relationships to source milk direct from farmers. Furthermore, the

[478] Resource *utility* to a buyer, as discussed in chapters three and four, is the extent to which the goals or motivational investments are met by the transaction. This is determined by the *operational importance* of a particular resource to a business and the *commercial importance* of the resource to a firm's overall revenue generating activities (Cox, Sanderson and Watson, 2000, Cox et al 2002 SCM&P).

majority of milk supply is contracted. Therefore, there is very little opportunity to buy through an auction (spot market) mechanism[479].

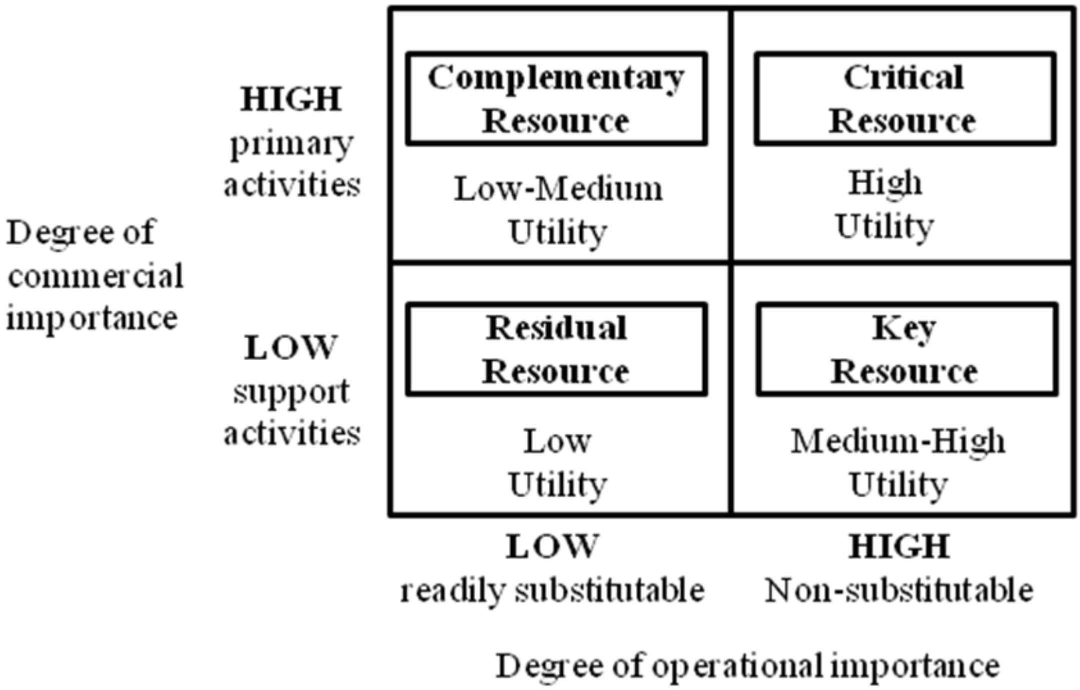


Figure 10.4: Determining the relative utility of a resource
(Source: Cox et al., (2002), p. 33)

The commercial importance of the product and service for the buyer is also high. The milk procurement and delivery service offered by DFOB delivers a primary good (milk), which is used directly by the buyer as a way of generating revenue from customers[480]. There is further evidence to support the conclusion that the milk procurement service offered by DFOB is a critical resource of high utility for CS. CS spent in the region of £40 million on milk (product and services) in 2005 with DFOB (200m litres at average price of 20ppl). This accounted for a significant proportion (over 20%) of the buyer's total spend[481]. For this reason, this is a critical category of spend.

[479] Arla used to run periodic spot auctions for milk prior to 2005 but stopped due to scarcity of milk. Interview with Craig Mallet and Andrew Gaskell on 3/10/2005.
[480] Interview with Craig Mallet on 16/5/2005 and 9/9/2005.
[481] Interview with Craig Mallet on 16/5/2005 and 9/9/2005 and supporting document D6.

Analysing section B1 questions: scarcity for the buyer (B1.5- 1.15): The second factor which needs to be operationalised is the relative scarcity of a resource[482]. On balance, the scarcity of the DFOB supply offering is relatively high[483]. CS can theoretically source from a relatively large pool of milk suppliers (individual farmers and co-ops) and, therefore, there is a large supply market. However, to ascertain the degree of resource scarcity the market must be better understood. The market is split between milk marketed through four co-operatives and milk marketed direct by farmers[484]. In 2005, approximately 46.5% of milk was marketed through co-ops[485], 52.2% of milk was marketed direct[486] and 1.3% was used in on-farm processing[487]. First Milk was the number 1 co-op, processing 2.2bn l or 15.71% of the milk pool, followed by DFOB (1.9bn l or 13.57%), Milk Link (1.5bn l or 10.71%) and UDF (1bn l or 7.14%)[488].

At present CS does not have the internal capability or external supply relationships to source directly and, therefore, the company can only chose from one of the four co-ops. Furthermore, according to Craig Mallet of CS, prior to the formation of the existing supply relationship, CS had poor relationships with the other co-ops[489]. For these reasons there are very few (1-3) actual suppliers who can now supply, or with limited effort, become suppliers of this resource. This indicates that there is a low degree of imitability and substitutability and, therefore, the relative scarcity of DFOB's resources is high.

[482] As previously discussed from the buyer's perspective, thinking in terms of supply options, the relative scarcity of a resource is determined by its *imitability* or *substitutability*.
[483] When considering the answers provided to questions B1.5 – 1.15 (see Appendix one) it is not possible to see each answer as being of equal importance, or as providing, on its own, an indication of supply scarcity. The answers have to be considered in the context of other questions and interpreted. A number of factors will, therefore, enable us to determine the overall level of resource scarcity.
[484] In 2005, there were approximately 2 million cows and 15 thousand dairy farms, situated primarily in the western part of Britain (where there is better grazing). There has, however, been considerable consolidation, with the numbers of farms falling by 20% from June 2002 to June 2005 (18,695 to 14,732). Information from interview with Craig Mallet on 16/5/2005 and supporting document D6.
[485] Down 7.2% over the previous 12 months.
[486] Up by 7% over the previous 12 months.
[487] Up 0.2% over the previous 12 months.
[488] Interview with Craig Mallet on 12/9/2005 and Craig Mallet and Andrew Gaskell on 3/10/2005 and supporting documentation D6. Figures were verified at meeting with Martin Palmer, IC, MLC on 11/7/2006.
[489] Interview with Craig Mallet on 10/3/2005.

This view is supported by a number of other factors. First, the general milk supply market is highly contested as co-ops have to compete with the large processors[490]. These are aggressively pursuing direct relationships with farmers to secure milk supply by offering a price premium of between 0.5- 1.5ppl[491]. This partially explains why there has been a decline in the volume of milk sold through co-ops[492]. However, the level of contestation involving suppliers comparable with DFOB, capable of delivering high volumes of milk and balancing year-round fluctuations in demand and supply is relatively low. Since the break-up of Milk Marque (5bn litres) in 2000, the co-op supply market has seen considerable consolidation through merger and acquisition[493]. The level of contestation in the supply market, for large scale milk supply is viewed as being medium to low. There are four co-ops who could deliver large-scale supply. Furthermore, the numbers of suppliers is likely to decline in the future[494].

Second, although the milk delivered can be viewed as commoditised or standardised, the procurement role offered by DFOB (acting as a consolidator, balancer and deliverer of milk throughout the year) is customised. CS requires a tailored service, including many daily deliveries (30), organised in a limited time-window (11p.m. – 6a.m., compared to industry norm of 24hrs), to accommodate their inadequate storage facilities (390k litres- against the industry norm of 2 times daily requirement). The supplier must also be able to deal with high fluctuations in daily/weekly demand and unplanned shut downs, of which there have been several, with no penalty for CS. Finally, they must also be able to deliver a comprehensive

[490] Dairy Crest (#1, processing 2.5bn l), Arla (#2, processing 2.2bn l) and R Wiseman (#3).
[491] For instance 60% of Arla's milk was sourced direct in 2005.
[492] The role / importance of the co-op as a supplier showed a considerable shift during the period prior to research. In 2004/05 1 billion litres of milk was lost by the co-ops to direct sales. DFOB's volumes were down 21% from 2000, First Milk's volumes were down 8% and Milk Link's volumes were down 17%. Interview with Craig Mallet on 12/9/2005, Craig Mallet and Andrew Gaskell on 3/10/2005 and supporting document D6. Figures were verified at meeting with Martin Palmer, IC, MLC on 11/7/2006.
[493] Axis and Scottish Milk merged in 2001 to form First Milk, Glanbia and Milk Link merged in 2004, The Milk Group and Zenith merged in 2002 to form DFOB, with DFOB acquiring ACC in 2004. Interview with Stephen Bradley on 17/9/2005.
[494] With further mergers / acquisitions on the horizon. Interview with Graig Mallet on 12/6/2005, Stephen Bradley on 17/9/2005 and Craig Mallet and Andrew Gaskell on 3/10/2005.

range of milk tests[495]. For this reason DFOB's offering is best described as having a low level of commoditisation. There are potentially only a few suppliers who could offer the same service.

Third, at an individual farmer level, the barriers to entry are medium to high. There are infrastructure costs (sheds, milking equipment, and building up of herds) and stringent health and safety restrictions. However, at this level there would be little resistance from the existing supply base, partly due to the fragmented nature of this supply market. As a milk procurer, however, acting as an intermediary between the farmer and processor, there would be very little opportunity to set up. Milk is contracted either by the co-ops or from processors for direct supply, with little or no milk traded on the spot market. Therefore, there is little scope for dealers to become established. At a co-op level there are significant barriers to entry. To establish a co-operative or to become a supplier big enough to be able to service a contract like CS would be very difficult. This is because farmers are tied in to the co-ops[496] and processors (Arla etc.)[497]. It would, therefore, take considerable time and, especially at a co-op level, high costs would have to be incurred to enter into this market. Overall, the barriers to entry are high.

Fourth, there is not open competition, with evidence of a degree of (unofficial) price fixing. Cartelisation in DFOB's supply market is high. Co-ops tend to work together (informally) and set comparable prices, and they control 46.5% of milk supply in the UK. Furthermore, individual farmers attempt to influence milk prices. For example, when milk suppliers to ASDA were not happy with the prices they were receiving they blockaded ASDA. The

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[495] These include test for, freezing point depression, antibiotics, fat and total solids. Interview with Craig Mallet and Andrew Gaskell on 3/10/2005 and Andrew Gaskell and Mark Brook on 01/11/2005.

[496] DFOB requires 4 month's written notice with only two leaving dates of 31st March and 30th October. Interview with Phil Scott on 11/11/2005.

[497] There are penalties in place for leaving a contract early, typically 2% of the total year's income, with between 3 months (Robert Wiseman) and 18 month (Arla) written notice required by the farmers. Interview with Andrew Gaskell and Mark Brook on 01/11/2005.

blockade ended when the NFU, ASDA and Arla met and agreed to pay the farmers more money[498].

In addition, the contract supports a level of lock-in. It is a 6 month rolling contract, with a price formula built in. There is no extended tie-in by either party, but there is a 6 month period of notice for either party. At present, DFOB provides a multiple offering (product, service, and milk testing etc.), thereby increasing lock-in. Although there is little lock-in in terms of tangible dedicated investments made by the buyer (sunk costs), there are considerable intangible sunk costs in the relationship. DFOB have provided a very good service for many years, making it difficult 'psychologically', for CS to choose an alternative supplier[499]. For these reasons lock-in is medium.

Finally, it would be difficult for CS to find a new supplier willing to take on the high service levels required[500]. Additionally, there are few alternative co-ops with a large pool of farmers (3600) and an extensive a network of farms near to the Marlbrook Factory[501]. There would be a potential operational and commercial risk of moving to another supplier (co-op) or trying to deal direct. On balance, the switching costs are best viewed as high.

However, there are also a number of other factors that indicate DFOB's services may only be moderately scarce. First, it would take a considerable effort for CS to establish direct relationships with farmers. However, this is possible and considering the spend is significant (£40-42M)[502], the scope for disintermediation is medium to high. Second, a substitute for the

[498] Interview with Craig Mallet and Andrew Gaskell on 3/10/2005.
[499] Interview with Craig Mallet on 12/9/2005 and 16/9/2005.
[500] In particular considering they have soured relationships with the other co-ops in the past.
[501] Interview with Craig Mallet on 12/9/2005 and 16/9/2005.
[502] Interview with Craig Mallet on 12/9/2005 and 16/9/2005.

procurement role is possible (this could be brought in-house), but this would be difficult and would take time to time to develop[503]. Therefore, substitute availability is medium.

In addition, CS stated that they did not have the know-how to take on the procurement role. However, this was being addressed (they employed an expert milk buyer during the course of the research period) and there was a real desire to consider going direct to farmer's to secure milk supply. However, there are costs of doing so. The CS procurement team estimated that to go to direct milk supply from farmers, three people would be needed to manage this move, at a resource cost of £90k and an infrastructure cost of £60k. The team would have to be able to take on the role covered by DFOB's service including: quota management, milk scheduling, farmer liaison, farm auditing, farmer recruitment, transportation (organise logistics), administration (£10-20k for software investment) and milk testing (organise for a 3rd party lab to conduct the testing requirement)[504]. Therefore, on balance, CS, at the time of the research, pose a medium threat of backward integration for the supplier.

Lastly, DFOB have several isolating mechanisms, such as economies of scale and reputation effects. Although CS has relatively low search costs (it is easy to find out information about supplier margins and prices paid by other milk processors) and relatively low sunk cost (they have not made any dedicated investments in processes or technology), the specialised service offered by DFOB would be difficult to replace. However, CS could gain the skills to take over the procurement role (in-source expert milk buyers) and work direct with farmers by setting up a farmer's club (they have a disintermediation threat) for at least part of their milk

[503] Interview with Craig Mallet on 12/9/2005 and 16/9/2005.
[504] Interview with Craig Mallet on 12/9/2005 and 16/9/2005 and supporting document D6.

supply over the short-term[505]. On balance DFOB, have a medium number of isolating mechanisms.

Determining the level of supply scarcity requires interpretation and the author's judgement. Although there are a number of factors indicating that DFOB's services may be only moderately scarce, on balance, there are significant indicators leading the author to conclude that the scarcity of the DFOB's supply offering is high[506].

Analysing section B1 questions: information for the buyer (B1.15-1.18): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange[507]. There is only minor information scarcity for the buyer. There are a number of factors influencing this. First, search costs are relatively low, as it is possible to monitor (find, collect and analyse information about DFOB's performance) and, to some extent, benchmark DFOB's performance. It is relatively inexpensive to obtain information from other processors or from market intelligence agencies (Milkprice.com), trade or government bodies such as DEFRA and the MDC, relating to milk prices and the quality of milk[508].

Next, DFOB would find it difficult to achieve significant information advantages over the buyer. DFOB have to provide CS with full information (as set out in the contract) detailing volumes delivered, timing of deliveries and quality of milk (fat and solids content etc.). The buyer, therefore, has low levels of information asymmetry. However, the service provided by

[505] Interview with Craig Mallet on 12/9/2005 and 16/9/2005 and supporting document D6.
[506] The main power resource of CS, as a buyer, is the possessions of a credible threat to pursue either disintermediation, to find a substituted for DFOB's service or to backward integrate. All of these 'options' require setting up a farmer's club and managing the direct supply of milk to their Marlbrook Factory. This could not be achieved easily or necessarily in one go. There is a range of viable ways of eventually migrating toward direct relationships with farmers, but not without considerable investments and a seismic shift in thinking by CS. Interview with Craig Mallet on 16/9/2005 & delegates at meeting on 6/12/2005.
[507] As highlighted in chapters 3 and 4, scarcity can also be related to the amount of private information available to each party about the resource endowments (in terms of utility, scarcity and information and, therefore, power) and the intentions of the other party in the exchange.
[508] Interview with Craig Mallet on 16/9/2005 and Stephen Bradley on 17/9/2005.

DFOB is both a search good and to some extent a credence good. It is possible for CS to obtain information to be able to compare some elements with other suppliers, e.g. the price of standard milk and logistics costs, delivery schedule and payment terms. However, other aspects of service provision[509] are more complex, as CS have considerable operational constraints[510]. This would make it very difficult to compare DFOB's service provision with other potential suppliers. DFOB, therefore, provide both a search and a credence good.

Table 10.2, to follow, shows the answers to the questionnaire[511] provided by CS and DFOB. This table is in the same format as Table 7.1, discussed previously. Furthermore, as has been emphasised in the previous case chapters, answers to the questions have to be interpreted. To summarise, from the author's interpretation of the information provided by CS and DFOB (and verified by independent sources[512]), DFOB's service is of high utility for CS. Furthermore, the scarcity of the supplier for CS is high and there is minor information scarcity for CS. In order to plot the relationship within the four box matrix, however, these findings must be weighed against the relative power resource endowments of the supplier.

[509] Quota management, milk scheduling, farmer liaison, farm auditing, farmer recruitment, transportation (organise logistics), administration and milk testing.
[510] Such as restricted delivery window, limited storage capacity and unplanned shut-downs.
[511] Shown in Appendix one.
[512] Information provided by interviews with Stephen Bradley of Milkprices.com on 17/9/2005, Martin Palmer of Industry Consulting on 11/7/2006 and data produced by DEFRA and the MDC.

Interview questions	Answers to provide maximum level of resource endowment for the buyer	Answers provided by CS and validated by DFOB
1. How operationally important is the item to be sourced? (U)	Low	High
2. Is the item sourced of commercial importance? (U)	Low	High
3. What % of the total buyers total spend is devoted to this item? (U)	Low	High
4. Is reciprocity a factor in the relationship between the buyer and supplier? (U)	Not a factor	Not a factor
5. How many potential suppliers are there for this item of spend? (S)	Many	Few
6. How contested is the current supply market? (S)	High	Medium-Low
7. How commoditised is the supply offering? (S	High	Low
8. Are credible substitute items easily available? (S)	High	Medium
9. How high are the barriers to entry for new suppliers? (S)	Low	High
10. How many isolating mechanisms does the supplier have against their competitors and how sustainable are they? (S)	Low	Medium
11. Does the buyer pose a realistic threat of backward integration? (S)	High	Medium
12. Is it possible to take the first-tier supplier out of the chain? (S)	High	Low
13. What is the current evidence of cartelisation in this supply market? (S)	Low	High
14. What is the current level of lock-in by the supplier of the buyer 's business? (S)	Low	Medium
15. How high are the buyer's switching costs? (S)	Low	High
16. Are the buyers search costs high or low? (I)	Low	Low
17. Does the buyer have low or high levels of information asymmetry? (I)	Low	Low
18. What type of product/service is being purchased (experience, search or credence)? (I)	Search Good	Search / credence

Table 10.2: Summary of answers provided by Cadbury's Schweppes and DFOB (Source: Author)

10.2.2.2. Determining the power resource endowments of the supplier

Analysing section B2 questions: utility for the supplier (B2.1-2.4): The first factor that needs to be operationalised is resource utility[513]. The resource utility of the CS business for DFOB falls into the complementary resource quadrant (low-medium utility) of the matrix shown previously in Figure 10.4.

From an operational perspective, CS has a low-medium level of operational importance for DFOB. This is because, on one hand, CS's business with DFOB is both regular and

[513] However, as discussed in chapter three, a different interpretation of operational and commercial importance is required for the supplier. From the supplier's perspective, *utility* is the extent to which the supplier's goals or motivational investments are met by the buyer. *Operational importance* of the buyer's expenditure is assessed against the *regularity* and *predictability* of this expenditure. For suppliers, the degree of *commercial importance* can be determined by the ratio between a buyer's expenditure with a particular supplier and that supplier's total sales revenue, and the potential future revenue generating opportunities of doing business with a buyer (Cox, Sanderson and Watson, 2000).

predictable. CS typically procures between 550k l-600kl per day (200ml / year), allowing DFOB, to some extent, plan R&D activities and invest in new technology / capital equipment. However, on the other hand, DFOB have to cope with potentially large daily (475-600k l) and weekly fluctuations in demand, as well as significant demand shifts due to unplanned shut-downs at CS's factories[514]. Although the yearly demand is contracted and deliveries are regular, there is a level of unpredictability in daily/weekly demand. Therefore, on balance, CS has a low-medium level of operational importance for DFOB.

The CS relationship is of medium to high commercial importance for DFOB. It was estimated that in 2005 the total expenditure by CS with DFOB was approximately £40 million. Total revenue for DFOB, according to company accounts for year ending 31st March 2006 was £608.7m. Therefore, the CS account attributed to just below 6.6% of turnover[515] and is an important account. However, it was felt that there was not a significant future earning potential from the relationship. This was because it was evident to DFOB that CS was looking to establishing direct relationships with farmers, thereby potentially reducing the volume of milk sourced from DFOB. In addition, due to 'healthy eating' campaigns, the level of demand for chocolate was estimated to remain constant or slightly decline[516].

Further information provides evidence of the low-medium level of resource utility of CS's business for DFOB. First, although CS provides DFOB with weekly milk schedules and monthly projections of future demand[517], in practice, there are reportedly significant variances from these forecasts[518]. At present CS does not, therefore, provide DFOB with clear and consistent demand forecasting and capacity planning information.

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514 Interview with Phil Scott on 23/11/2005.
515 Interview with Phil Scott on 23/11/2005 and supporting document D4.
516 Interview with Phil Scott on 23/11/2005 and interview with Craig Mallet and Andrew Gaskell on 03/10/2005.
517 With constant two-way communication about significant change in demand or supply circumstances.
518 Interview with Andrew Gaskell and Mark Brook on 1/11/2005 and Phil Scott on 11/11/2005.

In addition, the purchase of ACC has shifted DFOB's emphasis away from supplying milk to processors, to further processing a higher proportion of their milk pool into value- added products (i.e. Somerset Brie etc.). This is significant, as DFOB will continue to focus on further processing milk rather than providing a product and service to customers such as CS. This reduces the utility of existing fresh liquid milk customers[519].

Finally, from one standpoint, as CS is a blue-chip company their attractiveness is high. This is because CS is a safe account as they pay on time and are unlikely to go bankrupt. Furthermore, profits above the industry average are made from this relationship (typically 1.5ppl premium). There is also potential scope for the buyer and supplier to work together to develop new products and / or services, for example, the ability to influence milk constituents and add functional benefits such as vitamins, Selenium and Omega 3 enriched milk , through influencing the feeding regimes of the dairy farmers. However, as being associated with the CS brand is unlikely to provide opportunities to enter into new markets[520], on balance, the buyer's attractiveness is medium.

Taking into account these factors and using the author's judgement, it can be argued that on balance the resource utility of the CS business for DFOB is low-medium and, therefore, falls into the complementary resource quadrant of the matrix shown previously (Figure 10.4).

Analysing section B2 questions: scarcity for the supplier (B2.5-2.8): The second factor which needs to be operationalised is the relative scarcity of a resource[521]. The scarcity of CS as a customer for DFOB can be viewed as low. There are a number of factors which are important in making this assessment. First, DFOB currently has well over 50 customers

[519] Interview with Andrew Gaskell and Mark Brook on 1/11/2005 and Phil Scott on 11/11/2005.
[520] Interview with Andrew Gaskell and Mark Brook on 1/11/2005, Phil Scott on 11/11/2005 and Richard George on 23/11/2005.
[521] From the supplier's perspective it is important to determine how large is the market for their products or services.

buying from it, with potentially over 100 further customers. Customers range from large purchasers of processed drinking milk (45% of DFOB sales) under the Dairy Gate Brand, such as the Co-op (large customer), to a long tail of smaller customers such as SPAR, cash and carry's, garages, corner shops, schools and county councils[522]. DFOB also sell unprocessed or raw milk (45% of their milk sales) to large processors such as CS (approximately 10% of this segment), Arla Foods, Unique (yogurts), Glanbian Foods (Cheese), Robert Wiseman, and Dairy Crest, as well as supplying to many small independent processors producing cheese and dairy products[523].

Second, DFOB has many customers and a high potential to supply to new customers. Losing a customer such as CS, therefore, would not have a significant operational and commercial impact. Although the account is attractive (they obtain good revenue and returns) and it would not be easy to find another such reputable account, they may be able to replace the buyer's business with smaller accounts or divert the milk for use in their own further processing[524]. Therefore, switching costs are relatively low.

Additionally, although there are no significant sunk costs for DFOB in terms of dedicated investments made in order to supply CS, significant time has been spent developing the relationship[525]. DFOB would incur some commercial and operational risk from walking away from this relationship and, therefore, the sunk cost is medium -low. Finally, DFOB does not possess the financial resources, know how, or desire to forward integrate in the supply chain[526]. DFOB have a low ability to forward integrate.

[522] As well as their own doorstop delivery of fresh milk.
[523] Interview with Andrew Gaskell and Mark Brook on 1/11/2005 and Phil Scott on 11/11/05.
[524] Interview with Andrew Gaskell and Mark Brook on 1/11/2005 and Phil Scott on 11/11/05.
[525] Interview with Andrew Gaskell and Mark Brook on 1/11/2005 and Phil Scott on 11/11/05.
[526] Interview with Andrew Gaskell and Mark Brook on 1/11/2005 and Phil Scott on 11/11/05.

Analysing section B2 questions: information for the supplier (B2.9): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange. DFOB have full access to information relating to CS's overall budget for milk procurement, their reservation price, what is specifically valued by the buyer and who specifies requirements. Access to this information is a potentially important power resource endowment for DFOB. However, as the relationship is based on 'trust' and full transparency, CS willingly makes this information available to DFOB[527]. Access to this buyer information does not, in this specific case, provide a significant resource endowment for DFOB. This is because there is, therefore, an expectation that DFOB will deliver a product and service to match CS's expressed needs. Furthermore, access to this information does not enable DFOB to capture appreciably greater value from the relationship through tailoring their products or services.

Table 10.3, to follow, highlights the answers to the questions. To summarise, from my interpretation of the information provided by CS and DFOB (and verified by independent sources), CS is of low-medium utility for DFOB. The scarcity of the buyer, for the supplier, is low and there are no significant information advantages for DFOB.

[527] Interview with Andrew Gaskell and Mark Brook on 1/11/2005 and Phil Scott on 11/11/05.

Interview questions	Answers to provide maximum level of resource endowment for the supplier	Answers provided by CS and verified by DFOB
1. How commercially important is the buyer to the supplier? (U)	Low	Low-Medium
2. How significant is our spend to the operational sustainability of the supplier's business (i.e. ratio, regular and predictable)? (U)	Low	Medium-High
3. Does the buyer provide supplier with clear and consistent demand forecasting and capacity planning information? (U)	No	No
4. Is the buyer's business attractive for the supplier? (U)	Low	Medium
5. How many customers in total does the supplier have for this for this item? (S)	Many	Many
6. How many potential customers are there for this supplier? (S)	Many	Many
7. How high are the suppliers switching costs? (S)	Low	Low
8. Does the supplier have the ability to forward integrate? (S)	High	Low
9. Does the supplier have access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.)? (I)	Yes	Yes

Table 10.3: Summary of answers provided by CS and DFOB (Source: Author)

10.2.2.3. The final analysis: Weighing up the two sides of the scales

Bringing together the analysis of buyer and supplier power resources enables us to plot the CS– DFOB relationship in the four box power matrix. It is evident, that the relationship is best described as supplier dominance (see Figure 10.5 below). For this relationship to be described as supplier dominance, the analysis would have to indicate the buyer having low power resources and the supplier having high power resources (Low-High). When we consider the analysis given thus far, we can argue that buyer power resource endowments are indeed low, as the resource purchased is of high utility for the buyer, and the scarcity of the supplier for the buyer is high. This means there is a relatively high degree of buyer dependence on the supplier. There is, however, only minor information scarcity for the buyer. In this relationship, although the buyer has good information, due to the high degree of buyer dependence, this potential power resource endowment cannot be used to effectively leverage the supplier. Furthermore, the power resources of the supplier are high. The buyer is of low to medium utility and the scarcity of the buyer for the supplier is low. Although DFOB have access to private information, as previously discussed, it is not thought this is a significant power resource endowment for the supplier. We can see, therefore, in Figure 10.5 below, that the relationship is in the supplier dominance position.

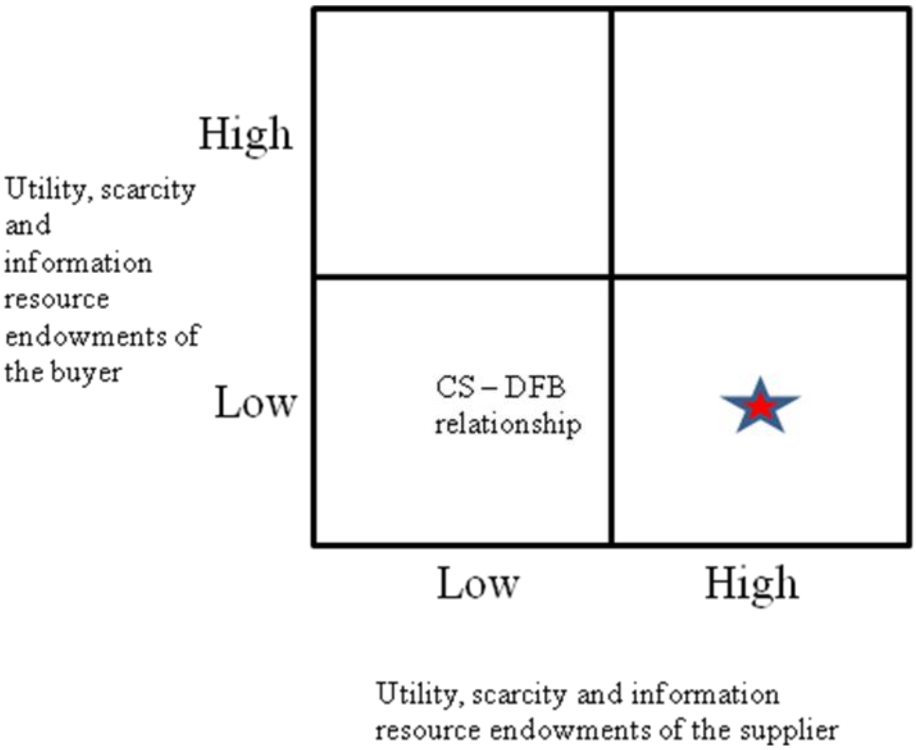

Figure 10.5- CS – DFOB power analysis (Source: Author)

10.3. Determining the relationship type for the CS – DFOB relationship

In order to position the CS- DFOB relationship in the relationships type matrix (Cox et al., 2003), shown in Figure 10.6 to follow, it is necessary to ask a number of questions to both parties to determine whether the relationship is best described as arm's length or close and who benefits most.

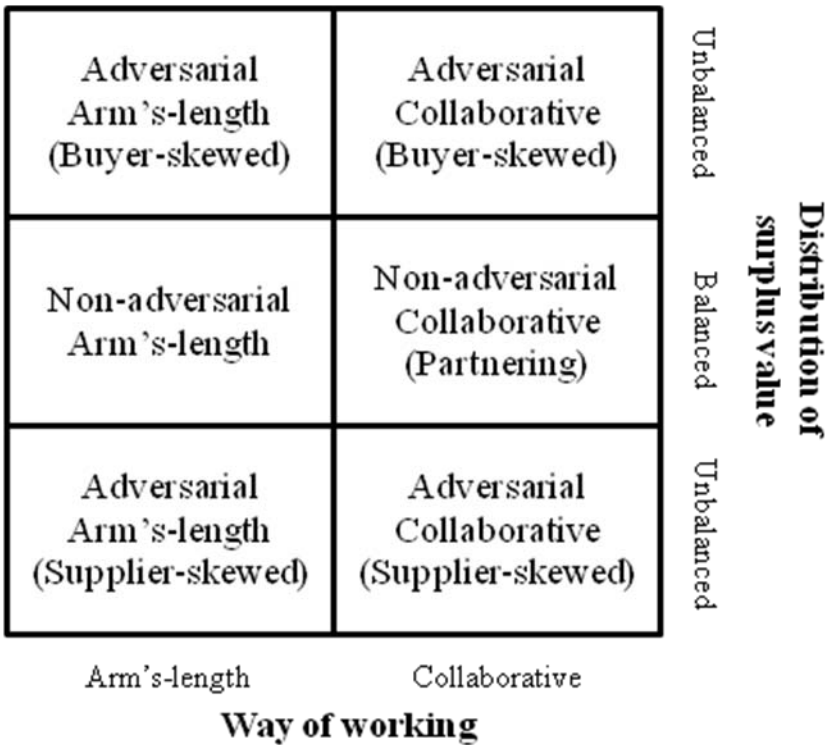

Figure 10.6: A typology of buyer-supplier relationship types (Source: Adapted from Cox et al., 2003)

10.3.1. The level of relationship connectivity: way of working

First, it is necessary to establish the way of working between CS and DFOB. Evidence provided by both CS and DFOB as to the degree of connectivity in the relationship is summarised in Table 10.4, to follow. This relationship has moved beyond there being only a basic exchange of information and products or services[528], as there is evidence of collaboration across four of the connectivity measures. Although neither party has made any relationship specific adaptations this relationship was defined as close by both CS and DFOB.

[528] Such as a basic specification, volume and timings information from the buyer and limited specification, timing and pricing information from the supplier.

Relationship connectivity measure	Evidence provided by CS and DFOB
Product / process information exchanges	• Open book cost-plus pricing arrangement & visibility of management accounts • Contracted yearly demand with weekly demand forecasts, with complete flexibility (475-600K litres per day and unplanned shut-downs) • Scheduling of 30 deliveries /day to the Marlbrook Factory. 50% from local (Ex farm) farms and 50% from DFOB's broader network • Milk testing information on demand
Operational linkages	• Monthly forecast demand schedule sent to DFOB as per contract • Weekly firm demand schedule emailed / faxed to DFOB each Thursday • DFOB coordinate delivery schedule for milk- up to 30 tankers / day to arrive at Marlbrook between 11p.m. and 6a.m. 50% direct from local farms and 50% from wider network • Testing and quality information collected from each tanker, checking each batch for fat and solid content, antibiotics, water content etc.
Legal bonds	• 6 months rolling contract based upon a cost-plus pricing formula. Prices determined monthly • 6 months written notice required by either party to terminate contract
Cooperative norms	• Regular weekly and monthly supply strategy meetings / telephone discussions between CS milk buyer and DFOB (sales director) • Open, two-way communication for tackling quality or other issues, such as unplanned shut-downs • Open – book pricing policy • Self-testing information only audited once every 2 years as relationship is based upon 'trust'
Rel. spec. adaptations	• No direct relationship specific adaptations

Table 10.4: Evidence of the level of relationship connectivity (Source: Author) [529]

10.3.2. Sharing of surplus value

The second factor which needs analysing is the sharing of 'surplus value'. Questions were asked to both the buyer and the supplier to ascertain if there was an equal or unequal sharing of the surplus value and if unequal, whether this favoured the buyer or the supplier[530]. To follow is a discussion of the answers given to the relationship management type questionnaire, which will provide evidence of the level of equity in the relationship. The relationship between CS and DFOB was seen to be unequal, in favour of the supplier and

[529] Information to populate this table has come from interviews with Craig Mallet on the 16/5/2005 and 9/9/2005, 12/9/2005, Craig Mallet and Andrew Gaskell on 3/10/2005, Andrew Gaskell and Mark Brook on 01/11/2005, Phil Scott on 11/11/2005 and Richard George on 23/11/2005.

[530] Table 5.9 highlights that there are five key characteristics: commercial goals, relationship-specific adaptations, the price paid for the good or service, supplier profit levels and contract terms. Each of these characteristics can be viewed as being on a continuum from favouring the buyer, to favouring the supplier, with equal in the middle.

was, therefore, supplier skewed- adversarial in nature. The justification for this assessment follows.

Commercial goals fully realised by DFOB, while CS's commercial goals were only partially realised: From CS's perspective, it was of critical operational and commercial importance to secure the continuous supply of fresh milk, delivered to the Marlbrook factory. Furthermore, CS wanted a supply partner capable of dealing with the operational constraints (limited storage capacity, short delivery window etc.) and potential fluctuations in demand without penalty (including unplanned shut-downs). The relationship with DFOB delivered these strategic ends. However, CS also wanted to gain more control over the quality of the milk being delivered, as milk quality impacts the level of further processing required (skimmed milk being added). They also wanted to work with their supplier to look at ways of influencing milk constituents (through feeding regimes introduced at the farm level) and adding functional benefits, such as vitamins, Selenium or Omega 3[531]. Although CS had previously requested DFOB's assistance here, DFOB were unable or unwilling to support CS's initiative to consider improving milk quality and influencing milk constituents. Furthermore, CS wanted to stop the spiralling milk costs. The current cost-plus contract and sole sourcing agreement, which is not typical for comparative processors[532], does not allow for these commercial goals to be realised[533].

From DFOB's perspective an important commercial goal was to maintain the CS account, ensuring they received a regular and predictable revenue stream. Furthermore, to compensate for the high service levels, DFOB wanted to continue with the cost-plus rolling contract, with

[531] In effect creating 'designer' milk and chocolate.

[532] No comparable processor has a sole source agreement for milk. The majority of processors (such as Arla) multisource, with a contract with a co-op and direct with farmers (60% direct supply at the time of research for Arla).

[533] All the indicators signal that milk prices were likely to continue to rise. Interview with Craig Mallet on 16/5/2005, Craig Mallet and Andrew Gaskell on 3/10/2005 and meeting participants on 6/12/2005.

prices agreed monthly and to charge this client a significant premium. The strategic goal was also to maintain and grow margins from this client, whilst becoming commercially less reliant upon them. These goals were fully realised. The premiums received by DFOB are in excess of 1.5ppl (20ppl compared to 18.47ppl for other comparable customers), amounting to an extra £3million in revenue in 2005[534]. Furthermore, in reducing their reliance on CS DFOB are able to process 53% of their own milk pool and this proportion is likely to grow to more than 60% over the next few years[535].

Equal distribution of relationship specific adaptations: Neither CS nor DFOB have made significant relationship specific adaptations. From CS's perspective there was no need to adapt their processes, or systems, or invest in any unique technology to be able to work closely with DFOB. Demand is established from CS's information systems. Details are emailed to DFOB every Thursday and confirmed over the telephone. DFOB schedule delivery, as they would do for any of their customers, of the desired quantity of milk on a daily basis, either direct (Ex farm) from local DFOB farms (50%) or from their network of farms[536] (50%). The only variance from the servicing of other customers is the short delivery window of 11p.m. to 6a.m. compared to the typical 24 hours[537].

The buyer is paying a price which is very close to their utility function (reservation price): The role of milk procurement is of high utility and there is evidence that CS is paying a price that is very close to their reservation price. CS are actively looking at establishing direct relationships with farmers, as according to Craig Mallet of CS, "securing the right quality of milk at the right price is important for CS, but at the moment we know we are paying a

[534] Interview with Phil Scott on 11/11/2005 and Richard George on 23/11/2005.
[535] Interview with Phil Scott on 11/11/2005.
[536] Consolidated at various regional depots.
[537] Interview with Andrew Gaskell and Mark Brook on 1/11/2005 and Phil Scott on 11/11/2005.

premium as we have no viable alternatives [to sole sourcing with DFOB]... establishing direct relationships with local farmers may help us achieve a better service at a potentially lower cost".[538] With the cost of milk forecasted to rise and with the existing cost-plus pricing formula, there is a real impetus to consider moving away from sole sourcing. This indicates that CS is paying a price close to their reservation price.

The supplier is able to earn above average profits for the industry sector compared with companies operating at the same supply chain stage: DFOB are able to earn significantly higher margins from this account than is typical of other accounts. The average contract price with CS in 2005 was 20ppl compared to the industry average of 18.47ppl. This equates to a premium of just over £3 million for the CS contract (200ml /pa). Although DFOB have to provide other services (such as testing), due to CS's rather lax auditing process (only once every 2 years) and monitoring, it is unlikely that this contract is significantly more costly to service than others. Furthermore, there is no mechanism in place for stopping DFOB supplying low (standard) quality milk to CS, whilst keeping the better quality milk for other processors, such as cheese manufacturers[539].

The terms of the contract favour the supplier (i.e. pricing, payment terms, etc.): In one respect the relationship between CS and DFOB is unique and the contract reflects this. It is more typical for DFOB to have a straight-forward 3/6 months contract, to deliver a specific quantity of milk at a fixed price. The existing 6 months rolling contract, based upon a cost-plus pricing formula, is indicative of the unique and close nature of CS-DFOB relationship. This contract is necessary to take into account CS's need for total demand flexibility (which is in part influenced by their inadequate storage capacity) and high service requirements.

[538] Interview with Craig Mallet on 16/5/2005.
[539] Interview with Phil Scott on 11/11/2005.

Although the contract reflects CS's needs (high service levels) and pushes the risk of unplanned shut-down onto DFOB, the pricing formula provides for a premium (over 1.5ppl) to reflect DFOB's service provision and also balances DFOB's risk of rising input costs (such as feed etc.). Furthermore, although DFOB are required to test all milk supplied, there is no contractual requirement to provide detailed reports to the customer or to supply CS with anything other than standard milk. There is, therefore, no contractual pressure on DFOB to deliver anything more than a basic product and service, with no focus on cutting costs through innovation. For these reasons the terms of the contract favour the supplier[540].

From this analysis it is apparent that this relationship is best viewed as supplier-skewed adversarial in nature. As demonstrated in Table 10.5, to follow, there was an unequal sharing of the risks and rewards from the relationship in favour of the supplier. It should be noted, however, that it was not always possible to obtain full information and, therefore, the researcher's judgement was needed.

Taking the variables of way of working and sharing of surplus value together it is now possible to plot the CS and DFOB relationship in the six box relationship management type matrix. It has been demonstrated that the relationship between CS and DFOB is collaborative, however, there is not an equal sharing of the risks and rewards from the relationship. As Figure 10.7, to follow, highlights the relationship is best described as supplier-skewed adversarial collaboration.

[540] Interview with Craig Mallet and Andrew Gaskell on 3/11/2005 and Phil Scott on 11/11/2005.

Buyer-skewed adversarial	Non-adversarial	Supplier-skewed adversarial
Buyer's commercial goals fully achieved	Each party's commercial goals partially realised	Supplier's commercial goals fully achieved
Supplier invested more in relationship-specific adaptations	Equal distribution of relationship specific adaptations	Buyer invested more in relationship-specific adaptations
The buyer is paying a price which is substantially lower than their utility function (reservation price)	The buyer is paying a price which is mid-way between their utility function (reservation price) and the supplier's mean cost of production	The buyer is paying a price very close to their utility function (reservation price)
The supplier is receiving only normal profit (or slightly above)	The supplier is able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage)	The supplier is able to earn sustained above average profits for industry sector (comparable companies operating at the same supply chain stage)
The terms of the contract or agreement favour the buyer (i.e. pricing, payment terms, exit clauses, etc)	The terms of the contract or agreement favour neither the buyer or supplier (i.e. pricing, payment terms, etc)	The terms of the contract or agreement favour the supplier (i.e. pricing, payment terms, exit clauses etc)

Table 10.5: The sharing of surplus value in the CS-DFOB relationship (Source: Author)

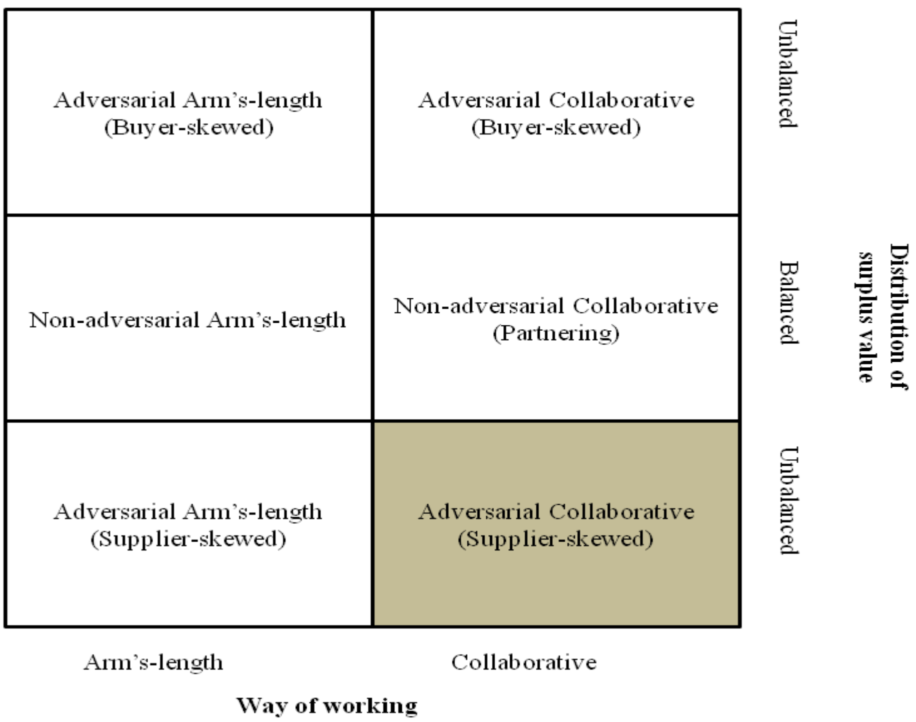

Figure 10.7: The CS-DFOB relationship type (Source: Author, adapted from Cox et al., 2003)

10.4- Conclusions

The long-term collaborative relationship between CS and DFOB is of interest for a number of reasons. According to the hypothesis, under situations of supplier dominance, you would expect the relationship in question to be managed in the bottom right box of the six box matrix, as supplier-skewed adversarial collaboration. The analysis presented in this case supports the hypothesis, as the power position between CS and DFOB has been analysed as supplier dominance and the relationship management type is best described as supplier-skewed adversarial collaboration.

The implications of this analysis for CS are quite revealing. CS's concerns that the current relationship was not delivering equal benefits and was no longer good value for money have been borne-out by the research findings. There is no doubt that the two organisations work closely together. Furthermore, the fact that CS chose to single source, remaining with the same supplier for such a long period of time (15years), indicates an enduring relationship. The problem for CS is that when the relationship was initially formed, it is possible that there were interdependent power circumstances and that the sharing of the gains from the relationship was equal.[541] Circumstances have now changed. Without doing a full comparative analysis this cannot be verified. However, what is clear is that the recent acquisition of ACC by DFOB and the broader changes in the milk market (such as CAP reforms and a concentration in the number of milk suppliers etc.) has resulted in a decline in power resource endowments of the buyer and an increase in the power resource endowments of the supplier. CS has to manage a relationship which is no longer characterised by bi-lateral dependence or interdependence.

[541] It is not possible to back this assertion up empirically, however, from interviews with participants and independent experts, this is the most likely scenario.

The analysis suggests that the CS-DFOB relationship is managed as a supplier-skewed adversarial relationship, with unequal sharing of the benefits. This is due to the current power circumstances. Supplier dominance enables DFOB to gain the lion's share of benefits from the relationship. DFOB's commercial goals are fully realised, being able to earn significant (above average for the industry sector) margins from CS, whilst reducing their dependence on the processing sales route-to-market[542]. Furthermore, there is evidence that CS is paying a price for DFOB's product and service, close to their reservation price, with the terms of the contract favouring DFOB. The cost-plus pricing formula (monthly adjusted) favours DFOB. Unlike other contracts[543], DFOB is shielded from considerable risks, such as feed price rises. Furthermore, there are no KPI's built into the contract obligating DFOB to deliver high quality milk (above the standard specification), regularly feedback the results from tests on the milk supplied[544] or proactively look at ways of cutting costs and improving efficiency. As CS lacks a robust contract (with KPI's) and do not sufficiently monitor their supplier, the research suggests that there is considerable scope for post-contractual opportunism.

This case, therefore, indicates that, as suggested by the hypothesis, partnerships are more likely to be successful under power circumstances of interdependence. Although this partnership may suit DFOB, CS is actively looking at strategies to re-address the balance of power in the partnership, with the aim of receiving an equal share of the benefits from the relationship. As suggested earlier in this analysis, the main option open to CS is to consider developing direct relationships (disintermediation or backward integration) with farmers by establishing farmers clubs. Although there are considerable costs (estimated £90k resource cost and £60k infrastructure costs) and potential barriers (getting access to a sufficient pool of

[542] By further processing a high proportion of their own milk pool- 53% in 2005 and estimated to rising to more than 60% in the future.
[543] Which are typically a fixed price and fixed quantities for 3-6 months.
[544] CS have only asked to review testing information on average every 2 years.

farmers who are contractually tied into either co-ops or other processors) in doing so, this is the only long-term viable option open to CS. That is not to say that the ‘partnership’ with DFOB will end, just that CS will try to re-balance the relationship by multi-sourcing, thereby becoming less reliant upon DFOB. CS has the target of sourcing at least 20% of their milk direct from farmers by 2010. This would allow them to gain a better understanding of the milk supply market and for them to gain some leverage over DFOB. This will make it more likely that there will be an equal distribution of benefits from the relationship.

Chapter Eleven

Case five: Harris and Hetherington (H&H) – Stedman and Judy Dodd, West View Farm Relationship

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11.1. Background to the development of the H&H and S&J Dodd relationship

Before analysing the power dynamics and the relationship management approach between H&H and S&J Dodd, using the two methodologies explained previously, we first need to provide some background information about the historical development of this relationship. The focus of this case is the relationship between H&H[545], a well known and important regional pedigree and commercial livestock auctioneers, with their headquarters and primary auction ring at Borderway Carlisle,[546] and Cumbrian suckler beef farmers, S&J Dodd.

H&H was severely affected by the outbreak of foot and mouth (F&M) in 2001, and by 2002 primestock (fat cattle), a previously important market, had declined considerably[547]. The outbreak of F&M resulted in many farmers opting to develop direct links with processors.

[545] Part of the H & H Group. The H & H group was founded over 130 years ago as a farmstock auctioneers. It now has six operating companies with activities including farmstock auctioneers (Harrison and Hetherington), brokers and valuers; providers of finance for new and used motor vehicles; chartered surveyors, land agents, valuers and quota brokers; insurance brokers; residential estate agents, auctioneers and valuers of fine art and furniture; and motor vehicle auctioneers- information provided by interview with Trevor Hebden and Tim Bastable on 1/6/2005 and verified by reference to http://www.borderway.com.

[546] As well as seven further sales centres in the North of England and South West Scotland: Broughton in Furness, Kirkby Stephen, Lazonby, Lockerbie, Middleton in Teeside, St John's Chapel and Bristol (pedigree centre). Interview with Trevor Hebden and Tim Bastable on 1/6/2005.

[547] With only 20% of primestock passing through the auction ring (compared to 40-50%, pre-F&M) and 80% going direct to processors (to be paid on a deadweight basis). Interview with Trevor Hebden and Tim Bastable on 1/6/2005 and verified by Martin Palmer of the MLC on 27/11/2006.

Therefore, auctions had to rely on sales of sheep, store beasts and pedigree sales to survive[548]. In 2000, sales of primestock were approximately 1200 cattle per week at the Carlisle ring. However, by 2005 primestock sales had recovered considerably, with an estimated 40% of primestock selling through the auction ring[549]. Primestock sales at H&H's Carlisle market (Mondays) had risen to 1500 cattle per week[550].

H&H's primestock market is, according to Trevor Hedben, Managing Director of H&H, crucial for farmers. He said, "we must maintain numbers of beasts sold through the auction ring as a key pricing mechanism, to make sure [the] processors pay a fair price"[551]. Without the auction ring it is possible, according to Trevor Hedben, for processers to (unofficially) work together and set low prices. Therefore, for the success of H&H and the local farming community it is important for H&H to maintain relationships with local farmers, to ensure sufficient numbers of good quality beasts are sold through their markets[552].

Coinciding with the partial recovery of the primestock market, H&H's had a successful partnership with Pioneer Foodservice (see case three, chapter nine) to develop the 'Lakeland' beef brand[553]. The growing success of the brand meant that H&H needed to secure the right quality beasts from the Cumbrian and Lancashire (CA and LA postcodes) region in the desired quantities. Furthermore, H&H had to balance the need to source good quality beef for the 'Lakeland' brand, with supporting other customers and their primestock market. 80%

[548] Interview with Trevor Hedben and Dave Richards on 1/6/2005.
[549] This was Trevor Hedben and Dave Richard's view for only primestock (interview on 1/6/2005). According to figures sent by Martin Palmer (D1), the number of total liveweight sales (which includes dairy, breeding cows, pedigree etc) through auctions was 60.6% against 39.4% deadweight prior to F&M (2001). In 2002 (as a result of F&M) this ratio had changed to 12.8% to 87.2%. In 2003 it was 20.2% to 79.8% (supporting document: D1- Lamb Beef Pig Info from Martin Palmer). According to: 'A pocketful of meat facts', 2006, MLC, the ratio in 2005 was 21% to 79%.
[550] Interview with Trevor Hebden and Tim Bastable on 21/6/2005.
[551] Interview with Trevor Hebden and Tim Bastable on 21/6/2005.
[552] Interview with Trevor Hedben and Dave Richards on 1/6/2005.
[553] Which was officially launched in 2002, after delays due to F&M.

of all ‘Lakeland’ beef is sourced direct from farmers by H&H, with only 20% being sourced from the auction ring[554].

The volume of beasts required for ‘Lakeland’ beef varied weekly, but by 2005 120 beasts per week on average where required[555]. S&J Dodd supply H&H with 4 beasts per week, of which 3 on average are bought specifically for ‘Lakeland’ beef. This supplier is important for a number of reasons. First, they consistently produce beasts which are perfect for the ‘Lakeland’ brand in terms of size (650-670kg’s) and their eating quality (marbling etc.)[556]. Second, the owner does not want to supply direct to processors, as he does not trust the deadweight system, preferring instead to sell his beasts through the auction ring[557].

Although S&J Dodd supply a small percentage of H&H’s requirements for the ‘Lakeland’ brand, they are viewed increasingly as a strategic partner. H&H wanted to be seen supporting local high quality beef farmers, as well as the auction system. S&J Dodd was the perfect partner as they already had a long-term relationship, based upon trust. From 2003, increased dialogue led to the development of a collaborative relationship. S&J Dodd would sell their beasts only through H&H and in return H&H would feedback crucial end-customer information[558] about killing-out percentages, conformity and eating quality[559].

Stedman and his wife Judy have been tenant farmers at their ‘West View Farm’ in Temple Sowerby, Penrith, Cumbria, since 1962. The farm is situated in the heart of the major livestock producing region of the North of England. The area has lush pastures, which are

[554] Interview with Tim Bastable on 13/6/2005.
[555] Between 24/6/05 and 22/07/05, 294 cattle were procured for the ‘Lakeland’ brand and 24 from the CA 10 (Eden Valley) postcode, for which S&J Dodd supplied 12 beasts – from supporting documents D3. These figures were much lower than was typical according to Robert Addison of H&H (interview on 21/6/2005).
[556] I.e. killing out at R4L on the Euro Grid. See supporting document D4- ‘Beef Carcass Authentication Service- MLC’ and previous explanation given in case three.
[557] Interview with Stedman on 21/06/2005 & telephone interview on 13/3/09.
[558] From Pioneer and other customers, when possible.
[559] Interview with Trevor Hebden and Tim Bastable on 21/6/2005.

ideal for grazing cattle and sheep. Stedman's farm is typical of medium sized holdings (400 acres) in Cumbria, being a mixed farm, producing beef, sheep and other commodities, such as cereals. For the last 10 years he has employed a general farm hand, originally employed as a dairy man[560], to help with the running of the business[561].

Stedman's core business is producing suckler beef cattle (Limousine-cross) and breeding pedigree Limousine beasts. His suckler beef herd is 200 strong, producing 100 calves a year, of which 80 beasts are sold through H&H in Carlisle[562]. Stedman supplements homebred beasts by typically buying 120 store beasts[563] at 14/15 months, to be finished in sheds (between 8-12 weeks). With this mix of homebred and store finished beasts, he is able to achieve a steady flow of 4 beast per week going to H&H's auction in Carlisle. Stedman focuses on producing the highest quality beasts, which kill-out at either U or E3 on the Eurogrid system. This is consistently achieved through his selected breeding programme, careful choice of store beasts, good local grazing and his own special blended mix of feed to finish the cattle[564]. In 2005, his beasts weighed an average of 670 kilos[565]. A third of Stedman's business, in terms of value, is breeding and selling pure Limousines beasts. Heifers and bulls are sold in specialist pedigree auctions held at H&H, with pedigree Limousine bulls selling for as much as 14,000 guineas or £14,700 (1 guinea = £1.05) in 2005[566].

[560] They stopped stocking dairy cattle in 2000 as they were making no money.
[561] Interview with S&J Dodd on 21/06/2005 & telephone interview on 13/3/09.
[562] Of the 100 approximately 10 of the best cows are kept for herd replacement and 10 bull calves are retained for breeding- Interview with Stedman and Jane on 21/06/2005.
[563] At various times of the year from H&H's auction.
[564] A specialist blender in Penrith takes a mix of grass silage, home grown barley and adds a blend of soya and beet pulp (and in some cases dark grain). This blend is then delivered to West View Farm in 8 tonnes sacks. Each farmer will have their own preferences, which will depend of the type of cattle to be finished, the desired size, finishing speed and what foodstuff they produce on their own farms. Interview on 21/06/2005. The exact proportions of the blend are a carefully guarded secret according to Stedman- telephone interview on 13/3/09.
[565] Although average weights have been dropping (to 620 kilo's in 2008). Interview with Stedman on 21/06/05 and recent figures- telephone interview with Stedman on 13/3/09.
[566] Supporting Document D5 Pedigree Sales Report for 15th October 2005. According to the report junior bulls averaged at £4,789.

Stedman has been selling beasts through the H&H market since he started to sell fat cattle in 1976. However, from 2000 onwards Stedman noticed that his beasts attracted a premium at H&H, compared to ones sold in other auctions. This trend continued and by 2003 Stedman decided to sell all of his beasts through H&H's Carlisle market. There was a further factor in this decision. He realised that his beasts were too heavy for other auctions such as Penrith Mart, who were looking for beasts of around 500 kilos for their customers[567].

Stedman had always had a good working relationship with H&H, yet by 2003 they had become his biggest customer, buying typically 75% of his beasts to be processed into 'Lakeland' beef. Stedman no longer viewed the auction as just a route to market. The development of the 'Lakeland' beef brand required a change in the way of working between H&H and S&J Dodd. Stedman wanted to get closer to the end-customer, so as to be able to produce the right type of beef and attract a premium. With such long lead-times (typically 18-24 months) for suckler beef, he needed information about end-customer requirements early to be able to proactively manage his herd[568]. Two-way information flow was a crucial element of the new collaborative relationship.

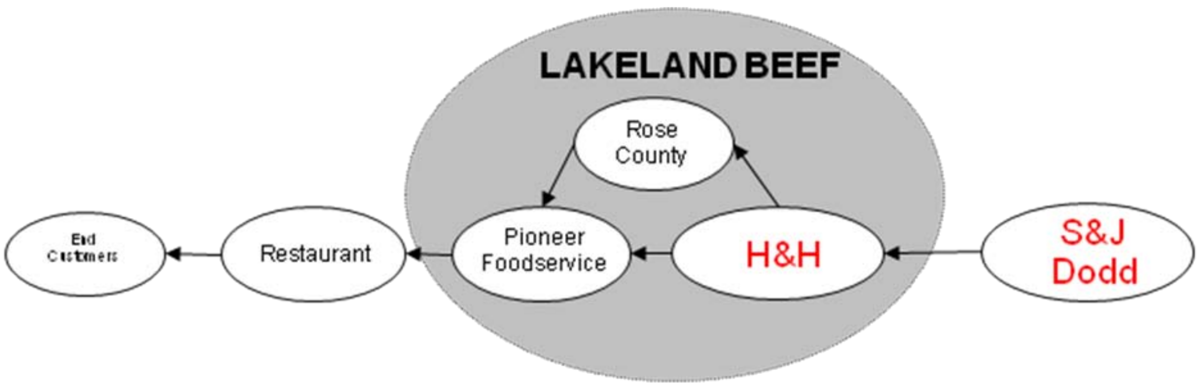

Figure 11.1: H&H – S&J Dodd relationship (Source: Author)

[567] Who were predominantly individual butchers. Interview with S&J Dodd on 21/6/2005 and telephone interview with Stedman on 13/3/09.
[568] Desirable weight, fat content etc., all affected by the feeding regime and age of slaughter. Interview with S&J Dodd on 21/6/2005.

Having described the development of the relationship between H&H and S&J Dodd, we will now analyse the H&H and S&J Dodd relationship, using the power and competition analysis and relationship management type methodologies.

11.2. Power and competition analysis- H&H and S&J Dodd

11.2.1. Understanding the focal company's marketing approach: questionnaire part A

Figure 11.2, to follow, highlights that the first stage of the power and completion analysis was to complete section A of the 'power and competition analysis questionnaire'. Obtaining information about the subject's marketing approach with a key customer will help us to better contextualise the relationship between H&H and S&J Dodd when completing the 'power and competition analysis questionnaire'.

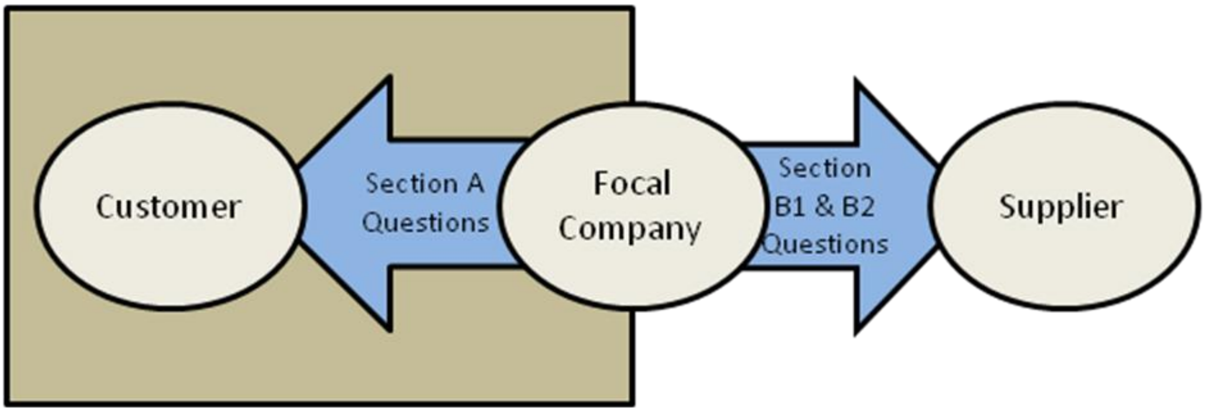

Figure 11.2: Section A questions and analysis (Source: Author)

As with the other cases, what follows is a high level analysis, focusing upon the significance of key answers. The aim is to provide evidence for determine the power balance between

H&H and S&J Dodd, enabling the relationship to be accurately plotted in the four box power matrix.

H&H's marketing approach: There are a number of key aspects of H&H's marketing approach which should be highlighted. H&H provide an auction and meat procurement service. In this case, beef cattle of a specific conformity[569] from the CA and LA postcodes are bought[570] to be further processed into 'Lakeland' beef products[571].

H&H have a number of key channel partners. At present they have over 50 individual customers, ranging from small independent butchers and catering butchers to medium and large processors (primary and secondary), for which they offer a 'direct' (from farm) procurement service or the weekly primestock market every Monday at Carlisle, and other auctions. Pioneer is a large individual customer for whom H&H buy on average 120 beasts per week (80% direct and 20% through auction) and are the only buyer of beasts for 'Lakeland' beef. There are typically three or four key buyers or agents[572], working on behalf of the medium and large processors such as Rose County, Woodhead and KeyPak. Furthermore, there are a larger number of smaller dealers[573] buying weekly from the primestock auction on behalf of various butchers (such as Denny's Butchers)[574]. These buyers together purchase approximately 1500 fat cattle a week at the Carlisle market[575].

The end customer, whether using H&H's direct farm procurement service or the auction market, value the service in a number of ways. Dependability is a key performance criterion.

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[569] Size: 650-70kgs and killing-out at R4L on the Euro Grid
[570] Either direct from the farmer or through the auction ring.
[571] Interview with Trevor Hebden and Dave Richards on 1/6/2005 and interview with Tim Bastable on 13/6/2005.
[572] Such as Michael Douglas (Rose County). Interview with Michael Douglas on 2/12/2003.
[573] Such as Geoff Nutter. Interview with Geoff Nutter on 5/12/2003.
[574] Interview with Trevor Hebden and Dave Richards on 1/6/2005. Interview with Liz Clark, owner of Denny's Butchers on 11/11/2003 who mentioned that Geoff Nutter was her meat buyer. Interview with the dealer Geoff Nutter on 5/12/2003.
[575] Interview with Trevor Hebden and Tim Bastable on 1/6/2005 and Tim Bastable on 13/6/2005.

End customers have different needs, some low cost, whilst others (such as Pioneer) want high quality beasts. Ultimately customers are looking for a low cost meat procurement or auction service, which allows them to consistently source the right quality beasts for their specific needs. H&H must also be highly flexible and be able, either through the auction market or direct from farms, to meet changing volumes of customer demand[576].

H&H's competitive strategy is based upon a hybrid (low cost and differentiation) approach. To maintain and grow their business they have to offer a low cost procurement service, with small commissions for the sellers (farmers) and buyers (processors). Auctions sales have a 3.3% commission for the seller and no charge for the buyer. For direct sales the charge for the buyer is between £10-20 per beast depending upon the volume[577], with the usual 3.3% commission for the farmers. H&H have a differentiated service offering with a high level of service being used to match customer demand with the appropriate supplier. H&H auctioneers and fieldsmen are in constant communication with a large supply market and, therefore, know which beasts are ready to be finished, when and where. This local network of relationships is key to H&H's service offering[578].

Pioneer is managed as a key account. Although Pioneer is one of many customers they provide a regular and predictable spend and, as 'Lakeland' grows, provide an opportunity to grow revenue. Furthermore, as a buyer they are willing to support the primestock market system, unlike many others. This is crucial for meeting H&H's strategic goals.

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[576] For instance one week Pioneer may only require 80 beasts and the next week 130. Interview with Trevor Hebden and Tim Bastable on 21/6/2005.
[577] Pioneer is charged £10/head.
[578] Interview with Trevor Hebden and Tim Bastable on 21/6/2005.

To conclude, this analysis of section A of the completed questionnaire determines that the marketing approach of H&H is to focus on:

- Obtaining the right quality of beasts, at the right price, in the right quantities, either direct from farmers or through their primestock auctions, to meet individual end customers' specific needs.
- Developing a broad base of customers, buying direct and through the auctions, whilst carefully managing and developing key accounts such as Pioneer.
- The dependability of their service offering, by ensuring that end customers consistently get what they need.
- A hybrid strategy; keeping their service fees (direct and auction commission) low, whilst providing a differentiated service offering (bespoke to end-customer needs).

H&H's aim, therefore, is to manage their upstream relationship with S&J Dodd to support this marketing approach.

11.2.2. Understanding the relative power resource endowments of the buyer and supplier: questionnaire part B1 and B2

Figure 11.3, to follow, highlights that the second stage of the power and completion analysis was to complete sections B1 and B2 of the 'power and competition analysis questionnaire'. In determining the overall power position between the buyer, H&H, and their first tier supplier for beef, S&J Dodd, the analysis must consider the relative power resource endowments of the two parties. In order to achieve this we need to analyse the relative utility, scarcity and information resource endowments of the buyer and the supplier.

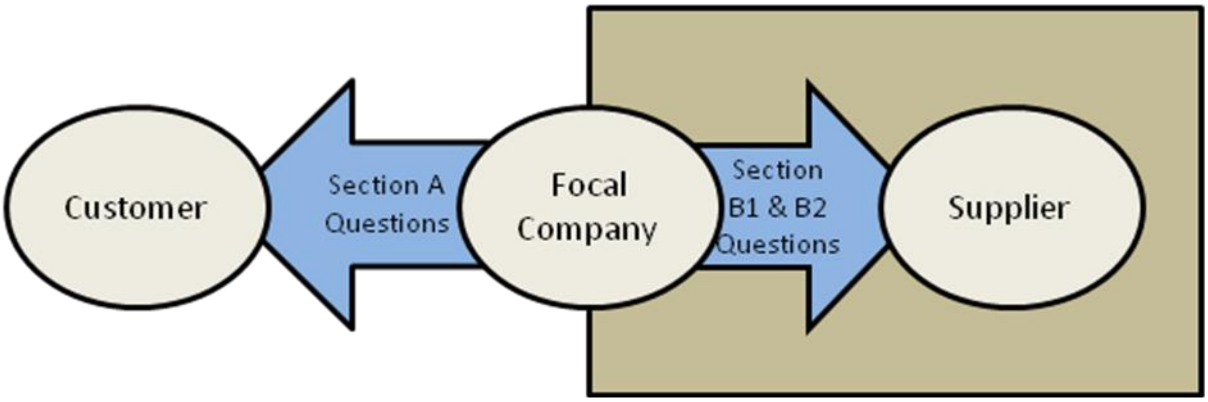

Figure 11.3: Section B1 and B2 questions and analysis (Source: Author)

11.2.2.1. Determining the power resource endowment of the buyer

Analysing section B1questions: utility for the buyer (B1.1-1.4): The first factor that needs to be analysed is resource utility[579]. The utility of the suckler beef supplied by S&J Dodd for H&H falls in critical resource quadrant of the matrix shown in Figure 11.4 below.

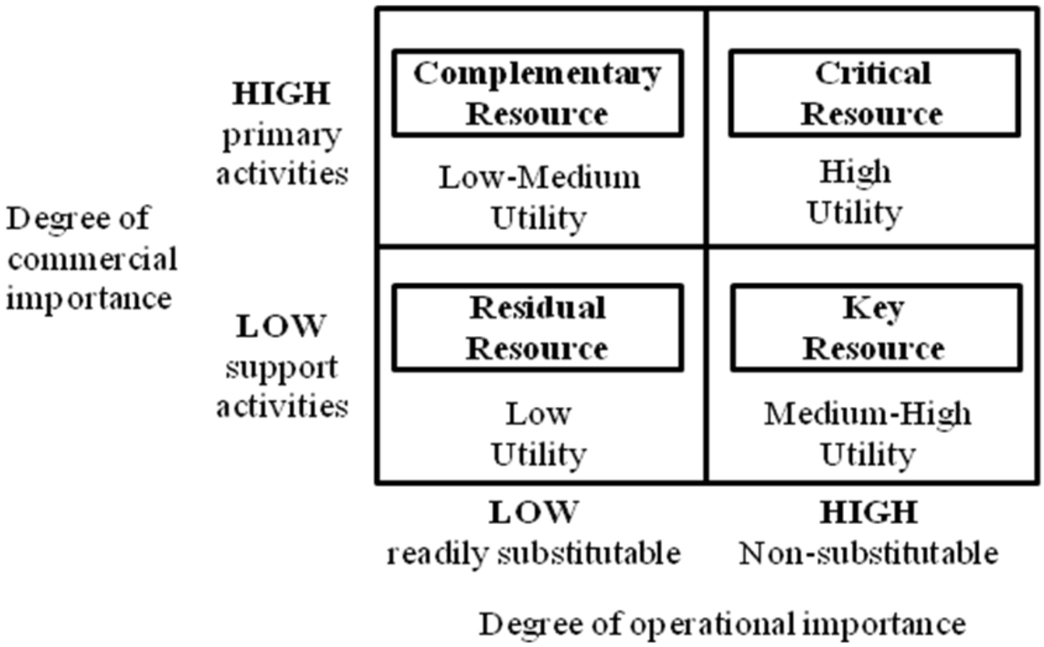

Figure 11.4: Determining the relative utility of a resource (Source: Cox et al., (2002) p. 33)

[579] Resource *utility* to a buyer, as discussed in chapters four and five, is the extent to which the goals or motivational investments are met by the transaction. This is determined by the *operational importance* of a particular resource to a business and the *commercial importance* of the resource to a firm's overall revenue generating activities (Cox et al., 2000, Cox et al., 2002).

This is because S&J Dodd's product is both operationally and commercially important. Operationally, H&H cannot function without suckler beef. H&H can only source specific beasts to be processed into 'Lakeland' products[580]. The resource, suckler beef, is indispensible for their service offering[581].

The commercial importance for H&H is also high, as the product offered by S&J Dodd supports the firm's primary business activities. The product offered by S&J Dodd delivers a primary good (suckler beef), which is directly used by the buyer as a way of generating revenue from customers. This is particularly the case for beasts suitable for 'Lakeland' beef. S&J Dodd's beef fetches a premium (typically 3-4 pence per kg) ensuring H&H make a good return from their key partner Pioneer[582].

However, with further analysis it becomes apparent that for H&H the suckler beef produced from S&J Dodd may be of lower utility than previously suggested. As discussed previously, the utility of a supplier for a buyer tends to be high when the supplier's product or service accounts for a high percentage of the total buyers spend. The higher the percentage, typically the more important the item of spend becomes[583]. However, when we apply this thinking to this case, we cannot analyse the supply offering in exactly the same way. This is because H&H does not buy beasts, but acts as an intermediary between various processors and the farmers. Therefore, they do not buy any products from S&J Dodd. To ascertain how important securing the supply of suckler beef is, specifically for 'Lakeland' beef, it is more relevant here, to understand the revenue generating potential of 'Lakeland' beef, and specifically S&J Dodd within this, in comparison to the business as a whole. H&H's auction

[580] Farm assured, heifers and steers, weighing 650-670kg's, killing-out at U and E3 on the Eurogrid and from the CA and LA postcodes.
[581] Interview with Tim Bastable on 13/6/2005 and Trevor Hebden and Tim Bastable on 21/6/2005.
[582] Interview with Tim Bastable on 13/6/2005.
[583] One problem with Kraljik's (1983) purchasing portfolio analysis is that the size of spend is seen as a key factor in the choice of sourcing relationships rather than the criticality of the spend. A large spend does not always mean that the spend should be managed in a particular way. Furthermore, a small but critical spend may need to be managed differently than suggested by his model.

business is split into several categories: sheep (pedigree sheep, breeding sheep and primestock sheep) and beef (dairy cattle, predigree beef cattle, breeding cattle, store cattle and primestock (fat) cattle)[584]. The value of 'Lakeland' beef sales was estimated at £194,064[585] in 2005. Turnover in 2005 was £3,569,000[586] and, therefore, 'Lakeland' beef accounted for 5.4% of turnover[587]. S&J Dodd supply 200 beasts a year, of which approximately 150 beasts are bought for the Lakeland brand. Average prices were estimated at £700[588] per beast and, therefore, the commission earned specifically from S&J Dodd was £3,465[589]. This was only 1.79% of the turnover from Lakeland beef and 0.097% of total turnover. Therefore, Suckler beef for the 'Lakeland' brand is an important income generator, but overall accounts for a relatively low percentage of buyer's income. Furthermore, S&J Dodd contributed to a very low percentage of the buyer's income.

Based upon the matrix shown in Figure 11.4, suckler beef supplied by S&J Dodd has been analysed as a critical resource of high utility. However, for this case, the use of the model alone does not enable us to draw a robust conclusion as to the degree of resource utility of the supply offering. As argued, H&H does not directly purchase the resource and for this reason it was important to consider the revenue generating potential of this specific relationship. From this perspective, the S&J Dodd relationship can be seen as being of low utility. On balance, taking into account both perspectives and using the author's judgement, the supply offering is best described as being of medium utility.

[584] Interview with Tim Bastable on 13/6/2005.
[585] £144,144 commission earned on sourcing beasts (both direct and through the ring), plus £49,920 earned from the direct procurement fee. These figures were estimated by Barry Garret see Pioneer – H&H case study and verified as being realistic by Robert Addison on 21/6/2005.
[586] Figures from H&H Group Annual Return, 2005. Supporting document D2.
[587] 'Lakeland' beef procurement created an estimated revenue of £194,064- Figures verified as being 'realistic' by Robert Addison on 21/6/2005.
[588] This figure was verified by Barry Garret of Pioneer on 1/6/2005 and by Stedman and Judy Dodd on 21/6/2005.
[589] 150 x £700 = £105,000 x 0.033 = £3,465 commission.

Analysing section B1questions: scarcity for the buyer (B1.5- 1.15): The second factor which needs to be operationalised is the relative scarcity of a resource[590]. On balance, the scarcity of S&J Dodd's supply offering low[591]. At the time of the research there were between 216-218 farmers in the CA/LA region, who were farm assured and produced beasts suitable for 'Lakeland' beef[592]. There are also many other (50+) regional farm assured producers, who without significant changes could become suppliers of 'Lakeland' beef[593]. For this reason there are many suppliers who can now supply, or with limited effort, become suppliers of this resource. This indicates that there is a high degree of imitability and substitutability and, therefore, the relative scarcity of the supplier's resources is low.

This view is supported by a number of other factors. First, the suckler beef market is generally highly competitive and fragmented. In 2005 there were an estimated 61,473 suckler holdings in the UK[594], with an average herd size of 29 cattle[595]. The number of suckler holdings had, however, declined considerably from 81,000 (average herd size of 18) in 1980[596]. Although, there was significant contestation (with historically low beef prices) in 2005, many believe that changes to the subsidy system[597] will accelerate consolidation and effectively reduce contestation[598]. However, in 2005, the level of contestation was still high.

[590] As previously discussed from the buyer's perspective, thinking in terms of supply options, the relative scarcity of a resource is determined by its *imitability* or *substitutability*.
[591] When considering the answers provided to questions B1.5 – 1.15 (see Appendix 1) it is not possible to see each answer as being of equal importance, or as providing, on its own, an indication of supply scarcity. The answers have to be considered in the context of other questions and interpreted. A number of factors will, therefore, enable us to determine the overall level of resource scarcity.
[592] Interview with Barry Garret and David Jenkins on 14/6/05 (see case three, chapter nine) and Trevor Hebden and Tim Bastable on 21/6/2005.
[593] Interview with Tim Bastable on 13/6/2005.
[594] At the time of the research, it was not possible to get information about the numbers of suckler producers specifically in the North West, however, as an important region, with a high density of suckler beef production, it is likely to closely follow national trends.
[595] Figures from 'A pocketful of meat facts', MLC, 2006.
[596] Figures from 'The British Red Meat Industry', MLC, 2003.
[597] Up to 40% of the value of output (in 2003) was attributed to subsidies. The decoupling of subsidies from production is likely to accelerate the number of farmers leaving the market, as there will be less incentive to retain unprofitable enterprises. Resource: Chapter six, DEFRA, 2006 & Economics of Lowland Beef Production in England, 2003, The University of Wales, Aberystwyth. This view was backed up by telephone interview with S&J Dodd on 13/3/2009 who reported that beef prices have risen considerably in his region as many suckler beef producers have left the industry.
[598] This was the view of Robert Addison and Stedman and Judy Dodd on 21/6/2005. This view was further re-enforced in interview with Stedman on 13/3/2009. This view is also borne out by various publications/reports- see chapter one, on changes to CAP subsidy system.

Second, there are a number of barriers to entering the suckler beef market, with different implications depending upon the scale of production. The first point to make is that it is becoming increasingly difficult to make a profit in beef production[599]. According to Martin Palmer of Industry Consulting, MLC, one of the biggest barriers to entry for new suppliers is the low level of profitability in this sector. He said, however, that "farming is cyclical, including the profits farmers make"[600]. When prices are depressed farmers shift production to other areas or exit farming, resulting in supply market reduction. When prices recover and producers start making a healthy profit, this encourages some farmers to start producing the commodity again[601]. This demonstrates it is possible for existing farmers to shift production into profitable areas. Therefore, if beef prices are high, a mixed farmer may decide to invest in a small beef herd. At this level, the barriers to entry are low as existing infrastructure and resources can be easily diverted. It is also relatively easy for individuals to rear a small number of beasts using a traditional grass-based production system. However, to produce beef on a medium to large scale, with no prior infrastructure, there are considerable barriers to entry. These include the need for finishing sheds and the requirement to conform to farm assured standards. A considerable knowledge in husbandry is also needed to choose the right stock (if buying stores) and to finish beasts (choice of finishing blends etc.). On balance, taking the two ends of the spectrum[602] and considering that other farmers who are not currently producing beef can return to the supply market relatively easily, the barriers to entry are medium to low.

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[599] Figures provided by the MLC stated that the average farm price (deadweight) for beef in the 3rd quarter of 2003 was 174.4 pence per kg, against 377.2 pence per kg once retailed. An important point to note here is that the price spread between farm and retail price has significantly widened (from 40% in 1993 to 54% in 2003) over the last 10 years (Source: The British Red Meat Industry, MLC, 2003 & Interview with Martin Palmer on 27/11/2005). Average cattle prices (deadweight) rose to 186.9p per kg in 2005, but the price spread had further increased to 55.7% (Source: A pocket full of meat facts, MLC, 2006).

[600] Interview with Martin Palmer, MLC on 27/11/2005.

[601] Due to the long lead-times in suckler beef production there is often a time-lag as the industry gears up again, making these cycles more complicated to predict. Interview with Martin Palmer on 27/11/2005.

[602] Small scale suckler beef production to medium-large scale production.

Third, at present S&J Dodd have few isolating mechanisms. With a herd size of 200 beasts their farm is medium sized[603] and they do not have significant economy of scale advantages. Furthermore, although they consistently product beef of the right quality, they are not unique. The majority of the 216-18 farmers supplying H&H with 'Lakeland' beef consistently produce what is required. Their reputation is, however, very good and H&H will always try and buy S&J Dodd's finished cattle[604]. On balance, S&J Dodd have a medium to low number of isolating mechanisms.

Fourth, there is no evidence of price fixing and dividing up market share and, therefore, cartelisation in S&J Dodd's supply market is low. Most attempts to create a cooperative in the beef industry have ultimately failed (Welsh Meat Company for example[605]). Furthermore, as Trevor Hebden stated "farmers are willing to cut each other's throats for one pence per kilo"[606]. Fifth, there is no contract in place between H&H and S&J Dodd. There is also no lock-in (sunk costs) in terms of tangible dedicated investments made by the buyer. There are intangible sunk costs in the relationship. S&J Dodd have consistently delivered the right quality beasts to H&H and, therefore, there are 'psychological' sunk costs. However, S&J Dodd do not exclusively sell to H&H for the 'Lakeland' beef brand and H&H manage many other similar relationships with farmers. For these reasons the lock-in is low.

Finally, there are relatively low costs of switch. At present there are no exit costs in terms of clauses in a contract (no contract), no negotiation costs and contract design costs. There are, however, some costs associated with replacing the supplier. To bring on new suppliers requires time and entails a learning curve in respect to building a relationship with a specific

[603] S&J Dodd's farm is well above the national average of 29 beasts in 2005: A pocketful of meat facts, MLC, 2006.
[604] Sometimes the prices are just too high as other customers want S&J Dodd's beasts as well. Interview with Tim Bastable on 13/6/2005 and Robert Addison and S&J Dodd on 21/06/2005.
[605] Interview with Martin Palmer and John Davis on 14/2/2004.
[606] Interview with Trevor Hebden and Tim Bastable on 21/6/2005.

farmer and understanding their practices and performance. New suppliers will have to be visited and paperwork must be checked to ensure they are farm assured. Switching to a new supplier will not, however, seriously disrupt the buyer's operational capability. On balance, the cost of switching is low[607].

There are, however, a number of other factors that indicate S&J Dodd's product offering is scarce. First, although beef in general can be viewed as a commodity, suckler beef is differentiated from bull-beef from the dairy herd and attracts a premium. The suckler beef market can again be segmented into pure bred and continental-cross[608]. Aberdeen Angus beef, for example, is a specialist, high value offering, which cannot be viewed as a commodity. Some continental-cross suckler beef beasts[609] can be viewed as nearer to the commodity beef market. The continental- cross beasts produced by S&J Dodd are nearer to Aberdeen Angus end of the spectrum. For this reason the supply offering is best described as having a medium level of commoditisation. There are potentially fewer suppliers who can offer this same quality product[610].

Additionally, at present there is no viable substitute for the specific quality beast produced by S&J Dodd and other local producers (CA & LA postcode)[611]. Therefore, substitute availability is low. Furthermore, H&H has a long history in the farming industry with members of the board and members of staff currently owning their own farms[612]. However, as a business H&H do not have the time and willingness to do, on a large scale, what S&J Dodd currently does[613]. H&H pose a medium to low threat of backward integration for the

[607] Interview with Trevor Hebden and Tim Bastable on 21/6/2005.
[608] There is a spectrum from pure to continental-cross, with a variety of quality beasts within this spectrum.
[609] Possibly finished in a semi-intensive farming system.
[610] Interview with Trevor Hebden and Tim Bastable on 21/6/2005 and Robert Addison and S&J Dodd on 21/6/2005.
[611] Interview with Trevor Hebden and Tim Bastable on 21/6/2005 and Robert Addison and S&J Dodd on 21/6/2005.
[612] In fact the Hetherington family, with a farm in Staffield, Cumbria (CA10) currently supply beef for 'Lakeland' (see document provided by H&H and Pioneer).
[613] Interview with Tim bastable on 13/6/2005 and interview with Trevor Hebden and Tim Bastable on 21/6/2005.

supplier. Lastly, suckler beef farmers are at the beginning of the supply chain (apart from input suppliers) and, therefore, it is not possible for H&H to remove their first-tier suppliers[614]. The scope for disintermediation is low.

Although there are a number of factors indicating that S&J Dodd's offering is scarce, on balance, the scarcity of S&J Dodd's supply offering is best described as low.

Analysing section B1 questions: information for the buyer (B1.16-1.18): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange[615]. There is no information scarcity for H&H. There are a number of factors which support this conclusion. First, H&H have an extensive network of relationships with farmers in the region. It is relatively low cost to find out information (by email, telephone, at the auction or by fieldsmen visiting farms) about local farmers, what they produce, the quality of beasts and when beasts will be finished. Furthermore, detailed quality information is provided by the abattoir (Rose County) about the quality of each 'Lakeland' beef beast slaughtered. It is, therefore, easy and cost free to compare how individual farmers are performing[616]. The buyer's search costs are low.

Second, it is very difficult for the supplier to keep information about the relationship between quality and functionality from H&H. This industry has a great deal of published information produced from DEFRA, MLC and RMIF, which monitors average farm-gate prices, farm profits, input costs etc. Furthermore, after a beast is killed the abattoir, provides H&H with a

[614] Interview with Tim bastable on 13/6/2005.
[615] As highlighted in chapter three and four, scarcity can also be related to the amount of private information available to each party about the resource endowments (in terms of utility, scarcity and information and, therefore, power) and the intentions of the other party in the exchange. To ascertain the existence of, and impact of private information, a number of questions were asked.
[616] Interview with Tim Bastable on 13/6/2005.

kill sheet. This gives full information about the grade of the beast[617] and what percentage the beast is killing out at[618]. H&H can make the link between what they are paying S&J Dodd for a specific beast and what yield they are getting from the beast once slaughtered. The buyer, therefore, has low levels of information asymmetry. Finally, the product provided by S&J Dodd is a search good. It is possible to determine prices achieved from other suppliers through their own markets (H&H) and competitor's markets. Prices achieved at auction, although not direct, are published by the auction houses and collated by industry bodies such as the MLC[619].

This analysis suggests that there is *no information scarcity* for the buyer and, therefore, no information advantages for the supplier.

Table 11.1, to follow, highlights the answers to the questions as detailed in Appendix one.
To summarise, from my interpretation of the information provided by H&H and S&J Dodd, and when possible verified by independent sources[620], the purchase of S&J Dodd's product is of medium utility for H&H (although it is a critical resource). However, the fact that the item being sourced is a critical resource is less of a factor as the scarcity of the supplier for H&H is low and the scarcity of information for the buyer is also low. In order to plot the relationship within the four box matrix, however, these findings must be weighed against the relative power resource endowments of the supplier.

[617] Graded by an independent MLC grader.
[618] A good quality beast will kill out at 60-65% (usable meat), whereas a poorer quality beast will only achieve 50-55%. Information provided by Stedman: telephone interview on 13/3/2009.
[619] Interview with Tim Bastable on 13/6/2005.
[620] Interviews and information provided by Martin Palmer of the MLC, Dr Martin Grantley-Smith of the RMIF and data produced by various government bodies.

Interview questions	Answers to provide maximum level of resource endowment for the buyer	Answers provided by H&H and validated by S&J Dodd
1. How operationally important is the item to be sourced? (U)	Low	High
2. Is the item sourced of commercial importance? (U)	Low	High
3. What % of the total buyers total spend is devoted to this item? (U)	Low	Low
4. Is reciprocity a factor in the relationship between the buyer and supplier? (U)	Not a factor	Not a factor
5. How many potential suppliers are there for this item of spend? (S)	Many	Many
6. How contested is the current supply market? (S)	High	High
7. How commoditised is the supply offering? (S	High	Medium
8. Are credible substitute items easily available? (S)	High	Low
9. How high are the barriers to entry for new suppliers? (S)	Low	Medium-Low
10. How many isolating mechanisms does the supplier have against their competitors and how sustainable are they? (S)	Low	Medium-Low
11. Does the buyer pose a realistic threat of backward integration? (S)	High	Medium-Low
12. Is it possible to take the first-tier supplier out of the chain? (S)	High	Low
13. What is the current evidence of cartelisation in this supply market? (S)	Low	Low
14. What is the current level of lock-in by the supplier of the buyer 's business? (S)	Low	Low
15. How high are the buyer's switching costs? (S)	Low	Low
16. Are the buyers search costs high or low? (I)	Low	Low
17. Does the buyer have low or high levels of information asymmetry? (I)	Low	Low
18. What type of product/service is being purchased (experience, search or credence)? (I)	Search Good	Search Good

Table 11.1: Summary of answers provided by H&H and S&J Dodd (Source: Author)

11.2.2.2. Determining the power resource endowments of the supplier

Analysing section B2 questions: utility for the supplier (B2.1-2.4): The first factor which needs to be operationalised is resource utility[621]. The resource utility of H&H's business for S&J Dodd falls into the *critical resource quadrant* (high utility) of the matrix previously.

This is because from an operational point of view H&H regularly and predictably buy, on average, three out of the four beasts supplied weekly[622] to H&H's Carlisle market for the 'Lakeland' brand[623]. H&H have a high level of operational importance.

[621] However, as discussed in chapter three, a different interpretation of operational and commercial importance is required for the supplier. From the supplier's perspective, *utility* is the extent to which the supplier's goals or motivational investments are met by the buyer. *Operational importance* of the buyer's expenditure is assessed against the *regularity* and *predictability* of this expenditure. For suppliers, the degree of *commercial importance* can be determined by the ratio between a buyer's expenditure with a particular supplier and that supplier's total sales revenue, and the potential future revenue generating opportunities of doing business with a buyer (Cox et al., 2000).

[622] Or 150 of the 200 beast supplied a year.

[623] Interview with Robert Addison and S&J Dodd on 21/6/2005 and telephone interview with Stedman on 13/3/2009.

On the other dimension, the relationship is of high commercial importance for S&J Dodd. S&J Dodd produce a range of products including suckler beef and pedigree beef and sheep. Annual turnover from suckler beef is approximately £140,000 (200 beast's sold at an average of £700). Of this, approximately 150 beasts are bought by H&H for 'Lakeland' beef. 75% or £105,000 of suckler beef revenue comes from H&H[624]. The relationship is of high commercial importance.

Further information provides evidence of the level of resource utility of H&H's business for S&J Dodd. First, H&H regularly contacts S&J Dodd with forecasted demand, based upon information provided by their partner Pioneer and other customers. This is an important two-way communication process. H&H inform S&J Dodd if there is going to be any significant change in demand[625], whilst H&H gain information about the supply market[626]. H&H is able to provide S&J Dodd with clear and consistent demand forecasting and capacity planning information. In addition, H&H's business is attractive for a number of reasons. First, it is good for S&J Dodd to be associated with the 'Lakeland' brand. This brand is widely known by buyers, which helps Stedman to obtain a price premium in the market place from other buyers[627]. Furthermore, H&H is an attractive buyer as they are widely trusted and pay out on sold stock the next day, although Stedman waits until the next week's auction to collect his money. This a key factor in determining why Stedman sells his beasts through H&H[628]. The buyer's attractiveness is therefore high.

[624] Interview with Robert Addison and S&J Dodd on 21/6/2005 and telephone interview with Stedman on 13/3/2009.
[625] Stedman can then make long-term production decisions i.e. the number of store beasts to buy and when. Interview with Robert Addison and S&J Dodd on 21/6/2005 and telephone interview with Stedman on 13/3/2009.
[626] For instance, when beasts will be finished and information about the number of beasts Stedman can supply i.e. 6 beasts instead of 4 on a particular week. Interview with Robert Addison and S&J Dodd on 21/6/2005 and telephone interview with Stedman on 13/3/2009.
[627] About 50 beasts are sold to other buyers, such as local butchers, who pay a price which is too high for 'Lakeland'. Interview with Robert Addison and S&J Dodd on 21/6/2005 and telephone interview with Stedman on 13/3/2009.
[628] Interview with Robert Addison and Stedman and Judy Dodd on 21/6/2005.

Taking into consideration the factors discussed here, it is evident that H&H's business can be viewed as being of high utility for S&J Dodd.

Analysing section B2 questions: scarcity for the supplier (B2.5-2.8): The second factor which needs to be operationalised is the relative scarcity of a resource[629]. The scarcity of H&H as a customer for S&J Dodd can be viewed as high. There are a number of factors which are important in making this assessment. First, at present Stedman has few customers for his product. 75% of all of his suckler beef is bought by H&H for the 'Lakeland' brand. The remainder of his beasts (50) are bought by typically less than 10 individual buyers (butchers, dealers, and medium sized abattoirs). There are a number of other auctions in the region for Stedman to sell his beasts in, including Penrith Mart, Hobb's of Wigdon, Longtown, Cockermouth and Ulverston. The main competitor for H&H is Hobbs[630]. However, as Stedman noted, there are few other auctions that attract the right customers for his beasts. Penrith Mart, Wigton and Longtown attract buyers who want smaller beasts of around 500 kgs[631]. Therefore, on balance S&J Dodd have few actual and potential customers for their specific size and grade of beasts[632].

In addition, there are no significant sunk costs for S&J Dodd in terms of dedicated investments made in order to supply H&H [633]. However, significant time has been spent developing the relationship and the necessary levels of trust. S&J Dodd could try to develop a direct relationship with a processor other than Pioneer, who will only work with their partners H&H, but there is a significant risk of doing so. As Stedman does not trust the

[629] From the supplier's perspective it is important to determine how large the market for their products or services is.
[630] Pioneer & H&H meeting on 14/6/2005.
[631] His beasts have too large hind-quarters for many end-customers. Interview with Robert Addison and Stedman and Judy Dodd on 21/6/2005.
[632] Telephone interview with Stedman on 13/3/2009.
[633] Paperwork is necessary to be farm assured and an individual beast passport is required by all livestock producers.

deadweight system[634] and there are few other suitable auctions, and even fewer that he would trust, his costs of switch are high. He would incur commercial and operational risk from walking away from this relationship[635]. Lastly, S&J Dodd does not possess the financial resources or know how to forward integrate in the supply chain[636]. S&J Dodd have a low ability to forward integrate.

Analysing section B2 questions: information for the supplier (B2.9): The third factor which needs to be operationalised is the role of information in the buyer-supplier exchange. S&J Dodd does not have access to private buyer information that H&H would rather remain private. In some respects S&J Dodd has good information about the buyers business. They have good information about the general business margins and commissions made by H&H. Accounts are published and therefore S&J Dodd know what H&H's general operating profit margins are. It is also difficult for H&H to be anything other than transparent about the commission rates. Furthermore, H&H is generally transparent about information provided by the abattoir, such as killing-out rates and the grading of S&J Dodd beasts.

There are, however, a number of factors indicating that S&J Dodd does not have access to private information. First, it is not possible for S&J Dodd to fully understand the actual profit margins made specifically for the auction part of H&H's business. Second, H&H control the information flow with the end-customers and inform S&J Dodd of the reservation price of buyers, such as Pioneer, what is valued and who specifies these requirements. Therefore, there is a real opportunity for H&H, if they wanted to, to withhold information which may be

[634] According to interview with Stedman and Judy on 21/6/2005 and verified by telephone interview on 13/3/2009, the two times he tried selling direct he was cheated. Fieldsman from abattoirs selected the best beasts from his herd and they killed-out at a disappointing grade and ratio. Other beasts in the herd, which were of lesser quality were subsequently bough liveweight (by other buyers) and when he received feedback these lesser quality beasts surprisingly (to him) graded better and killed-out better than the beast sold direct.
[635] Interview with Stedman and Judy (S&J Dodd) and Robert Addison (H&H) on 21/6/2005 and telephone interview with Stedman on 13/3/2009.
[636] Interview with Stedman and Judy (S&J Dodd) and Robert Addison (H&H) on 21/6/2005.

of benefit to S&J Dodd, i.e. the need for beasts to have more marbling / high or lower fat content etc., projected demand and the price end-customers are willing to pay[637]. For these reasons the supplier does not, on balance, have access to private buyer information that H&H would prefer remains private.

Interview questions	Answers to provide maximum level of resource endowment for the supplier	Answers provided by H&H and verified by S&J Dodd
1. How commercially important is the buyer to the supplier? (U)	Low	High
2. How significant is our spend to the operational sustainability of the supplier's business (i.e. ratio, regular and predictable)? (U)	Low	High
3. Does the buyer provide supplier with clear and consistent demand forecasting and capacity planning information? (U)	No	Yes
4. Is the buyer's business attractive for the supplier? (U)	Low	High
5. How many customers in total does the supplier have for this for this item? (S)	Many	Few
6. How many potential customers are there for this supplier? (S)	Many	Few
7. How high are the suppliers sunk costs? (S)	Low	High
8. Does the supplier have the ability to forward integrate? (S)	High	Low
9. Does the supplier have access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.)? (I)	Yes	No

Table 11.2: Summary of answers provided by H&H and S&J Dodd (Source: Author)

Table 11.2, above, shows the answers to the questions as detailed in Appendix one. To summarise, from my interpretation of information provided by H&H and S&J Dodd, and verified, when possible, by independent sources[638], the customer is of high utility for S&J Dodd and the scarcity of the buyer for the supplier is high. Furthermore, the supplier does

[637] Interview with Trevor Hebden and Tim Bastable on 21/6/2005 and interview with Stedman and Judy (S&J Dodd) and Robert Addison (H&H) on 21/6/2005.
[638] Interviews with other supply chain actors (Cranston's etc), industry experts- Interview with Martin Palmer of the MLC on 25/11/2005: and secondary research from DEFRA, internet searches etc.

not have access to private information of the buyer and, therefore, does not have significant information advantages.

11.2.2.3. The final analysis: weighing up the two sides of the scale

Bringing together the analysis of buyer and supplier power resources enables us to plot the H&H- S&J Dodd relationship in the four box matrix. The relationship is best described as buyer dominant**.** For this relationship to be described as buyer dominant, the analysis would have to indicate the buyer as having high power resources and the supplier as having low power resources (High/Low). When we consider the analysis given thus far, we can argue that the buyer's power resource endowments are high as the purchase of S&J's product is of medium utility for H&H, although it is a critical resource. Furthermore, the scarcity of the supplier for H&H is low and the scarcity of information for the buyer is also low. There are no information advantages for the supplier. The power resource endowments of the supplier are low as the customer is of high utility for S&J Dodd and the scarcity of the buyer for the supplier is high. Furthermore, the supplier does not have access to private information of the buyer and, therefore, does not have significant information advantages. We can see, therefore, in Figure 11.5, to follow, that the relationship is in the buyer dominant power position.

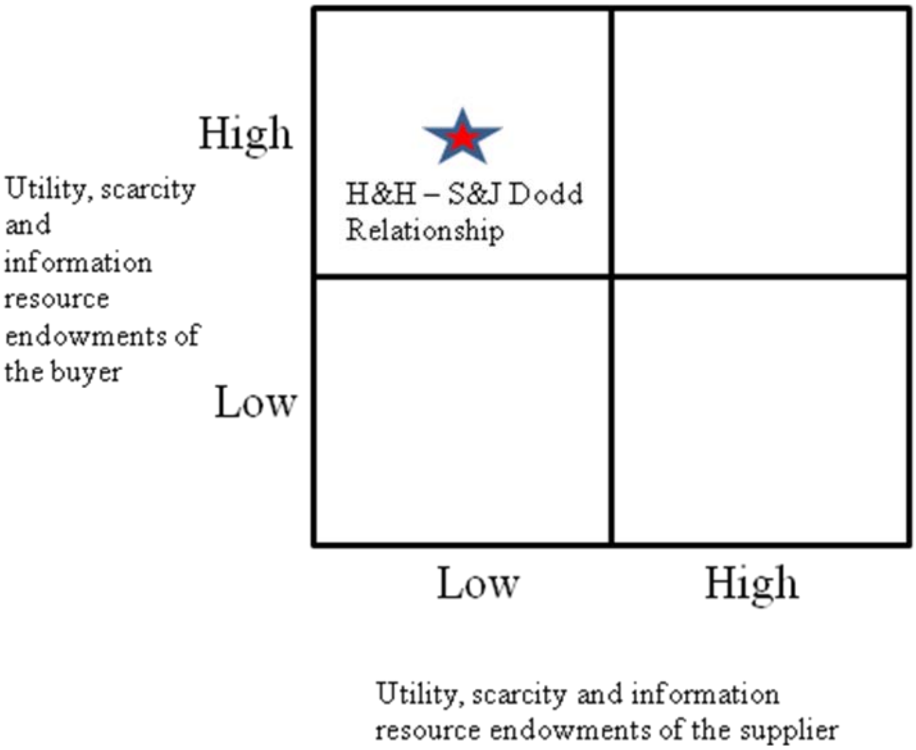

Figure 11.5: H&H – S&J Dodd power analysis (Source: Author)

11.3. Determining the relationship type for the H&H – S&J Dodd relationship

As previously presented, Cox et al (2003) have developed a six box matrix, which models relationships management types. This typology is shown in Figure 11.6, to follow. To position the H&H – S&J Dodd relationship in this matrix, as previously discussed, it is necessary to ask a number of questions to determine whether the relationship is best described as arm's length or close and who benefits most.

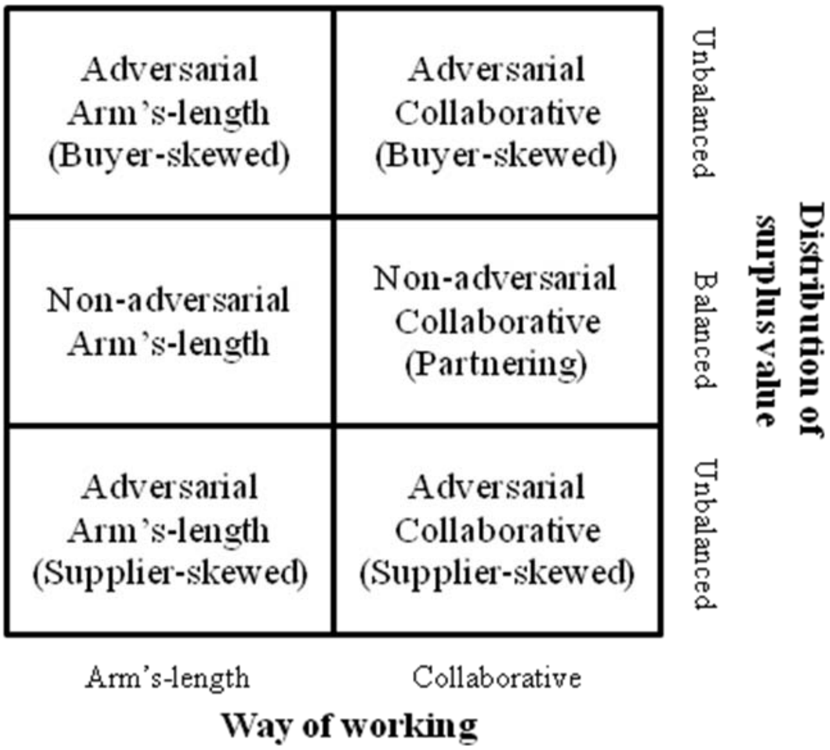

Figure 11.6: A typology of buyer-supplier relationship types
(Source: Adapted from Cox et al., 2003)

11.3.1. The level of relationship connectivity: way of working

First, it is necessary to establish the way of working between H&H and S&J Dodd. It was evident from the information summarised in Table 11.3, to follow, that this relationship had moved beyond there being only a basic exchange of information and products or services[639]. Although there were no legal bonds and limited operational linkages, there is strong evidence of collaboration across the other three connectivity measures. This relationship was viewed as being close by both H&H and S&J Dodd.

[639] Such as a basic specification, volume and timings information from the buyer and limited specification, timing and pricing information from the supplier.

Relationship connectivity measure	Evidence provided by H&H and S&J Dodd
Product / process information exchanges	• 4 beasts per week (Mondays) are delivered to the auction site at Carlisle by S&J Dodd, with his own trailer • Each beast has to have its own 'passport' to ensure full traceability • After each auction a sales sheet is produced listing the weight of each beast sold and the sale price • Monies owed are paid out the next working day after an auction • Information about killing-out percentages and grading is passed back to S&J Dodd
Operational linkages	• There are no specific operational linkages • H&H's sales system records the prices paid for beasts and issues a check to be collected (next day) by S&J Dodd
Legal bonds	• There is no contract in place
Cooperative norms	• Weekly 'discussions' at the auctions related to future changes in demand, projected prices etc. • H&H visit the farm to aid with the long-term planning of S&J Dodd's herd. This includes open, two-way communication for tackling quality or other issues • Long-term strategic issues such as trends in end-customer requirement (fat content) are discussed, once or twice a year, to match feeding / finishing regime, with customer requirements • Information about grading and killing-out percentages are fed back to S&J Dodd weekly, by telephone or at the auctions • The auctions are seen as a key 'social' event by S&J Dodd, providing an opportunity to talk to other producers and buyers and to get a feel for the market (prices and trends)
Rel. spec. adaptations	• H&H have made no direct relationship specific adaptations, however, S&J Dodd have adapted their feeding regimes and the size of their finished beasts to match the needs of H&H's end customer Pioneer Foodservices. S&J Dodd's beasts are adapted to fit the requirements of the 'Lakeland' brand

Table 11.3: Evidence of the level of relationship connectivity (Source: Author)[640]

11.3.2. Sharing of surplus value

The second factor which needs analysing is the sharing of 'surplus value'. Questions were asked to ascertain if there was an equal or unequal sharing of the surplus value, and if unequal did this favour the buyer or the supplier[641]. To follow is a discussion of the answers given to the relationship management type questionnaire, which will provide evidence of the level of equity in the relationship[642]. The relationship between H&H and S&J Dodd favours

[640] Information to populate this chart was consolidated from a number of interviews. Information provided by Trevor Hebden and Tim Bastable on 21/6/2005, Tim Bastable on 13/6/2005, Robert Addison and S&J Dodd on 21/6/2005 and telephone interview with Stedman on 13/3/2009.

[641] There are five key characteristic: commercial goals, relationship-specific adaptations, the price paid for the good or service, supplier profit levels and contract terms. Each of these characteristics can be viewed as being on a continuum from favouring the buyer, to favouring the supplier, with equal in the middle.

[642] Information was provided by both the buyer and the supplier.

the buyer and is, therefore, buyer-skewed adversarial in nature. The justification for this assessment is as follows:

Buyers commercial goals fully realised: From H&H's perspective, it is operationally and commercially important to secure S&J Dodd's business. They have achieved this as S&J Dodd have made a verbal commitment to sell 100% of their beasts through H&H's auction at Carlisle, of which typically 75% are bought by H&H for 'Lakeland'. For H&H, one of their key commercial goals is to have vibrant and recovering primestock auctions[643]. With Stedman's beasts having a local reputation of high quality and attracting a premium in the sales ring, H&H are able to attract buyers to the ring, support the auction system and earn good commission from selling highly valued beasts[644].

S&J Dodd's commercial goals were only partially realised. Although H&H provided a good platform to sell their beasts[645], Stedman wanted to achieve more price security[646]. For finished beasts, the current pricing mechanism (auctions) tends to result in the price he receives having less to do with the quality of his finished beast and more to do with market forces. He is, therefore, at the mercy of prevailing market conditions, which are out of his control and hinder him in the making of judicious medium to long-term plans. Ultimately, to achieve his commercial goals, Stedman would like a contract[647] with H&H, which would

[643] Interview with Trevor Hebden and Dave Richards on 1/6/2005 and Tim Bastable on 13/6/2005.
[644] Interview with Trevor Hebden and Dave Richards on 1/6/2005 and Tim Bastable on 13/6/2005.
[645] And only option as Stedman did not want to develop direct relationships with processors. Interview with Robert Addison (H&H), Stedman and Judy Dodd on 21/6/2005.
[646] Interview with Robert Addison (H&H) and Stedman and Judy Dodd on 21/6/2005.
[647] There are a variety of contract types: weekly- producer commits to sell priced on a weekly basis according to current market level (DAPP- independent market indicator published by the MLC); fixed- set level of purchase at a fixed price; COP- an element of cost of production included in the price; 50:50- half above the DAPP and half weekly price; forward- set usually three monthly looking at future price view; and spot- beast bought at market price without contract to supply. There are also max/min contracts and hybrids, which include an element of max/min, COP and market price. Information provided by Martin Palmer of the MLC. Interview on 27/11/2006.

provide some security for the considerable investment he has made in his suckler herd[648]. H&H could or would not offer a contract.

The supplier has made more relationship specific investments: S&J Dodd have adapted their feeding blends and practices to ensure that the beef they produce closely matches what is required for 'Lakeland' beef (conformity, fat content and weight etc.). This has resulted in S&J Dodd receiving a premium for their beasts, but this specialisation limits the number of end-customers they can sell to[649]. From H&H's perspective, there has been no need to adapt their own processes or systems, or invest in any unique technology, to be able to work closely with S&J Dodd[650].

The buyer is paying a price which is substantially below their utility function (reservation price): At present H&H are buying on behalf of Pioneer for the 'Lakeland' brand. Although H&H do not buy S&J Dodd's beasts if they go above a certain price, this is not because they have reached their reservation price. It is because they can source beef in place of S&J Dodd's beasts from alternative cheaper sources, possibly direct. At the time of the research beef suppliers in general, including S&J Dodd, had to sell beast near to, or in some cases below the cost of production. H&H made net profits of almost 11% (profits of £318,000 on turnover of £3,569,000[651]), and Pioneer made gross profits on 'Lakeland' beef in excess of 40% and overall as a business made estimated net profits in the region of 4% (£1.2 million on £30 million turnover)[652]. There is evidence, and this has been borne out by more recent shifts

[648] The lead time of suckler beef, for S&J Dodd, is in the region of 18 months with an investment of between £800-850 per best; dependent upon if homebred, store finished beasts and other variable. Interview with Robert Addison (H&H) and Stedman and Judy Dodd on 21/6/2005).
[649] There is further (recent) evidence of this. Stedman stated that the average size of beast's has now fallen to 620 kg as the cuts of beef required by Pioneer for 'Lakeland' has reduced- (this is also evident when we see that Caspian has reduced its 32 oz steak to a 28oz steak. As a supplier Stedman adjusts the finishing size based upon key end-customer requirement- telephone interview with Stedman on 13/3/2009 and information from telephone interview with Sohrab (see Caspian-Pioneer case) on 10/3/2009.
[650] Interview with Tim Bastable on 13/6/2005.
[651] H&H Group Annual Return, 2005. Supporting document D2.
[652] Interview with Barry Garret on 1/6/2005- see case three, chapter nine.

in the beef price, that both H&H and Pioneer are quite willing to pay significantly higher prices for the right suckler beef[653].

The supplier is only able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage): This is a difficult question to answer. As is often the case in much of the farming sector, it is very difficult to determine the profits being made. Furthermore, profits on a mixed farm are related to the performance of different types of stock and crops. According to Roger Mason (dairy and livestock producer), "you've made a profit if you have cash in the bank at the end of the year"[654]. Stedman's farm made a small profit in 2005[655]. However, in the previous year he reported a loss. Stedman felt that he had made little or no profit on his suckler herd, but had made most of his profits from pedigree breeding. This seems to be in line with the market estimates. According to a Special Edition of 'The Bulletin' of the Livestock and Meat Commission (5 August 2005), the average cattle and sheep farm lost £5000, in 2004, with the average cost of a beast being £800[656].

The terms of the contract or agreement favour the buyer (i.e. pricing, payment terms, etc.): There is no contract in place between H&H and S&J Dodd. However, on balance, the verbal agreement favours H&H. The reason for this is that S&J Dodd have agreed to sell all of their stock through H&H's auction. In return S&J Dodd receives only standard terms, both commissions and next day payment. S&J Dodd deliver their own beasts to the auction. Furthermore, although they regularly make a premium over other farmer's beasts sold at the

[653] Average liveweight and deadweight prices have risen significantly since 2005. According to figures provided by Martin Palmer (supporting document D1) deadweight averaged 188.84 (steers) pp kg deadweight in 2005. By March 2008 deadweight prices had risen to 234 pp kg deadweight. There has also been significant rises in liveweight prices. This has been due to a supply shortages (Document D1 and D6: eblex Quarterly Category Report, March 2008). Despite these price rises H&H and Pioneer are still buying beef.
[654] Interview with Roger Mason on 29/3/2007.
[655] Year End 31st May 2005. Stedman would not divulge the exact amount, but it was between £10,000 and £20,000. Telephone interview with Stedman on 13/3/2009.
[656] Supporting document, D7.

auction, the price they receive is dictated by who is bidding. They can, and have made losses on selling beasts. S J Dodd have no reserve price, as finished beasts must be sold on the day of the market[657].

It is apparent from this analysis that this relationship is best viewed as buyer-skewed adversarial in nature. As demonstrated in Table 11.4, shown below, there was an unequal sharing of the risks and rewards from the relationship in favour of the supplier.

Buyer-skewed adversarial	Non-adversarial	Supplier-skewed adversarial
Buyer's commercial goals fully achieved	Each party's commercial goals partially realised	Supplier's commercial goals fully achieved
Supplier invested more in relationship-specific adaptations	Equal distribution of relationship specific adaptations	Buyer invested more in relationship-specific adaptations
The buyer is paying a price which is substantially lower than their utility function (reservation price)	The buyer is paying a price which is mid-way between their utility function (reservation price) and the supplier's mean cost of production	The buyer is paying a price very close to their utility function (reservation price)
The supplier is receiving only normal profit (or slightly above)	The supplier is able to earn average profits for the industry sector (comparable companies operating at the same supply chain stage)	The supplier is able to earn sustained above average profits for industry sector (comparable companies operating at the same supply chain stage)
The terms of the contract or agreement favour the buyer (i.e. pricing, payment terms, exit clauses, etc)	The terms of the contract or agreement favour neither the buyer or supplier (i.e. pricing, payment terms, etc)	The terms of the contract or agreement favour the supplier (i.e. pricing, payment terms, exit clauses etc)

Table 11.4: The sharing of surplus value in the CS-DFOB relationship (Source: Author)

Taking the variables of way of working and sharing of surplus value together, it is now possible to plot the H&H and S&J Dodd relationship in the six box relationship management

[657] Interview with Robert Addison (H&H) and Stedman and Judy Dodd on 21/6/2005.

type matrix. It has been demonstrated that the relationship between H&H and S&J Dodd is collaborative, however, there is not an equal sharing of the risks and rewards from the relationship. As Figure 11.7, shown below highlights, the relationship is best described as buyer-skewed adversarial collaboration.

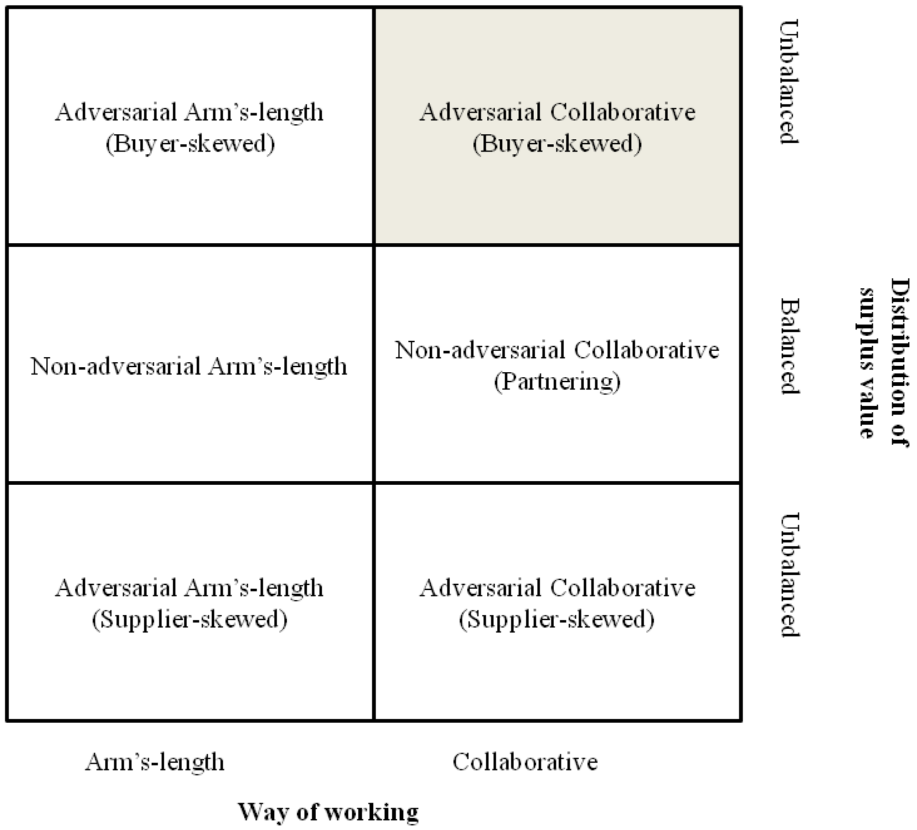

Figure 11.7: The H&H – S&J Dodd relationship type (Source: Author)

11.4. Conclusions

The development of the relationship between H&H and S&J Dodd highlights a number of interesting aspects. According to the hypothesis, under situations of buyer dominance, if there is a link between the power resource endowment of buyers and suppliers and the chosen relationship management type, one would expect the relationship in question to be managed in either of the top two boxes of the six box matrix, as buyer-skewed adversarial arm's length or adversarial collaboration. H&H chose to move the relationship from one that was best described as arm's length, to close. However, they still manage the relationship in an adversarial manner, choosing to gain the most from the relationship. The analysis presented in this case supports the hypothesis as the power position between H&H and S&J Dodd has been analysed as buyer dominant and the relationship management type is best described as buyer-skewed adversarial collaboration.

The analysis presented within this case demonstrated a number of interesting issues relating to relationship management choices. First, as highlighted, in order for a relationship to be seen as collaborative it must move from arm's length, whereby there is only a basic exchange of product/ service and information, to one that is close and has a number or relationship connectors[658]. Although there may be different drivers for doing so, both parties must have a desire to become closer in the first instance. In this case, H&H, in its attempts to recover from the devastating effects of F&M in 2001, focused, in particular, on trying to rebuild its primestock markets.[659] The relationship with S&J Dodd supported this. Furthermore, H&H was aware of the potential for future supply market concentration as a result of the decoupling of subsidies from production[660]. Therefore, getting closer to the supply market became a greater priority. For S&J Dodd, with 75% of their beasts being bought by H&H for 'Lakeland' and such long lead-times for suckler beef, getting closer to the end-customer became a commercial necessity. The collaborative relationship enables S&J Dodd to receive reliable information about end-customer needs, such as trends in fat content, so as to be able to adjust their finishing regime accordingly.

[658] See chapter two- Cannon and Perrault, 1999.
[659] F&M has a more lasting effect on the beef primestock markets than store or pedigree sales as it became evident to many processors and farmers that they could quite easily deal direct with processors and cut out the auctions. The nature of store sales (farmer to farmer) and pedigree (farmer to farmer) ensured that these markets recovered back to their pre-F&M status.
[660] Reforms to CAP- see chapter one for more information.

This case also demonstrates that even if two parties choose to work closely together this does not necessarily mean that the benefits from the collaborative relationship will be shared equally. S&J Dodd wanted, in part, to balance the relationship and negotiate a contract with H&H, thereby reducing their considerable risks. However, H&H chose not to offer S&J Dodd a contract. Furthermore, as H&H were clearly in a buyer dominant position, they quite rationally did not feel obliged to offer S&J Dodd more equitable terms, across the five characteristics of equal and unequal sharing of surplus value.[661] This case, therefore, supports the view that the term 'partnership' needs tighter definition and can in situations of unequal power result in the non-equitable sharing of risks and rewards.

[661] There are five key characteristic: commercial goals, relationship-specific adaptations, the price paid for the good or service, supplier profit levels and contract terms. Each of these characteristics can be viewed as being on a continuum from favouring the buyer, to favouring the supplier, with equal in the middle.

Chapter Twelve

Summary and Conclusions

12.1. Thesis summary

This study analysed the use of 'partnership' thinking as a solution to the problems in the UK farming and food industry. Chapter one clearly established that over the last two decades the UK farming and food industry has seen an unparalleled period of change and uncertainty. It was argued that this was driven by a number of factors, including: the changing dynamics of the food industry as a result of globalisation, the rise of transnationals and changes to trade and trade barriers; reforms to the Common Agricultural Policy (CAP); increased competition from imports; a greater emphasis on food quality and safety, concentration of market power; and, the changing nature of consumer demand. Furthermore, it was argued that these pressures, although not causing uniform problems across diverse farming and food sector industries[662] have led to the closure of many traditional businesses.

Second, chapter one assessed the UK Government's response to this crisis by reviewing a number of key UK Government policy documents[663]. It was argued that these policy documents were largely aimed at devising a strategy to help protect the long-term viability of indigenous UK farming and food supply chains. The main policy direction, reinforced within

[662] I.e. red meat, dairy and horticulture etc.
[663] These were: The English Rural Development Plan, 2000-2007 and The Rural Development Plan for England 2007-2013; The Report of the Policy Commission on the Future of Farming and Food- The Curry Report (2002); The Strategy for Sustainable Farming and Food (2002) and The Sustainable Farming and Food Strategy: Forward Look (2006) (MAFF, 2001, 2006, DEFRA, 2002a,b, 2006a).

the policy documents, has been to promote collaboration and 'partnerships' in the UK farming and food industry. 'Partnerships' have been characterised[664] in the UK Government policy documents as relationships where there is mutual dependency, trust and the assumption that there will be an equal sharing of risks and benefits from these relationships. A number of agencies[665] were set up to operationalise policy direction in the UK farming and food industry, by introducing the 'partnering' philosophy and providing collaborative tools, such as lean.

Chapter one then argued that to combat the many challenges facing the UK farming and food industry there remained a strong argument in favour of enhanced collaboration and, in some cases, 'partnering'. However, evidence was also provided which stressed that the UK Government's key sectoral objectives of creating a profitable, sustainable, internationally competitive, and a 'fair' (for the producers) farming and food sector, have been only partially successful. It was demonstrated, first, that many in this sector, in particular the producers, were not profitable. Second, the UK farming and food sector may not be sustainable, with self-sufficiency no longer a certainty, due in part to a dramatic decline in the number and output of many UK farmers. Third, there was considerable evidence that many UK producers are unable to compete internationally, highlighted by the rapid growth in imports. Finally, six years after the 2002 Curry Report was published, the Competition Commission's 2008 report into the grocery sector emphasised that many producers are still not receiving a 'fair' price for the goods they produce (Competition Commission, 2008).

A possible explanation for why the UK Government's sectoral objectives were only partially successful was offered. It was argued that the policy documents and the agencies set up to

[664] Although never clearly defined.
[665] Including the Food Chain Centre (FCC), English Farming and Food Partnerships (EFFP) and the Red Meat Industry Forum (RMIF).

operationalise policy direction never clearly defined what collaboration or 'partnership' meant. Instead, it was implicit that these relationships would be characterised by mutuality, trust and an equal sharing of the risks and rewards. In addition, UK Government policy-makers failed to fully consider the existence of power imbalances in UK farming and food supply chains and the impact that these power imbalances can have on collaboration and 'partnership' relationships. This, the author feels is not inconsistent, considering that the issue of power is largely omitted from the broader academic debate centred on collaboration and 'partnering'.

Having clearly set the context to this thesis in chapter one, the aim of chapter two was to establish the theoretical basis underpinning much of the debate surrounding the benefits and potential obstacles to partnering, the focus of chapters three and four. This was achieved by briefly outlining the historical development of the B2B literature. It was argued that Agency Theory and Transaction Cost Economics made a major contribution to collaborative and partnership thought. However, TCE, in particular, attracted many critics. The chapter highlighted that the TCE literature and responses to this debate, as well as the partnering literature, marginalised the concept of power. These theoretical approaches do not see power as a crucial component of buyer-supplier relationships. This, the author argued, was a serious omission and, therefore, the chapter finished by introducing the power literature and Cox et al.'s (1999, 2000 etc.) power methodology.

Having traced the development of the B2B literature and highlighted the key theories influencing the later discussions within this thesis, chapter three then assessed the benefits of 'partnering'. Chapter three starts by building up a robust definition of partnering. Cannon and Perrault's (1999) general categorisation of relationship connectivity and Cox et al.'s

(2003) relationship management type typology were discussed. From this discussion, ideas and concepts on working relationships and mutuality were brought together and a partnership was defined[666].

Chapter three went on to examine the benefits of partnering in detail. The aim was to demonstrate that different aspects of the partnership definition (that is, closeness, and equity) contributed differently to the benefits that partnering can provide. The author focused on seven benefits of partnering. These were: lower transactions costs; the management of complexity; the management of uncertainty; the acquisition of scarce resources; cost reduction and functionality enhancement; improved stability; and, organisational legitimacy. The chapter concluded that regardless of whether the benefits of partnering are best understood from a TCE perspective, a Resource-Based Perspective, or any other view, there are many tangible, as well as less tangible benefits, motivating organisations to form partnerships.

Chapter four then went on to consider the appropriateness of, and obstacles to, partnering. It was argued that although there are a number of advantages to be derived from partnerships, partnerships are not always appropriate or possible for a number of reasons. First, not all *types* of products and services require partnering as a sourcing option. Second, even when the type of product or service being sourced would predicate that 'partnering' is suitable, there are different levels of risk associated with forming a 'partnership'. Therefore, this sourcing option, when viewed as an investment decision, is not always appropriate. Third, even if the product or service being procured is suitable and a 'partnership' can be formed, the relationship will not always endure and, therefore, 'partnering' may not be possible in the

[666] A partnership was defined as: ***"an ongoing collaborative interaction, not necessarily governed by a contract, between two legally separate organisations, that relies on neither a market or hierarchy control, with the collaboration based upon a commitment to the equal sharing of the costs, risks and rewards derived from working together".***

long-term. Fourth, there may be insufficient internal capabilities to effectively 'implement' partnership initiatives. Finally, it was contended than even when it is possible to collaborate this does not mean that there will always be a balanced sharing of the risks and rewards from a 'partnership'. It was argued that one reason for this is the existence of power in buyer-supplier relationships. This is the main focus of the hypothesis.

Chapter four goes on to clearly establish that power exists in buyer-supplier relationships and introduces Cox et al.'s (2000, 2001) power model. This was followed by a discussion of why power matters in a relationship. A number of arguments were put forward. First, that power can potentially prevent collaboration of any sort (partnering or otherwise) from developing. Second, that power may not prevent collaboration, but it might prevent partnering. In this context, this may cause problems for the UK Government's sectoral objectives. Third, that only in circumstances of interdependence would partnering be possible. Fourth, that even when partnering is possible, the circumstances of interdependence might be unstable and change due to natural market developments. Fifth, some firms will act opportunistically and either actively try to change the power circumstances or commit other acts of opportunism within the existing power circumstances. This may happen even when it appears to be against the longer-term interests of the firm. Finally, sectoral evidence was provided to highlight the impact power has on relationship management.

In the conclusion to chapter four, power in buyer-supplier exchanges was offered as a potential explanation for why the UK Government's farming and food sectoral objectives were only partially successful. The consideration of the concept of power, it was argued, allowed for the development of a testable hypothesis about the 'partnering' aspect of the UK Government's farming and food policy. The hypothesis was then re-stated.

Having introduced the concept of power and outlined the key characteristics affecting the power of buyers or suppliers at the end of chapter four, chapter five aimed to move from the broad concepts of power and relationship management types to create specific indices by which these can be measured. This was achieved through the use of two conceptual frameworks. First, the *independent variable* was fully operationalised with the buyer-supplier four box power matrix (Cox et al., 2000). Second the *dependent variable* was fully operationalised with a six box typology of buyer-supplier relationships (Cox et al., 2003).

To fully operationalise both the independent and dependent variables, the questions that were asked as part of the power and competition analysis questionnaire[667] and the relationship management type questionnaire[668] were analysed. These questions formed the indices by which buyer-supplier power and relationship management types can be mapped. The author acknowledged that creating indices was difficult and that the responses to the questions required considerable interpretation by the researcher.

Chapter six then focused upon explaining how the research study was conducted, and why this approach was taken. First, ontology and epistemology were discussed. It was concluded that, on balance, the research study was more in line with an objectivist perspective. Furthermore, as a hypothesis had been developed in this thesis from a reading of the literature, which was then tested using a structured methodology[669], this study was largely positivist. The chapter then went on to consider the research approach. The research approach adopted in this study was concluded to be one primarily of hypothetice deduction. Specific research methods were then explained and debated. It was felt that an embedded

[667] The power and competition questionnaire has 6 questions in section A, aimed at determining the subjects marketing approach with a key customer. Section B1 has 18 questions (4 for utility, 11 for scarcity and 3 for information) focused on the power resources of buyers. Section B2 has 9 questions (4 for utility, 4 for scarcity and 1 for information) focused on the power resources of the suppliers.
[668] There are 2 questions to help determine the way of working between two organisations and a further 6 questions to establish the sharing of surplus value in the relationship.
[669] To enable repeatability.

multiple-case research method of data collection was the most appropriate for understanding buyer-supplier exchanges and to provide maximum analytical benefit. This was followed by a detailed discussion of the selection of cases. It was emphasised that the cases were chosen on the basis of replication logic, rather than a random sampling method. In order to provide a 'fair' test of the hypothesis, five cases were chosen, based upon carefully selected criteria.

Data gathering techniques were then discussed. For primary data collection the decision was made to conduct face-to-face interviews, following two semi-structured questionnaire (see Appendix one and two). Chapter six then went on to highlight the data collection strategy and process for this study. This included identifying participants to be interviewed and describing the two stages of data collection. It was emphasised that the methodological approach adopted in this study was deemed to be robust as information from both the buyer and the supplier was collected and, when possible, verified by independent sources. Finally, the chapter concluded by stating that the data collected within this study would be analysed qualitatively.

The five cases selected from the UK food industry were then featured in chapter's seven to eleven. Cases two, four and five supported the hypothesis and cases one and three challenged the hypothesis. The summary of the case findings is the focus of the next section.

12.2. Summary of case findings and the testing of the hypothesis

12.2.1. Power and relationship management type analysis findings

Figure 12.1, to follow, highlights the power position of the five dyadic relationships analysed. In case one (Graham Davis WFF franchisee - franchisor), the power relationship has been analysed as interdependence. In case two (Caspian-Pioneer), the relationship is also analysed as interdependence, however, this relationship is positioned towards supplier dominance. Case three (Pioneer-H&H) and four (CS-DFOB) have been analysed as supplier dominance, however, case three is positioned on the cusp of interdependence. Finally, case 5 (H&H–S&J Dodd) has been analysed as buyer dominance[670].

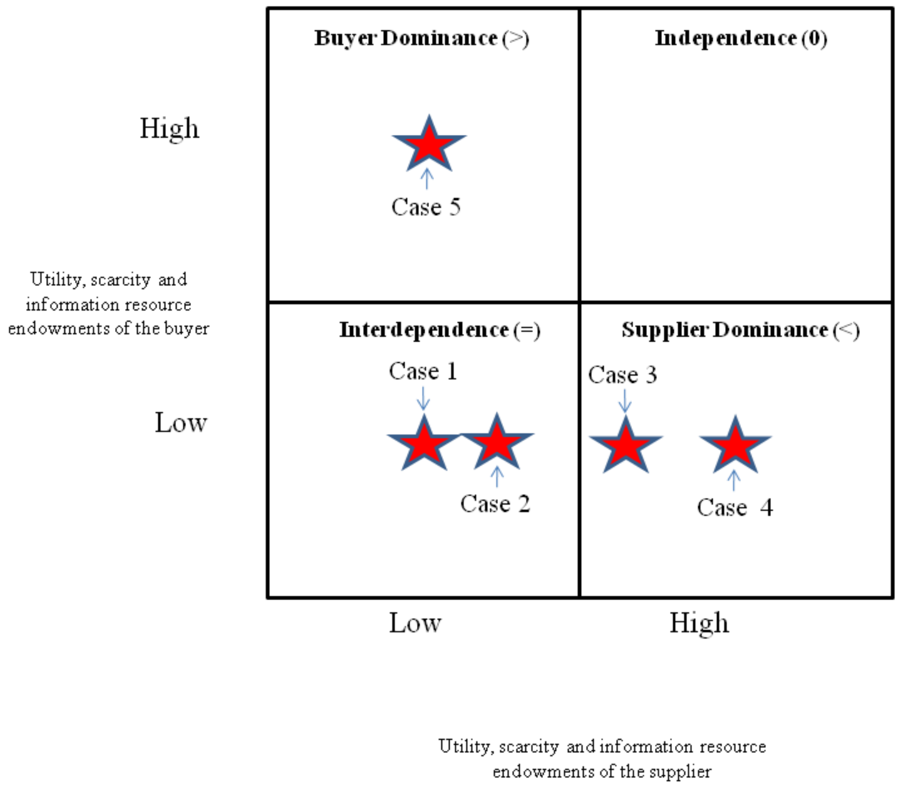

Figure 12.1: A summary of the power analysis for the five cases (Source: Author)

[670] Cases with these different power positions were deliberately chosen so as to provide a fair test.

Figure 12.2, to follow, highlights the relationship management type for the five cases presented in this thesis. This clearly demonstrates that although all five cases were characterised by a collaborative way of working[671], the sharing of surplus value was not always equal. In case one (WFF franchisee-franchisor), the distribution of surplus value was unbalanced and favoured the supplier. Bringing together way of working and the sharing of surplus value this relationship was, therefore, best described as supplier-skewed adversarial collaborative. This was the same for the relationship analysed in case four (CS–DFOB).

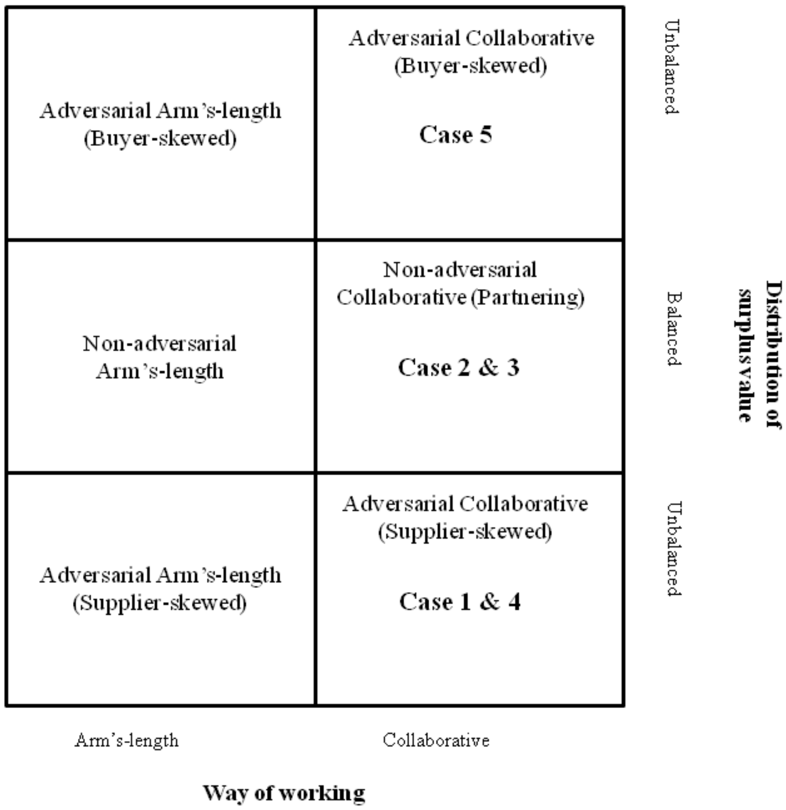

Figure 12.2: Summary of relationship management types for the five cases (Source: Author)

The distribution of surplus value from the relationship was balanced in case two (Caspian–Pioneer) and case three (Pioneer-H&H) and, therefore, these relationships were best

[671] Again a deliberate selection criteria.

described as non-adversarial collaborative. Finally, in case five (H&H-S&J Dodd), the distribution of surplus value was seen to be unbalanced, but this time in favour of the buyer. The relationship management type was, therefore, buyer-skewed adversarial collaborative.

According to the hypothesis, if there is a link between the power resource endowment of buyers and suppliers and the relationship management type, you would expect interdependent relationships to be managed in the middle right box of the six box relationship management type matrix, as non-adversarial collaboration. Following the same logic, relationships analysed as buyer dominance would be expected to be managed in either the top left or right boxes, as buyer-skewed adversarial arm's length or collaborative. Relationships characterised as supplier dominance would be expected to be managed in either the bottom left or right boxes, as supplier-skewed adversarial arm's length or collaborative. However, Figure 12.3, to follow, demonstrates that case one (WFF franchisee-franchisor) and case three (Pioneer-H&H) do not seem to support the hypothesis (these relationships are denoted with a dashed line in Figure 12.3).

Before considering why it would seem that case one and three do not support the hypothesis, the author will first summarise the findings of the other cases, which, as discussed previously and demonstrated in Figure 12.3, supported the hypothesis.

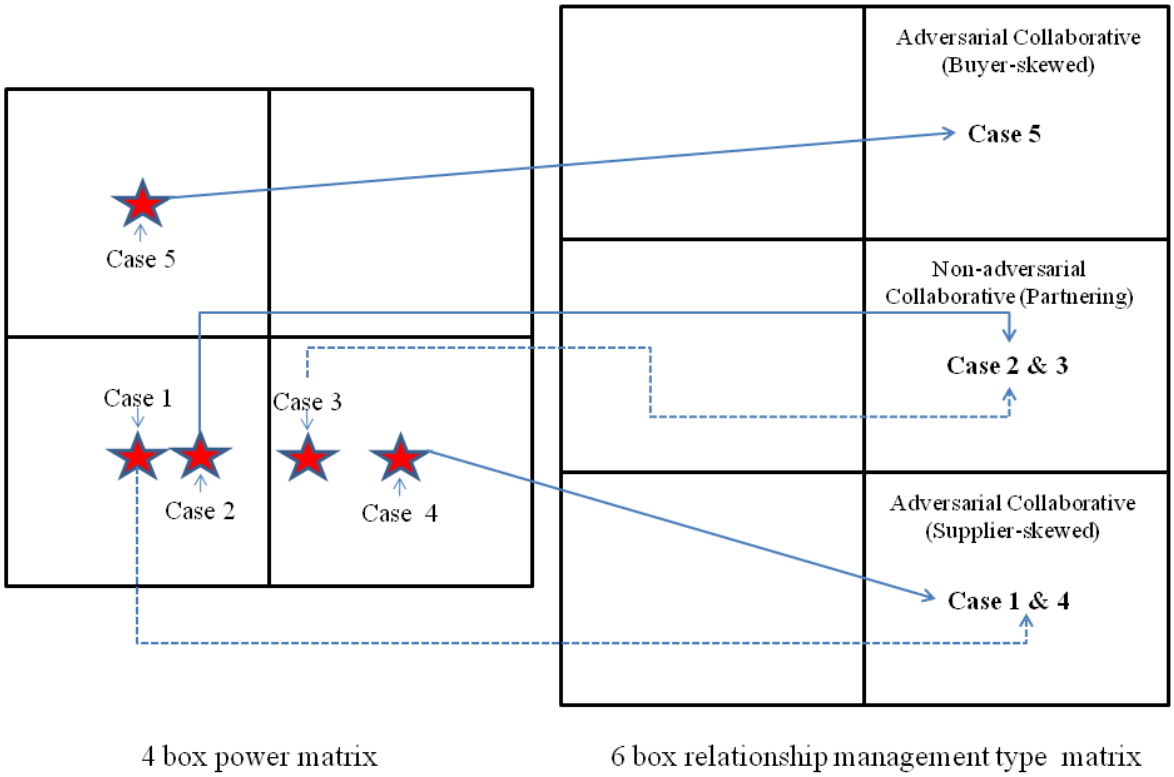

Figure 12.3: Do the cases support the hypothesis? (Source: Author)

12.2.2 Discussion of the cases which supported the hypothesis

Case two supported the hypothesis as the power relationship between Caspian and Pioneer was analysed as interdependent and relationship was managed in a non-adversarial collaborative manner. The relationship between Caspian and Pioneer moved from arm's length to collaborative with the development of the 'Lakeland' brand. The creation of the 'Lakeland' brand by Pioneer and their need for regional 'flagship' restaurants to promote the brand, coupled with Caspian's move away from takeaways towards a mid to high-priced restaurant, led to a mutuality of interests. This resulted in a desire by both parties to work closely together and the underlying power relationships made it difficult for either party, had they wanted to, to gain the lion's share of surplus value in the relationship. What this case highlights, is that there is a possible link between power and relationship management types and that close relationships are only appropriate under certain circumstances. Prior to the development of the 'Lakeland' brand there was no incentive for either party to work closely together. This leads us to believe that there should be a contingent approach to the choice of relationship management types. This finding is explored in more detail in the next section (12.3), which considers the implication of the research findings to the B2B literature and section 12.4, which considers the implication of the research findings to the UK Government's sectoral objectives.

Case four also supported the hypothesis. DFOB was analysed as being supplier dominant and it was demonstrated that the relationship was managed as supplier-skewed adversarial collaboration. Apart from signifying that there is a possible link between power and relationship management types, this case also emphasised that although it is possible to work closely together, this does not necessarily result in there being an equal sharing of surplus value. Furthermore, when a 'partnership' does not result in an equal sharing of the risks and rewards, the relationships may be unsatisfactory for the weaker party. This was clearly evident in this case. CS, therefore, was actively pursuing strategies to re-address the balance of power in the relationship. This, it was hoped, would enable CS to re-define the sharing of surplus value on a more equitable basis and move the relationship to non-adversarial. DFOB, on the other hand, were happy for the 'partnership' to carry on in the same manner. If CS achieves this objective, then this relationship will be in line with the author's definition of a partnership.

Finally, case five also supported the hypothesis. The power relationship between H&H and S&J Dodd was analysed as buyer dominance and the relationship management style was buyer-skewed adversarial collaborative. It was concluded that this case demonstrated there should be a contingent approach, as in case two, to relationship management choice. Specific factors, as emphasised in the case, led to H&H and S&J Dodd moving the relationship from arm's length to close. For this to happen there had to be, it was argued, both a need and a perceived benefit of doing so. For H&H, working closely with S&J Dodd provided them with valuable supply market information and the ability to influence, if necessary, the supplier's production decisions (feeding regimes etc.). For S&J Dodd a collaborative relationship ensured that they received a better flow of information about end-customer needs. However, this case also demonstrated that a desire to work closely together does not always lead to the benefits from this collaboration being equally shared. It was argued that due to a power imbalance, H&H was not obliged to offer S&J Dodd more equitable terms and they chose not to do so.

12.2.3 Discussion of the cases which did not support the hypothesis

The author will now summarise the finding for case one (WFF franchisee–franchisor) and three (Pioneer-H&H), the cases where the hypothesis was not supported. These cases demonstrate that there are potential problems with the methodologies, which are too crude. Second, they demonstrate that there are potential problems with the hypothesis. That is to say it is too simplistic[672].

[672] Furthermore, the outcome may be a mix of potential problems with the methodologies and the hypothesis.

Case one and three both demonstrate that there may be potential problems with the methodologies used to test the hypothesis. In case one, it was argued that although there was little doubt that there is a high degree of co-dependency in the franchisee-franchisor relationship, this has not led to an equal sharing of the risks and rewards. A possible explanation for why the relationship was managed as supplier-skewed adversarial collaboration and not as non-adversarial collaboration is that the power methodology may be insufficiently robust to pick up the nuances of this relationship. Although the relationship has been analysed and interpreted as interdependence, it may more accurately be described as falling on the cusp of interdependence and supplier dominance. In the analysis, both parties were depicted as having low power resource endowments. However, one of the key bases for buyer scarcity stemmed from the difficultly for the franchisor of finding another comparable partner to replace Graham Davis. If this position was overstated, then the relationship will move towards supplier dominance. With the relationship falling on the cusp of interdependence and supplier dominance[673], then supplier-skewed adversarial collaboration is an equally likely outcome to non-adversarial collaboration. With this interpretation, the hypothesis is supported. Second, it was argued that it is also possible that the six box relationship matrix was insufficiently robust. It was previously highlighted that determining the sharing of surplus value, in particular, is difficult and requires considerable, often subjective interpretation. If the relationship is more accurately depicted as falling on the cusp of non-adversarial and supplier-skewed adversarial collaboration, it is possible that there is a link between power and relationship management type. The power relationship could, in this case, be accurately described as interdependence. However, the six box relationship type methodology is insufficiently nuanced.

[673] In either the interdependence or supplier dominant quadrants.

In case three, it was also argued that the power model may be too crude. The relationship between Pioneer and H&H was analysed as being supplier dominance. However, the relationship was on the cusp of interdependence. This, it was explained, was because the power relationship was not Low/High but Low/Medium. This case, therefore, suggests that in situations where supplier dominance is on the cusp of interdependence, non-adversarial collaboration is possible and may indeed be logical.

Case three also leads us to believe that the hypothesis may be too simplistic[674]. Partnering may well be possible in power circumstances other than interdependence. There are two important points to make here. First, the hypothesis does not consider that the power positions between collaborating parties may not always be strongly defined, for instance, when a relationship falls on the cusp of interdependence and supplier dominance. Furthermore, there may, as other authors have suggested, be alternative motivations to partner.

Addressing the first potential problem with the hypothesis, it was argued that if H&H had attempted to pursue a more adversarial relationship management approach, because of the prevailing power circumstances (supplier dominance on the cusp of interdependence), they would run the risk that this relationship management strategy would not be sustainable and could damage the relationship. It was explained that due to the inability of H&H to effectively use information asymmetry as a significant power resource, it would be evident to Pioneer that H&H was gaining more from the relationship. This could, therefore, potentially drive Pioneer to pursue relationships with other suppliers or, if the cost of ownership of this service rose to a position close to their reservation price, they may choose to bring the

[674] Which has implications to the B2B literature and is covered in more detail in the next section.

procurement role in-house. It was concluded, therefore, that case three supports the hypothesis, demonstrating that there is a link between the power position of buyers and suppliers and relationship management types. H&H are unable to take advantage of their power position because it is not strong enough for them to do so and they are, therefore, pursuing the most logical economic policy of giving up some potential short-term gains (supplier-skewed adversarial) in favour of a strategy to share benefits equally.

Addressing the second problem with the hypothesis, case three also highlighted that there may be alternative motives to partner and, therefore, partnering may be possible in power circumstances other than interdependence. This case raised a number of interesting points, with implications for the B2B literature. In this case there was a real 'desire' to make the Pioneer-H&H partnership work. This was due in part, to the personal beliefs of the individuals and the underlying ethos of the firms collaborating, whereby the relationship was based upon mutual trust. It can also be argued that a partnership was desirable to help Pioneer and H&H to manage considerable environmental uncertainty. Therefore, findings from case three, suggests that the issues of trust, the management of uncertainty and the importance of ideological and social factors and how these can affect buyer-supplier relationships, should be considered (see section 12.3. for a more detailed discussion).

Having summarised the case findings, the next section (12.3) will consider in more detail the implications of these research findings to the B2B literature. Section 12.4 will then consider the implication of the research findings for the UK Government's farming and food sectoral objectives and discuss whether or not there needs to be a change in UK policy direction in this sector.

12.3. The implications of the research to the B2B literature

12.3.1 Implications of the research to the general B2B literature

The partnering literature was discussed in some detail within chapters three and four of this thesis. This emphasised that organisations needed to collaborate (Lamming, 1993; Webster, 1992; Christopher, 1998, 2005; Ryalis, 2007 etc.). Furthermore, it was argued that that the traditional model of B2B exchange, based on arm's length and adversarial relationships, did not allow firms to respond quickly to changing market dynamics or to cut costs (Lamming, 1993; Webster, 1992). Other authors, such as Christoper (2005) and Ryalis (2007), have argued that improved cooperation, building trust and appropriate relationship management, could deliver benefits that are greater than the sum of the parts. This thesis has focused on seven of the benefits of partnering, identified as key within the partnering literature. These were: lower transaction costs; the management of complexity; the management of uncertainty; the acquisition of scarce resources; cost reduction and functionality enhancement; and, improved stability and organisational legitimacy.

It was argued that regardless of whether the benefits of partnering are best understood from a TCE perspective, a RBP, or any other perspective covered in the thesis, it is evident that there are tangible, as well as sometimes less tangible, operational and commercial benefits which have motivated organisations to collaborate and form partnerships. Furthermore, it was also argued that although the academic community has attempted to explain these benefits, often within tight theoretical frameworks, in reality partnerships are formed for complicated, often interrelated reasons.

The discussion of the literature also demonstrated that partnering is only appropriate under certain transaction and market circumstances. This suggested that a contingent approach to relationship management choice is necessary. In chapter four, a number of factors pertaining to the appropriateness of partnering as a sourcing strategy were discussed[675]. However, this thesis has focused on the strand of this literature that has demonstrated that even when it is possible to collaborate, this does not mean that there will always be a balanced sharing of the risks and rewards from a 'partnership' (Cox et al, 2003). It was argued that one of the reasons for this is the existence of power in buyer-supplier relationships (Kumar, 1996; Christopher and Jutterner, 2000; Hingley, 2005; Sanderson, 2009). Although indirectly, the case material supports some of the other themes discussed in chapter four[676], the aim of the five cases presented here has been to challenge the assumptions made in the hypothesis relating to power and relationship management types.

To re-iterate, the hypothesis developed in this thesis was: **A policy of 'partnering' cannot provide a universal buyer-supplier solution as it is more likely to be successfully implemented under power circumstances of interdependence. This power structure will not always pertain within UK food supply chains, as is the case with supply chains generally. As a result, the UK Government's policy is likely to only be partially successful.**

The hypothesis was disaggregated as follows:

[675] First, not all *types* of products and services require partnering as a sourcing option. Second, even when the type of product or service being sourced would predicate that 'partnering' is suitable, there are different levels of risk associated with forming a 'partnership'. Therefore, this sourcing option, when viewed as an investment decision, is not always appropriate. Third, even if the product or service being procured is suitable and a 'partnership' can be formed, the relationship will not always endure and, therefore, 'partnering' may not be possible in the long-term. Fourth, there may be insufficient internal capabilities to effectively 'implement' partnership initiatives.

[676] For instance, as discussed not all *types* of products and services require partnering as a sourcing option. The case findings seem to concur. In the five cases the products and services being procured were critical and of high value and, therefore, it can be argued they were suitable for developing partnerships.

i) Power can potentially prevent collaboration of any sort (partnering or otherwise) from happening[677];

ii) Power may not prevent collaboration, but it might prevent 'partnering'. In this context, this may cause problems for the UK Government's sectoral objectives;

iii) Partnering will most likely succeed under power circumstances of interdependence;

iv) Even when partnering is possible, the circumstances of interdependence might be unstable and change due to natural market developments;

v) On top of the natural change, some firms will act opportunistically and either actively try to change the power circumstances or commit other acts of opportunism within the existing power circumstances.

The power literature (Kumar, 1996; Cox et al, 1999, Cox, Sanderson and Watson, 2000; Cox et al, 2002; Caniel and Gelderman, 2007 etc.[678]) was used to criticise the TCE literature (Williamson, 1975 etc.) for marginalising the importance of power in buyer-supplier exchanges, and the partnering literature (Lamming, 1993, Webser, 1992 etc.) for largely ignoring the issues of power. Furthermore, the power literature also criticised the IMP group's interaction model (Ford, 1980 etc.), for although it acknowledged the presence of power in buyer-supplier relationships, it neglects to consider the true impact that power has on determining the outcome of an exchange relationship.

In chapter four it was argued that first, power can potentially prevent any form of collaboration (partnering or otherwise) from happening (Cox et al., 2003; Sanderson, 2008) as it may not be possible to find buyers or suppliers willing to enter into long-term collaborative relationships (Ramsay, 1996; Cox et al., 2003). Second, it was argued that

[677] Although this was an important component part of the literature review, the cases did not test this part of the disaggregated hypothesis. The organisations involved were already 'successfully' collaborating.

[678] See section 4.6.1 for more information.

although power will not always prevent collaboration, it will prevent partnering. This is because power will affect the sharing of surplus value in a relationship (Kumar, 1996; Christopher and Jutterner, 2000; Cox et al., 2003; Hingley 2005; Sanderson, 2008 etc.). Third, it was highlighted that some authors believe that partnering, as defined in this thesis, will only be possible under conditions of interdependence (Ramsay, 1996; Cox et al., 2003, Sanderson, 2008). Fourth, even when partnering is possible, the circumstances of interdependence that underpin it might be unstable and change due to market developments (Oliver, 1990). Finally, on top of the natural market development, some firms will act opportunistically to actively try and alter the power circumstances or commit other acts of opportunism (Cox et al., 2003; Watson, 2002; Lonsdale 2005a, b).

The hypothesis was developed from a reading of the literature and was born from the identification of a gap in the partnering literature and the broader literature relating to partnering, as highlighted by writers from the power school of thought. The research findings, as discussed in detail in section 12.2, have implications for the B2B literature as they largely support the claim that the notion of power, as a key factor in buyer-supplier exchange relationships, should receive greater attention within the literature. As such, the author feels that the power literature, with its focus on a contingent approach to relationship management choice, should inform UK Government policy-makers in the farming and food industry (see the discussion in section 12.4).

Finally, it must be stressed, although it has been argued that the power literature goes some way towards filling a gap in the partnering literature, it also has its weaknesses. First, although some of the cases supported the hypothesis and demonstrated a significant link between the power resource endowments of buyers and suppliers and appropriate relationship management types, others did not. In case three, in particular, which investigated the dyadic relationship between Pioneer and H&H, it was suggested that there may be other factors influencing organisations to partner. In the summary of the case findings (section 12.2) it was discussed that the issues of trust, the management of uncertainty and the importance of ideological and social factors and how these can affect buyer-supplier relationships should be considered.

First, as highlighted previously (section 3.3.1.2), trust is important in a buyer-supplier relationship as it can, for instance, reduce TC's by constraining opportunistic behaviour (Chiles and McMackin, 1996). Furthermore, the development of trust, seen by many as a key advantage of making a long-term commitment to work together, can also have a positive impact upon organisational performance (Lane and Bachmann, 2002, p. 19, Duffy, 2002). In the Pioneer-H&H relationship, where there was a high degree of trust, there were no significant costs in managing the relationship (i.e. negotiating safeguards) as both parties were quick to jointly resolve potential issues that arose. There was also no need to establish potentially expensive methods of monitoring the relationship.

There is a significant body of literature addressing the effects of trust on buyer-supplier relationship (Nooteboom and Noorderhaven, 1997; Doney and Cannon, 1997; Lane and Bachmann, 2002; Nooteboom, 2002; McEvily et al., 2003; Humphries and Wilding, 2004, etc.), which we are unable to fully explore here, that neither the TCE literature nor Cox et al.'s power theory fully addresses. According to Nootemboom and Noorderhaven (1997) "[I]n transaction cost economics, trust has been treated as redundant or even misleading" (p. 308). A discussion of trust is also conspicuous in its absence in the power literature.

Second, as discussed in section 3.3.6, partnerships are formed to help create stability, due to organisational uncertainty (Oliver, 1990). In the Pioneer-H&H relationship the context of this partnership is important. As discussed in some detail in chapter one, the farming and food industry is beset by uncertainty. It is the author's belief that the many challenges and inherent uncertainty in this industry encouraged Pioneer and H&H to develop the 'Lakeland' beef brand in the first instance and remains a strong motivation to partner. In an uncertain environment it may be better to develop long-term collaborative relationships (Oliver, 1990).

Lastly, it can be argued, that strong ideological and social factors can heavily influence the rationale to partner in the first instance (Ring and Van de Ven, 1994; Helper and Levine, 1992; Sanderson, 2008 etc). Furthermore, this can also influence how the partnership operates and subsequently how surplus value is distributed. As highlighted by Ring and Van de Ven (1994) (see section 3.3.7) the TCE and power literature also ignores the importance of equity and legitimacy outcomes from partnerships. As the Pioneer-H&H case clearly demonstrates, maintaining a reputation for 'fair dealing' (Ring and Van de Ven, 1994) enables both organisations to build higher levels of trust between themselves and their end customers, as well as providing a means of differentiating themselves in a competitive marketplace. By supporting the local rural economy, this partnership helps to build a good reputation and image for both Pioneer and H&H (Singh et al., 1986). Furthermore, there is a strong belief by both the individuals and the organisations involved that collaboration is the best approach to adopt. Therefore, from this perspective, it may be unlikely that even if H&H (or conversely Pioneer) was in a clearly dominant position, whether they would pursue the economically logical outcome and use their power position to manage this relationship adversarially. This, again, suggests a significant re-buff to the Cox et al. theory.

To conclude, although the thesis findings largely support the notion that power is a key factor in buyer-supplier exchanges, the findings also demonstrate that there may be other important factors influencing an exchange relationship. Therefore, writers from the power school of thought must not fall into the same trap as other theories, such as TCE, and ignore the many influences, other than power, that are present in such a complicated phenomenon as an exchange.

12.3.2 Implications of the research to Cox et al.'s conceptual models

12.3.2.1. Adapting the relationship management type typology

It is also necessary to comment on the quality of the specific conceptual models operationalised in this thesis. There are a number of criticisms which should be made. First, the relationship management type matrix has some limitations. One criticism of the typology stems from the fact that the way of working is presented as being either arm's length or collaborative. It is of course more accurate to describe the way of working as sitting somewhere on a continuum between arm's length and vertical integration. Many models have been provided which make these distinctions (Ellram, 1990; Harland, 1996; Fontenot and Wilson, 1997; Cannon and Perrault, 1999). Figure 12.4, below, developed by Fontenot and Wilson (1997), shows that there are a range of marketing relationships. These are described as: transactions; repeat transactions; long-term relationships; buyer-supplier partnerships; strategic alliances; network organisations; and, vertical integration. By not making a greater distinction between different degrees of closeness in relationships, although Cox et al.'s six box relationship management type matrix has the advantage of simplicity, it may not allow for the capture of potentially interesting and more nuanced relationship information.

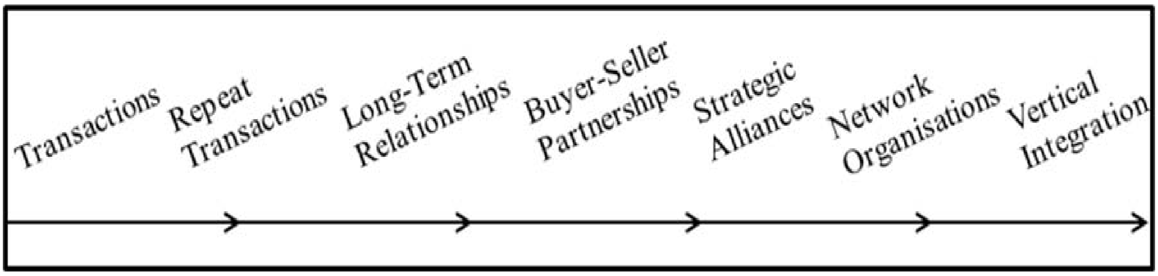

Figure 12.4: The range of marketing relationships (Source: Adapted from Fontenot and Wilson (1997), Figure 1, p. 5)

Furthermore, the research findings, in particular case one, suggests a more nuanced segmentation of the sharing of surplus value is necessary. The sharing of surplus value can be viewed as a continuum between strong or ‘hard’ supplier-skewed adversarial collaboration at one extreme, to strong or ‘hard’ buyer-skewed collaboration on the other. Here, ‘hard’ or ‘strong’, as illustrated in Figure 12.5, to follow, denotes a situation whereby the sharing of surplus value is clearly unbalanced in favour of either the buyer or the supplier.

To illustrate how a more nuanced segmentation of the sharing of surplus value can be provided we need to refer back to the discussion of the typology in section 5.3[679]. According to the author’s adapted typology, a relationship should only be denoted as ‘hard’ buyer-skewed adversarial when it is characterised by at least four measures of an unequal sharing of surplus value in favour of the buyer, as illustrated in Table 5.10 and reproduced in each of the case chapters (i.e. the buyer’s commercial goals are fully achieved, the supplier invested more in relationship-specific adaptations etc.). The same logic can be applied to positioning

[679] It must also be re-iterated that determining the share of surplus value is inherently difficult and requires considerable researcher interpretation.

relationships as non-adversarial collaborative and 'hard' buyer-skewed adversarial collaboration.

As previously emphasised in section 5.3, at the extremes, i.e. 'hard' buyer or supplier-skewed relationships, or when relationships are clearly equal, i.e. non-adversarial, or when a relationship is obviously arm's length or very close, it is possible to use Cox et al.'s (2003) typology in its current state. However, the author contends that these characteristic are not always present in buyer-supplier relationships. The conceptual models presented within this thesis do not, the author believes, provide an adequate explanation for the circumstances and potential implications of relationships which fall within the segments denoted A- F in Figure 12.5, to follow. Figure 12.5 demonstrates how the six box relationship type methodology could be potentially further developed. The discussion, to follow, will first attempt to clarify how relationships can fall into segments A-F and then consider the relationship management implications of this.

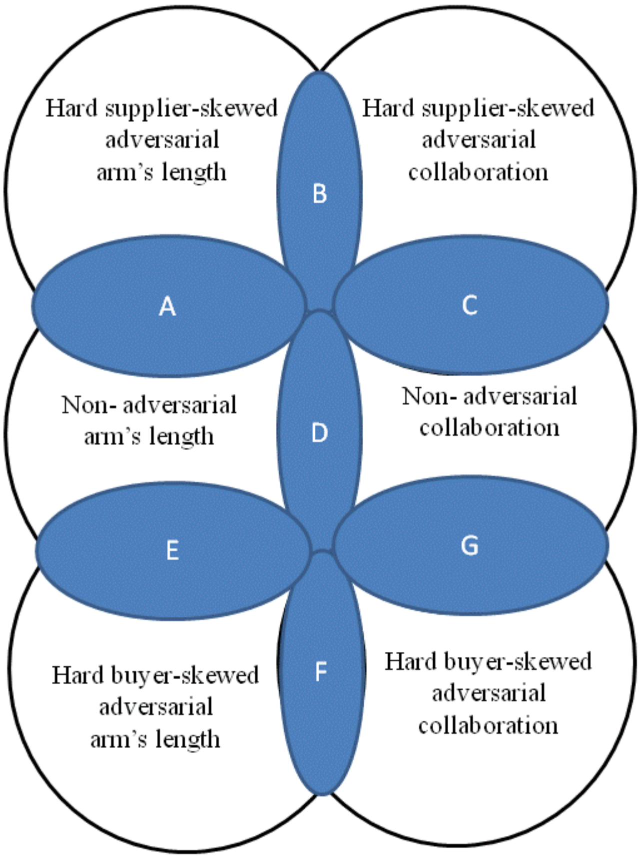

Figure 12.5: An adapted typology for mapping relationship management types (Source: Author, adapted from Cox et al., 2003)

By including segments B, D and F in the adapted typology for mapping relationship management types, this model acknowledges that making a clear distinction between arm's length and close is not always possible. As already discussed and illustrated in Figure 12.4, Fontenot and Wilson (1997), amongst others, emphasise that there is a range of relationships, or way of working. The adapted typology, highlighted in Figure 12.5, does not suggest that it is beneficial to provide such a detailed segmentation of the way of working. Using the methodology already established and clearly presented in section 5.3, which is based upon Cannon and Perrault's (1999) terminology, it is evident that if the relationship is characterised by there being only a basic exchange of information and products/ service, it is arm's length. Cox et al.'s (2003) typology defines all other relationships as close if the relationship goes beyond a 'basic exchange of information and products / services (including legal bond), with evidence of the two parties being engaged in further relationship connectors'[680]. There is, however, no distinction made between the different degrees of closeness. For example, some relationships will demonstrate evidence across all five of Cannon and Perrault's (1999) relationship connectivity measures i.e. product/process information exchanges, operational linkages, legal bonds, cooperative norms and relationship specific adaptations, whilst others may only demonstrate evidence of two relationship connectivity measures. Although the relationships presented in the five cases were chosen because they were viewed by the participants as collaborative partnerships, there were still variances in the degree of closeness. For example, in case one, the WFF franchisee-franchisor relationship, there was evidence of collaboration across all five connectivity measures. In case two (Caspian-Pioneer), four (CS-DFOB) and five (H&H-S&J Dodd), there was evidence of collaboration in four of the five connectivity measures, whereas in case three (Pioneer-H&H) there was evidence of three of the five connectivity measures.

The author contends that if a relationship shows evidence of only two of the connectivity measures, assuming that all five connectivity measures are of equal importance[681], then the relationship will fall in one of the segments B, D or F. This has important implications. If the relationship is not clearly collaborative or 'strongly' collaborative, then it may be that it is equally suitable to manage the specific relationship in an arm's length manner. This would suggest that relationships which fall into segments B, D or F may need to be managed differently than relationships which are more obviously close. It is possible, although further research is required to confirm this, that relationships falling in these intermediary relationship forms (neither arm's length or collaborative) may be more unpredictable and may more likely be subject to opportunistic behaviour by either party. However, the

[680] See the full definition of arm's length and close relationships in chapter three.
[681] This may not be the case and, therefore, further investigation is required to consider the relative importance of the connectivity measures.

likelihood of opportunistic behaviour will also depend upon the prevailing power circumstances between the two organisations.

We will now consider in more detail the relationships which fall in segments A, C, E and G[682]. It has already been established what constitutes 'hard' supplier or buyer-skewed adversarial relationships[683] and non-adversarial relationships. As demonstrated in case one, it was difficult to clearly determine the sharing of surplus value in the WFF franchisee-franchisor relationship. Surplus value, it has been argued, is inherently difficult to ascertain. Nevertheless, the adapted model suggests, for example, that a relationship could fall between 'hard' buyer-skewed adversarial collaboration and non-adversarial collaboration, depicted as segment G in Figure 12.5. As demonstrated in Table 7.4 (in chapter seven), in the WFF franchisee-franchisor relationship, two of the sharing of surplus value measurements were analysed as non-adversarial in nature[684]. The implications of this have not been explored in detail. However, it is possible that the unclear (neither equal or significantly in favour of the supplier, in this example) sharing of surplus value could signal that either party is not fully utilising their power resource endowments to achieve the most commercially beneficial outcome for them. In other words, they are unnecessarily giving away surplus value.

12.3.2.2. Adapting the power model

There are also a number of potential weaknesses in the power methodology. Using the power methodology, it is difficult to accurately quantify such a complex proposition as power, so as

[682] As this study did not directly consider arm's length relationships it is not possible to comment in detail on the implications of relationships which fall in segments A and E on the adapted relationships management type typology. However, the model suggests that theoretically, at least, these relationships may exist.
[683] Those relationships that demonstrate at least four measures of an unequal sharing of surplus value in favour of either the buyer or supplier.
[684] In this case each party's commercial goals were partially realised and the supplier was able to earn average profits for the industry sector.

to be able to place relationships into the four rudimentary classifications: buyer dominance, interdependence, independence and supplier dominance. Cox et al. are robust in acknowledging the many variables which may affect power and the outcome of an exchange interaction. However, Cox (2007) states that it is not just about there being structural power resources; it is also about having cognitive power resources (the so called 'second and third dimension of power'). As has been previously highlighted, both parties to an exchange must, therefore, be aware of their structural power resources. This is not always the case. One party can use their superior cognitive power resources (information asymmetry) to ensure the other party is not making the most appropriate choice. Often the disadvantaged party is not even aware that power is being exercised and is happy in their ignorance (third dimension of power) (Cox, 2007)[685].

Acknowledging this level of complexity makes the model more robust. However, it also means that mapping buyer-supplier power relationships, from an operational perspective, is difficult to do. Nevertheless, for someone well-versed in understanding buyer-supplier power resources it is possible to use the four box power matrix as a predictive model. As has been demonstrated in case analysis, the researcher must have a detailed understanding of the specific exchange transaction and be able to determine objectively the balance between factors which affect utility, scarcity and information. Accurately plotting a relationship in the four box matrix, objectively weighing up all the complexities of a power relationship, some would argue, becomes more of an 'art', rather than a science. This is apparent when we consider the level of detailed information presented in the case chapters and the degree of interpretation necessary to position the analysed relationships in the four box power matrix.

685 Furthermore, time when linked to cognitive power resources can allow one exchange partner to take advantage of another. A supplier may provide a 'loss leader' to a buyer so that initially the buyer achieves their ideal outcome, however, this may change over time as competitors are eradicated from the market and ultimately a supplier may be able to earn rents in the future. This can be explained because power is not static and there may be a post-contractual shift in power (Cox, 2008).

Although some would see this as a limitation of the power model, the author feels that this is not necessarily the case. However, the complexities of the model need to be fully understood before meaningful analysis can be achieved and this could be one reason why the power model has not been widely embraced by the academic and practitioner community. It is just too difficult to do this type of analysis well.

A final area of discussion is that the existing power model has only four categories of power types. Although these four states can be seen as continuums, this categorisation is possibly too narrow. In the author's adapted power matrix, shown in Figure 12.6, to follow, there are nine categories of power, whereby a distinction has been made, for example, between what the author calls 'hard' supplier dominance and 'soft' supplier dominance/interdependence. Although further research is required to develop this model further, a relationship is classified as 'hard' supplier dominance when the answers provided by the buyer to the questions in section B1 of the power and competition analysis questionnaire demonstrate a low level of resource endowments for the buyer, whilst the answers to section B2 questions demonstrate a high level of resource endowment for the supplier (this is a Low/High power relationship, as illustrated in Figure 5.8). When there is 'soft' supplier dominance/interdependence, the answers provided by the buyer to the questions in section B1 of the power and competition questionnaire demonstrate a low level of resource endowments for the buyer and answers to section B2 of the questionnaire demonstrate a medium level of resource endowments for the supplier. This creates a power dynamic of Low/Medium; a dynamic which is not represented in the four box power matrix (see Figure 5.8). The relationship between Pioneer and H&H was analysed to be on the cusp of supplier dominance and interdependence (Low/Medium). Using the author's adapted power matrix, this relationship would be described as 'soft' supplier dominance, whereas the relationship between CS and DFOB is 'hard' supplier dominance (Low/High). The same rationale can be used to map the remaining power relationships, as shown in Figure 12.6.

At the extremes, the current power model is relatively easy to use as a descriptive framework. When there is strong or 'hard' buyer dominance (for example, as is the case with many of the multiple retailer and primary producer relationships) or 'hard' supplier dominance, for instance, it is both relatively easy to analyse these relationships and then to draw management implications from these power positions. However, there is an important issue that needs to be explored in more detail and which has been highlighted quite clearly in the research findings. This is, if, as Cox et al. (2003, 2005 etc.) have often argued, that power is not static, then where a relationship falls on the matrix, i.e. its exact position, matters. If an analysis shows that a specific exchange falls on the cusp of buyer dominance and interdependence, what has been described as 'soft' buyer dominance/interdependence, there are different implications for how the relationship can or should be managed, than if the relationship is 'hard' buyer dominance. Currently, work on power does adequately address this.

Cox (2001) details strategies that can be pursued by buyers or suppliers for moving around the power matrix. He suggests that to move a relationship from supplier dominance to interdependence, for instance, would require the buyer to increase their share of the market, increase the number of suppliers, work closely with preferred suppliers for technology/innovation sharing, lock in high-quality suppliers and create jointly owned product / service differentiation (Cox, 2001, p. 44). If a relationship is analysed as being 'soft' supplier dominance/interdependence, rather than 'hard' supplier dominance we can assume that there are different strategic options open to both the buyer and the supplier for defending the status quo or creating greater leverage opportunities, as well as different management implications. For example, in the Pioneer and H&H relationship, if H&H had been in a 'hard' supplier dominant position they potentially could have chosen to leverage a greater share of the surplus value in the relationship. Furthermore, from Pioneer's perspective, if H&H attempts to capture a disproportionate share of the surplus value in the relationship, or performs badly, as the relationship is 'soft' supplier dominance/interdependence, rather than 'hard' supplier dominance, then Pioneer can more readily respond. There are a number of strategies suggested by Cox et al., (2001, p. 44), for moving relationships from supplier dominance to interdependence, such as increasing the buyer's share of the market, increasing the number of suppliers, working closely with preferred suppliers etc. These are likely to be more effective in moving the relationship towards interdependence or even buyer dominance, if the relationship starts of as 'soft' supplier dominance rather than 'hard'. To put it simply, the greater the degree of power distance between the buyer and supplier, the more difficult it will be for the weaker party to pursue the strategies suggested by Cox et al., (2001, p. 44) to alter the balance of power in the relationship.

The work of Cannon and Perrault (1999) seems to concur with this. Their model denotes two types of interdependence, not one. Collaborative relationships, where there are medium to high levels of relationship specific adaptation, operational links and information exchanges are characterised by high levels of cooperation and trust. These relationships could be viewed as 'soft' interdependence, whereby either party can more easily move from this position via a number of relatively easy strategies. Therefore, the level of bilateral dependency is relatively low. Mutually adaptive relationships are characterised as having the highest level of interdependence, but according to their analysis, this leads to only above average levels of cooperation and low levels of trust. What this analysis highlights, amongst other things, is that there are different degrees of interdependence, with different consequences for buyer-supplier relationships. This thinking can also be applied to buyer dominance, supplier dominance and independence.

Lastly, a final categorisation may also be required. A situation can, it is envisaged, arise when the relationship is positioned near to the centre of the four box power matrix. In this situation it would suggest that although the relationship may fall into one of the quadrants, such as buyer dominance, there is an 'unsettled' or indiscernible power position. Under these conditions it may be possible for the relationship to quite readily alter depending upon only minor changes to the structural and / or cognitive power resource endowments of either the buyer or supplier. This could result in an unpredictable power outcome (moving to one of the other three relationship types). We can assume, therefore, that this would also have different implications for how the relationship could or should be managed. Under this indiscernible power circumstance, it may well be best to develop long-term collaborative relationships, to safeguard each party from disruptive short-term opportunistic behaviour, which may well arise when one party temporarily finds themselves in a stronger position. The relationship management implication of this type of power position is interesting and requires far more consideration. This indiscernible power position is shown in Figure 12.6 (Medium/Medium). There is potential to further develop this adapted version of the power matrix and this will be discussed in more detail in section 12.6.

The next section will discuss the implications of the research findings for the UK Government's farming and food sectoral objectives.

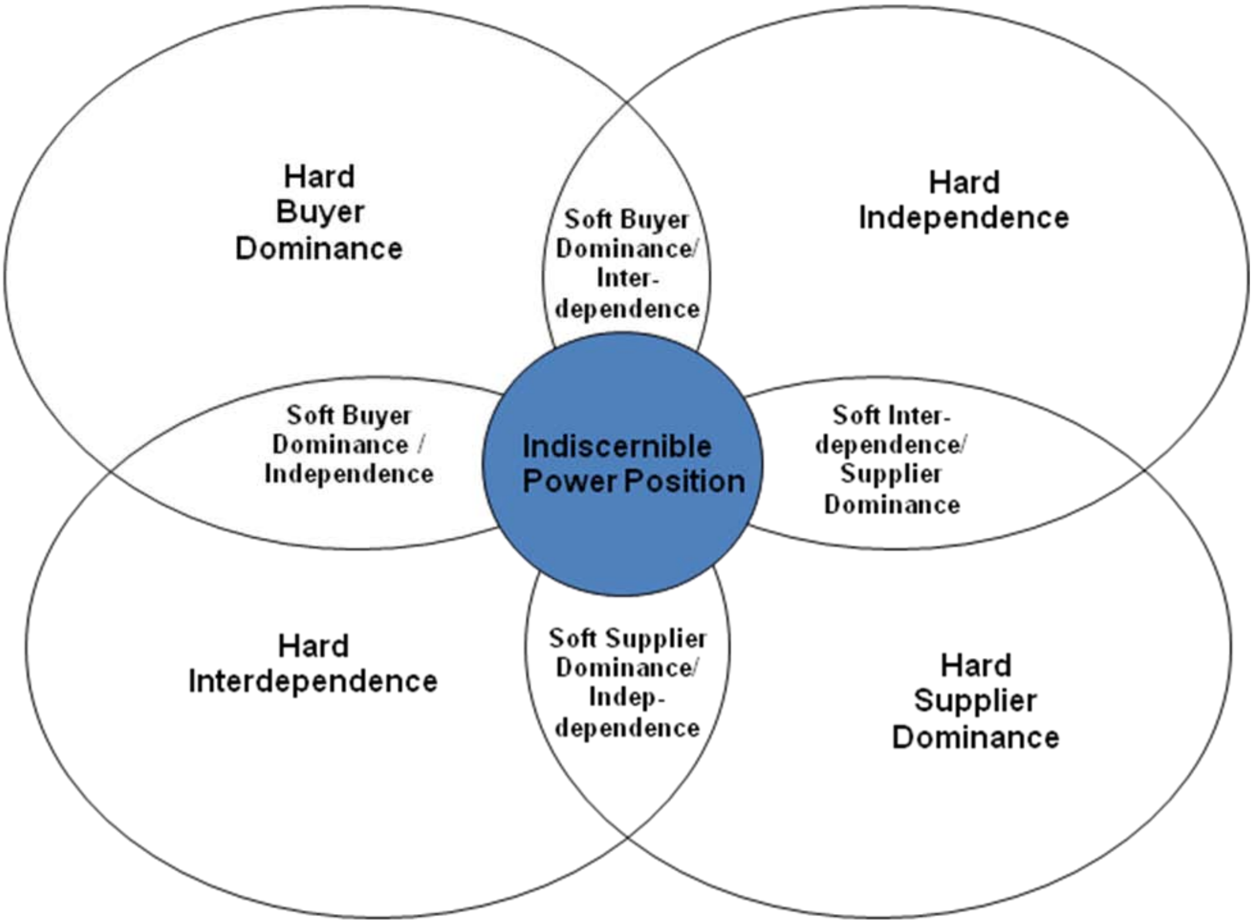

Figure 12.6: Adapted four box power matrix (Source: Author)

12.4. Implications of research findings for the UK Government's farming and food sectoral objectives

It has been previously argued (see chapter one) that key policy documents and the resulting agencies set up to operationalise policy direction, encouraged a greater degree of collaboration and the creation of partnerships as a potential solution to the problems facing the UK farming and food industry. However, evidence was provided which highlighted that the UK Government's key sectoral objectives of creating a profitable, sustainable, internationally competitive, and a 'fair' (for the producers) farming and food sector have been only partially successful.

The research findings highlighted in section 12.2. and the discussion of the implications of the research findings to the B2B literature (12.3), suggests a lack of adequately robust thinking on behalf of UK sectoral policy makers. There are a number of reasons why the author makes this claim. First, as proposed in the thesis hypothesis, partnering[686], although able to deliver many benefits, cannot, the author believes, provide a 'universal buyer-supplier solution'. There is evidence in these research findings to support this and this adds validity to the conclusions of other research that has questioned the universal applicability of partnering (Cox 1997, 2005; Ramsay, 1996; McDonald, 1999; Gadde and Snehota, 2000 etc.). Quite simply, cases one (WFF franchise-franchisor), four (CS-DFOB) and five (H&H-S&J Dodd) have shown that collaboration does not have to involve equal sharing of the risk and rewards.

Furthermore, the cases illustrated the strategic dynamics within buyer-supplier relationships. The selection of cases predetermined that the organisations to be analysed should be pursuing a 'partnership' relationship. This, therefore, dictated that the five dyadic relationships would be close rather than arm's length. It is interesting to note that for the five relationships analysed, all parties demonstrated both a desire to collaborate and saw a benefit in doing so. However, parties who were aware that they were not receiving an equitable share of the surplus value, as was the case for CS, were attempting to re-address this imbalance.

The cases have also demonstrated that it was not always appropriate to have close or collaborative relationships rather than to operate in an arm's length manner. This can be understood from a number of perspectives, as highlighted in the case findings. In cases two (Caspian-Pioneer) and five (H&H-S&J Dodd), changing circumstances made a collaborative relationship more appropriate. Prior to the development of the 'Lakeland' brand, it can be

686 Under the implicit definition provided by the UK Government.

argued, that an arm's length relationship was a wholly appropriate way of managing both the Caspian- Pioneer and H&H-S&J Dodd relationships. This is because the size and criticality of the purchase changed. With the development of Caspian's new 'flagship' restaurant, promoting the 'Lakeland' brand, product volumes purchased from Pioneer increased significantly. The success of the 'Lakeland' brand also meant that H&H needed to increase the volume of beef purchased from suppliers like S&J Dodd. These relationships became a function of the volume of business for the organisations involved (Spekman, 1988; Gadde and Snehota, 2000). Second, in both of these cases the relationships moved from arm's length to close as the purchase, regardless of the volume of business, moved from non-critical[687] to a critical commodity (Ramsay, 1996; Gadde and Snehota, 2000). For example, Caspian's owner re-positioned the restaurant from a takeaway to a mid-priced restaurant and heavily promoted the use of locally sourced 'Lakeland' beef. This meant that the timely delivery of 'Lakeland' beef became a critical (operationally and commercially) product and service.

Furthermore, from a different perspective it can be argued, that the move from an arm's length to a close relationship, as demonstrated in cases two and five, are appropriate when these relationships are viewed as an investment decision (Engstroom et al. 1996; Ramsay, 1996; Gadde and Snehota, 2000, Cox, 2003; Watson et al., 2003). In case two, prior to the development of the 'Lakeland' brand, it can be argued that there was no obvious benefit to either Caspian or Pioneer in developing closer ties. The development of the 'Lakeland' brand, which coincided with the change of direction for Caspian, altered the circumstances surrounding the relationship. In this case, the increased risk, cost and the potential loss of

[687] Or less critical.

power for the purchaser were, arguably, outweighed by the perceived benefits to come from the formation of a partnership (Ramsay, 1996 p. 14).

The same rationale can be applied to case five. H&H and S&J Dodd had been operating in an arm's length manner. In order to overcome potential obstacles, both parties felt it was justifiable to develop a close relationship. For H&H the development and success of the 'Lakeland' brand made it necessary, as discussed, to develop a closer relationship with S&J Dodd. A closer relationship improved the flow of information about the supply market, helping H&H to reduce the risk of supply shortages. For S&J Dodd, a concentration of buyers and a focus on producing beasts most suitable for the 'Lakeland' beef brand also made collaboration more appropriate. Obtaining key information about customer preferences became increasingly important.

Finally, in case three, although Pioneer and H&H had been working together for some time, the development of the 'Lakeland' brand acted as the catalyst and justifier for a higher degree of collaboration. First, this case demonstrated that the type of process increasingly favoured a move from arm's length to close. As the volume of 'Lakeland' beef sales increased, Pioneer's production moved from smaller batch runs to an assembly line production process. Here, the stable flow of materials through the process became increasingly important (Leenders and Blenhorn, 1988; Ramsay, 1996), making collaboration more appropriate. Furthermore, the type of purchase in this case changed. The volume and criticality of the purchase increased with the growth of the 'Lakeland' brand. This led to a closer relationship being increasingly appropriate.

This discussion of the case findings demonstrates, as some writers have also argued (Ramsay, 1996; Mitchell, 1997; Gadde and Snehota, 2000; Cox, 1997, 2003, 2005 etc.), that the circumstances which may make collaboration or partnering viable will not always be present in all buyer-supplier relationships. Therefore, it can be argued that the UK Government cannot offer partnerships as a universal solution for problems within the UK farming and food industry.

Second, there is evidence in the case findings that partnering is more likely to be successful under conditions of interdependence. This can be seen by contrasting the findings of case four, with cases two and three. In case four (CS–DFOB) this 'partnership' was being managed as a supplier-skewed adversarial collaborative relationship, as a result of the underlying power circumstances of supplier dominance. As the relationship was not being managed in a non-adversarial manner, CS was actively looking to re-address this imbalance. If DFOB continued to be unwilling to change the terms of this relationship, then it is quite possible that this unequal 'partnership' will fail. This indicates that imbalanced relationships can become increasingly conflict-based and may result in relationship failure. This view is supported by some authors who believe that benefits of partnership are most likely to be derived from large, powerful companies working together (Ramsay, 1996; Burt, 1989). Here there is the assumption that there is a high level of interdependence[688] between the organisations. This view is also partially supported by case five. S&J Dodd were not happy with the unequal sharing of surplus value and their attempt to re-address this could cause the relationship to falter. However, although S&J Dodd are unhappy with the situation, as the weaker party, they may not be able to significantly alter the power dynamics in the relationship. Therefore, they may have to accept the position of willing supplicant. This may

[688] With equal power resources.

not be ideal, but under these circumstances collaboration may still be possible. However, no one must be under the illusion that this is a partnership of equals. Furthermore, this type of 'partnership' is also unlikely to foster an atmosphere of openness and trust.

Case two (Caspian-Pioneer) was, by contrast, a 'model' example of the benefits of an interdependent power position. This relationship was managed in a non-adversarial collaborative manner, whereby the relationship was characterised by openness and trust, with both parties working together to increase value in the chain. Case three (Pioneer-H&H) is also, in many ways, a 'model' example of how a 'partnership' can help increase value in the chain. As was argued, although the relationship was viewed as supplier dominance it was on the cusp of interdependence. When there are only minor resource endowment advantages for either the buyer or supplier, as this case demonstrated, it may be perfectly rational to forego the short-terms gains in managing the relationship adversarially, in return for the benefits of long-term stability. Therefore, whilst case three still demonstrates the benefits of relative interdependence, it also emphasises the potential limitations of the four box power matrix.

The cases presented in this thesis are sufficiently clear to suggest, therefore, that a much more nuanced understanding of the term partnership is necessary if it is to be successfully adopted by the UK Government as a policy initiative for the farming and food industry. Having defined the term partnership in the thesis, it is clear that only one of the five cases, case two (Caspian–Pioneer), conformed to the definition. This has implications for policy-makers in this sector who are pushing for 'partnerships' as a universal solution in the UK farming and food industry. Industry participants, it is argued, will lose faith in sectoral policy makers if partnering is promoted in such as way. To demonstrate a robust understanding of the challenges facing participants in this sector, partnering must be offered as a potential solution, whilst making it clear how the benefits and risk from collaboration will be shared. Furthermore it must be made explicit that there are circumstances when partnering will be neither possible nor appropriate. According to Martin Palmer, the director of Industry Consulting of the MLC, "[T]he take-up of initiatives such as Probe [a tool aimed at identifying and eliminating waste] and Masterclass [a benchmarking club] was extremely slow. People in the industry just did not feel that much of the advice given by RMIF was balanced. Exercises such as Probe were seen by many as just another way of helping powerful companies get even more control over their suppliers"[689].

Unfortunately, the author believes, the over-simplistic approach adopted by UK Government's sectoral advisors has contributed towards the slow uptake of collaborative initiatives in this sector. This, the author feels, is a missed opportunity. There is little doubt that partnering and collaboration, and tools such as lean, can be applied successfully in this sector. There are many opportunities in the UK farming and food industry to reduce waste and improve efficiency in relationships and entire supply chains (see Simmons et al., 2003; FCC, 2003, 2004a, b; Fearne, 2005; DEFRA, 2007 etc.).

Furthermore, even when partnering, as defined in this thesis and demonstrated by case two, is possible, the circumstances of interdependence might be unstable and change due to natural market developments (see Oliver, 1990). We cannot assume that the dynamics, for instance, between Caspian and Pioneer will always remain the same (see Cox et al., 2001). For example, if the 'Lakeland' brand was to go national or be successful internationally and the volume of sales significantly increased, this would dilute the power position of Caspian. With national (or international) recognition, Pioneer will be far less reliant on local 'flagship'

[689] Interview with Martin Palmer on 11/07/2006.

restaurants, such as Caspian, to raise the profile of the brand and they could then be lost without significant operational or commercial consequences. Conversely, if Caspian's owner establishes a chain of restaurants and significantly increases the volume of their sales, the power dynamics of the relationship would swing in favour of the buyer[690]. In either scenario it would be quite logical that the relationship might move from non-adversarial to adversarial collaboration (buyer or supplier-skewed) or even adversarial arm's length.

Finally, on top of natural change, some firms will act opportunistically and, either actively try to change the power circumstances, or commit other acts of opportunism within the existing power circumstances (Willaimson, 1975; Shelanski and Klein, 1995; Watson, 2002; Cox et al., 2003). This assumption is the most difficult to demonstrate from the case findings, yet it has serious implications for the UK Government's key sectoral objectives. If the UK Government promotes 'partnering', without delivering a robust 'health warning' and organisations enter into relationships without due regard to the risks of opportunism, then the credibility of sectoral policy direction may be further undermined. In case four, there was evidence that CS was acting opportunistically by trying to develop direct relationships with farmers along-side the existing contract with DFOB for fresh milk supply[691]. Any attempt to form direct relationships with milk producers, the formation of a farmers club or reducing CS's reliance on DFOB by bringing in-house an expert milk buyer, can be construed as rationally opportunistic behaviour, aimed at altering the current balance of power between CS and DFOB. It can also be argued that in this case, DFOB were acting opportunistically and in their own interest by purchasing processing capability to process a higher proportion of their own milk, whilst delivering only the minimum quality of product and service at the

[690] If Pioneers overall sales of 'Lakeland' products remained constant, then the proportion of total sales accounted for by Caspian would increase.
[691] CS wanted to keep their plans of establishing direct relationships with dairy farmers as quite as possible for fear of damaging their relationship with DFOB. Interview with Craig Mallet on 16/5/2005.

maximum possible price to CS[692]. As there was no legal obligation to deliver anything other than this and as the power circumstances had arguably changed over time to supplier dominance, with DFOB no longer being so reliant on CS for revenue generation, this is quite a logical outcome. Furthermore, there is evidence to suggest, for example, that H&H's main purpose for developing a 'partnership' with S&J Dodd was to gain more influence and control over their supplier. H&H are still the main gateway for information about end-customer requirements. It is quite rational for H&H to use their position for their own advantage. They may choose to pass on key information only when it is of benefit to them. For instance, suggesting specific feeding regimes which influence carcass conformity and which may lock S&J Dodd further into the relationship.

In conclusion, the findings presented in the five cases demonstrate that the UK Government's over-reliance on collaboration and partnering thinking as a universal solution to the problems facing the farming and food industry, signals a rather simplistic view of UK food supply chains. It is significant that collaboration or partnering has never been adequately defined by UK policy-makers. It is also significant that within the UK farming and food industry, the politically sensitive issue of power in buyer-supplier exchanges has never been adequately acknowledged or addressed. Jackson et al., (2006) seem to concur. They argue that, "[F]or the government, the food chain approach appealed to the idea of 'joined up government'" (p. 133). Furthermore, they argue that the predominant direction of UK Government-supported research and policy has been informed by this linear way of thinking. This can be criticised for having a strictly 'economic' view of supply chains, whereby the primary aim is to improve efficiency through the identification and eliminations of waste (see, for example, Food Chain Centre, 2003). Furthermore, the work of Sustain, as emphasised by Jackson et

[692] Although it was public knowledge that DFOB has increased its processing capability by purchasing ACC, they did not want CS to know that their medium to long-term strategy was to significantly increase the proportion of member's milk going into to their own value added products, such as DFOB branded Somerset Brie. Interview with Phil Scott on the 11/11/2005.

al., (2006) highlighted that the current crisis in the UK farming and food industry was partly the result of the growing power of the supermarkets (Jackson et al., 2006).

There is insufficient space to comment in detail on the findings from the two Competition Commission (2000 and 2008) grocery market inquiries previously discussed. However, it is evident that concerns raised in the Competition Commission's 2000 grocery market inquiry, relating to the abuse of power imbalances by the multiple retailers, have not been fully addressed; something that sits uneasily with the present sectoral policy. Therefore, the author suggests that policy direction needs to change. UK farming and food industry participants should be encouraged to adopt a contingent approach to strategy formation to help achieve the Government's sectoral objectives. What this means is that organisations should be encouraged, for instance, to pursue collaborative relationships and form partnerships only when appropriate. Government bodies such as the FCC, RMIF, EFFP etc. and the policies they are trying to operationalise in the farming and food sector, will, the author believes, never be fully embraced by the farmers (and others) until a more nuanced understanding of market dynamics is demonstrated. By advocating, what many see as a one-dimensional view of the world, whereby collaboration and partnering is nearly always appropriate, the UK Government and their agencies will never win over industry sceptics, nor will they foster an environment of trust, an attribute, as discussed, which is so critical to the success of partnerships. This situation will only get worse if the supermarkets are allowed get stronger and stronger. The UK Government's sectoral policy of promoting partnering will only be credible if a balanced view is demonstrated highlighting that in some cases an arm's length relationship is also suitable.

Furthermore, organisations should be encouraged to enter into a collaborative relationship with their eyes open. When there is a balanced power relationship or interdependence, non-adversarial collaboration is possible. It is under these conditions, as the hypothesis suggests, and as confirmed by the research findings, that partnering, 'is more likely to be successfully implemented'. However, as is also suggested in the hypothesis, '[T]his power structure will not always pertain within UK food supply chains, as is the case with supply chains generally'. That is not to say that collaboration or indeed 'partnering' (adversarial collaboration) cannot deliver benefits to both buyers and suppliers when there are unbalanced power relationships. However, by acknowledging, rather than concealing the existence and impact of power, the outcomes of these relationships are more likely to be acceptable to collaborating parties. This will foster an era of openness and trust, which will help, rather than hinder, the actualisation of the UK Government's sectoral objectives.

The author believes that this process must start with an acknowledgement of the existence of power in buyer-supplier relationships and the implementation of policy to stop the 'exploitation and marginalisation of primary producers' (Inderst and Mazzarotto, 2006; Vorley, 2005). The aim of this policy would be limit the impact (for primary producers) of a concentration of market power from the multiple retailers and increased competition from cheap imports.

12.5. General research limitations

Some of the limitations of the power and relationship management type models have been highlighted in the previous section. However, there are also a number of potential general limitations of the research. First, the five buyer-supplier relationships selected from the UK farming and food sector have been studied over a discrete period in time. Although reference has been made, in particular, in case two and five, to the changing dynamics of these relationships (from arms' length to close), there has been no structured attempt to provide a dynamic longitudinal insights into the relationships presented in this thesis. The power and relationship management type analysis has presented the circumstances, to some extent, as a snapshot in time. This means that it is not possible to comment with any conviction about how these relationships have and will continue to change over time.

The second limitation of the research study has been to focus on only power as the determining factor in gauging the likely success of partnerships and the appropriateness of relationship management types. As has already been discussed, it is possible there will be other cases and instances when buyer-supplier exchanges and relationship management types will be determined by factors other than power, such as ideology and social factors. However, the focus of this research was on the strand on the B2B literature focusing on power in buyer-supplier relationships. Having developed the hypothesis from a reading of this literature, it was outside of the scope of the research study to consider the implications of agency in buyer supplier exchanges. The power literature did not consider issues such as trust, ideology or social factors, for instance, to be important when investigating buyer-supplier relationships.

A final limitation is the methodological approach in data collection and analysis. In an attempt to obtain generalisable conclusions, an embedded multiple case study approach was adopted, with data collected through the completion of two semi-structured questionnaires, with representatives from the buyer and supplier organisations (and then validated, when possible, by a third party), through face-to-face interviews. Although a vigorous methodological approach to data collection and analysis was followed, the author acknowledges a number of potential weaknesses. First, ideally the research study would have included an analysis of more relationships. However, the detailed nature of the analysis, which was needed to be able to draw meaningful conclusions, makes it difficult within a restricted time-frame and available resources, to do further analysis. Furthermore, by attempting to do so, there was the danger that the depth of analysis and, therefore, insight from this research study would have been diminished. In addition, the choice of cases was also dictated by practical issues of accessibility.

Second, another potential limitation is that in some instances there were only a few informants as representatives of the participating companies in the semi-structured interviews. This could mean that the validity of some of the data obtained is questionable due to the subjective position of individual interviewees. However, the author feels that this weakness was largely addressed by validating information with a number of sources. This included validating information with other individuals within the focal organisation and key personal in the supply organisations, a review of supporting documentation and other secondary data, and, when possible, consultation with independent industry experts.

12.6. Future research agenda

One issue driving the future research agenda, born out of the previous discussion of the research limitations, is the generalisability of the concepts of power and relationship management types. The author believes that although this research study has demonstrated a potential link between power and relationship management types, the case findings have also highlighted some potential deficiencies with the current models. For the author, this is an exciting opportunity to conduct further research. The adapted models presented in Figures 12.5 and 12.6 are, at this stage, work-in-progress. The aim of any future research would be to further validate the adapted models and to develop them by conducting research to capture detailed information of a range of relationships, including those which fall in segments A-F in Figure 12.5 and within the 'soft' or 'indiscernible' zones, highlighted in Figure 12.6.

When we consider the adapted relationship management type model shown in Figure 12.5, when there is a less clearly defined, or intermediary way of working (segments B, D and F), it would be interesting to investigate the relationship management implications of: the specific number of connectivity measures (for e.g. two rather that three etc.), and, the specific range of connectivity measures (i.e. are relationship-specific adaptations more important that cooperative norms?), as defined by Cannon and Perrault (1999) and explained in full in chapter three. Further research is also required to test whether, as suggested, relationships falling in these intermediary relationship forms are indeed more unpredictable and more likely subject to opportunistic behaviour.

Another focus of future research would be to consider relationships which fall into segments A, C, E and G of the adapted relationship management type model, shown in Figure 12.5. It would be interesting to consider in more detail, the consequences of unclear (neither equal or significantly in favour of the buyer or supplier) sharing of surplus value. It has been suggested by the author that this may signal that either party is not fully utilising their power resource endowments. However, there may be another explanation. In light of this better understanding this further research will also explore, in more detail, the link between power and relationship management types.

When we consider the four box power matrix, the author believes it is a potentially powerful model for interpreting buyer-supplier relationships, when it is evident that there are strong or 'hard' power dynamics at play. However, from the author's experience of analysing buyer-supplier relationships, which is supported by some of the case findings presented in this thesis, it is evident that the power dynamics between buyers and suppliers are often not so clear cut. Under conditions of 'soft' buyer or supplier dominance, or an indiscernible power position, it is possible that factors other than power, such as trust, ideological and social factors, play a greater role than originally envisaged in determining the outcome of buyer-supplier exchanges. Future research should investigate the consequence and management implications of relationships which fall into these 'soft' relationship forms, as highlighted in Figure 12.6. It is possible that under these power circumstances, other factors provide an alternative or potentially complementary explanation of buyer-supplier relationships. The author believes that with more focused research, it will be possible to create a model which incorporates many of the principles established by the power school of thought, whilst being open to the prospect that there are other explanations for the outcomes of buyer-supplier exchanges. In particular, when the power relationship is less clearly defined.

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Appendix One

Power and Competition Analysis Questionnaire

Power and competition analysis questionnaire

Background information:

Contact (s) and position: ____
____

Company / business unit under investigation: ____
____

Section A questions: focused on determining the subject's marketing approach with customers

1. What end product and / or service is the item under investigation being bought for?

2. For this end product, who are your key channel partners (%) and what % of total turnover (for the business) is attributed to each of these?

3. For a key customer, what do you supply?

4. What performance criteria are important to your key end customers?

Guidance: There a number of performance objectives; quality, speed, dependability, flexibility and cost.

5. What is your customer /competitive strategy as a supplier?

Guidance: These can include cost leadership, differentiation and hybrid- cost leadership / differentiation strategies.

6. As a supplier, how do you manage your buyer? Do you see them as a development account, key account, low value account or exploitation account?

Section B1 questions: buyer-focused questions, aimed at determining buyer and supplier power

1. How operationally important is the item to be sourced? (U)

Guidance: If the buyer cannot function without the product or service offered by a supplier then the operational importance of the item is HIGH. If the buyer can function without this product or service then the operational importance of the item is LOW.

2. Is the item sourced of commercial importance? (U)

Guidance: If the item sourced is a primary good and is used directly by the buyer as a way of generating revenue from customers then it will be of HIGH commercial importance. If the item being sourced is a support good or service and is not used directly, but supports the buyer's operations (indirect/non-production operations), then the commercial importance will be LOW.

3. What % of the buyers total spend is devoted to this item? (U)

Guidance: If a HIGH percentage (over 10%) of the buyer's total spend is devoted to the specific item under investigation, this could suggest the item is a critical category of spend. If the item only accounts for a LOW percentage (less than 2%) of total spend, this would suggest the item is not a critical category of spend. If the spend is between 2-9% this could indicate MEDIUM importance.

4. Is reciprocity a factor in the relationship between the buyer and supplier? (U)

Guidance: The impact of reciprocity can be HIGH when the supplier also provides a significant proportion of the buyer's revenue. The impact of reciprocity can be LOW when the supplier provides only a minor share of the buyer's turnover or reciprocity is NOT A FACTOR in the relationship.

5. How many potential suppliers are there for this item of spend? (S)

Guidance: There may be FEW (3 or less), RESTRICTED (4-10) or MANY (10+) potential suppliers in the market who can supply a particular good or service.

6. How contested is the current supply market? (S)

A HIGHLY contested supply market is one in which the market incumbents fiercely compete for business and where there is evidence of rapid price reductions or price wars. These items tend to be commodities because they are standardised, with low costs of switch for the buyer. A LOW contested market is one in which there is cartelised pricing and prices can be maintained (verified with QB1.13). These items tend to be differentiated products, often with high costs of switch for the buyer. If there is evidence of some price erosion and / or competition from incumbents, then the level of contestation will be said to be MEDIUM.

7. How commoditised is the supply offering? (S)

Guidance: Some items sold are HIGHLY commoditised or standardised. When the supply offering is highly commoditised, this normally means that there are low barriers to entry, switching costs for the buyer are low and the intellectual properties in the item are known and can be replicated. In other words, there are few isolating mechanisms available for the supplier. If the item can only be manufactured by a few suppliers then the level is MEDIUM. Conversely, if there is a high degree of customisation or differentiation and only one or two suppliers produce the item then there is LOW commoditisation.

8. Are credible substitute items easily available? (S)

Guidance: If substitutes could be used and there are low costs of switch then availability is HIGH. If there are substitutes, but there are substantial costs of switch, then availability (and scarcity) is MEDUIM. If there are no substitutes, or if substitutes could be used, but only over time and with great difficulty, then availability is LOW.

9. How high are the barriers to entry for new suppliers? (S)

Guidance: If it will take time and there are high costs incurred to enter into a market then the barriers to entry are HIGH. If entry will either take time or is high cost, then barriers to entry are MEDIUM. If it takes little time and will incur only low costs, then barriers to entry are LOW.

10. How many isolating mechanisms does the supplier have against their competitors and how sustainable are they? (S)

Guidance: Isolating mechanisms can include legal property rights, economies of scale, information impactedness, causal ambiguity, reputation effects (brands), buyer switching costs, buyer search costs, network effects, collusive cartels, lack of substitution, lack of threat of backward integration and lack of disintermediation threat. If a supplier has several (+ 3), they have MANY isolating mechanisms. When they have one or two, they have FEW isolating mechanisms. They may also possess NONE.

11. Does the buyer pose a realistic threat of backward integration? (S)

Guidance: This question considers whether the buyer has the time, willingness, financial resources, physical assets and or know-how to be able to do what the supplier currently does. If the buyer has all of these capabilities then they possess a HIGH threat of backward integration. If the buyer has some, but not all of these, it is a MEDIUM threat. If the buyer has none of these, then it poses a LOW threat for the supplier.

12. Is it possible to take the first-tier supplier out of the chain? (S)

Guidance: If it is easy to cut out the first tier middleman then the scope for disintermediation is HIGH. If it would take a great deal of effort or the first-tier supplier adds significant value then the scope for disintermediation is LOW.

13. What is the current evidence of cartelisation in this supply market? (S)

Guidance: If both price fixing and dividing up market share occurs, then cartelisation is HIGH. If only one of these occurs then it is MEDIUM. If neither occurs it is LOW.

14. What is the current level of lock-in by the supplier of the buyer's business? (S)

Guidance: If there is evidence of significant dedicated investments made by the buyer then lock-in is HIGH. If there is evidence of moderate levels of dedicated investments made by the buyer then lock-in is MEDIUM and if there is no evidence of significant dedicated investments made by the buyer then lock-in is LOW.

15. How high are the buyer's switching costs? (S)

To replace a supplier may require time (entail a learning curve), be very costly and can seriously disrupt the buyer's operational capability. If these all occur then the costs of switch are HIGH. If some exist then they are MEDIUM. If they are easily overcome with no real costs or disruptions then switching costs are LOW.

16. Are the buyers search costs high or low? (I)

Guidance: They are HIGH when it is difficult and costly to compare suppliers or benchmark incumbent suppliers against competitors. Search costs are MEDIUM when there is limited information available or it is relatively expensive to compare suppliers or benchmark incumbent suppliers against competitors. Buyer search costs are LOW when it is easy and relatively inexpensive to monitor and benchmark supplier's performance.

17. Does the buyer have low or high levels of information asymmetry? (I)

Guidance: Buyer information asymmetry is HIGH when the relationship between quality and functionality of the item and cost price is not readily available and is known only to the supplier (with the supplier having many ways of denying this information to the buyer). Information asymmetry is MEDIUM when the relationship is partially known (with scope for this information advantages to be eroded over time) and is LOW when this relationship is fully transparent and there is no defence against this.

18. What type of product/service is being purchased (experience, search or credence)? (I)

Guidance: If the good is an EXPERIENCE good, it has to be physically compared to similar items from other suppliers. If the good is a CREDENCE good the buyer cannot easily evaluate it, even once the item has been consumed. If the item being bought is a SEARCH good, the buyer can obtain information to be able to compare the item with another supplier.

Section B2 questions: supplier focused questions, aimed at determining buyer and supplier power

1. How significant is the buyer’s spend to the operational sustainability of the supplier's business (i.e. regular and predictable)? (U)

Guidance: If the buyer does not provide a regular and predictable demand, the buyer’s expenditure will have a LOW level of operational importance. If the buyer can provide regular and predictable demand, then the buyer’s spend will have a HIGH level of operational importance.

2. How commercially important is the buyer to the supplier? (U)

Guidance: If the ratio between a buyer’s expenditure with a particular supplier and that supplier’s total sales revenue is high (more than 6%) and there is significant potential for future revenue generation, then the commercial importance will be HIGH. If the ratio is low (< 6%) and there is little or no future revenue generating opportunities, then the buyer will be of LOW commercial importance.

3. Does the buyer provide the supplier with clear and consistent demand forecasting and capacity planning information? (U)

Guidance: If buyers are able to provide suppliers with clear and consistent demand forecasting and capacity planning information, the answer is YES (and will be viewed by suppliers as having high felicitousness). If the buyer is unable to provide this information, the answer is NO (they will have low felicitousness).

4. Is the buyer's business attractive for the supplier? (U)

Guidance: If being associated with the buyer’s brand provides opportunities to enter into new markets and there is scope for the buyer and supplier to work together to develop new products and / or services, then the attractiveness is HIGH. If there are no future opportunities to enter into new markets, then the buyer’s attractiveness in LOW.

5. How many customers in total does the supplier have for this item? (S)

Guidance: The current supplier may have MANY (>15) actual customers buying from it, MODERATE (6-14) or only a FEW[693] (<5).

6. How many potential customers are there for this supplier? (S)

Guidance: The current supplier may have MANY (>15), MODERATE (6-14) or FEW (<5) potential new customers.

7. How high are the suppliers sunk costs? (S)

Guidance: If the supplier has made very few dedicated investments, both tangible and intangible, then the sunk costs will be LOW. If there has been a significant dedicated investment made in the relationship then the sunk costs are HIGH. If the supplier has made some dedicated then the sunk cost is MEDIUM.

8. Does the supplier have the ability to forward integrate? (S)

Guidance: If the supplier has both the financial resources and know-how the answer is YES and it can forward integrate in the supply chain. If it does not have the financial resources and know-how, then the answer is NO.

9. Does the supplier have access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.)? (I)

Guidance: If the supplier has access to private buyer information (i.e. budgets, reservation price, what is valued, who specifies etc.) the answer will be YES. If the supplier does not have access to private information the answer will be NO.

[693] This assumes that no one customer accounts for a significant proportion of company turnover and that all customers are of relative equal importance.

Appendix Two

Relationship Management Type Questionnaire

Relationship management type questionnaire

Background information:

Contact (s) and position: ____
____

Company / business unit under investigation: ______________________________________
____

Way of working questions:

1. For the relationship in question, is there only a basic exchange of information and products or services, such as a basic specification, volume and timings information from the buyer and limited specification, timing and pricing information from the supplier?

2. Can evidence be provided demonstrating that the relationship has moved beyond an arm's length relationship? What specific product / process information exchange, operational linkages, legal bonds, cooperative norms and relationship specific adaptations are present in the relationship?

Sharing of surplus value questions:

1. What are the commercial goals for the buyer and supplier (i.e. strategic ends, such as security of supply) of entering into this relationship?

2. Were these commercial goals fully or partially realised?

3. Is there an equal distribution of relationship-specific investments?

4. If not, who has invested more in relationship-specific adaptations (what evidence is there to support this)?

5. What profit margins does the supplier make?

6. What evidence is there in the contract (or agreement) to indicate an equal or unequal sharing of the surplus value (payment terms, length of contract, detrimental clauses, allocation of risks etc.)?

Appendix Three

Full List of Interviews and Supporting Documents

Date of interview	Ref #	Interviewee name	Interviewee position	Company / organisation, location of interview, duration	Organisat-ion type	Purpose of interview
14/06/2003	1	Paul Hillman	NWFA Consultant	North West Food Alliance, Runcorn, 2hrs	Government Body	Background to industry
08/09/2003	2	Lisa Jones	NW Project Manager	North West Food Alliance, Runcorn, 3hrs	Government Body	Background to industry
16/10/2003	3	Steve Apted	Service Team Manager	Whitbread Group PLC, Dunstable, Bedfordshire, telephone interview 1hrs	Food Service	Background to industry / soliciting project participation
06/11/2003	4	Paul Hillman	NWFA Consultant	North West Food Alliance, Runcorn, 2hrs	Government Body	Background to industry
06/11/2003	5	Helen Little	Regional Manager	NFU, Skelmersdale, 2hrs	Government Body	Background to industry
11/11/2003	6	Julian France	Owner	Healthy Decisions Ltd, Barrow-in-Furnace, 1hr	Butchers	Background to industry
11/11/2003	7	Liz Clark	Owner	Denny's Butchers, Levens, Nr Kendal, 1 ½ hrs	Butchers	Background to industry
11/11/2003	8	Richard Hartle	Owner	Hartle Estates, 2hrs	Halaal Abattoir	Background to industry
12/11/2003	9	William Houston	Senior Consultant	Farmcare, Penrith, 1hr	Government Body	Background to industry
12/11/2003	10	Steve Dunning	Owner	F.B. Dunning & Son, Nr Kendal, 1hr	Beef/Lamb Farmer	Background to industry

12/11/2003	11	Charles Lowther	Managing Director	Nord Vue Farms Ltd/Lowther Estates, Lowther, 2hrs	Organic Beef/Lamb Farmer	Background to industry
12/11/2003	12	John Dunning	Owner	Messrs J.C. Dunning, 2 hrs	Beef / Lamb Farmer	Background to industry
13/11/2003	13	Tim Bastable	Project Consultant	H&H, Carlisle, 2hrs	Auctioneers	Background to industry / soliciting project participation
13/11/2003	14	Susan Aglonby	Owner	Croft Farm Meats, Carlisle, 1hr	Organic Beef/Lamb/Pig Farmer	Background to industry
14/11/2003	15	John & Lyne Perking	Owner	White Holm Farm, 1hr	Organic Beef/Lamb/Pig Farmer	Background to industry
14/11/2009	16	Roger Mason	Owner	R Mason & Son	Dairy Farmer	Background to industry
20/11/2003	17	Sharon Ellis	Special Projects Manager	RMIF, Milton Keynes, 1hr	Government Body	Background to industry
21/11/2003	18	Sarah Williams	Regional Project Manager	North West Food Alliance, Runcorn, 3hrs	Government Body	Background to industry
25/11/2003	19	Trevor Hebden & Tim Bastable	Managing Director / Project Consultant	H & H, Carlisle, 1hrs	Auctioneers	Background to industry / soliciting project participation
25/11/2003	20	Barry Garrett	Commercial Director	Pioneer Foodservices, Carlisle, 2hrs	Catering Butcher/ Food Manufacturer	Background to industry / soliciting project support
25/11/2003	21	David Buckle	Owner	David Buckle, Nr Carlisle, 1hr	Livestock Haulage	Background to industry
26/11/2003	22	Richard Morris	Managing Director	PF & K, Penrith, 1 hrs	Farm Finance	Background to industry
26/11/2003	23	Dudley Carrathens	Managing Director	Udales, Cumbrian Fellbred, Milnthorpe	Catering Butchers / Food Manufacture	Background to industry
27/11/2003	24	Barry Bell	Store Manager	Carrs Billington, Carlisle, 1hr	Feed/Agricultural Supplier	Background to industry
27/11/2003	25	John Geldard	Owner	Low Foulshaw Farm / Plumgarths Farm Shop, 2hrs	Beef/Lamb Farmer & Butchers / Retail	Background to industry
28/11/2003	26	Martin Palmer	Director	Industry Consulting, MLC, Milton Keynes, 2hrs	Government Body	Background to industry

01/12/2003	27	Gregg Orrell	Purchasing Director	Brooks Avana / RHM, Newport, telephone interview 30 mins	Food Manufacturer	Background to industry / soliciting project support
02/12/2003	28	Paul Wilgoss	Senior Buyer	M & S, London, 1hr	Multiple Retailer	Background to industry
02/12/2003	29	Michael Douglas	Owner	Meat Buyer for Rose County, telephone interview, 1hr	Dealer / Buyer	Background to industry
03/12/2003	30	Martin Palmer	Director	Industry Consulting, MLC, Milton Keynes, 3hrs	Government Body	Background to industry
05/12/2003	31	Andrew Hayes	Operations Manager	Keypak, Preston, 2hrs	Meat Processor	Background to industry
05/12/2003	32	Geoff Nutter	Owner	Geoff Nutter, Preston, 1hr	Dealer / Buyer	Background to industry
08/12/2003	33	Chris Brown	Commodity Manager	ASDA, Leicester, 2hrs	Multiple Retailer	Background to industry / soliciting project support
12/12/2003	34	Tony Lambourne	Operations Manager	ADM UK Ltd, telephone interview, 1hr	Meat Processor	Background to industry
09/01/2004	35	Paul Hillman & Martin Palmer	As before	As before, Runcorn, 2hrs	Government Body	Background to industry
13/01/2004	36	Martin Palmer & Paul Jose	As before, Projects Manager	IC, MLC & Red Meat Industry Forum, Milton Keynes 2hrs	Government Body	Background to industry
14/01/2004	37	Martin Palmer	As before	IC, MLC, telephone interview, 1hr	Government Body	Background to industry
14/02/2004	38	Martin Palmer & John Davis	As before, Managing Director	Welsh Meat Company, Visit to Wales, 3hrs	Government Body	Background to industry
11/03/2004	39	Martin Palmer	As before	IC, MLC, Milton Keynes, 2hrs	Government Body	Background to industry
31/03/2004	40	Various	Food Strategy Workshop	NWFA, Myercough College, Preston, 3hrs	Government Body	Background to industry
04/05/2004	41	Martin Palmer	Director	IC, MLC, Milton Keynes, 2hrs	Government Body	Background to industry
11/05/2004	42	Tony Blackburn	Director	EFSIS Holdings, telephone interview, 1hr	Farm Consultancy	Background to industry
18/05/2004	43	Paul Hillman	As before	NWFA, Runcorn, 2hrs	Government Body	Background to industry

19/05/2004	44	Richard Field	Chief Executive	Randall Parker Food Group Limited, Towcester, 2hrs	Meat Processor/ Wholesaler-Lamb & Beef	Background to industry
20/05/2004	45	John Dawkins	Chief Executive	Dawkins International (Chitty Food Group), Sutton Cheney, 2hrs	Meat Processor (Beef and Sows)	Background to industry
20/05/2004	46	Richard Sanderson	Operations Manager	Grampian County Pork Suffolk Ltd, telephone interview, 1hr	Integrated Pig Processor	Background to industry
20/05/2004	47	John Birnie	Meat Buyer	Sainsbury's, telephone interview, 1hr	Multiple Retailer	Background to industry
21/05/2004	48	Andrew Knowles	Strategy Coordinator	BPEX, Milton Keynes, 2hrs	Government Body	Background to industry
24/05/2004	49	Alan King	Managing Director	Blade Farming, Langport, 2hrs	Meat Processor	Background to industry
25/05/2004	50	John Uffold	Managing Director	Ludlow Livestock Market, Ludlow, 2hrs	Auctioneers	Background to industry
28/05/2004	51	Clive Brown	Area Manager	EBLEX/BPEX, Milton Keynes, 1hr	Government Body	Background to industry
15/06/2004	52	Barry Jones	Dungannon Meats	Dungannon Meats, Llanwbyther, telephone interview, 2hrs	Meat Processor	Background to industry
05/07/2004	53	Paul Rhodes, David Hall & Stewart Thompson	Project Manager	EFFP, London, 2hrs	Government Body	Background to industry
22/07/2004	54	Dr Grantley Smith & Paul Jose	A before, Project Manager	RMIF, Milton Keynes, 4hrs	Government Body	Background to industry
25/11/2005	55	Martin Palmer	as before	MLC, Milton Keynes, 2hrs	Government Body	Background to industry / analysis validation
22/02/2005	56	Dr Grantley-Smith	Director	RMIF, Milton Keynes, 2hrs	Government Body	Background to industry / analysis validation
26/05/2005	57	Dr Grantley-Smith	Director	RMIF, Milton Keynes, 2hrs	Government Body	Background to industry
06/06/2005	58	Paul Rhodes	East Midlands project Manager	EFFP, Nottingham, 1hr	Government Body	Background to industry / analysis validation
29/06/2005	59	Jane Wiltshire	Category Buyer	Whitbread Group PLC, Dunstable, Bedfordshire, 2hrs	Food Service	Background to industry / soliciting project

						support
02/11/2005	60	Dr Grantley-Smith	Director	RMIF, Conference, London, 4hrs	Industry Body	Background to industry / analysis validation
16/03/2006	61	Adrian Barlow	Owner	English Apples and Pears Ltd, West Malling, meet in Birmingham, 2hrs	Apple and Pear Farmer	Background to industry
26/01/2006	62	Various, including Barry Garrett, Craig Davis, Martin Palmer and Tim Bastable	Various- see previous	London- 8hrs	Various	Conference / Workshop / analysis validation
29/03/2007	63	Roger Mason	Owner	Roger Mason & Son's	Dairy Farmer	Background to industry
21/03/2006	64	Fiona England	Marketing Manager	NWFA, Runcorn, 1.5 hrs	Government Body	Background to industry / analysis validation
02/05/2006	65	DR Martin Grantley-Smith	Director	RMIF, Milton Keynes, 2hrs	Government Body	Background to industry
04/05/2006	66	Various	Various	Various, Birmingham University	Various	Conference / Workshop / analysis validation
11/07/2006	67	Martin Palmer	Director	IC, MLC, Milton Keynes, 2hrs	Government Body	Background to industry / analysis validation
14/07/2006	68	Lisa Jones, Sarah Williams		NWFA, Runcorn, 2 hrs	Government Body	Background to industry / analysis validation
CASE 1		**WFF Franchisee**	**(Graham Davis)**	**WFF Apetito**	**Analysis**	
14/06/2006	1	Dick Richards, Catherine Harris	Meat Buyer, Purchasing Manager	Apetito, Birmingham, 2hrs	Food Manufacturer / WFF Franchiser	Start up meeting, information about Apetito and the Wiltshire Farm Foods Franchise

18/07/2006	2	John Ryman	Planning Manager (Operations)	Apetito, Trowbridge, Wiltshire, 1hrs	Food Manufacturer / WFF Franchiser	Apetito operations / planning
18/07/2006	3	Helen Rookley	Apetito Marketing Manager	Apetito, Trowbridge Wiltshire, 2hrs	Food Manufacturer / WFF Franchiser	WFF Marketing- Power and Competition Analysis & Relationship Management
18/07/2006	4	Richard Woodward, Ian Stone	National Accounts Manager, Business Development Director	Apetito, Trowbridge, Wiltshire, 1hrs	Food Manufacturer / WFF Franchiser	WFF Marketing- Power and Competition Analysis & Relationship Management
18/07/2006	4	Dick Richards, Catherine Harris	Meat Buyer, Purchasing Manager	Apetito / WFF, Trowbridge Wiltshire, 2hrs	Food Manufacturer / WFF Franchiser	Site visit, Power and Competition Analysis, Relationship Management
08/11/2006	5	Dick Richards, Catherine Harris	Meat Buyer, Purchasing Manager	Apetito / WFF, Trowbridge Wiltshire, 2hrs	Food Manufacturer / WFF Franchiser	Validation / confirmation of power and competition analysis & relationship management
08/11/2006	6	Kate Holden	WFF Marketing Manager	Apetito / WFF, Trowbridge Wiltshire, 2hrs	Food Manufacturer / WFF Franchiser	Validation / confirmation of power and competition analysis & relationship management
16/11/2006	7	Graham Davis, Marlyn Davis, Graham Bagley	Director, Sales and Marketing Manager, Operations	Wiltshire Farm Foods Franchisee, Lye, Stourbridge, 5hrs	WFF Franchisee (frozen ready meal delivery)	Validation / confirmation of power and competition analysis & relationship management
14/03/2007	8	Dick Richards, Catherine Harris	Meat Buyer, Purchasing Manager	Apetito / WFF, Birmingham, 2hrs	Food Manufacturer / WFF Franchiser	Validation / confirmation of power and competition analysis & relationship management
12/03/2009	9	Graham Davis, Graham Bagley	Director, Operations Manager	Wiltshire Farm Foods Franchisee, Briley Hill, Dudley, 2hrs	WFF Franchisee (frozen ready meal delivery)	Site visit, Validation of Power and Competition Analysis, Relationship Management

Supporting documents	1	Beef and Lamb Usage				
	2	Wiltshire Farm Foods Presentation				
	3	Apetito presentation				
	4	Meal of Wheels (Birmingham City Council, 2008)				
	5	WFF 2006 food catalogue				
Case 2		**Caspian**	**Restaurant**	**Pioneer**	**Analysis**	
15/06/2005	1	Sohrab Padidar, Jillian Pallister	Owner, General Manager	Caspian Flame Grill, Workington, 4hrs	Restaurant	Power and Competition Analysis and RM analysis
15/06/2005	2	Barry Garrett	Commercial Director,	Pioneer Foodservices, Carlisle, 2hrs	Catering Butchers / Food Manufacturer	Power and Competition Analysis and RM analysis
10/10/2005	3	Barry Garrett	Commercial Director	Pioneer Foodservices, telephone interview, 1hr	Catering Butchers / Food Manufacturer	Power and Competition Analysis and RM analysis verification
16/11/2005	4	Barry Garrett & David Jenkins	Commercial Director, Marketing Director,	Pioneer Foodservices, Carlisle, 3hrs	Catering Butchers / Food Manufacturer	Final Presentation /discussion and validation
11/03/2009	5	Sohrab Padidar	Owner	Caspian Flame Grill, telephone interview 1.5 hrs	Restaurant	Power and competition analysis and RM analysis verification
Case 3		**Pioneer**	**Foodservices**	**H&H**	**Analysis**	

23/05/2005	1	Barry Garret & Tim Bastable	Commercial Director, Project Consultant	Pioneer Foodservices, H & H, Carlisle, 4hrs	Catering Butchers / Food Manufacturer	Site visit, background information about companies, and the development of 'Lakeland' beef
01/06/2005	2	Barry Garrett	Commercial Director	Pioneer Foodservices, Carlisle, 2hrs	Catering Butchers / Food Manufacturer	Verification of background information
14/06/2005	3	Barry Garret and David Jenkins	Commercial Director, Marketing Director,	Pioneer Foodservices, Carlisle, 4hrs	Catering Butchers / Food Manufacturer	Power and Competition Analysis and RM analysis
12/10/2005	4	Barry Garrett, Robert Taylor, Robert Addison	Commercial Director, Senior Auctioneer, Auctioneer	Pioneer Foodservices, Carlisle, H & H, 3hrs	Catering Butchers / Food Manufacturer	Power and Competition Analysis and RM analysis verification
16/11/2005	5	Barry Garret & David Jenkins	Commercial Director, Marketing Director,	Pioneer Foodservices, Carlisle, 3hrs	Catering Butchers / Food Manufacturer	Final Presentation /discussion & validation
Supporting Documents	1	Farmer Location				
	2	Pioneer kill sheet				
	3	News Article				
	4	Euro Grid				
	5	H&H Annual Report, 2005				
Case 4		**Cadbury's**	**Schweppes**	**DFB**	**Analysis**	
10/03/2005	1	Craig Mallet	Category Manager	Cadbury's Schweppes, Bournville, 2hrs	Food Manufacturer	Background, Plant visit
16/05/2005	2	Craig Mallet	Category Manager	Cadbury's Schweppes, Bournville, 3hrs	Food Manufacturer	Power and Competition Analysis, Relationship Management Analysis – DFB
09/09/2005	3	Craig Mallet	Category Manager	Cadbury's Schweppes, Bournville, 2hrs	Food Manufacturer	

12/09/2005	4	Craig Mallet	Category Manager	Cadbury's Schweppes, Bournville, 3hrs	Food Manufacturer	Power and Competition Analysis, Relationship Management Analysis – DFB
16/09/2005	5	Craig Mallet	Category Manager	Cadbury's Schweppes, Bournville, 2hrs	Food Manufacturer	
17/09/2005	6	Stephen Bradley	Milk Consultant	Milk.com, telephone interview 1.5hrs	Milk Consultant	Background, Power and Competition and Relationship Management Verification
03/10/2005	7	Craig Mallet & Andrew Gaskell	Category Manager & Milk Buyer	Cadbury's Schweppes, Bournville, 3hrs	Food Manufacturer	More details on the milk market, to support section B of Questionnaire & RM
31/10/2005	8	Phil Watson	Account Manager	Cadbury's Schweppes, Bournville, 2hrs	Food Manufacturer	Background to Confectionary Market, Section A of Power & Competiton Analysis-Tesco's
01/11/2005	9	Andrew Gaskell & Mark Brook	Milk Buyer/Marlbrook Logistics Manager, Marlbrook Plant Manager	Cadbury's Schweppes, Marlbrook, 3hrs	Food Manufacturer	Site visit, Power and Competition Analysis and Relationship Management
11/11/2005	10	Phil Scott	Account Manager	DFOB, 4hrs	Milk Cooperative	Site visit, Power and Competition Analysis and Relationship Management
23/11/2005	11	Richard George	Owner	Richard Geaorge, telephone interview, 1hr	DFOB, Milk Farmer	Power and Competition Analysis, Relationship Management Analysis – DFB

06/12/2005	12	1. Julian Hurt, 2. Stuart Crawley, 3. Robert Guichard, 4. Mark Brook 5. Adrian Brelsforth, 6.Andrew Gaskill,	1. GB&I Purchasing Director 2. GB Ingredients Sector manager 3. EMEA Ingredients Sector Manager, 4. Marlbrook Plant manager 5. Marlbrook Manufacturing and Technical Manager 6. Marlbrook Logistics Manager	Cadbury's Schweppes, Bournville, 2hrs	Food Manufacturer	Group meeting analysing the relationship with DFB- Validate Power and Competition Analysis and Relationship Management Info
Supporting Documents	1	Channel Market Overview- Grocery Multiples, November 1005.				
	2	The Business of CS presentation				
	3	CS Annual Report and Accounts, 2006				
	4	DFB Financial Report and Accounts, 2006				
	5	Marlbrook Factory Crumb Manufacturing , 2004				
	6	Milk Category Presentation by Craig Mallet, July 2005				
Case 5		**H&H**	**S&J Dodd**	**Analysis**		
01/06/2005	1	Trevor Hebden & Dave Richards	Chief Executive and Director	H&H, Carlisle 3hrs	Auctioneer	Site visit, background information about company,

						Role of Auctions
13/06/2005	2	Tim Bastable	Project Consultant	H&H, Carlisle 3hrs	Auctioneer	Power and Competition Analysis and RM analysis
21/06/2005	3	Tim Bastable & Trevor Hebden	Project Consultant, Chief Executive	H&H, Carlisle 3hrs	Auctioneer	Power and Competition Analysis and RM analysis
21/06/2005	4	Robert Addison, Stedman & Judy Dodd	Auctioneer (H&H), Farm Owners	H&H & S&J Dodd West View Farm, Penrith, 3hrs	Mixed Farmer	Power and Competition Analysis and RM analysis
13/03/2009	5	Stedman Dodd	Owner	S&J Dodd, telephone interview, 1hr	Fixed Farm	Power and Competition Analysis and RM analysis verification
Supporting documents	1	Martin Palmer-Producer and wholesale meat prices				
	2	H&H Annual Report, 2005				
	3	Lakeland Farm Locations and #				
	4	Eurogrid				
	5	Pedigree Sales Report for 15th October 2005				
	6	eblex Quarterly Category Report (March 2008)				
	7	Special Edition of ‘The Bulletin’ of the Livestock and Meat Commission (5 August 2005)				

Appendix Four

WFF Franchisee-Franchisor Relationship

WFF	Franchisee
New Product Development (feedback from marketing function and franchisees)	**New Customer Development**
Production	**Customer Service**
Distribution (WFF to franchisee)	**Distribution** (franchisee to end customers)
General Business Support (training, IT, financial service, etc.)	**Business Management** (human resource, finance, logistics etc.)
General Marketing Support (pricing, advertising, brochures, branding etc.)	**Customer Relationship Management** (interpersonal skills etc.)
Taking orders from franchisees **Taking online orders for franchisees**	**Taking orders from end customers**
Competing with national competitors	**Competing with regional competitors**
Local Marketing Budget (provide 50% financial support for franchisees' local marketing campaign, depends upon sales of individual franchisees, but determined by WFF)	**Local Marketing Campaign** (self-finance 50% within local marketing budget, then 100% when spent goes over the budget)

Table A4.1: WFF franchisee- franchisor roles and responsibilities (Source: Author)

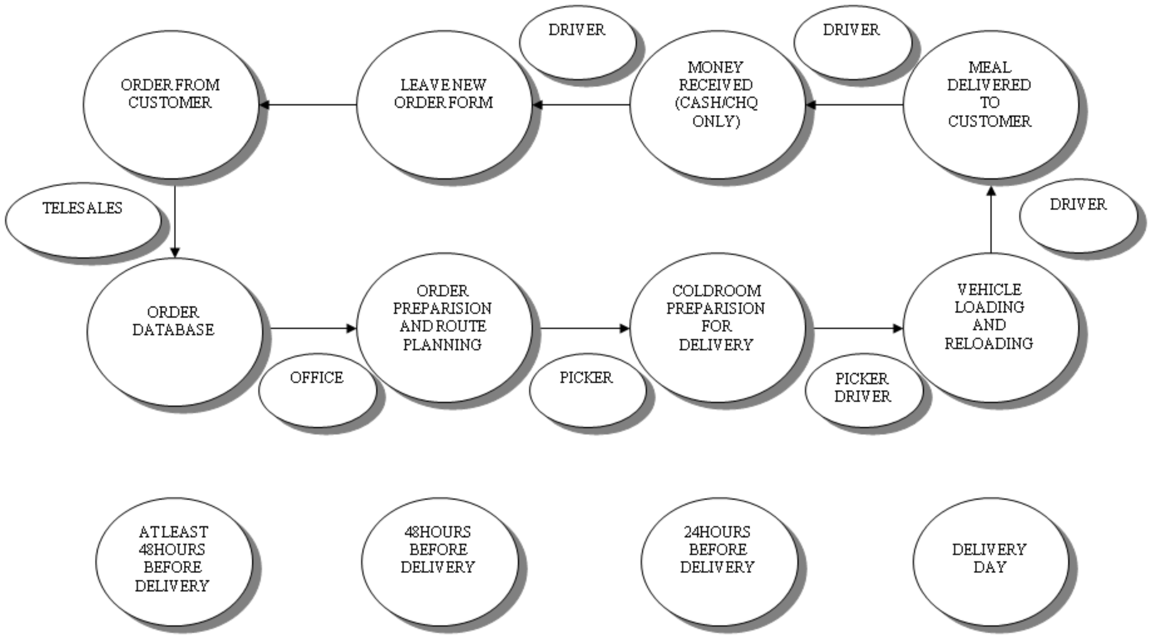

Figure A4.1: Franchisee order management procedure (Source: Author)