Supply Chain Partnerships for Private-Label Products: Insights From the United Kingdom

Andrew Fearne and Sandra Dedman

Introduction

Food retailers in the United Kingdom (UK) are amongst the most sophisticated in the world, and the demands that they place on their suppliers—particularly their suppliers of private-label products—render the British food manufacturing industry one of the most efficient and innovative in the world. The implementation of efficient consumer response (ECR) and category management (CM) heralds the dawn of a new era in which value creation is the priority—with supermarkets and food manufacturers working together to exploit the diverse opportunities that exist in a cosmopolitan marketplace in which (relatively) affluent and increasingly diligent consumers are running out of time to purchase, prepare, cook, and consume their food.

This paper examines the factors that have driven UK suppliers of private-label products toward a culture of innovation and value creation and identifies the key distinguishing characteristics of some of the most successful private-label suppliers. Greater vertical co-ordination is at the heart of the transformation that the UK food industry is undergoing, so the focus of this paper is the development of supply chain partnerships for private-label products.

The paper draws on recent results from our ongoing research into supply chain management. Structured interviews were conducted during the summer and autumn of 1999 with managing directors from a number of companies who specialize in the production of private-label products. The firms involved are primarily from the meat and fresh produce sectors—key destination categories of strategic importance in which retailers and their suppliers are working hard to develop sustainable competitive advantage.

The paper is structured in five parts. Following a brief summary of the structure of food retailing in the United Kingdom, we explore the key drivers for the development of supply chain partnerships. We then look briefly at the principles of supply chain partnerships before looking at some recent evidence of supply chain partnerships in practice. The final section draws some conclusions, with particular emphasis on future developments.

The Structure of UK Food Retailing

According to the Institute of Grocery Distribution (IGD, 1999), the grocery market in the European Union (EU) was worth about £430 billion in 1998. The UK grocery market is the third largest in the European Union (behind Germany and France) and was valued at £91 billion in 1998.

The top four supermarkets (Tesco, Sainsbury's, Asda, Safeway) have 45 percent of total grocery sales, and the largest (Tesco) has a 16 percent market share. A total of 4,500 stores are in operation, of which 40 percent are owned by the top four chains, and more than one-half of these stores are in excess of 25,000 square feet.

The past decade has seen impressive growth in UK food retailing—21 percent retail sales growth between 1990 and 1998. This growth was achieved primarily through an expansive program of new store openings, and throughout this period, the major supermarkets have largely ignored the price-discounting route to increased market growth and increased market share, with considerable attention being given to premium and high-margin products. However, arguably the most significant feature of this period has been the dominant position achieved by private-label products. Overall, private-label products account for about 45 percent of total UK supermarket sales. Their share is significantly higher in fresh produce (75 percent) and meat (60 percent), and even in the cola market, private-label sales account for 40 percent of the total.

Turning to the UK food shopper, there are a number of key demographic changes that continue to influence new product development and in-store merchandising: Population growth is slow (about 1 percent per annum) and decelerating, and the

Andrew Fearne is senior lecturer, and Sandra Dedman is lecturer, Food Industry Management, Wye College, University of London.

average age is increasing; there are more households of a smaller size, particularly single occupants and single-parent families; and income distribution is becoming increasingly polarized, with the rich getting richer and the poor getting poorer.

Looking at consumer attitudes and purchasing behavior, the concern over food safety, diet and health, animal welfare, and the environment has never been greater, yet the United Kingdom has a significant number of leisure shoppers—recent forecasting research by the Henley Center suggested that one-quarter of female shoppers "look forward to shopping" and more than one-third "enjoy shopping." The latter is a major reason for the burgeoning demand for new product development (for example, 7,500 new products were launched in 1998), while during the past 10 years, fresh fruit consumption has grown by 21 percent, more than any other primary food category.

The two biggest threats to food retailers in the United Kingdom are home shopping and food service. The former is still in its infancy but is predicted to grow by 1 percent per annum during the next decade, to reach £14 billion (10 percent of food sales) by 2008. Food service continues to eat into the retail share of consumer expenditure on food, with the number of meals eaten out of home increasing by 37 percent between 1992 and 1998 and the share of food expenditures outside the home approaching 40 percent.

Key Drivers for Supply Chain Partnerships

Amongst the many diverse factors that have encouraged and facilitated the evolution of supply chain partnerships, there are three that stand out as being of fundamental importance (Fearne, 1998):

- the competitive food retail environment;
- food safety and supply chain integrity; and
- rationalization of the supply base.

Competitive Food Retail Environment

In a relatively static market (for food overall), there is intense competition between the major multiples, of which the top four (Tesco, Sainsbury, Asda, Safeway) account for almost two-thirds of grocery sales (IGD, 1999). What little growth there is comes from increased expenditure rather than volume, as the wave of new (out-of-town) store openings—which transformed the structure of food retailing in the late-1980s and early 1990—has all but ceased, and there is little scope for supermarkets to eat any further into the small shares that independent retailers (butchers, bakers, greengrocers) now hold. Thus, the growth strategies of 10 years ago—based essentially on location and size (product range and price competitiveness)—have been replaced by strategies based on differentiation, with private-label fresh produce and meat, in particular, at the center.

Private-label products account for almost one-half of all foods purchased in UK supermarkets, and the fresh produce category is almost exclusively private-label. It is important to emphasize that private-label products in the United Kingdom are not aimed at price-sensitive, quality-insensitive consumers. Generally, the products are seen as competing head-to-head with the major manufacturers' brands in the same-quality market. This philosophy has been adopted in the fresh produce category, where private-label dominates, to the extent that private-label has become a key factor in the major supermarkets' attempts to differentiate themselves from the competition.

Fresh produce and meat have become what retailers describe as "destination" categories—product categories for which shoppers will switch stores. They are also the two remaining categories that are virtually all private-label and, thus, over which they can exert considerable influence and control. As a result, during the past 15 years, the fresh produce department has moved from the back of the store to the front and has doubled its in-store shelf area, and the growth has occurred without substantial growth in consumption volume but with significant growth in expenditure. The search for competitive advantage and a point of difference between supermarkets coincided, in the early-1980s, with the consumer's move toward an increasingly Mediterranean diet, driven by heightened awareness of (and concern about) health and nutrition.

Changing the location of fresh produce within the retail stores yielded immediate benefits—Asda attributed a 50 percent increase in their fresh produce sales directly to the re-location of their fresh produce counter from the back to the front of their supermarkets—but inevitably resulted in wastage problems, as retail managers lacked the knowledge to handle the increased volumes. Pre-packing, driven by retailers not suppliers, substantially reduced wastage problems and enabled supermarkets to introduce greater control over quality, presentation, and package size. Once retailers realized that they could manage the category in-store, they were well-placed to push ahead.

Thus, differentiation has replaced location and size as the core retail growth strategy—with "Destination" categories, such as fresh produce and meat, providing genuine opportunities for "private-label" suppliers to share in that growth. As a result, the fresh produce category has witnessed the highest growth in consumer expenditure during the past decade (+8 percent in real terms) and constitutes the highest share of consumer expenditure (11 percent). Moreover, with private-label products counting for a such a large share of supermarket sales and playing such a key role in their competitive strategies, retailers have effectively become brand managers, with an explicit focus on innovation—the only sustainable source of competitive advantage—and product integrity, including both quality and safety.

Food Safety and Supply Chain Integrity

The 1990 Food Safety Act contributed the process of vertical coordination, driven backward from the retailer rather than forward from the grower/processor further impetus, with the growth of private-label increasing the need for improved due diligence and tighter supply chain control.

The 1990 Food Safety Act requires buyers to take all "reasonable steps" to ensure that the food they receive from upstream suppliers is safe. It also means that upstream firms need to monitor more carefully their food handling to satisfy their downstream customers. The critical word in the definition of due diligence is "reasonable," which is vague enough to encourage retailers to take extraordinary steps to ensure the safety of products reaching them from their suppliers. If their desire to develop private-label products had encouraged them to take a greater interest in what was happening upstream, the 1990 Food Safety Act compelled them to effectively take control, by instituting stringent quality assurance programs with their suppliers, with a particular emphasis on traceability. In effect, risk management became a key driver for greater co-ordination in the fresh produce supply chain.

Retailers drew up codes of practice, covering all aspects of crop management and animal husbandry and issued them to their suppliers. The agricultural industry responded by developing a range of generic farm assurance schemes for domestic fruit and vegetables (Assured Produce), beef and lamb (Farm Assured Beef and Lamb), and pigmeat (Farm Assured British Pigs)—highlighting best-practice in integrated pest, disease, and crop management systems and animal welfare. In addition, protocols have been drawn up for individual products, by growers and retailers, and are now established as the baseline industry standards for safety and quality. All of the major supermarkets now require *all* fresh produce and meat to come from suppliers who are members of a farm assurance scheme. A genuine (and visible) quality and safety culture is a "must have" for companies who supply the multiples. For many companies this has been difficult to establish, particularly when improvements in safety and quality systems have had to come from greater efficiency and better operating practices—an inevitable outcome of the market power that the multiples have.

Rationalization of the Supply Base

The search for improved supply chain integrity and greater consistency in the quality of private-label products—coupled with the need to squeeze costs out of the supply chain through greater control (either, directly, through grower/co-operative partnerships or, indirectly, through pre-packers and abattoirs with their own supplier networks)—has resulted in the rationalization of the supply base, with retailers seeking to deal with fewer, larger, technically efficient and innovative suppliers.

The major supermarkets now deal with just a handful of suppliers in key product areas and take every opportunity to pass responsibility (and associated costs) for quality control and procurement, storage and distribution upstream to their key suppliers, in return for which the chosen few are rewarded with volume growth. The latter is vitally important for suppliers, the bulk of whom are privately owned and struggle to generate the cash surpluses necessary to maintain the level of investment in processing plants and new product development.

Paradoxically, as retailers—the dominant players in the supply chain—work with their suppliers to develop differentiated products and to establish brand loyalty, they become more reliant on their suppliers who become the providers of brand integrity. Thus, the race is on for retailers to find the best partners with whom to take on the competition. As a result, the power struggles between buyers and sellers—which have characterized the UK fresh produce and meat industries for decades—are being replaced by intense competition between chains, creating opportunities for pre-packers, abattoirs, farmers, and growers, and tensions between supply chain partners, unless a way can be found to remove price as the key point of difference between suppliers (in the eyes of the retail buyer) and between retailers (in the eyes of the final consumer).

Supply Chain Partnerships in Principle

Vertical partnerships are very much a contemporary phenomenon in the UK food industry, and for private-label products, such as fresh produce and meat, they are essentially a product of the 1990s. A vertical partnership may be described as ". . . some arrangement between buyer and seller, entered into freely, to facilitate a mutually satisfying exchange over time, which leaves the operation and control of the two businesses substantially independent" (Hughes, 1994). There are four key aspects of this definition:

(1) Partnerships are entered into "freely"—partners *do* have a choice, although the upstream options may be becoming increasingly limited.

(2) Partnerships must offer "mutual" benefits—these are many and varied, and their distribution is one of the key problem areas.

(3) These benefits occur "over time"—What distinguishes partnerships from open market "spot trading" is the time dimension of the payback, which we generally associate with investment.

(4) Partners remain "substantially independent"—What distinguishes vertical partnerships from vertical integration is the lack of equity sharing and the absence of contractual obligations.

What Choice?

It should be evident from the preceding discussion of the drivers for partnerships that, in practice, the choices are extremely limited, for all members of the supply chain. Suppliers have the choice between securing access to a volume (potentially value-added) market and the residual dumping ground of the wholesale markets, which are in terminal decline. Premiums do exist for producers who are able to consistently meet the exacting standards that the retailers demand, and opportunities do exist to add value. For food processors, the options are more varied—food service and exports provide alternative outlets for their products. However, it is evident that the major food service establishments are taking a lead from the supermarkets in terms of their procurement policies and product specifications, and export marketing is notoriously unpredictable, given the vagaries of exchange rates. Thus, for the foreseeable future, the supermarkets are likely to remain the key customers, providing the volume business without which the largest processors would struggle to survive.

Perhaps ironically, the supermarkets are also finding that they have little choice but to develop longer-term sustainable partnerships with their suppliers, without whom their ability to consistently provide safe, high-quality, and innovative private-label products would become seriously threatened.

What Benefits?

The nature and distribution of benefits associated with partnership arrangements is a complex issue and one that is invariably the source of greatest concern for potential partners. The important thing is to have clear objectives for entering a partnership and to prioritize the desirable outcomes, remembering that partnerships are a strategic weapon, with the potential for delivering many different benefits *over time*. For example, at the outset, a partnership might simply secure access to a particular market—with other benefits, such as price premiums following at a later stage with the development of higher-value products.

As far as the fresh produce meat sectors are concerned, there are five benefits that might generally be expected to result from a partnership arrangement:

- Improved Market Access;
- Improved Communications;

- Higher Profit Margins;
- Greater Discipline; and
- Higher Barriers to Entry.

As we have already noted, the choices facing producers and processors are limited, and guaranteed access to the shelves of one of the top five supermarkets is itself a benefit, leaving producers and processors to focus on what they do best and to make maximum use of production capacity.

Knowledge is a potential source of competitive advantage, and a lack of it can lead to inefficiencies in the production of raw materials, the manufacturing of processed food products, and the overall functioning of the supply chain. Partnerships bring people together and invariably involve a greater degree of sharing between partners—sharing experience, sharing market information, sharing plans, and sharing knowledge. For example, retailers are increasingly sharing sales data with their suppliers, enabling them to improve their production planning. They are also beginning to provide their suppliers with regular feedback on taste tests and eating quality, enabling producers to modify crop husbandry, feeding and/or breeding regimes accordingly. The input that retail partners give to the development of new products also improves the likelihood of success.

Partnerships can yield improvements on both sides of the profit equation. On the cost side, guaranteed access to a high-volume market not only reduces market risk but also provides opportunities for economies of scale in the production process. Improved communications should result in shorter lead times, lower stock levels, and reduced waste—further potential cost savings. On the value side, better knowledge of what consumers want and how they make purchasing decisions is invaluable when seeking to identify ways of differentiating meat products. As we have seen, the retail market is fiercely competitive, and retailers are very keen to introduce innovative products into what have traditionally been regarded as unadventurous categories, to differentiate themselves from the competition. However, the key point here is that higher returns must be justified by *increased* value-added. The challenge for producers of raw materials and commodity foods is to actively contribute to the process of differentiation and adding value. Such suppliers are in short supply and are much sought-after by retailers.

The fourth key benefit that comes from entering into a partnership arrangement is the discipline that it imposes on all partners in the supply chain. Like any good medicine, the end result is often far more satisfying (and beneficial) than the consumption of the medicine itself. There are many problems with the horticultural and livestock industries in the United Kingdom, at every point in the respective supply chains and with the functioning of the respective supply chains as a whole. To continue the medical analogy, both industries have become sick as a result of a production-orientated and capacity-driven mentality that has, until recent years, been perpetuated by government intervention, in the form of the Common Agricultural Policy (CAP). Livestock producers, in particular, have been sheltered from the realities of the market for far too long and have lost the hard commercial edge, which is essential for survival in a fiercely competitive environment. Partnerships offer a potential cure, by focusing the minds of the partners on the specific requirements of the market and by imposing a discipline on the way businesses are conducted.

Finally, partnerships can provide an effective means of raising the stakes for companies seeking to enter the market. As we have already mentioned, large supermarkets with private-label products become increasingly dependent on fewer, larger suppliers with the technical competence to provide scope for developing the fresh produce and meat categories. The more a supplier can do to meet the needs of their retail customers (and ultimately their final consumers), the more difficult it becomes for retailers to consider switching to alternatives. This is becoming increasingly the case as dedicated and exclusive supply chains are established throughout the food industry, in those sectors that are dominated by private-label products.

There is no doubt that opportunities exist for those who are willing to accept the challenge of working in a partnership—working together, learning together, developing new products together, expanding the market together, and together generating improved returns on investment.

The Strategic Dimension

Considering a partnership as a form of investment helps us to focus on the important long-term issues instead of the exigencies of the "here and now." Most successful businesses can identify strategic objectives—a long-term vision of where they want to be in the future—and have a strategic plan—an idea of how they mean to get there. A partnership should be considered a part of a strategic plan, consistent with strategic objectives that focus on the core competencies of the business and the projected shape of the market environment in the future.

From our experience, most successful vertical partnerships in the UK food sector have one thing in common: an acceptance of the supermarket as the key market segment for their output in the foreseeable future and a willingness to change—locking retail customers into strategic plans and investments and doing whatever it takes to strengthen the relationship, accepting a greater share of the risks in the delivery of safe food of the highest quality, and looking to add value wherever possible.

The Question of Dependence

This last point is perhaps the most controversial, in terms of how we define a vertical partnership. For example, it may be argued that independence inhibits trust-building and encourages opportunistic behavior. To some extent this is true, and it is most likely that the degree of *inter*dependence will increase over time. However, the deeply rooted adversarial trading culture and the inherent independence of producers—combined with the fact that, in most commodity sectors, partnership-type trading relationships are still relatively new—means that the establishment of interdependence is something to which partners should aspire but not expect to happen overnight.

Moreover, in the livestock and fresh produce industries, most vertical partnerships involve at least three elements—retailer, processor, and farmer. The first two elements are single businesses with distinct characteristics (large, technically efficient, heavily invested) of which there are relatively few, but the third is typically made up of several hundreds of livestock farmers and growers, none of whom are unique and being drawn from a population of more than 200,000 in the United Kingdom. Inevitably, the degree of interdependence will be far greater between retailer and processor than between processor and farmer, and in the majority of cases, the retailer has little or no direct contact with farmers.

In essence, we would argue that establishing interdependence should be a management objective of the members of a partnership but that it is not a necessary condition for partnerships to become established. Indeed, as the members of a partnership get to know each other, they may well seek to cement the relationship with a demonstration of interdependence (that is, a supplier might offer a dedicated production facility or a customer might grant preferred supplier status), but alternatively, they may decide that they are incompatible (for any number of reasons) and seek a different partner or an alternative way of marketing their produce.

The management of partnerships is a complex task with which many people find it difficult to come to terms. Indeed, there are, doubtless, livestock producers or growers who would be unable to provide examples of failed partnerships or reasons for their general skepticism toward them. As most of us have learned through experience (often bitter), partnership-type relationships are often turbulent and difficult to manage. Those that endure do so because the partners work at making things better and accept that the alternative (that is, separation or divorce) would be far worse, particularly if there is no alternative partner waiting in the wings.

Supply Chain Partnerships in Practice

The implementation of efficient consumer response (ECR) and category management (CM) programs, by the major retailers during the past two years, has resulted in a fundamental examination, by retailers, of their suppliers. This process not only enabled supermarkets to identify those suppliers best-equipped to implement ECR and CM, it also enabled them to identify the level of commitment from their private-label suppliers, which, in turn, assisted them in their rationalization of the supply base and the search for technical excellence and competitive edge. An analysis of the scorecards used by the two largest supermarkets, Sainsbury and Tesco reveals a consistent list of factors that supermarkets regard as key indicators for the development of successful partnerships in the fresh produce supply chain (Fearne and Hughes, 1999):

- Pro-active relationships across all aspects of the business (moving away from exclusive buyer/account manager contact to multi-functional linkages across the business).
- Complete electronic integration (now accessible for even the smallest suppliers as costs have come down with time and experience).
- Information sharing (directed at improving and increasing existing business and inevitably driving exclusive/closed supply chains, which go some way to offsetting the risk of sharing information with suppliers).
- Innovation (new product development, marketing, supply chain management). Of the handful of suppliers on the supermarkets' lists, one will be perceived as the innovator (and be given preferential status) because they all have "good ideas." Inevitably, this tends to be associated with scale of business as only the largest have the resources to innovate.
- Ability to assist/shape customer's view of the category and its future development (strategic relationship).
- Customer-specific products, services and investments (supply chain exclusivity).
- Financial stability (Retailers don't want to invest in key supplier if they are going to go bankrupt!).
- Supply chain management (integrity and efficiency).
- Cost Management (ability to measure and analyze them and to take positive action—open book feasibility). JS, Tesco and M&S success with private-label gives them invaluable insights into the costs of production, because they have far greater knowledge of what goes into private-label products and the processes involved.
- Product range management (ECR-related issues, such as category planning and NPD).
- Promotion and merchandising (tends to be retailer led in fresh produce but supplier led in fmcg).

The last two points are of less importance in the fresh produce and meat categories than they are for branded manufactured products. Financial stability and electronic integration may be considered as prerequisites rather than differentiating elements, and commitment to specific customer investments (products, processes, and people) is something that is desirable on the part of the retailer but not a necessary condition for success. Thus, the key elements that continue to distinguish the successful suppliers from the rest are:

- Strategic orientation—Does the senior management have the vision to take the business forward?
- Organizational structure and business culture—ability to meet customer needs at every level of the business.
- Ability to exploit (that is, add value to) market information.
- Ability to measure and control the full costs of servicing customer requirements.
- Ability to innovate.

Strategic Orientation

At the corporate level, retailers are clearly looking at the resources that suppliers have at their disposal. They are looking for a measure of corporate vision, and they have a clear desire to deal with the larger players (in terms of market share, turnover, product range), who are perceived as being more sophisticated and more knowledgeable and as having the capacity to use information to help them expand their share of the market. The incentive that they offer to those companies who are willing to invest in specific customers is volume growth—the quid pro quo for rationalising the supply base.

The degree to which the companies interviewed in this study exhibited a degree of corporate vision and strategic intent, which they shared with their customers, was mixed. All of them recognised the importance of the multiples and the need to deliver unbeatable service to stay ahead of the pack, but the extent to which retail customers had any formal input into the strategic planning process was limited. To the extent that this did happen, it was more evident amongst those suppliers with a limited customer base. Logically, with more at stake, dedicated suppliers need to be "in-tune" with their key customer requirements and to demonstrate a willingness to respond to the demands for innovation. The largest suppliers interviewed in this study took a more independent view. Supermarket accounts were managed with precision, but the strategic orientation of the business evolved from within, with little explicit input from key customers.

A clear strategic vision, backed up with investment in people and technology (processing and IT), is what the retailer is looking for. Ideally, they would like some input into (and control over) that process, but the larger suppliers can manage a mixed customer portfolio with appropriate management structures. However, for the smaller suppliers, with strategies based on dedicated supply to a limited number of customers, a shared strategic vision at senior management level is essential.

Exploitation of Market Information

What becomes clear from the list of "success factors" outlined at the beginning of this section is the need for size and sophistication. There is a distinct lack of market research in the fresh produce and meat industries, both of which struggle to break out of the commodity trap. Yet product knowledge is one of the few areas in which suppliers can (and should) have an advantage over their customers. Small-scale suppliers need to wear big-company clothes and tailor them to their budget—market knowledge is one of the few remaining sources of countervailing power.

Information-sharing remains limited, even with dedicated suppliers—Tesco continues to charge its suppliers for EPOS data—primarily because trust does not exist to the extent necessary for suppliers and retailers to share what information they have. Information sharing is also limited because all parties in the supply chain have yet to come to terms with the fact that it is not what you know that gives you competitive advantage but how you interpret information and use it strategically to drive innovation and efficiency.

The high degree of interdependency reduces the risks associated with information-sharing. With competitive prices being an important part of retailer strategies, open access to cost and market data is a must. Moreover, effective market research does not have to be outsourced, at a cost that may prove difficult to justify. With the right people and the right level of motivation, cost-effective market research can be done in-house.

Organizational Structure and Business Culture

This is a particularly difficult characteristic to measure and is closely linked to the expression of a (shared) strategic vision. It is essentially concerned with the people factor and the degree to which suppliers comprise the sort of people with whom the retail customer (and most notably the buyer) feels happy working. Culture is concerned with the ethos of the business and the attitude of employees (including senior management) to customer service, whilst structure is concerned with the way in which suppliers choose to communicate with their customers, at all levels of the business.

As with the other key characteristics identified as being of particular significance by retailers, all companies interviewed in this study made reference to the importance of good quality staff. Most found such personnel difficult to attract and even harder to keep, given the limited career opportunities in a tight margin industry with an unattractive image for young graduates. This needs to be addressed by both the fresh produce and meat industries.

Most companies that have enjoyed success with their retail partnerships have structured their businesses into account management teams, and in some cases, these teams are run as strategic business units—independent profit center with a strong customer focus. Such a structure enables suppliers to handle issues relating to exclusivity or dedication, even with a mixed customer portfolio, and facilitates the process of cross-functional alignment between customers and suppliers, an important means of developing customer relations.

Despite the progress that suppliers have made in terms of structuring themselves to meet their customer needs more effectively, UK retailers have made little progress on their side to develop genuine category management teams, better equipped to break out of the trading mentality. Indeed, considerable skepticism remains amongst suppliers over the retailers' approach to partnerships: The central role of the buyer has changed little in recent years, as has the policy of rotating buyers on a regular basis, which makes it difficult (and costly in terms of the time it takes to develop an adequate level of mutual understanding between buyer and account manager) to build long-term relationships.

Cost Control

As retailers' demands on their private-label suppliers become increasingly exacting, the capability to measure the cost of increasing customer service is essential for those suppliers who seek to meet those demands at a profit. Thus, there has been considerable investment in recent years in IT systems that provide more accurate costings, but scope remains, to varying degrees, for improvement in this area.

The capability to measure costs at various levels of the operation is clearly important for managers if they are to be able to identify weaknesses in the business and effectively target resources to improve performance. It is also essential in the evolution of partnerships. With the pressure on suppliers to deliver ever higher levels of service and the need to push harder and harder for volume growth, given the investment in processing capacity, suppliers are often too quick to accept demands from their customers, only to discover later that the costs associated with a particular task exceed the revenue, an outcome that serves only to generate further tension between trading partners.

The UK food supply chain may be one of the most efficient in the world, yet there is still room for improvement, not least in the level of standardization. Retailers have gone to extremes in recent years to differentiate themselves from their competitors and, it would appear, to make it increasingly difficult for suppliers to service several retail customers. As the rationalization of the supply base continues and retailers become increasingly dependent on fewer larger players, so supply chain efficiencies will become increasingly driven by the suppliers, who are best placed to identify the costs of operating parallel systems.

Innovation

In highly competitive markets—such as fresh produce and meat—that are characterised by oversupply and a commodity orientation, innovation is the only long-term source of competitive advantage, which is why retailers place so much emphasis on selecting suppliers who demonstrate a desire and an ability to be innovative—not just in the development of new products but in all aspects of the business.

The lack of product innovation is a feature of commodity markets. In the fresh produce and meat industries, it is also a result of the proliferation of entrepreneurial (often family-owned) businesses, in which the injection of creativity and an open mind—essential ingredients for innovation—are often lacking.

Conclusions

Some of the features of the supply chain partnerships discussed in this paper may be specific to the United Kingdom, but most sectors of the food industry in most developed countries can learn from three important features of supply chain partnerships for private-label products in the United Kingdom:

(1) The "Paradox of Power"—As the power of food retailers, along with their interest in private-label products, increases, they become increasingly dependent on fewer and fewer larger suppliers who can deliver safe products of consistently high quality on a large scale at competitive prices and who have the potential (and desire) to innovate and add value to commodity-orientated categories like fresh meat.

(2) The "Learning Chain"—Competition between firms within supply chains is being replaced by competition between supply chains themselves as retailers seek to establish competitive advantage by creating closer (and increasingly exclusive) links with their upstream trading partners. As we have seen, developing these links is no easy task, and those who are first to overcome the hurdles stand to gain some first-mover advantage. Moreover, in the longer term, the most successful chains will be those with the commitment and ability to learn from their mistakes and to put things right—focus on the benefits and plan for the hurdles.

(3) In seeking to exploit the opportunities which partnerships provide, considerable care needs to be given to the treatment of costs and prices. Those people operating at the start of the supply chain—the producers of raw materials—need to accept the fact that the financial benefits that come from partnerships will invariably be dis-

tributed in relation to distribution of value-added. It is clearly more difficult for producers of commodities to add value than it is for the manufacturers of branded products, but rather than bemoaning the fact, producers must invest and innovate in products and services that justify a higher return. Successful partnerships should deliver cost savings and higher value, but it is essential that *all* members of the partnership be actively engaged in finding ways to achieve them.

The simple collaborative message is that farmers and growers should develop links with other sectors of the marketing chain, in order to supply the right and consistent quantity and quality of "differentiated product." Building an integrated supply chain partnership requires that *all* parties work together as never before, and this, in practice, is far from easy to achieve.

If these collaborative relationships are to succeed, they should lead, in the long term, to a process of "margin discovery," with farmers and growers learning about the processing/retail side of the industry (and vice versa) and the need to develop more market discipline. Eventually, the greater control of the supply chain achievable through such alliances should, in the longer term, allow both parties to benefit through the improvement in the overall market and the creation of "value added" chains.

It is clear that there are no easy marketing answers. Partnerships, in certain circumstances, may offer no improvement in returns to producers over the "open market." The development of partnerships requires hard work, commitment, and a fair degree of trust in the long-term intentions of partners. No one can guarantee the success of collaborative ventures, particularly if they are not robust enough to stand up to the rigors of the marketplace—improved returns can only come from improved value to the final consumer, and this is difficult to deliver with fresh produce and meat.

References

Fearne, A. 1998. "The Evolution of Partnerships in the Meat Supply Chain: Insights from the British Beef Industry." *International Journal of Supply Chain Management.* 3(4): 214–231.

Fearne, A. and D. Hughes. 1999. "Success Factors in the Fresh Produce Supply Chain: Insights from the UK." *International Journal of Supply Chain Management.* 4(3):120–129.

Hughes, D. 1994. *Breaking With Tradition: Partnerships and Alliances in the European Food Industry.* Wye College Press.

IGD. 1999. *Grocery Retailing 1999: The Market Review.*