

Heaviness of the Hungarian FMCG networks – Object of exchange in the relationship as an influencing factor

Work-in-progress paper

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Abstract

The paper investigates the problem, to what extent supplier firms of the Hungarian FMCG sector are embedded in their business relationships and consequently to what extent they are heavy? Focal question is: *How heavy business networks and their relations in the Hungarian FMCG industry are and what are the main causes of this heaviness?* Based on qualitative research the paper summarizes those attributes of a relationship, which influence embedment and heaviness and the factors influencing them. Distinctive attributes are intensity of joint activities, level of commitment and trust, and level of relation-specific investments. The paper also reveals important factors influencing these attributes. Among these factors is the type of needed and supplied product and service packages relevant in a given relationship: the object of exchange. This aspect and its impact on relationship embedment and heaviness is analyzed.

Key words: embedment, heaviness, relationship, FMCG, product and service packages

1. Introduction

Aim of the research program behind this working paper is to analyze and evaluate Hungarian FMCG networks. The research program is called „Positions of small and medium sized supplier firms in the Hungarian FMCG and biotechnology supply networks – a comparative analysis” and is carried out at The Competitive Research Centre of the Corvinus University of Budapest. Basic research question is: How stable these networks and their building block, relationships are, and what are the sources of this stability or instability? *Stability* of networks is influenced by the *variety* and *heaviness* of the partnerships (Håkansson- Ford, 2002). Variety basically refers to the potential a company can find appropriate new partners, heaviness to the overall costs associated with and consequently the reality of changing present relationships. Although accepted, that embedment of a relation is influenced by both, *the paper focuses on heaviness* by asking: *How heavy business networks in the Hungarian FMCG sector are and what are the main causes of this heaviness?*

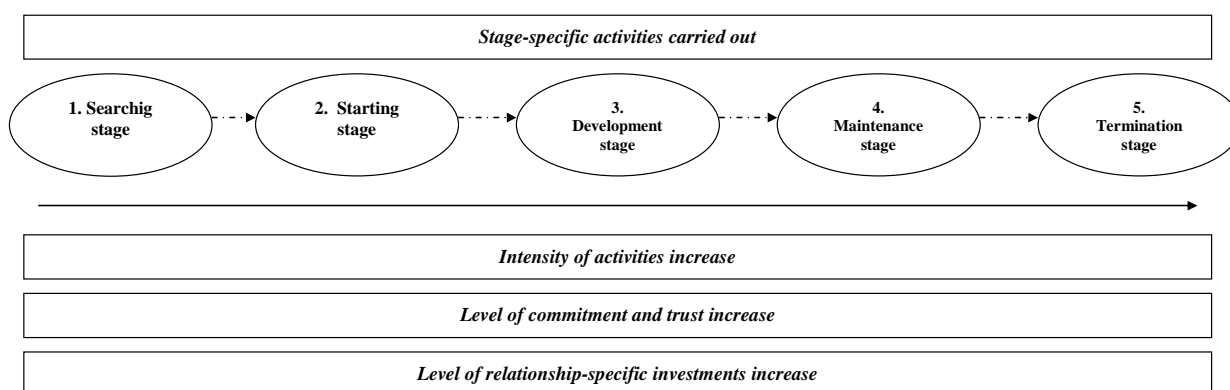
2. Factors determining heaviness of the partnerships

Heaviness of a business relationship *depends* basically *on the level cooperating partners are embedded in their relations. Embedment is again a complex concept, which is influenced by several attributes of these relationships.* Literature analysing relationship attributes has a long tradition and is very rich. These attributes have been researched in *two basic contexts*; the one is the *context of relationship development* (Ford, 1980; Dwyer et al, 1987; Wilson, 1995; Batonda – Perry, 2003), the other is *the context of relationship types* (Dyer et al., 1998; Duffy, 2008). Relationship attributes in both contexts usually include the discussion of the following elements:

- what are the specific types of activities carried out in the relationship;
- intensity of joint activities;
- level of commitment and trust in the relationship;
- level of relation-specific investment.

Researchers focusing on the *development of relationship* and on their characteristics usually differentiate among specific development stages (Porter, 1980; Ford, 1980; Dwyer et al., 1987; Larson, 1992; Kanter, 1994) or states (Ford – Rosson, 1982; Ford et al., 1996). Batonda and Perry (2003) summarises their findings by stating that relationships can be found in one of five different relationship phases: (1) searching, (2) starting, (3) development, (4) maintenance, (5) termination. These phases are the specific periods, through which relationships may develop. Each of the periods can be described by specific types of activities.

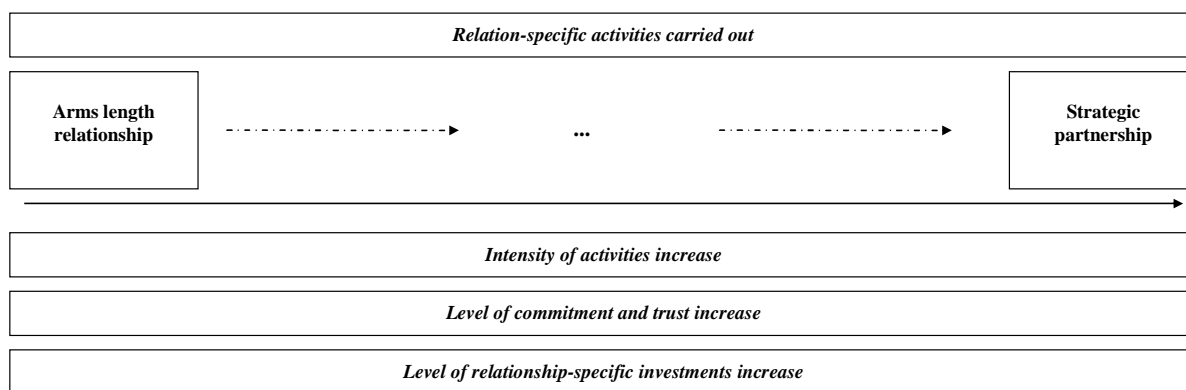
Figure 1: Stages of relationship development and their characteristics



As times go by and cooperation develops according to the expectations of the parties, the relationship goes through these different development stages, which necessarily leads not only to new type of cooperative activities (from searching through developing common goals, to monitoring the relationship and so on) but to an increase in the intensity of the activities between the parties. Not only the intensity of the activities increases going through the life cycle of the relationship, but the level of commitment and trust and the level of relationship-specific investments as well (Figure 1).

Basically the same, above mentioned types of relationship attributes are analyzed by those, who look at the characteristics of *different types of relationships* (Dyer, 1996; Dyer et al., 1998; Bensaou, 1999). Activities and their types, the level of commitment and trust and that of relation-specific investments are distinguishing attributes of the different relationship types too. There is a wide a range of relationship types with the arms length type of relationship on one end of the continuum and with strategic partnership on the other. Stage-specific activities mentioned above are carried out in every relationship irrespective from their types. There may be additional joint activities in a relationship - e.g. information exchange activities, planning and research activities - on the other hand, that are relationship type-specific. Information exchange about day-to day operation is typical for example in arms length relationships, while information exchange concerning long term planning and innovation are carried out in strategic type of relationships. Creating and maintaining joint development teams again is typical in partnerships. Because of the more extended activity-portfolio the intensity of activities in strategic partnerships is higher compared with an arms length relationship. Following from these intensive activities, strategic type of partnerships can further be characterised with a higher level of commitment, trust and relation-specific investments (Figure 2).

Figure 2: Types of relationships and their characteristics

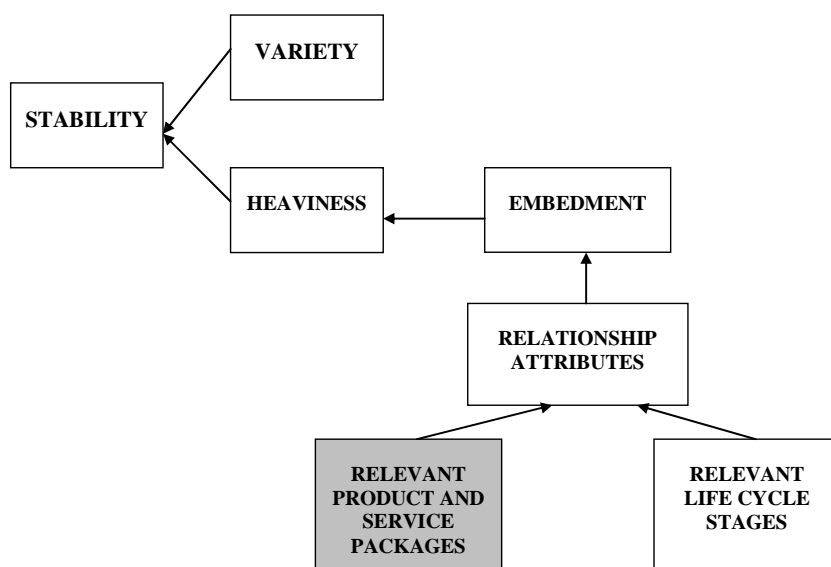


Heaviness of a partnership is basically determined by the embedment of that relationship. Embedment on the other hand is influenced by the intensity of joint activities, level of commitment, trust and relation-specific investment. Consequently - as described above – embedment and also heaviness of a relationship are determined by two basic factors: (i) in which lifecycle stage the relationship can eventually be found and (ii) which type of relationship has been developed between the counterparts. These two factors have equal importance for relationships; researchers have still not investigated them jointly.

Torelli (1986) - known as the founder of joining theory in relationship development literature - has stressed the importance of positioning in the dynamism of network relationships. Positioning in his interpretation is about to choose the domain of the company determining the place it plays in the division of labour within the network. While in a network nexus determining domain is responsible for positioning, in dyadic relationships determining the needed and supplied product and service packages - that is determining the object of exchange(s) – is responsible for positioning. These product and service packages determine to which relationship type the concrete exchange cooperation belongs to. Specific buyer and supplier relationships may incorporate several different types of exchange cooperation along different specific product and service packages. The different types of exchange cooperation in a given relationship all have their own life cycles. The overall content (intensity of activities, level of commitment and trust, level of relation-specific investments) of a relationship between a given buyer and supplier develops as a result of all the relevant types of exchange cooperation, which are usually in different stages of their life cycles.

Although relevant product and service packages have direct effect on relationship attributes and on the embedment of that relationship - eventually on its stability - detailed analysis of them is missing. Literature usually distinguishes between commodities and branded products or products with low or high innovation content. In case of the car making industry some more sophisticated typology can also be found (Müller et al., 1995; Haffmans - van Weele, 2003; Gelei, 2007), but there is still a need for deeper understanding of what are the typical objects of exchanges in different industries. This paper –looks et this question and tries to identify different types of exchange objects, that is different types of needed and supplied product and service packages in the FMCG sector.

Figure 3: Relationship stability – key terms and their linkages



3. Research methodology

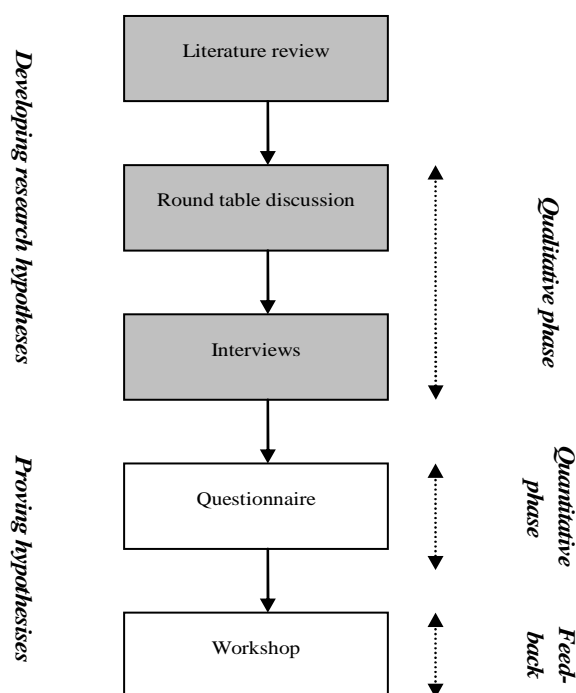
As mentioned already earlier, this paper is a part of a research program dealing with stability of networks and its building block, the stability of relationships in the Hungarian FMCG sector. Literature review revealed the factors and attributes influencing relationship stability. The object of exchanges between cooperating parties in a given relationship is an important influencing factor, which has still not been researched in details. Research strategy was built therefore in the following way (Figure 4): A qualitative research phase (including roundtable discussion and interviews) has followed literature review in order to be able to identify different product and service package-types and get an understanding about their effect on relationship attributes relevant from the embedment (and stability) point of view. At the end of this research phase specific hypothesises concerning stability, embedment and exchange objects are formulated. These hypothesises will be analysed with the help of a questionnaire in the future. Finally results of the quantitative analysis will be presented to practitioners in order to get a feedback on the results.

This paper is based on the results of the qualitative research phase and aims at formulating the mentioned hypothesises. This qualitative research phase has incorporated the round table discussion and the interviews. Round table discussion was conducted with 6 industry participants representing the food industry (supplier side; two persons), trading companies (customer side; 2 persons) and other industry actors, like two representatives of consulting companies. Several researchers were of course also present at this discussion. Based on literature review and the findings, proposals made at the roundtable were in depth interviews conducted. Two important supplier and two dominant trading companies have been investigated. An output of the roundtable was the identification of important actors of a typical relationship in the FMCG sector. These are the following:

- Trading company: purchaser and supply chain manager;
- Supplier company: key account manager and logistics manager.

We carried out in depth interviews with these actors in case of four companies - two trading and two supplier firms - and got altogether 8 interviews (usually 2,5 hours long each). Basic

Figure 4: Research strategy followed



research question of these interviews were concerned about the different types of exchange objects, that is the different types of product and service packages relevant in an FMCG relationship and also their influence on relevant relationship attributes. In the following section this typology and its description will be given.

4. Typology of relevant exchange objects in the relationships of the Hungarian FMCG sector

Level of embedment and heaviness depends directly on the object of the exchange in cooperation. The basis of interpreting and defining these exchange objects that is product and service packages lies in the understanding of customer expectations. The question is, can we distinguish among different but coherent sets of customer expectation, which on their own can be objects of an exchange process?

The specific sets of product and service packages in the Hungarian FMCG partnerships found in the qualitative research phase are the following:

1. *Supply private label products*: the set of customer expectation to supply private label products (specifications of the product is given by the customer);
2. *Supply branded products*: the set of customer expectation and supplier firm's capabilities to supply branded products (specification of the product is developed by the supplier);
3. *Additional joint activities*: the set of customer expectation to carry out common joint activities in order to
 - a. Increase the *effectiveness* of the relationship,
 - b. Increase the *efficiency* of the relationship.

4.1. Supply private label product

In the case of this set of customer expectations (and exchange object) a supplier firm is expected to deliver a private label product in the needed amount, according to specified quality and for a given price. Specification of the product is defined by the customer. Customer expectations include the production of high volume, flexibility in treating changes of the customer's order volume and a given standard of logistics service level. These logistics related expectations were stressed during the interviews. Short lead time, high level (usually 96%) of product order fill rate, small order quantities, accuracy of order picking, high level of documents were mentioned by the experts. Tracing and

tracking the product (at least one step forward and one step backward) is also a common expectation, which makes product identification (usage of EAN-code and bar code) important. Logistics related data supply, freshness and proactive problem solving were additional expectations of the customers.

4.2. Supply branded products

Customer expectations in this case are closely related with above mentioned one. All the expectations concerned with volume, quality, and price and logistics service level are the same as mentioned previously, but it also differs from that. Basic difference is that customer expectations also include the development of competitive specifications of the product and. Constant innovations concerning product portfolio and its packaging solutions are expected.

4.3. Additional joint activities

Besides the above mentioned a third set of customer expectations could have been identified. This includes the need for joint activities with suppliers in order to increase the profit potential of the relationship. The profit potential of a specific partnership can be increased through two types of joint activities, the first aims at increasing effectiveness, the second at increasing efficiency of the cooperation. *Effectiveness related joint activities* try to increase sales volume, consequently return from sales and profit stemming from a supplier company. Different trade specific and joint marketing actions have been mentioned as expected, like price discounts, secondary placement in the shops and so on. An important effectiveness related joint activity is category management.

Second type of joint activities has the objective to increase the efficiency of the cooperating parties', basically the customer's processes. *Efficiency related joint activities* include programs in order to implement electronic data interchange in a specific partnership, introduce the use of electronic signature, development of efficient customer response (ECR) programs.

4.4. Defined exchange objects and their characteristics form the embedment and heaviness perspective

A specific customer–supplier relationship can work together along several of these set of customers' expectations and the product and service packages defined by them. One of the interviewed supplier company supplies all the Hungarian trading companies with its branded products. It has on the other hand a specific relationship, where supplying private label product and also both of the joint activity-types are also expected and consequently these product and service packages supplied. All customer–supplier relationships can be characterized with specific expectations and consequently product and service package –portfolios. As already mentioned before, these different product and service packages theoretically relevant in a given relationship have three distinguishing attributes influencing relationship embedment and heaviness:

- intensity of activities carried out in the relationship;
- level of relation-specific investment;
- level of commitment and trust in the relationship.

Table 1: Different product and service packages in the Hungarian FMCG relationships and their characteristics

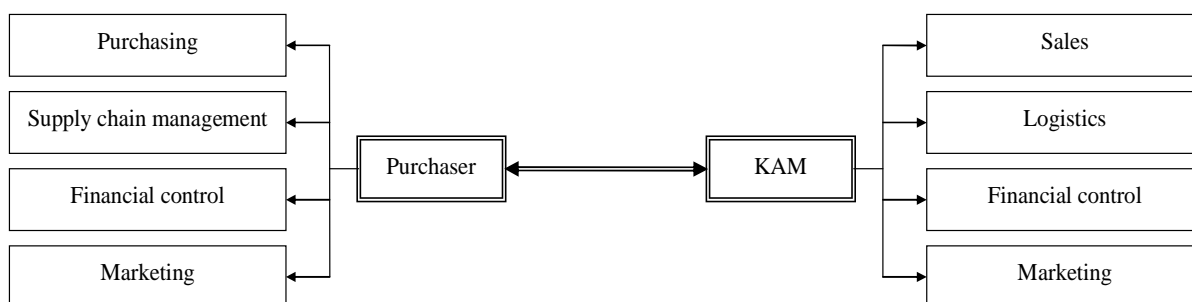
Product and service packages	Specific customer expectations	Intensity of the relationship	Relation-specific investments	Social links	Embedment and heaviness of relationship in case of the different product and service packages

<i>Supply private label product</i>	Concerning the <u>product</u> : customer defined quality of the product, volume supplied, adaptability to changing requirement (especially concerning supplied volume), price, Concerning connected <u>services</u> : Logistics service level: level of product order fill rate, short lead times, reliability of supply, accuracy of order picking, accurate documentation; tracing and tracking one step forward and backward, EAN code, supply of product specific logistics data, long expiration, accurate inventory data, proactive problem solving.	Relatively low, because only typical life cycle activities are only carried out (searching, starting, developing and maintenance, etc)	LOW	LIMITED AND SIMPLE S	LOW LEVEL OF EMBEDMENT AND HEAVYNESS
<i>Supply branded product</i>	The same as described above, plus developing own specification of products by the supplier				
<i>Effectiveness related joint activities</i>	The same expectations as in the case of supply branded products plus expecting above average revenues, increased sales volume, higher level of inventory turnover.	Higher level of relationship activity intensity due to the ongoing harmonization of planning and operational activities in the field of of marketing and logistics or supply chain management.	HIGHER	MORE COMPLEX	HIGHER LEVEL OF EMBEDMENT AND HEAVYNESS
<i>Efficiency related joint activities</i>	The same expectations as in the case of supply branded products plus more cost-effective cooperation within the given relationship.				

As indicated in Table 1 the effect a specific product and service package has on the embedment and also on heaviness of the partnership is different. According to the interviews supplying private label and branded product can be characterized with the same low level of relationship activity intensity. Joint activities lead to more intense cooperation, because it needs a more intensive harmonization and coordination of both planning and operating marketing, logistics and supply chain activities. More intense activities, wider information exchange lead to a more embedded and a heavier relationship. Parallel with the increase in intensity of activities relation-specific investments usually also grow. This is partly due to the necessary technical investments in order to facilitate the planning and execution of these joint activities (for example EDI, integrated information system in case of ECR programs), partly due to the increase investment in human capital necessary.

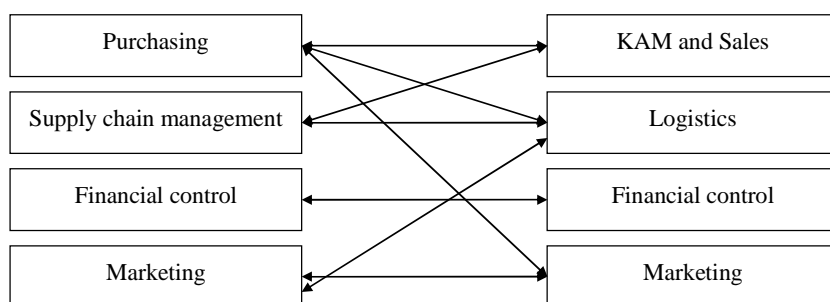
In parallel with increasing activities personal connections, social links between the counterparts are also developing more intensively. These social links are seen by the experts very important in making partnerships embedded and heavy. Supplying private label and branded products leads to lower level and less comprehensive social relations. Direct communication and cooperation is carried out between the KAM of the supplier and the purchaser of the customer side, while communication among additional experts (like sales, logistics, financial control and marketing, purchasing, supply chain management) is according to the interviews indirect, going through the above mentioned two key cooperating persons.

Figure 5: Typical interaction pattern between cooperating partners in case of private label and branded product and service package



Joint activities make relations unambiguously more embedded and heavy in nature because social interactions and activity bonds increase and become more complex. Joint activities, lead to the need of dealing with complex programs creating more complex social interactions and links and creating more direct cooperation among different representatives of the firms.

Figure 6: Typical interaction pattern between cooperating partners in case of joint activities



According to the above described changes in relevant relationship's attribute it can be stated, that relationships with the basic product and service packages (irrespective from the fact private label or branded product is supplied) have typically low level of embedment and are not heavy. In case the content of exchange is more complex and joint activities are also needed and supplied, embedment and heaviness increases.

The existence of these defined specific exchange objects and their description given above is a result of the exploratory research phase and provides the basis for specific hypotheses for the next research step, a questionnaire, which will be used in order to verify these hypotheses.

5. Summary

Aim of the paper was to get a deeper insight into the factors determining heaviness and embedment of relationships in general and in the Hungarian FMCG sector in particular. It was argued that the embedment and heaviness of a relationship is directly influenced by two factors: (i) what type of exchange objects in a given cooperation are present, and (ii) which stage of their lifecycle these specific exchange relations can be found. It is a common sense already that relationship develops over time and has to be distinguished from discrete exchange processes. But I also argue that, on the other hand relationships and their characteristics can not be interpreted without detailed analysis of all its past and present exchange processes. To put it differently, relationships are also path dependent. Analysing the different relevant exchange objects and combining this aspect with the lifecycle approach of relationship development seems to be beneficial in understanding this phenomenon of path dependency. In this paper the different potential exchange object of FMCG identified and their effect on relationship embedment analysed. This was done on the basis of an exploratory research, which still needs verification.

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