

**20th Annual Conference of the  
Industrial Marketing and Purchasing Group,  
Copenhagen  
2-4 September 2004**

**Supplier-Retailer Relationships in the  
UK Fresh Produce Supply Chain**

**Mr. Martin Hingley, Harper Adams University College<sup>1</sup>  
Dr. Adam Lindgreen, Eindhoven University of Technology<sup>2</sup>**

---

<sup>1</sup> Address for all correspondence: Mr. Martin Hingley, Department of Business Management and Marketing, Harper Adams University College, Newport, Shropshire, TF10 8NB, United Kingdom. E-mail: [mhingley@harper-adams.ac.uk](mailto:mhingley@harper-adams.ac.uk). Telephone: + 44 - (0) 1952 815386. Fax: + 44 - (0) 1952 814 783.

<sup>2</sup> Dr. Adam Lindgreen, Department of Organisation Science and Marketing, Faculty of Technology Management, TEMA 0.07, Eindhoven University of Technology, Den Dolech 2, P.O. Box 513, 5600 MB Eindhoven, the Netherlands. E-mail: [a.lindgreen@tm.tue.nl](mailto:a.lindgreen@tm.tue.nl). Telephone: + 31 – (0) 40 247 3700. Fax: + 31 – (0) 40 246 8054.

## **Supplier-Retailer Relationships in the UK Fresh Produce Supply Chain**

### **Work in progress paper**

Over the past decade, the UK fresh produce supply chain has undergone numerous changes, with retailers becoming increasingly powerful. The overall trend is towards the industry being dominated by a few large corporations operating on a national level, with some corporations even operating on a European or global scale. This process, which could significantly impact on the supplier-retailer relationships, is examined in this study using in-depth interviews with participants from the fresh produce supply chain. Over the past two decades, the literature has increasingly moved to consider collaborative relationship management and procurement practices (for major examinations, see for example, Christopher, 1992; Gadde and Håkansson, 2001; Gattorna and Walters, 1996; Gemünden *et al.*, 1997; Harrison, 1993; Saunders, 1994) and away from transactional exchange. In particular, we look at the changes that have recently happened in the UK fresh produce supply chain and what the impact, if any, has been on supplier-retailer relationships. Further the paper investigates changes to logistical and IT initiatives and developments in this sector and their effects on power and mutuality in supplier-retailer relationships.

The chain, which includes fruit, vegetables, and salads (that are not tinned, frozen, or preserved and that have been harvested recently), has undergone numerous changes in the last decade, with retailers becoming increasingly powerful. For example, more than half of all UK fresh produce was sold through greengrocers in 1990, but by 2000 the retailer multiples' share stood at some 83 per cent of sales by value (Mintel, 2003). The implementation of modern business practices including Efficient Consumer Response (ECR), Category Management (CM), and Just-in-Time (JIT) management has helped improve efficiency in the UK fresh produce supply chain. This has allowed the chain to break out of the commodity trap and take the fresh produce category out of the trading environment (Fearne and Hughes, 2000: p. 120) by means of innovation and value creation (White, 2000).

We organize the paper around the following topics. Firstly, we give a brief overview of the developments in the UK food supply chain. We then consider the developments in the fresh produce chain, particularly some of the practices that the fresh produce industry has put in place over the last decade or so, as well as the effects that these changes have had. Management developments include logistical initiatives (just-in-time, central *versus* regional distribution, and third and fourth party logistic provision) and IT technology developments (bar code, electronic point of sales, electronic data interchange, continuous replenishment, and electronic commerce). Following that, we plan to examine a number of players in the UK fresh produce supply chain. To that end, we carried out in-depth interviews with two suppliers, two retailers, and one haulier. Our main conclusions are as follows. Advancements in the UK fresh produce industry, particularly backhauling and factory gate pricing, have recently caused some controversy with suppliers feeling that these initiatives are not benefiting their relationships with retailers. Backhauling is the method of moving goods through a supply chain by fully utilising transport during its downtime (IGD, 2002). Retailers' lorries will collect from suppliers on their return journeys and bring the goods to consolidation centres thus reducing transport costs and boosting efficiency considerably (Hunt, 2002). Suppliers will be expected to quote factory gate prices, i.e. product costs excluding primary distribution costs and hence lose control over price setting in the logistics function.

### **Developments in the Food Supply Chain**

Food retailers command an increasingly higher volume of sales compared to food manufacturers thereby shifting the power within food marketing channels (Bourlakis, 2001; Fiddis, 1997). From the 1980s, faced with disorderly supply deliveries from food manufacturers, UK retailers saw ownership of independent regional warehouses/distribution centres and transportation fleets as the solution to inefficiency and disruption, in order to secure timely supply deliveries. Later, however, food retailers opted to outsource the logistics function, when this was possible, to single firms that offer all necessary value-added services in addition to the logistics function (e.g. Browne and Allen, 1999; Dawson and Shaw, 1990; Fernie, 1998).

A further development has been a change from market transactions to market relationships, networks, and interactions (Axelsson and Wynstra, 2002; Coviello *et al*, 2002; Gummesson, 1999; Hughes, 1994). Different factors have contributed to that development: the introduction

of ECR in the early 1990s, the internationalization of logistics firms, and the facilitating role information technology systems (Bourlakis, 2001; Kotzab, 2001). From the retailer perspective (and largely initiated by them) has been the development of Category Management (CM) as a key managerial tool. CM (where a preferred supply takes greater responsibility for the entire supply chain of a given product category) has become universally applied by retailers. The premise is that CM facilitates greater levels of collaboration in vertical supply channels and underpins relationship development (Barnes *et al.*, 1995). This occurs where a single (lead) supplier organizes the supply (from all the suppliers) of a given product category to the retailer. However, such initiatives are seen by some to be simply moving risk and cost onto the supplier and away from the retailer (Allen, 2001). Interestingly, it has been suggested that suppliers who are not willing to engage in this system could set up alternative food supply chains (Hughes, 2000). This is an argument put forward in Dapiran and Hogarth-Scott (2003) who contend that the development of CM has not necessarily increased cooperation in supply chains and can be used by retailers to reinforce power and control.

### **Developments in the UK Fresh Produce Supply Chain**

The UK fresh produce industry is characterised by over-supply, a commodity orientation, and stagnant annual growth (Fearne and Hughes, 2000). Retailers are driven by the need to reduce environmental uncertainty and risk (Hogarth-Scott, 1999), to improve supply chain integrity, to provide greater consistency in the quality of fresh produce, and to reduce costs through economies of scale. Additionally, they are looking for fewer and larger suppliers who can work with them in partnership (Bedford, 2000; Fearne and Hughes, 2000; Hingley, 2001; White, 2000). Such partnerships facilitate the stringent quality assurance and traceability programs imposed, whilst at the same time develop innovative ways of adding genuine value to the basic commodity in its movement from farm to consumer (Fearne and Hughes, 2000; Hughes, 2000). This has resulted in an overriding trend towards supply chain concentration, a process that could have a possible deep impact on the relationships, networks, and interactions between sellers and buyers, which makes the sector interesting.

In addition, UK supermarkets receive a considerable amount of criticism with regard to fair dealings with suppliers (see, for example, Howe, 1998). A report published by the Competition Commission (2000) on competitiveness and supply chain management by UK retailers highlights shortcomings in the treatment of suppliers to supermarkets. As a result a

code of practice has been drawn up by the Director General of Fair Trading in the UK, to which most leading UK food retailers have agreed to comply. The code governs relations between major supermarkets and their suppliers and puts in place measures to remedy problems identified by the Competition Commission relating to the provision of independent dispute resolution; thus seeking to provide suppliers with greater certainty and security (Department of Trade and Industry, 2001). However, the code has not been welcomed in all quarters with public criticism from suppliers in the UK. Against this background of apparent unrest over supplier-retailer relationships it is of interest to identify experiences from those engaged in close-partnering relationships.

### **Research Methodology**

It was decided to approach the questions using qualitative methods for collecting data. If fresh produce supply chain relationships are to be studied in depth it was believed that the most appropriate methods were those that emphasize detail, depth, and insight, as well as understanding and explanation (Patton, 1987; Sayre, 2001). In this research we used semi-structured, personal interviews that allowed access to respondents' thoughts, opinions, attitudes, and motivational ideas. This is an approach that has been employed in similar research including Hingley (2001) and Lindgreen and Beverland (2004), amongst others. Since cases were selected for their ability to contribute new insights, as well as in the expectation that these insights would be replicated (Perry, 1998). Both theoretical breadth and category saturation was obtained.

A sample of suppliers with the desired characteristics was first located. Suppliers were selected for reasons of being typical examples of organisations; in this case fresh produce category management supply chain members (Miles and Huberman, 1994; Patton, 1987). Utilising a *snowball* approach (Patton, 1987) information was obtained on retailers with whom the suppliers had dealt with, and contact with these suppliers was established, by means of a letter with a follow-up telephone call two weeks later to monitor progress. All the interview respondents asked that they be kept anonymous in the research. First, with regards to suppliers to food retailers one large fruit supplier and one large vegetable supplier were selected; both players had been involved in vertical supply chains relationships. The interviews with the suppliers helped to give a general idea of suppliers' thoughts and visions, as well as views on partnerships with retailers. It was also possible to identify differences between two different supply chains (fruits versus vegetables). Then a large and a small

multiple retailer were asked to participate in the research. The objectives of this set of interviews were to gain insights into retailers' attitudes towards their partnerships with suppliers and the future outlook of these partnerships. Knowledge was also gained on the influence of retailer size on the partnership with suppliers. Lastly, a large haulage company participated in the research. This company dealt regularly with suppliers and retailers in the fresh produce industry. The inclusion of the haulage company resulted in information on both back hauling and factory gate pricing. For additional information on the designing of the research we refer to (Kinnear and Taylor, 1996).

Interview questions were standardised around a number of topics (Dibb *et al.*, 1997). Questions were kept deliberately broad to allow interviewees as much freedom in their answers as possible (Glaser and Strauss, 1967). The findings will be taken from the words of the respondents themselves thereby aiding the aim of the research, whilst gaining much more information than would have been available from alternative research methods (Corbin and Strauss, 1998). All interviews were first taped to increase accuracy of data presentation (Patton, 1987) and later transcribed to allow for a detailed analysis. Eisenhardt's (1989) two-stage method of within-case and cross-case analysis guided the analysis of interview data. Within-case analysis involved writing up a summary of each individual case in order to identify important case level phenomena. Following this process, a coding scheme was developed to assist with the cross-case analysis (Patton, 1987; Strauss and Corbin, 1992) that involved searches for cross-case patterns (Miles and Huberman 1994).

With qualitative data being notoriously difficult to analyze (Patton, 1987) the authors' findings were cross-checked by an anonymous outsider, who had experience in analyzing in-depth interviews, to help achieve reliability. The case studies and interpretative reports were returned to the respondents for their comments, a step that helped further enhance the validity of the research method (Perry, 1998). To further help improve the quality of the analysis, secondary data were sought to triangulate the cases (Glaser and Strauss, 1967; Strauss and Corbin, 1992; Yin, 1994).

The literature review, as well as the previously mentioned coding scheme also helped in reporting the findings, which in the full study will be grouped under the three major headings, each with a number of sub-headings:

- advancements in the UK fresh produce industry: technology, category management, backhauling, and factory gate pricing;
- recent changes in UK fresh produce supplier-retailer relationships: contact, collaboration, trust, power, fresh produce buyers, partnerships, and relationships; and
- future outlook for the UK fresh produce industry: rationalisation.

### **Provisional Findings**

Our research suggests that advancements in the UK fresh produce industry have caused some controversy in recent years, particularly with regards to backhauling and factory gate pricing where suppliers generally felt that these initiatives are not benefiting their relationships with retailers. Specifically these initiatives were seen by suppliers as a retailer mechanism for streamlining and cost cutting that would not benefit suppliers or hauliers.

Findings concur with the view that relational exchange requires facilitation through use of technology. Information technology has evolved quickly in the UK fresh produce industry including electronic data interchange and the Internet, amongst other initiatives. We also find that, in some areas, relationships are improving in the industry, though issues such as trust, co-operation, and collaboration should be addressed if further improvements are to occur. Resulting imbalances in power and the nature of power-dependency are serious concerns. One specific example is in the notable power of individual retail buyers; and there are concerns from suppliers over regular movement within organisations of buyers and that this may prevent the formation of a consistent relationship. With respect to the introduction of Category Management, it was recognised that good supplier-retailer working relationships are critical to CM even though not all companies used this specific terminology. However supplier respondents were not necessarily convinced that the use of CM was anything more than a mechanism for supply-base rationalisation by retail customers. Retailers do continue to have significant supply chain power compared to suppliers, although they are beginning to acknowledge how important suppliers are in gaining retail market share of fresh produce sales.

### **Limitations to the Research**

It was described how, after a sample of suppliers had been located, information was obtained on retailers with whom the suppliers had dealt with and how contact with these suppliers was

then established. Although this approach results in a sample that is less representative of the population than do other research methods, the advantage is that it allows for identification of respondents who are likely to be willing to participate in the study. A series of interviews with additional suppliers and retailers should be set up to see if the research findings can be supported. Thought should be given into the sampling procedure. For example, cases should be included where it is believed that the findings will be in contrast to the ones in this research, or cases of supplier-retailer relationships that work well and relationships that work less well could be part of the research. Another example is the inclusion of international players in the research, as they could have a potential influence on the supply chain.

### **Directions for Future Research**

Future research could examine issues of whether relationship marketing models are truly being applied in this sector. This could draw upon previous theoretical literature on power/dependency and mutuality from channel and network thinking. It appears that fresh produce vertical relationships are undergoing a step change. Powerful UK retail buying organisations applied collaborative relationship-based constructs with respect to fresh produce suppliers; supply chains were shortened, supplier numbers rationalised and partner arrangements employed with dedicated and exclusive suppliers. This delivered some degree of ongoing relationship-based exchange in the sector. However, true partnership is difficult to achieve amongst unequals in vertical supply chains, where there must always be a lead partner. Fresh produce suppliers are broadly accepting this state of power imbalance (Hingley, 2001) just so long as a reasonable proportion of the relationship value accrues to them. But, it could be argued that vertical fresh produce (and other similar) food industry relationships between suppliers and retailers are entering another phase and retailers are using what have been previously declared are relationship-building tools as perhaps the opposite. Dapiran and Hogarth-Scott (2003), for example, contend that rather than building mutual relationships, Category Management can be used by retailers to reinforce power-dependence over suppliers. Similarly, and as has been seen in this study, the introduction of backhauling and factory gate pricing has not been received well by suppliers. What in theory developed as an application of relationship marketing principles to this vertical channel has evolved and, some could say, regressed. Exchange has not reverted back to transactional dealings in fresh produce, there remains a reduced supply base model where key suppliers are more involved and regularly consulted in the business process. However, partnering and mutuality issues have not been fully realized. CM has brought to the fore the issue of power-dependence rather than

mutuality. This does not, however, mean that imbalanced power relationships are not workable in vertical channels. Hence further research should focus on the nature and management of power in vertical channel relationships. This does not necessarily mean investigation into legality and fairness present in retailer-supplier relationships. This is more than adequately explored in Howe (1998) and Duffy *et al.* (2003) in reference to outcomes resulting from Competition Commission (2000). Quite clearly food industry suppliers can successfully operate in a power-imbalanced environment and this does question the relationships marketing premise of mutuality in collaborative exchange. It would be useful to comprehend, from the perspective of actors involved, the boundaries for and levels of acceptance in power-imbalanced vertical channel relationships.

## References

- Allen, S. (2001), "Changes in supply chain structure: the impact of expanding consumer choice", in Eastham, J. F., Sharples, L. and Ball, S. D. (2001), *Food Supply Chain Management: Issues for the Hospitality and Retail Sectors*, Butterworth-Heinemann, Oxford, pp. 314-323.
- Axelsson, B. and Wynstra, F. (2002), *Buying Business Services*, John Wiley & Sons, Chichester.
- Barnes, S., McGrath, M., and Pinnock, A. (1995), *The Category Management Revolution*, Institute of Grocery Distribution, Watford.
- Bedford, L. (2000), *Future Trends in the Fresh Produce Sector*, Chipping Campden, Gloucestershire: Campden and Chorleywood Food Research Association, Wychavon District Council Adapt Food Quality Project, December, Report Number AG/55109/1.
- Bourlakis, M. A. (2001), "Future issues in European supply chain management", in Eastham, J. F., Sharples, L. and Ball, S. D. (2001), *Food Supply Chain Management: Issues for the Hospitality and Retail Sectors*, Butterworth-Heinemann, Oxford, pp. 297-303.
- Browne, M. and Allen, J. (1999), "Developments in Western European logistics strategies", in Walters, D. (Ed.), *Global Logistics and Distribution Planning*, Kogan Page, London, pp. 324-342.
- Christopher, M. (1992), *Logistics and Supply Chain Management*, Pitman, London.
- Competition Commission (2000) *Supermarkets: A Report on the Supply of Groceries from Multiple Stores in the United Kingdom*, Competition Commission, London.

Corbin, J. and Strauss, A. (1998), *Basics of Qualitative Research*, Sage Publications, London.

Coviello, N. E., Brodie, R. J., Danaher, P. J., and Johnston, W. J. (2002), "How firms relate to their markets: an empirical examination of contemporary marketing practices", *Journal of Marketing*, Vol. 66, No. 3, pp. 33-46.

Dapiran, G. P. and Hogarth-Scott, S. (2003), "Are co-operation and trust being confused with power? An analysis of food retailing in Australia and the UK", *International Journal of Retail and Distribution Management*, Vol. 31, No. 5, pp. 256-267.

Formaterat

Dawson, J. A. and Shaw, S. (1990), "The changing character of retailer-supplier relationships". In Fernie, J. (Ed.), *Retail Distribution Management*, Kogan Page, London.

Department of Trade and Industry (2001), "Hewitt backs good behaviour code for supermarkets and suppliers", Department of Trade and Industry, press release, P/2001/606, 31 October.

Dibb, S., Ferrell, O. C., Pride, W. M., and Simkin, L. (1997), *Marketing Concepts and Strategies*, 3rd ed., Houghton Mifflin, Boston, Massachusetts.

Duffy, R., Fearn A., and Hornibrook, S. (2003), "Measuring distributive justice and procedural justice: an exploratory investigation of the fairness of retailer-supplier relationships in the UK food industry", *British Food Journal*, Vol. 105, No. 10, pp. 682-694.

Eisenhardt, K. M. (1989) "Building theories from case study research", *Academy of Management Review*, Vol. 14, No. 4, pp. 532-550.

Fearne, A. and Hughes, D. (2000), "Success factors in the fresh produce supply chain: insights from the UK", *British Food Journal*, Vol. 102, No.10, pp. 760-776.

Fernie, J. (1998), "The internationalization of the retail supply chain". In Fernie, J. (Ed.), *Retail Distribution Management*, Kogan Page, London, pp. 47-66.

Fiddis, C. (1997), *Manufacturer Retailer Relationships in the Food and Drink Industry: Strategies and Tactics in the Battle for Power*, FT Retail and Consumer Publishing / Pearson Professional, London.

Gadde, L.-E. and Håkansson, H. (2001), *Supply Network Strategies*, John Wiley & Sons, Chichester.

Gattorna, J. L. and Walters, D. W. (1996), *Managing the Supply Chain*, Macmillan, Basingstoke.

Gemünden, H. G., Ritter, T., and Walter, A. (1997), *Relationships and Networks in International Markets*, Pergamon, Oxford.

Glaser, B. G. and Strauss, A. L. (1967), *The Discovery of Grounded Theory*, Aldine de Gruyter, New York.

Gummesson, E. (1999), *Total Relationship Marketing: From the 4Ps – product, price, promotion, place – of traditional marketing management to the 30Rs – the thirty relationships – of the new marketing paradigm*, Butterworth-Heinemann, Oxford.

Harrison, A. (1993), *Just-in-Time Manufacturing in Perspective*, Prentice Hall, London.

Hingley, M. (2001), "Relationship management in the supply chain", *International Journal of Logistics Management*, Vol. 12, No. 2, pp. 57-71.

Hogarth-Scott, S. (1999), "Retailer-supplier partnerships: hostages to fortune or the way forward for the millenium", *British Food Journal*, Vol. 101, No. 9, pp. 668-682.

Howe, W.S. (1998), "Vertical market relations in the UK grocery trade: analysis and government policy", *International Journal of Retail and Distribution Management*, Vol. 26, No. 6, pp. 212-224.

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

Hughes, D. (2000), Challenges for the fresh produce industry in the twenty-first century, Food Project Fresh Produce Group, Wye College. Available from [www.igd.com](http://www.igd.com).

Hunt, J. (2002), "One step beyond - factory gate pricing", *The Grocer*, March, pp. 39-40.

IGD (2002), *Backhauling and Factory Gate Pricing*, Institute of Grocery Distribution, Letchmore Heath.

Kinncar, T. C. and Taylor, J. R. (1996), *Marketing Research*, 5th ed., McGraw-Hill, London.

Kotzab, H. (2001), "European developments in efficient consumer response", in Eastham, J. F., Sharples, L. and Ball, S. D. (2001), *Food Supply Chain Management: Issues for the Hospitality and Retail Sectors*, Butterworth-Heinemann, Oxford, pp. 268-280.

Lindgreen, A. and Beverland, M. (2004), "Relationship marketing: fad or panacea?" *Journal of International Food & Agribusiness Marketing*, forthcoming in Vol. 15, No. 3.

Miles, M. B. and Huberman, A. M. (1994), *Qualitative Data analysis*, 2nd ed., Sage Publications, Thousand Oaks, California.

Mintel (2003), Fresh fruit and vegetables market intelligence.

Patton, M. Q. (1987), *How to Use Qualitative Methods in Evaluation*, 2nd ed., Sage Publications, London.

Perry, C. (1998), "Processes of a case study methodology for postgraduate research in marketing", *European Journal of Marketing*, Vol. 32, No. 9/10, pp. 785-802.

- Saunders, M. (1994), *Strategic Purchasing and Supply Chain Management*, Pitman, London.
- Sayre, S. (2001), *Qualitative Methods for Marketplace Research*, Sage Publications, Thousand Oaks, California.
- Strauss, A. and Corbin, J. (1992), *Basics of Qualitative Research*, Sage Publications, Newbury Park, Connecticut.
- White, H. M. F. (2000), "Buyer-supplier relationships in the UK fresh produce industry", *British Food Journal*, Vol. 102, No. 1, pp. 6-17.
- Yin, R. K. (1994), *Case Study Research: Design and Methods*, 2nd ed., Sage Publications, Thousand Oaks, California.