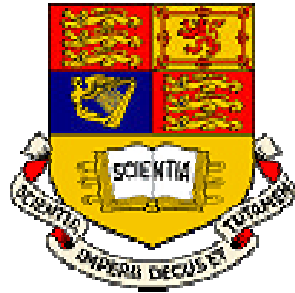


**METHODOLOGY FOR QUANTITATIVE COMPARISON
OF UK MULTIPLE RETAILERS' TERMS OF TRADE
WITH PRIMARY PRODUCERS**

**Report to the International Institute for Environment and Development
RACE TO THE TOP PROJECT: Terms of Trade with Primary Producers**



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1. INTRODUCTION

Race to the Top is a collaborative project, co-ordinated by the International Institute for Environment and Development (IIED) and based on constructive engagement between an alliance of organisations and the major UK multiple retailers. The aim of the project is:

“... to track the social, environmental and ethical performance of UK supermarkets, and catalyse change within the UK agri-food sector and beyond. An alliance of farming, conservation, labour, animal welfare and sustainable development organisations has developed several indicators of supermarket performance. These will provide comparative data to track progress towards fairer and greener food over the next five years. By identifying and promoting best practice by supermarkets, the project will point to key issues for public policy, consumers, investors, retailers and campaigners” (www.racetothetop.org)

There are seven modules within the Race to the top project, covering a wide range of issues, namely:

1. **Environment:** reducing CO2 emissions and waste
2. **Producers :** giving a fair deal to farmers, both in the UK and overseas
3. **Workers :** providing fair wages and conditions for workers
4. **Communities:** sourcing local and regional produce and supporting local communities
5. **Nature:** promoting on- farm biodiversity and wildlife-friendly fisheries
6. **Animals:** improving animal welfare standards
7. **Health:** increasing access to healthy food

This study is part of the module concerned with the impact of UK supermarkets on producers, which comprises four performance indicators:

1. Corporate commitment to fair trade with primary producers
2. Fair trade and fair dealings between UK farming and supermarkets
3. Standards: a level playing field
4. Support for smallholder producers in developing countries

In March 2002, the Centre for Food Chain Research (CFCR) at Imperial College was commissioned by the IIED to develop a method for benchmarking and tracking comparative supermarket performance in their terms of trade with primary producers (performance indicator No.2). This indicator should measure the integrity and fairness of supermarket trading relationships with their suppliers and cover the issues raised in the Competition Commission enquiry into supermarkets¹. It will be triangulated with supermarket self-assessments and will cover three major commodity sectors: fresh produce, meat and dairy.

2. OBJECTIVES

The original objective of this project was to develop a survey instrument that would allow meaningful quantitative comparison of UK supermarkets' terms of trade with primary producers, on an annual basis. However, following preliminary discussions we highlighted the fact that very few primary producers have any direct contact with retailers and it was agreed that the focus of the exercise should shift from primary producers to the suppliers of processed products – fruit and vegetable packers, meat processors and dairy companies, who effectively provide the link from farm-gate to retail. As such, it is hoped that the survey will serve as a powerful form of independent monitoring of the Code of Practice, introduced by the top four supermarkets in April 2002².

At the outset it was established that the project should first identify the nature of the communication linkages in the retail supply chains for the key commodity sectors and highlight the key issues related to the terms of trade with the supermarkets. This is a crucial part of the project, as it will identify those parties that should be included in the survey. In addition, it was felt important to consider the issue of 'fairness' in the determination of prices paid by retailers to their suppliers. This is an important question at a time when UK farming is in crisis and many see concentrated market power in the food chain, especially by retailers, as an explanation for the current plight of farmers and indeed processors in many sectors.

For the purpose of this study - developing the methodology – six major UK product sectors within the three broad commodity groupings were covered, namely:

- apples and pears
- potatoes
- beef and lamb
- pork and bacon
- liquid milk
- cheese

¹ A report on the supply of groceries from multiple stores in the United Kingdom, Competition Commission, October 2000

² <http://www.dti.gov.uk/cp/pdfs/codeofpractice.pdf>

3. CONCEPTUAL FRAMEWORK

The conceptual framework used to establish how integrity and fairness in supermarkets' relationships with their suppliers can be defined and measured encompasses the key issues raised in the Competition Commission report on supermarket relations and the issues highlighted in the code of practice. Thus, before the conceptual framework is presented, the key issues highlighted in the Competition Commission report and some background to the investigation are presented below.

3.1 Background to the Competition Commission Report

The fact that the major retailers control access to consumers means that they are increasingly in a position to exercise buyer power. This is because distribution through these outlets is critical to manufacturers and suppliers as these suppliers have no other viable means of setting up distribution that offers the same scale and economic benefits (Dobson, Waterson and Chu 1998). Evidence of excessive retailer power was highlighted in November 1999 when the supermarket chain Safeway attempted to pass the costs of an in-store promotion onto farmers. Suppliers and growers with direct supply contracts were asked for a £20,000 donation per product line towards the promotion, which Safeway said would guarantee the availability of its key products (NFU press release 17th November 1999). Therefore some suppliers faced bills in excess of several hundred thousand pounds.

Safeway was heavily criticised by the National Farmers Union who stated that it was "morally wrong" to expect the producer to help meet the needs of the entire supply chain, particularly when the payment was suggested at a time of severe hardship within the industry. Although Safeway assured the NFU that that suppliers were being asked to help fund the scheme on a voluntary basis, the NFU responded by stating that in the climate of increased competition between retailers and supplier rationalisation, smaller growers felt under intense pressure to contribute and were fearful of commercial reprisals if they did not (NFU press release 17th November 1999).

The NFU reported the incident to the Competition Commission who were already conducting an investigation into supermarkets operations. This was in response to public concerns, raised by the Director General Of Fair Trading, who said that the

public perceived the price of groceries in the UK to be higher than in other comparable EC countries and the USA. In addition, an apparent disparity between the farm-gate and retail prices was seen as evidence by some that retailers were profiting from the crisis in the farming industry and concerns were also being raised that large out-of-town supermarkets were contributing to the decay of the high street in many towns. Following the complaints by the NFU regarding the action taken by Safeway, the Competition Commission said that the treatment of suppliers by supermarkets would be examined further during its inquiry into supermarkets (NFU Press Release, 1st February 2000).

3.2 Issues Raised in the Competition Commission Report

The Competition Commission's investigation of supermarkets examined a number of practices in the industry. One group of practices concerned the pricing of grocery products. The second concerned actions by the supermarkets in their relationships with their suppliers. The report on supermarkets was published in October 2000 and concluded that it was satisfied that the industry was broadly competitive and that excessive prices were not being charged or excessive profits earned.

However, the report recommended a legally binding code of practice to govern relationships between retailers and suppliers. This was deemed necessary as during the investigation the Competition Commission received many allegations from suppliers about the behaviour of the supermarkets in the course of their trading relationships. Supermarkets were presented with a list of 52 alleged practices and asked to identify which practices they had engaged in during the last five years. The Competition Commission found that a majority of these practices were carried out by many of the supermarkets. These included requests from some of their suppliers for various non-cost related payments or discounts; imposing charges; making changes to contractual arrangements without adequate notice and unreasonably transferring risks from the supermarket to the supplier.

The Competition Commission concluded that these types of practices, when carried out by any of the major buyers, could adversely affect the competitiveness of some of their suppliers and distort competition in the supplier market. The result would be that suppliers would be less likely to invest and would spend less on new product

development and innovation, leading to lower quality products and less consumer choice. Some of the practices were also believed to give the major supermarket buyers substantial advantages over other smaller retailers, whose competitiveness could suffer as a result, again leading to a reduction in consumer choice. The conclusion of the report was to introduce a legally binding code of practice to govern relationships between retailers and suppliers to address these adverse affects caused by the undue exercise of buyer power.

In referring to the proposed code of practice, the report highlighted that the code should exemplify best practice in commercial relationships and be underpinned by three key principles. The first is that it is important for all parties to recognise the competitive pressures of the market place and the need to respond quickly to customers to deliver value. The second is that all supply chain participants, in whatever sector, would benefit if they worked together to expand the market for their products and develop a profitable and sustainable business. The third principal is that all trading partners should be treated fairly and reasonably. It is the third principal that we focus on in this study.

3.3 Definition and Conceptualisation of Fairness and Integrity

Fair or fairness is defined in the Concise Oxford Dictionary as a *satisfactory, just, legitimate, equitable, or unbiased proposition*. The terms integrity and fairness are inter-linked in their meaning as integrity is defined as *honesty*, while honest is defined as *fair, righteous and truthful in speech and act*. Therefore participants in relationships that are fair and that have integrity will not feel hard done by and will trust that their partner will behave in a way that is not detrimental to their own company. Due to the inherent similarities in the definitions of these concepts, the development of the theoretical framework centres on the concept of fairness in exchange relationships.

In defining the term fair, Larwood, Kavanagh and Levine (1978) state that the economic aspect of an exchange is fair if the individual perceives that investments have the same relationship to rewards for each party in an interaction. However, others argue that fairness judgements are often slightly biased in favour of the self compared to the other party (Messick and Sentis 1983, Hertel, Aarts and Zeelenberg

2002). This highlights that care must be taken when measuring perceptions of fairness.

3.4 Measuring Fairness in Exchange Relationships

In approaching the measurement of the concept of fairness a review of the literature was undertaken. From the organisational and inter-organisational literature it emerged that two perspectives on fairness exist. The first is the fairness of the economic price or outcomes actually achieved and the second is the fairness of the process used to determine those outcomes or the process used to manage the exchange relationship (i.e. Kumar 1996, Maxwell, Nye and Maxwell 1999).

Organisational and inter-organisational theorists commonly refer to these two types of fairness as *distributive* and *procedural justice*. Organisational theorists have used these two types of justice to measure fairness in the domains of managerial fairness and employee performance appraisals (i.e. Gilliland 1993, Schmitt and Dorfel 1999, Andrews and Kacmar 2001, Aryee, Budhwar and Chen 2002, Lam, Schaubroeck and Aryee 2002), whilst in the inter-organisational literature these two types of justice have been used to identify how fairly one exchange partner treats another (i.e. Kumar 1996, Hertel, Aarts and Zeelenberg 2002). A number of researchers have also investigated one specific aspect of fairness, most commonly the perceived fairness of price or exchange outcomes. Theories that focus on this aspect of fairness include the *principal of dual entitlement* and *equity theory* (Martins and Monroe 1994, Maxwell, Nye and Maxwell 1999).

3.4.1 The Fairness of Outcomes Received

Distributive justice or fairness describes the perceived fairness of the outcomes received. In the organisational literature, distributive justice refers to the perceived fairness of the outcomes that employees receive regarding pay or promotions in relation to the amount of effort they have put into their job (Andrews and Kacmar 2001). In terms of exchange relationships, distributive justice deals with how the profits are shared and how the benefits and burdens are divided or allocated between two parties (Kumar 1996, Hertel, et al 2002).

In determining the fairness of the outcome of price negotiations Maxwell, Nye and Maxwell (1999) argue that the preferred price (i.e. what one wants) and a fair price (i.e. what one believes to be just) are distinct variables. They draw on the findings of Messick and Sentis (1983) that showed that the level at which people would like to be paid is much higher than what people think would consider to be fair. As such Maxwell et al (1999) state that a buyer's determination of a fair price incorporates both a concern for himself/herself and a concern for the seller.

Perceived fairness of an outcome is also reflected in the principle of dual entitlements (Martins and Monroe 1994, Maxwell et al 1999). This is based on the recognition by both buyers and sellers that their opponents have a right to their expected price. For example, Maxwell et al (1999) state that even when the outcome is against the interests of buyers, they recognise the rights of sellers to maintain profits when they are determined by a fair procedure of cost-plus pricing. Conversely, using this line of reasoning sellers will also recognise the rights of buyers to reduce the price they pay to sellers if they are able to buy a comparable product at this lower price from another seller.

Martins and Monroe (1994) suggest that another approach to evaluating the fairness of exchange relationships is equity theory. This is a social comparisons theory in which individuals evaluate the ratio of the investments they make to a particular exchange to the profits they derive from it, relative to the investments and profits allocated to their exchange partners. Equity theory posits that, for an equitable exchange relationship to exist, the parties involved have to have equal ratios of perceived profits, or gains, to perceived investments, or losses. Therefore Martins and Monroe (1994) state that two potential ways to reduce inequity in an exchange may be to decrease the losses of the short-changed individual or increase the losses of the individual experiencing an unfair advantage.

3.4.2 The Fairness of the Process Used to Determine the Outcomes

The concept of procedural justice originates in the organisational literature and is concerned with the perceived fairness of procedures used in making decisions. Organisational researchers such as Thibaut and Walker (1975) and Gilliland (1993) contend that procedures are perceived to be 'more fair' when affected individuals

have an opportunity to either influence the decision process or offer input. Gilliland (1993) also states that perceptions of procedural justice are influenced by the extent to which procedural rules are satisfied or violated. Procedural rules, listed by Leventhal (1980), suggest that in order to be fair decisions should be made consistently; without personal biases; with as much accurate information as possible; with interest of affected individuals represented in a way that is compatible with their ethical values, and with an outcome that can be modified. Other justice researchers have suggested additional rules such as the importance of two-way communication (Greenberg 1986).

Procedural justice is also concerned with the fairness of decision-makers' behaviour during the enactment of procedures; a perspective that has been labelled *interactional justice* (Gilliland 1993, Lupfer, Weeks, Doan and Houston 2000). Interactional justice suggests that perceptions of fairness are increased if explanations are given for decisions. It also suggests that interpersonal treatment influences perceptions of fairness and draws attention to issues of respect and courtesy (Gilliland 1993). Therefore, researchers such as Gilliland (1993) and Greenberg (1990) state that procedural justice consists of three components. These are (1) the formal characteristics of procedures, (2) the explanation of procedures and decision making and (3) interpersonal treatment.

Researchers have extended these concepts and adapted them to the context of inter-organisational exchange relationships. For example, Kumar (1996) states that procedural justice describes the fairness of a party's procedures and policies for dealing with its vulnerable partners and refers to the fairness of the means used to determine the outcomes in the relationship. Kumar (1996) suggests that due process or procedural justice has stronger effects on relationships than distributive justice does, in that the weaker partner sees the powerful partner's system of procedural justice as reflecting more accurately the latter's real attitudes towards the former. Drawing on theories from the organisational literature Kumar (1996) states that six principles can be used to determine whether a relationship is procedurally just. These are bilateral communication, impartiality, refutability, explanation, familiarity and courtesy. These six principles encompass the three key components of procedural justice suggested by organisational theorists such as Gilliland (1993).

In a similar vein to procedural justice, Maxell et al (1999) suggest that the fairness of the process used in negotiations is judged by the whether or not the process used by one party demonstrates a concern for the other party. They state that a concern for social utility has implications for negotiations as it can reduce the conflict between partners and facilitate the negotiation process. When negotiators have a concern for the other party, they tend to exhibit more co-ordinating behaviour as opposed to the use of competitive behaviours. These co-ordinating behaviours tend to expedite the negotiation process and increase the possibility of mutual satisfactory win-win agreements.

3.4.3 Chosen Theoretical Approach

The theoretical approach that has been chosen to guide the research is that of Kumar (1996). This approach encompasses both perspectives of fairness identified in the literature and clearly describes how each type of fairness can be measured. In this way it offers a comprehensive approach to the measurement of fairness in inter-organisational relationships. The approach is also consistent with previous research as a two-dimensional conceptualisation of fairness is widely adopted in the extant literature (Lupfer, Weeks, Doan and Houston 2000).

However, a key advantage of Kumar's approach is that his conceptualisation of procedural justice enables interpersonal issues, the manner in which people are treated, to be examined. This is an aspect of procedural justice that Lupfer, Weeks, Doan and Houston (2000) state has not been traditionally studied but is now being incorporated into more recent conceptualisations of justice as researchers are recognising that interpersonal criteria are a major influence on fairness judgements.

3.5 The Applicability of the Conceptual Framework

The applicability of the use of distributive justice and procedural justice to measure the fairness and integrity of supermarket-supplier relations is assessed in the following sections where relevant practices and issues that were highlighted in the Competition Commission report are discussed.

3.5.1 Distributive Justice

Kumar (1996) states that distributive justice exists when the more powerful partner realises that they have some responsibility for their partner's profitability and can be measured by identifying how the pie is shared, or how the benefits and burdens are divided between partners. However, concerns have been raised over whether or not this type of justice exists in supermarket-supplier relationships as the Competition Commission report on supermarkets highlighted a number of ways in which supermarkets were thought to be misusing and exploiting their position of market power to extract an unfair proportion of the benefits of the trading relationship. A number of issues concerning price, costs and the outcomes achieved in trading relationships were identified from the report as being directly applicable to the meaning of distributive justice. These are discussed below.

3.5.1.1 Price

The method in which the price is negotiated with suppliers was highlighted as an area of concern in the Competition Commission report as many suppliers commented on the purchasing power of the main parties, and their "ability to drive down suppliers' prices to uneconomic levels." Suppliers also indicated that a general "high-handedness" existed amongst buyers, many of whom were "young and inexperienced and have the power to dictate prices and margins." One supplier commented, "Some of the supermarkets are very bad and use their power to squeeze the packer who in turn squeezes the farmer." Suppliers also indicated that threats were sometimes used to secure lower prices or better terms of trade. In particular, one supplier stated that although "some retailers accept that manufacturers need to make a profit and pay reasonable prices, others will try to negotiate a contract in retrospect and extract maximum possible money under threat." Another stated "the threat of de-listing is a regular part of the price negotiating stance by some multiples."

In terms of suppliers' perceptions of the actual price they received from supermarkets, one supplier stated that "they ruthlessly erode a supplier's margins with no consideration of the damage they are doing to that company or its employees." Others indicated that "unreasonably low prices were paid for goods" and that products were often sold "below cost." Some suppliers also complained about

delayed payments and said, “60-90 days was not unusual.” Another stated that, “ a major buyer changed payment terms from 28 days to 32 days with no warning.”

3.5.1.2 Costs

The report highlighted a number of practices that led to increased costs for suppliers and “exacerbated the impact of low prices”. These included changes to agreed promotions at short notice and the requirement to use specified service providers of packaging, labelling and haulage, from whom the supermarkets received a payment. Suppliers also commented that the supermarkets had imposed supply chain changes that reduced the supermarkets’ costs but increased the suppliers’ costs, indicating that supply chain costs and benefits are not distributed equally.

3.5.1.3 Imposed Charges, Requested Contributions and Discounts

The report also highlighted other practices of concern regarding “requests” for cash “contributions” and the introduction of charges, which are deducted from invoices payable without prior agreement from suppliers. For example, one supplier stated “over recent months we have been asked to make three separate cash contributions; the third by telephone was for a sum in excess of £100,000 and was claimed by the multiple to be a contribution towards profits.” The same supplier also said that the same retailer had introduced other charges, none of which had been negotiated and all of which had been deducted from the next payment. Examples of charges that are deducted from invoices without consultation are administration costs for handling consumer complaints, which are coupled with little or no documentation about the alleged complaints. Suppliers also complained that deductions were made from invoices to cover wastage, although in some cases retailers negotiated a “wastage allowance” to cover damages.

The report highlights that many suppliers offer, and the retailers seek, discounts as a normal feature of negotiations and are usually volume or promotion related. However many suppliers complained that discounts were being sought, or even imposed retrospectively with the supermarkets using their negotiating strength to seek further discounts or payments. In particular, in discussing contributions towards promotions, many suppliers said that effectively they had no choice regarding their level of

contribution if they wished to continue to supply. One supplier stated that, “ all the multiples threaten de-listing as a method to extract more promotional monies.”

3.5.2 Procedural Justice

Procedural justice assesses the fairness of a party’s procedures and policies for dealing with its weaker partners. Kumar (1996) suggests that this type of justice can be measured by identifying the extent to which the six principles that underlie “procedurally just” systems are present in a relationship. Each of these principles is described in turn and issues that are relevant to each are drawn from the Competition Commission report.

3.5.2.1 Bilateral Communication

The principle of *Bilateral Communication* measures whether the more powerful partner is willing to engage in two-way communication with its partners. Open and honest dialogue is seen as a sign of a healthy relationship and suppliers should be encouraged to be proactive and frank in pointing out the company’s weaknesses. Effective communication between the partners helps to ensure that mutual understanding exists between the firms. Effective two-way communication would ensure that the standard terms of business are clearly communicated to suppliers and that any variations in the terms of business are communicated to suppliers to ensure that the supplier’s business is not adversely disrupted. However the Competition Commission report indicated that this is often not the case with changes to quality and quantity often made without adequate notice. The report also indicated that some suppliers felt that they had no security of supply as retailers would phone and say they would be sourcing elsewhere for a few weeks.

3.5.2.2 Impartiality

The principle of *Impartiality* measures whether the more powerful party deals with channel partners equitably and if suppliers all have an equal opportunity to gain a fair share of business. Impartiality also requires the more powerful party to try and minimise any major changes in the volume of business awarded to suppliers from one year to the next so that suppliers have time to adjust and do not feel unfairly treated. Issues that are highlighted in the Competition Commission report that have relevance here include concerns over category management and the belief that it favours and

benefits larger suppliers who can dominate the category at the expense of smaller suppliers. Concerns about the supermarkets' ability to ensure that overseas suppliers are made to comply with the same standards required of UK suppliers are also relevant, as are the imposition of trading restrictions on suppliers which limits their potential to trade with other customers.

3.5.2.3 Refutability

The principle of *Refutability* measures whether the smaller or more vulnerable partner can appeal the more powerful party's channel policies and decisions and air its concerns without fear of reprisals. This is an important aspect of relationships as the retailer could compromise a supplier's position if they are not able to express problems that they have with specific decisions made. The Competition Commission report highlighted that this aspect of procedural justice was often lacking from relationships with suppliers, indicating that they found it difficult to reach the correct person to discuss problems with. Suppliers also suggested that supermarkets would refuse to discuss the problem, had inflexible attitudes, and were reluctant to understand the suppliers' position. In many cases suppliers said that they had no recourse to complain for fear of upsetting the relationship and feared that the retailer would resort to threats either of de-listing or reduced business.

3.5.2.4 Explanation

The principle of *Explanation* measures whether the more powerful party provides its partners with a coherent rationale for its channel decisions and policies. Although those in power may feel they have a right to make decisions without explaining them, that attitude has a detrimental impact on the relationship. The Competition Commission report highlighted that suppliers were very rarely given reasons for supply chain changes or for "requests" to purchase goods and services from designated companies.

3.5.2.5 Familiarity

The principal of *Familiarity* measures the extent to which the powerful party understands or is aware of the conditions under which its channel partners operate. This understanding is important as it permits the more powerful party to ascertain the ability of its partner to meet requests or demands. The Competition Commission

report did not highlight many issues that were applicable to this principle, although indications were given that understanding was hindered by frequent buyer changes at the retailer level and that retailers could be reluctant to understand the suppliers position.

3.5.2.6 Courtesy

The principal of *Courtesy* measures if the more powerful party treats its partners with respect. This is believed to be crucial for building the foundations for a successful relationship, as ultimately relationships between companies are actually relationships between teams of people on either side. The Competition Commission report indicated that although some suppliers felt that their relationships were built on mutual respect, others thought that there had been a reduction in the general level of integrity and that relationships had become more adversarial. Buyers were also described as “arrogant” and “dogmatic” in their dealings with suppliers and multiples were believed to switch buyers regularly in order that relationships and loyalty to suppliers be avoided.

Other aspects of trading relationships that are not explicitly covered by the theoretical concepts that Kumar (1996) uses to measure procedural justice have also been highlighted as important areas to investigate. These include the commitment and support shown by supermarkets to UK suppliers, as confidence and stability is important for long-term planning and development. Attention is also drawn to the approach taken by the retailer to deal with problems or disputes, as the Competition Commission report highlighted that many suppliers felt that retailers used threats and resorted to bullying tactics to deal with these situations.

4. METHODOLOGY

The six aspects of procedural justice and the issues covered by distributive justice form the basis of the areas covered in the primary research conducted within this project. These theoretical concepts appear to be directly applicable to supermarket-supplier relations as these two types of justice cover most of the issues raised in the Competition Commission report and the Code of Practice.

The first stage of the methodology was concerned with identifying all members of the retail supply chain in the four commodity sectors. It was important that opinions were gained from suppliers and growers in different types of supply chains and at different positions within the supply chain, as lines of communication and contact with the supermarkets differ accordingly. This has implications for the relevance of the theoretical concepts identified in Section 3 and therefore the types of questions that can be asked of suppliers and growers regarding supermarket-supplier relationships.

4.1 Structure of the UK Food Retail Industry

The food retailing industry is dominated by nine major multiple retailers.³ Of these nine major retailers, the top four, Tesco, J Sainsbury, Asda and Safeway, account for over 62 percent of the total grocery market⁴. The growth of the UK multiple retailers means that the purchasing power of the food retailing industry is concentrated in the hands of a relatively small number of retail buyers.

UK multiple retailers have rationalised their supply base dramatically in recent years as they have recognised that they can reduce purchasing costs by dealing with fewer suppliers. Supplier rationalisation has meant that the major supermarkets now deal with just a handful of suppliers in each product area. These suppliers are typically large pre-packers or processors that have geared up to meet the needs of the multiples. These suppliers are the key link between farmers and the supermarkets and increasingly take responsibility for sourcing supplies; liaising with farmers and

³ Tesco, Sainsbury, Asda, Safeway, Somerfield, Marks and Spencer, Morrisons, Waitrose, Iceland

⁴ Source: TNS Data in The Grocer Yearbook Supplement 2001.

building global networks for year round supplies. In return these suppliers have been rewarded with volume growth.

The growing importance of the retailer-supplier link in the supply chain has resulted in closer relationships between these two parties. Key drivers for the development of closer relationships have included the need for retailers to reduce risk in response to the requirements of the Food Safety Act (1990), the need to develop quality own-label products in an effort to differentiate themselves from their competitors, and the need to reduce costs to remain competitive in a highly concentrated market. However the most notable driver in recent years has been the introduction of the industry initiative Efficient Consumer Response (ECR).

The premise of ECR is that by working together costs can be removed from the supply chain and value can be added to products by identifying and responding to consumer needs more effectively. In trying to respond more effectively to consumer demand a number of retailers have introduced the concept of category management to their suppliers. This requires suppliers to have a greater understanding of the final consumer and the market situation so that they supply retailers with products that the consumer wants, and in this way sales and profits in the category can be maximised. In some cases retailers have nominated one supplier to be the category leader or “category captain.” This supplier might be the sole supplier in a category to a retailer or might be the main link between the retailer and other suppliers.

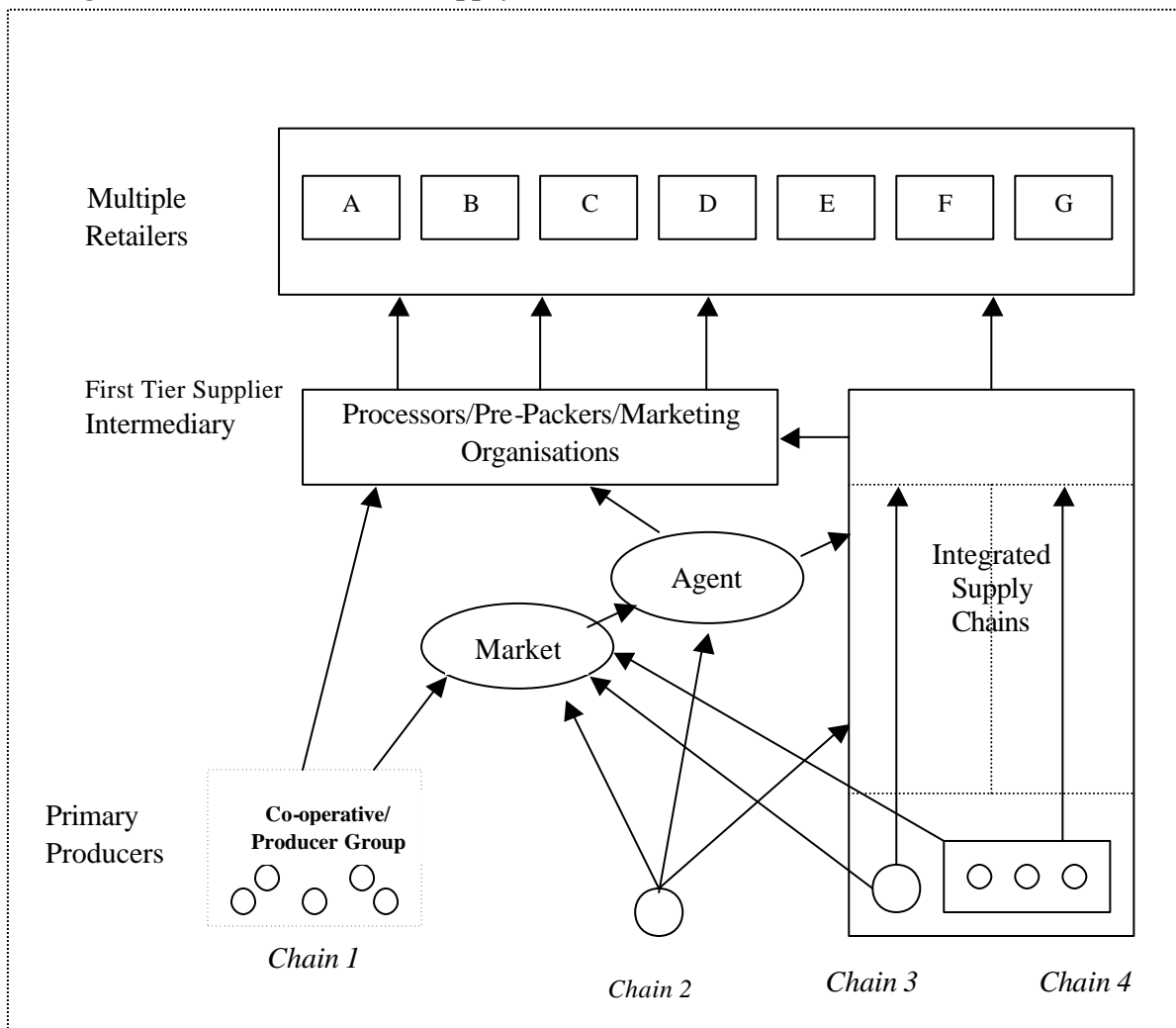
The importance of the retailer-supplier link means that supermarkets have little or no direct contact with their grower or farmer base. Increasingly retailers rely on these first-tier suppliers to co-ordinate the supply obtained from primary producers and ensure that these growers and farmers comply with the specifications set by the retailers concerning food safety and quality assurance.

4.2 The Structure of UK Food Retail Supply Chains

A generic supply chain structure, applicable to all relevant primary production sectors, is presented in Figure 1. This structure was used to identify the types of suppliers and farmers that should be contacted in the interview process. This was to ensure that at least one representative from different types of supply chains and from

different levels in each supply chain, was interviewed in one of the six primary sectors (i.e. apples and pears, potatoes, beef and lamb, pork and bacon, milk, cheese). Representatives from the British Potato Council, English Apples and Pears, The National Sheep Association, The Meat and Livestock Commission and the Dairy Industry Association Ltd were consulted on the supply chain structures for their respective industries. They confirmed the generic supply chain structure and the specific sectoral distinctions discussed in section 5.

Figure 1: Generic UK Food Supply Chain Structure



Supply chain 1 comprises growers or farmers that are members of a co-operative or producer group. These primary producers will sell their output to a processor, pre-packer or marketing agent who then supplies the multiple retailers. Some of the primary producers' output will also be sold to the wholesale market. Agents or

brokers might purchase this output from the wholesale market, particularly in the meat sectors, and supply the first tier suppliers who supply the multiple retail market.

Supply chain 2 comprises primary producers that might be viewed as being “outside” the retail supply chain. This is because they sell their produce through the wholesale market or to agents that do not supply the multiple retailers directly.

Supply chain 3 comprises large primary producers that pack and market their own product and supply the multiple retailers directly. However, it is likely that for some of the larger multiple retailers the large independent farmers will supply these customers indirectly through a first tier supplier. These farmers will also send some of their output to the wholesale market and might supplement their own supply with output purchased from other farmers.

Finally, supply chain 4 comprises vertically integrated supply chains in which companies are involved in the production, processing, packing and marketing of their output. In some cases these companies may draw the balance of their supply from independent farmers or from brokers. These companies supply the multiple retailers directly or might market some of their output through another first tier supplier.

4.3 The Interview Process

Supply chain members were contacted by letter and subsequent telephone calls using details gained from representatives from the industry trade bodies and through existing industry contacts. Additional contacts were generated from the interviews themselves. The interviews were conducted during April and May 2002. All interviews were taped to ensure that the information gained in the interviews was recorded accurately. Some suppliers expressed some concern over this but were assured complete anonymity by the researchers. For this reason, the identities of individuals and organisations have not been revealed. The interview guide used for the interviews is shown in Appendix A.

It should be noted that the structure of the supply chain is such that trading relationships are primarily dyadic, which means that each trading relationship centres on two key parties. It is apparent in Figure 1 that multiple retailers deal primarily with

first tier suppliers, who in turn deal with primary producers. Therefore the supermarket is the immediate customer to first tier suppliers and the final customer to primary producers.

In order to gain accurate perceptions of the process used to manage the supply chain, the questions in the interview guide were asked in relation to a supplier's immediate customer. Therefore first tier suppliers were questioned about their relationships with the multiple retailers, while primary producers were questioned about their relationships with first tier suppliers. However, primary producers were also asked for their views on how they thought the supermarkets affected the relationship they had with their immediate customer. In addition, both first tier suppliers and primary producers were asked to identify the main problems in the supply chain and were asked for their views on the Code of Practice.

5. RESULTS

5.1 Sector Information: Market Background and Supply Chain Structure

Key consumption, production and price trends are presented for each commodity sector in order to provide a context for the interview findings. The structure of the retail supply chain for each commodity sector is also presented using information gained in the interviews.

5.1.1 UK Apples and Pears

5.1.1.1 Consumption, Production and Price Trends

According to the National Food Survey apples are the second most popular fruit in the UK, behind bananas, and consumption levels have remained fairly static over the last ten years. The consumption of pears has also remained static although the percentage of households purchasing pears compared to apples is considerably lower averaging at around 14 percent over the last ten years compared to 43 percent for apples.

The production area of UK apples and pears has declined significantly in the ten year period from 1990 to 2000 with the total area for dessert and culinary apples falling 34 percent and 24 percent respectively and the total area of pears falling by almost 28 percent⁵.

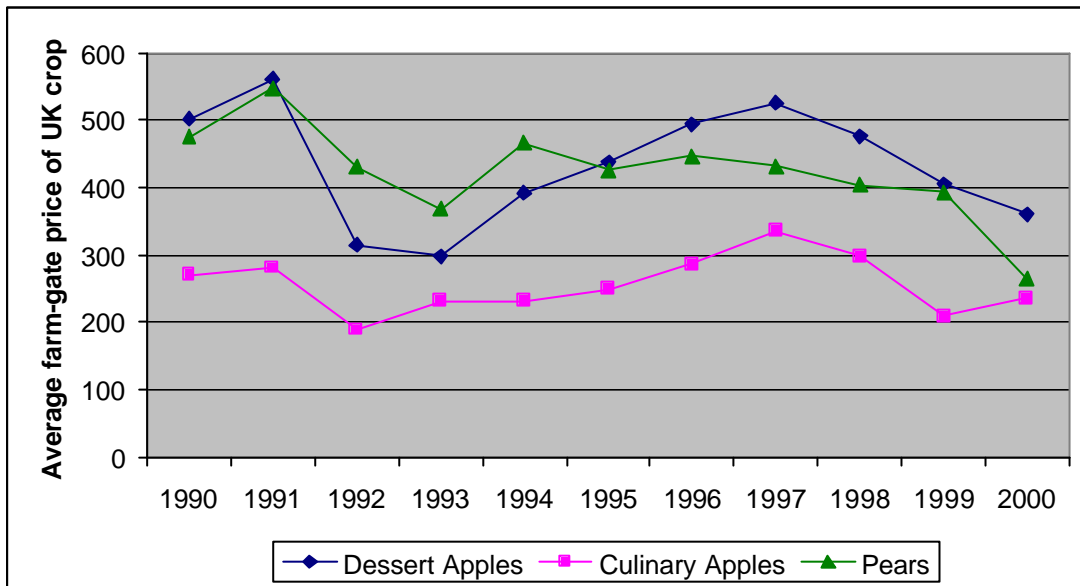
While UK production has fallen, in terms of total area planted and the volume of home produced fruit marketed, the quantity of imported apples and pears has increased slightly in the period from 1990 to 2000. This increase is particularly evident for apples since 1993 where imports have increased by almost 2 percent a year. As imports have risen in this period the amount of home produced apples marketed in the UK as a percentage of total supply has fallen from 44.6 percent in 1993 to 30.6 in 2000.⁶ Similarly the amount of home produced pears marketed in the UK as a percentage of total supply has fallen from 23.8 percent in 1993 to 17.8 percent in 2000.

⁵ Source. Basic Horticultural Statistics: Calendar and Crop Years 1990/91-2000/01

⁶ Source: Basic Horticultural Statistics: Calendar and Crop Years 1990/91-2000/01

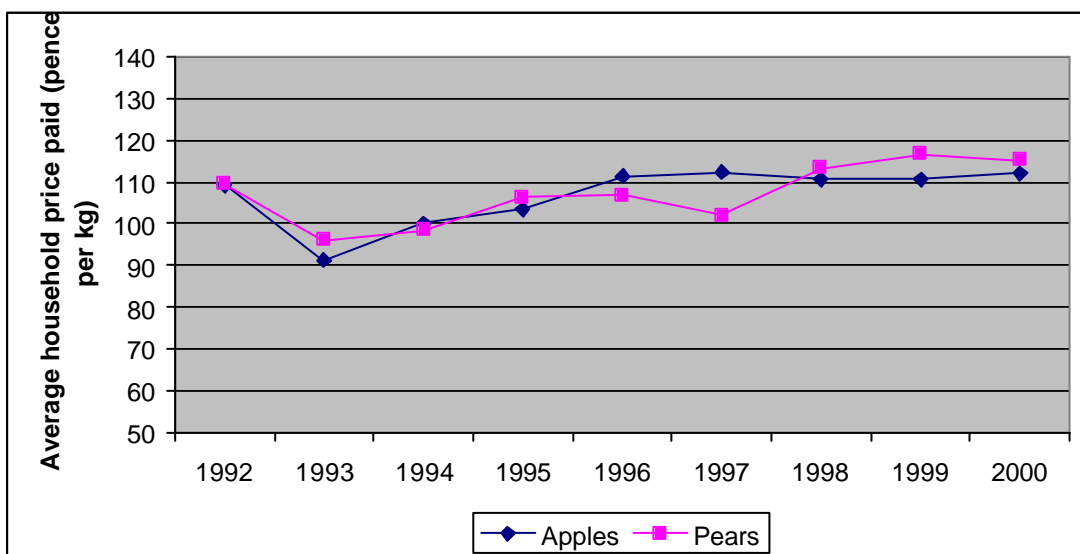
During the same ten-year period the average farm gate price for dessert and culinary apples has been quite volatile although the trend since 1997 has been a downward one for both apples and pears (Figure 2). However in the period from 1992 to 2000 there has been a general upward trend in the consumer prices paid for apples and pears, in the region of 2 percent for apples and 5 percent for pears (Figure 3).

Figure 2: Average Farm Gate Prices for Apples and Pears (£ per tonne)



Source: Basic Horticultural Statistics

Figure 3: Average Household Price Paid for Apples and Pears (pence per Kg)



Source: National Food Survey

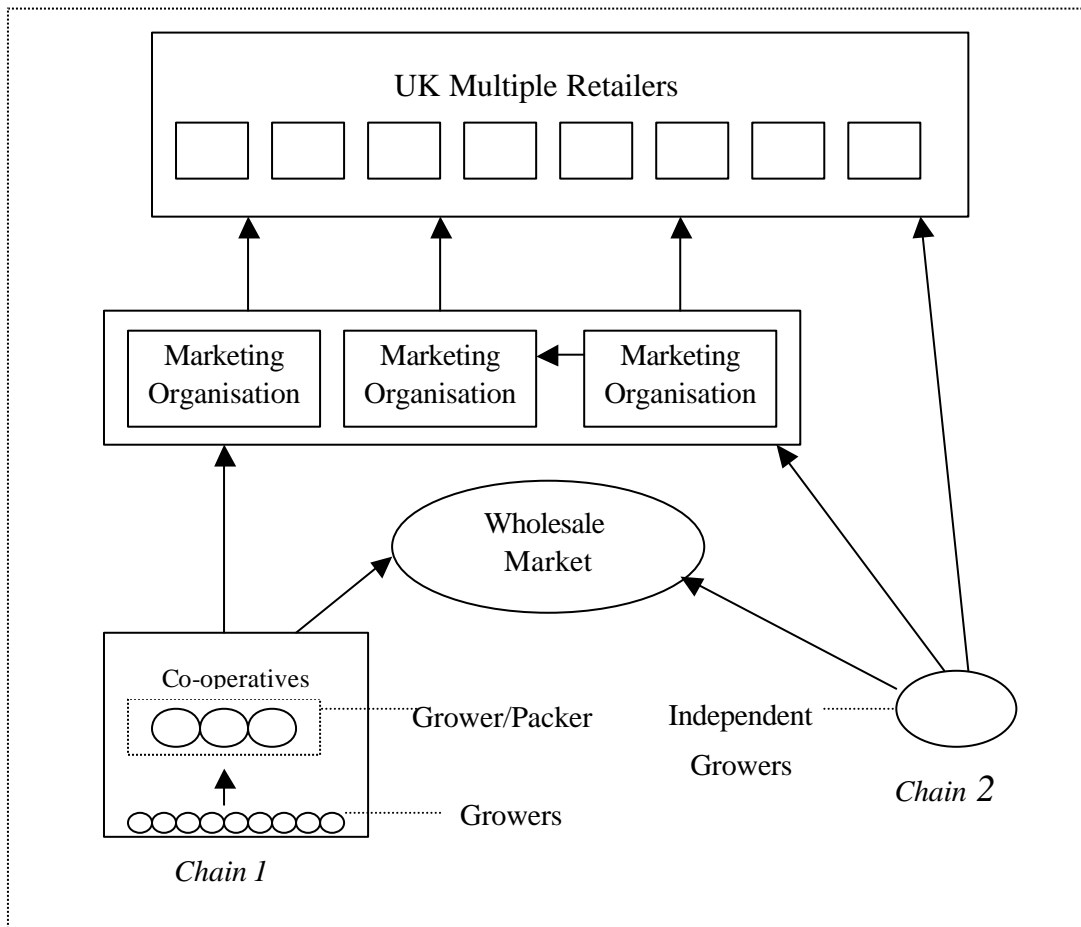
Figures 2 and 3 indicate that since 1997 there is a disparity in the trends for prices paid at the farm gate and the prices charged at the retail level. Specifically, farm gate prices have gone down since 1997 while the prices paid by consumers have generally increased. Figure 2 only reflects the prices paid for UK apples and pears. Therefore, the increased prices paid by consumers in this period could be attributable to new imported varieties for which premiums may be charged. However, basic horticultural statistics show that while the quantity of apple imports has increased, the value of apple imports has fallen year on year in the period from 1996 to 2000, which is similar to the trend for the farm gate price of UK apples. Therefore, the disparity between trends for farm gate prices and retail level prices appears to exist for both UK and imported apples and pears. The downward trend in prices for both UK and imported produce is an indication that the market is oversupplied, which is an issue that many of the industry representatives that were interviewed highlighted.

5.1.1.2 Supply Chain Structure

There are two dominant supply chain structures for UK grown apples and pears (Figure 4). The first supply chain model accounts for the majority of supply and consists of grower owned co-operatives that supply UK multiple retailers via a separate marketing organisation. Traditionally grower co-operatives operated centrally owned packing facilities, but most of these are no longer in operation. Instead larger growers in the co-operative who have their own pack house, pack fruit for the smaller growers.

The second key supply chain model consists of larger growers that own their own pack house and are not members of a grower co-operative. These growers increasingly lease orchards from growers that have left the business or buy fruit from growers off the tree in addition to farming their own orchards in order to increase their scale. They also tend to supply soft fruit and stone fruit to the supermarkets as well as top fruit. Until recently most of these larger growers supplied the multiple retailers directly, but increasingly, due to supplier rationalisation, these growers now supply the larger supermarkets through separate marketing organisations. However most of these growers still supply the smaller multiple retailers directly.

Figure 4: The Structure of Retail Supply Chains for UK Apples and Pears



At the retail level the top five retailers⁷ account for 71.5 percent of total expenditure on apples and 67.6 percent of total expenditure on pears⁸. The remainder is accounted for by the smaller multiple retailers⁹, greengrocers, market stalls and other outlets such as the co-op. Expenditure on apples and pears outside of the supermarket channel is low with greengrocers and market stalls accounting for only 5.7 and 2.6 percent of apples expenditure respectively and 6.5 and 3.3 percent of pear expenditure respectively.

The majority of English top fruit is marketed by three large marketing organisations that supply supermarkets with imported top fruit as well as English top fruit. There are also several smaller marketing organisations, some of which deal only in UK top

⁷ Tesco, Sainsbury's, Asda, Safeway, Somerfield

⁸ Source: TNS data

⁹ Morrisons, Waitrose, Marks and Spencer

fruit. Marketing companies do not buy fruit from the wholesale market, as it is not considered to be of a good enough quality for supermarket customers.

Growers do not view the wholesale market as a viable outlet for their fruit as prices received at the markets are very low due to the demise of the high-street greengrocer. Therefore, every effort is made by growers to ensure that fruit is of a suitable quality to go to the supermarkets, and only fruit that would be rejected by the supermarkets is sent to the wholesale market or it is sent for juicing. Therefore, both first tier suppliers and growers are dependent on the retail sector, which is dominated by the multiple retailers.

5.1.1.3 Supply Chain Members Interviewed

Interviews were conducted with members of both key supply chains. At the farmer level interviews were conducted with three types of growers: (1) a grower that was a member of a co-operative but did not pack his own fruit; (2) a grower that was a member of a co-operative and packed his own fruit as well as that of other growers, and (3) two large independent growers that owned their own pack house and who marketed their fruit directly to a number of the smaller retailers, and also indirectly to the larger multiple retailers through one of the larger marketing organisations. At the first tier supply stage, interviews were carried out with two marketing companies, one that dealt only in English top fruit and another that supplied both English top fruit and imported top fruit.

5.1.2 UK Potatoes

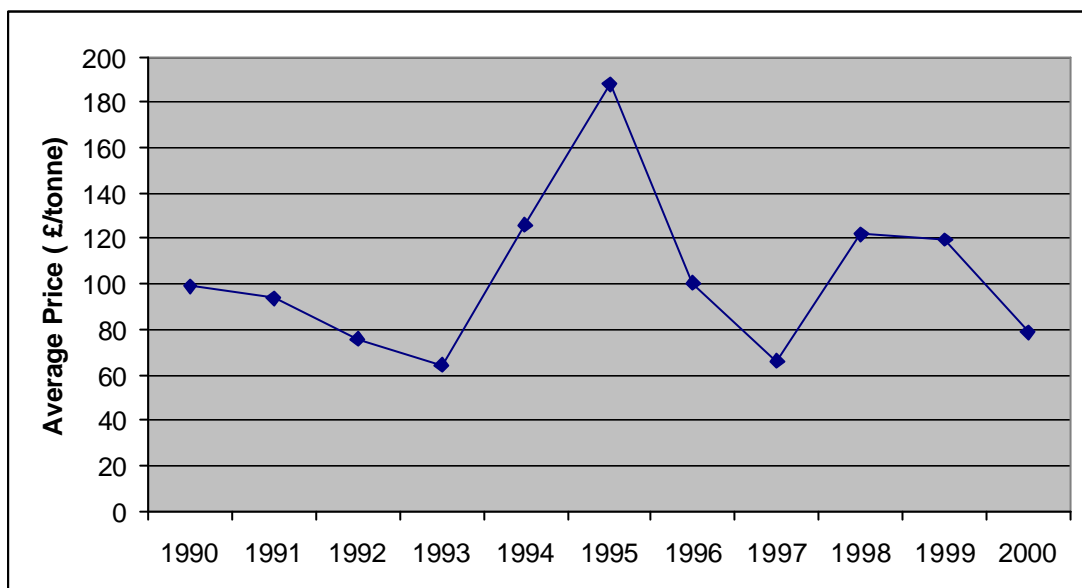
5.1.2.1 Consumption, Production and Price Trends

There has been a general decrease in consumption of fresh potatoes with consumption falling by 29 percent from 1990 to 2000. In the same period, consumption of processed potatoes products has increased by almost 50 percent.¹⁰

Basic Horticultural Statistics show that the production area of UK potatoes has remained fairly constant averaging around 170 000 hectares in the period from 1990 to 2000. Over that period total output marketed has ranged between 5.3 and 6.3 million tonnes and average prices have ranged from £60 per tonne to £190 per tonne.

Although the farm gate price of potatoes has been volatile (Figure 5) the price appears to have varied in line with the volume of produce on the market. This is clearly illustrated in the basic horticultural statistics published by DEFRA which show that the price peaks in 1995 and 1998 corresponded to the lowest levels of output marketed in the period. Conversely the statistics show that the lowest average price in the period occurred in 1993, when output peaked.

Figure 5: Average Farm Gate Potato Prices (1990-2000)



Source: Basic Horticultural Statistics

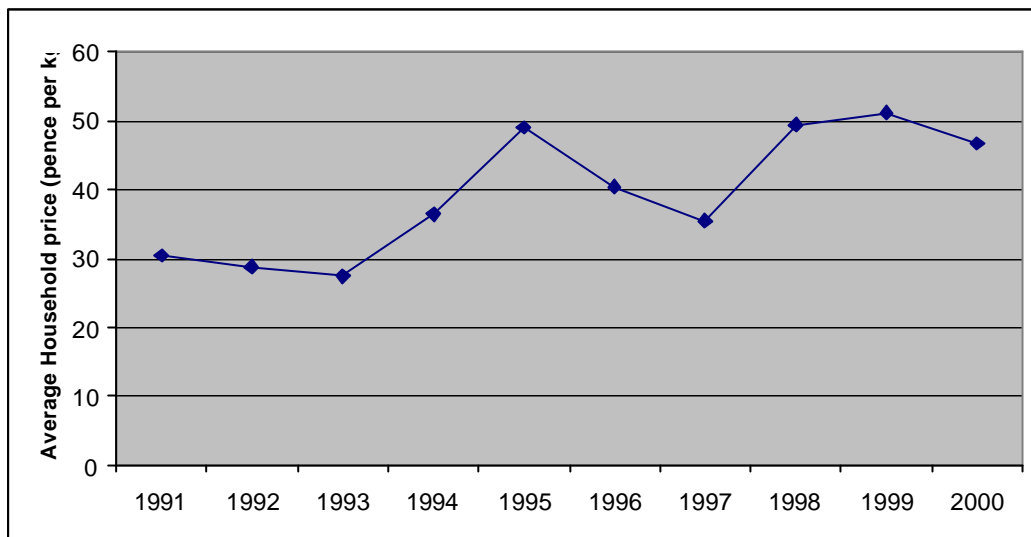
Although the volume of imported potatoes has risen slightly in the period from 1990 to 2000 from 14 percent of total supply to 17 percent of total supply, it still represents a low percentage of the total market.¹¹

The trend for average household prices paid by consumers, which represents trends in prices at the retail level, has been one of an overall increase in the period from 1991 to 2000 (Figure 5).

¹⁰ Source: National Food Survey

¹¹ Source: Basic Horticultural Statistics

Figure 6: Average Household Price Paid For Potatoes (Pence per kg)



Source: National Food Survey

Therefore, while farm gate prices have been quite volatile, with no discernible trend, prices at the retail level have been more stable and trended upwards.

5.1.2.2 Supply Chain Structure

The fresh potato industry is similar in structure to the top fruit industry as the majority of grower co-operatives and non-member growers supply supermarkets indirectly through a small number of supplier intermediaries, in this case large potato pre-packers.¹² The majority of growers choose to supply one main packer, of which there are five key players, and opt to become nominated growers for that supplier. However, while the majority of their crop will go to that packer, if it is good enough, they can still supply other packers and markets if they choose to.

Multiple retailers are the key distribution outlets for fresh potatoes accounting for over 70 percent of market share in 2001.¹³ This has increased from 56 percent in 1997 and share has been taken primarily from traditional greengrocers and independent retailers.

The number of potato packers in the industry has also reduced significantly as retailers have rationalised their supply base. According to industry sources, all of the

¹² For this reason a separate diagram of the fresh potato supply chain has not been drawn.

¹³ Source: British Potato Council

major multiple retailers have reduced the number of potato packers from double figures to just four or five suppliers. The effect of this rationalisation is that some suppliers have merged or acquired other business, while others have closed down altogether.

Industry concentration has also occurred at the grower level with the number of producers registered with the British Potato Council falling by nearly 55 percent between 1996 and 2001.¹⁴ As total UK volumes have remained relatively constant over this period, the indication is that the remaining growers have increased in size. In particular, the June Census data¹⁵ shows that 82 percent of holdings are now in the top three size groups.

Potato growers have more markets available to them than suppliers of top fruit as the processing industry accounts for around forty percent of the potato market. Although the processing generally companies pay less for potatoes than the supermarkets, many growers consider this to be a viable outlet for potatoes, particularly those on poor soil where it is difficult to achieve the level of skin finish required for the pre-pack retail trade. Growers can also choose to sell lower grade potatoes to smaller packers who supply the catering trade or supply directly to catering outlets such as fish and chip shops. They can also send potatoes to the wholesale market, although returns from this tend to be low due to the on-going decline of the wholesale trade. Therefore potato growers have more avenues of supply available to them, which allows them to play the market to a greater extent than growers of apples and pears.

5.1.2.3 Supply Chain Members Interviewed

Interviews were carried out with two growers that are nominated growers for different first tier suppliers of pre-pack potatoes to the supermarkets. Interviews were also carried out with the two pre-packers.

¹⁴ Source: British Potato Council

¹⁵ Source: National Statistics

5.1.3 Beef and Lamb

5.1.3.1 Consumption, Production and Price Trends

The overall trend in consumption of beef and veal in the UK has remained fairly static, apart from a strong fall in 1996 due to consumer concerns regarding *Bovine Spongiform Encephalopathy* (BSE) in cattle and variant Creutzfeldt-Jacob Disease (vCJD) in humans. Lamb consumption has also remained fairly constant, but during 2001, consumption fell by nearly 14 percent (MLC, 2001).

The UK has the second largest beef herd in the EU, behind France, although the number of cattle has steadily declined during the period 1994 to 2001, exacerbated by the effects of BSE and more recently, Foot and Mouth Disease. The number of holdings has also declined, from a peak of 129,499 in 1997 to 115,774 in 2001, with the top ten percent of holdings accounting for around one third of beef production, reflecting an increasing concentration amongst larger and specialised beef producers.

According to MAFF (2000), profitability varies by size of farm, reflecting differences in economies of scale and business and management skills. Imports have more than doubled in volume during the period 1994 to 2001, whereas the previously significant beef export market has collapsed, initially because of the trading restrictions imposed due to BSE, followed by the Foot and Mouth epidemic, and the strength of sterling.

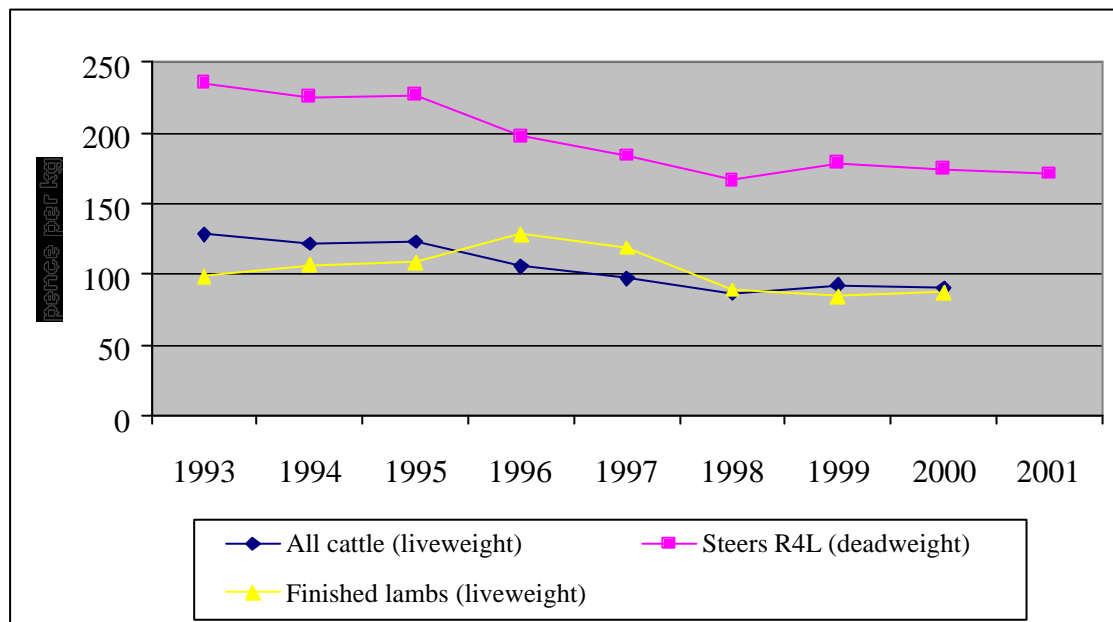
The UK has the largest sheep flock in the EU, accounting for over one quarter of the total EU flock. Numbers of sheep have been fairly constant during the period 1994 to 2000. However, production has been recently affected by the outbreak of Foot and Mouth Disease, resulting in a decline in the UK flock by around eleven percent during 2001 and a fall in the production of mutton and lamb of nearly 30 percent from the previous year. The number of holdings has declined during the period 1994 to 2001, from 92,398 in 1994 to 86,132 in 2000, with the top ten percent of holdings accounting for around one third of sheep output, again reflecting the changing structure of the industry.

Imports have fluctuated over the same period, whereas exports have fallen significantly from a peak in 1995. The export market was sustained by the relatively

low level of sterling during the mid 1990's, since when it has been negatively affected by the strengthening of the pound and the effects on the market of Foot and Mouth disease in the UK flock (MAFF, 2000).

Average producer prices for beef and lamb have fluctuated considerably over the past eight years (Figure 7). Lamb prices have fluctuated over the period, but in general, the overall trend remains fairly static. In comparison to lamb, both deadweight and liveweight prices for beef cattle have seen an overall downward trend in prices paid to producers.

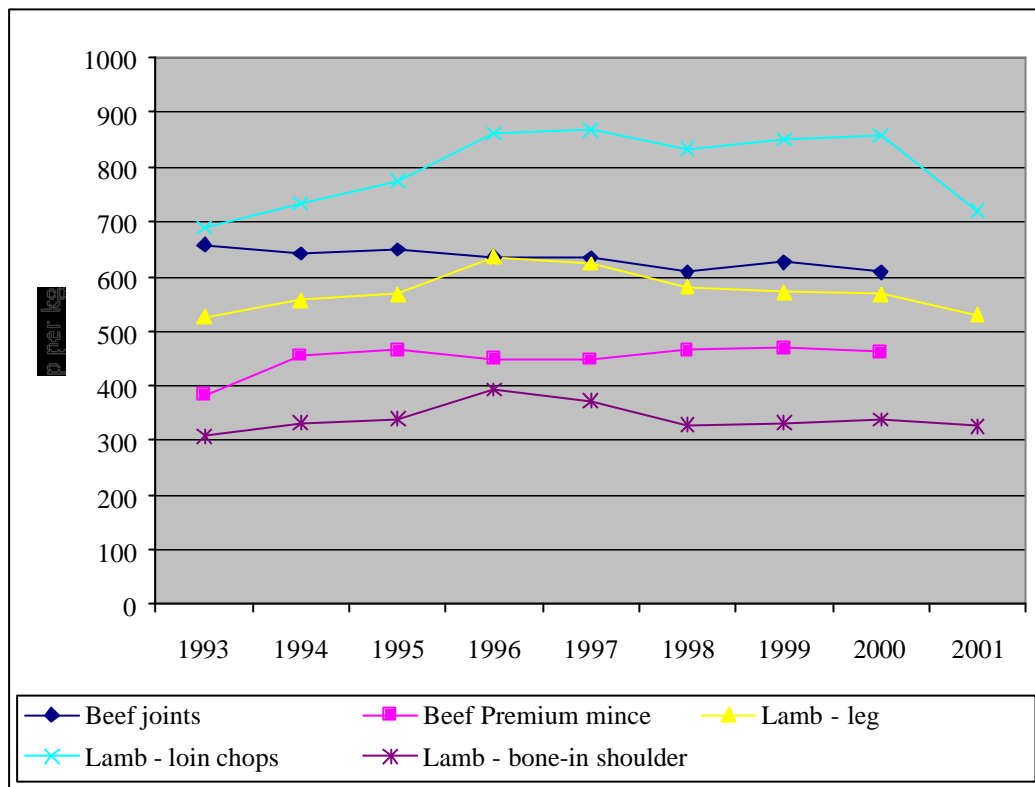
Figure 7: Average farm-gate beef and lamb prices (1993-2001)



Source: MLC

Retail prices in England and Wales for beef and lamb have also fluctuated over the past eight years (Figure 8). In general, prices for beef premium joints have declined, whereas prices for premium beef mince have risen. The overall trend for lamb prices also depends upon the cut of meat, with the retail price for loin chops being more volatile than either leg or shoulder.

Figure 8: Retail Prices England/Wales – Beef and Lamb (1993-2001)



Source: MLC

5.1.3.2 Supply Chain Structure

Approximately 50 percent of beef and veal are sold as fresh meat to the retail sector and around 27 percent to the retail processing sector. Within the catering sector, approximately 15 percent is sold as fresh meat, with around 8 percent distributed through the catering processing sector (MLC, 2001). Within the retail sector, supermarkets now dominate sales of fresh beef, accounting for 72.3 percent of sales in 2001, compared to 55.4 percent in 1994. The retail sector is highly concentrated, with the top four supermarkets accounting for around 60 percent of beef sales in 2001¹⁶.

¹⁶ Source: TNS Data

Concentration and rationalisation has also occurred at the intermediary level, with the number of abattoirs slaughtering cattle and calves falling from 480 in 1994 to 290 during 2001. However, 26 abattoirs now slaughter in excess of 20,000 animals per year and during 2001 were responsible for approximately 60 percent of total throughput, reflecting the increasing dominance of a few large and centrally located plants, and the decline of smaller, local abattoirs.

Distribution of lamb consists of approximately 51 percent as fresh meat via the retail sector, in addition to approximately 21 percent to the retail processing sector. Around 21 percent of fresh lamb is sold through the catering sector, and 7 percent is sold to the catering processing sector (MLC, 2001). Retail sales of lamb are also dominated by the supermarkets, accounting for 60 percent of sales in 2001, compared to 43.5 percent during 1994. The top four supermarkets are responsible for approximately 50 percent of retail lamb sales.

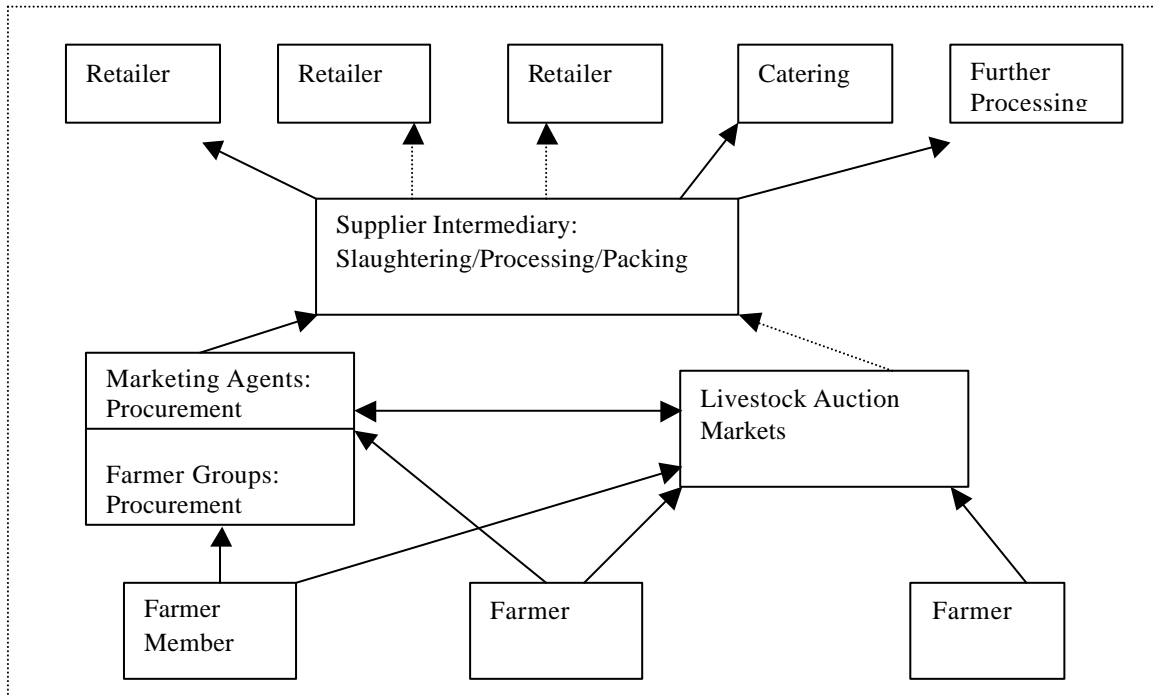
The number of abattoirs slaughtering sheep has also declined during the period 1994 to 2001, from 496 in 1994 to 310 in 2001. Industry concentration has resulted in 37 large abattoirs (slaughtering in excess of 100,000 sheep per year) that were responsible for around seventy five percent of production during 2001.

Figure 9 illustrates the dominant retail supply chain structures for finished animals, direct to processors and indirectly through the auction markets. However, before a finished animal reaches market, there has traditionally been numerous movements between different production sectors (e.g. between breeders and finishers) and these exchanges can take place through the auction markets. Following slaughter, the carcass can also be subject to a number of transactions, including movements between cutting and boning plants, wholesale butchers and other distribution channels.

At the supplier intermediary (processor) level for both beef and lamb, several of five main suppliers serve the larger supermarkets, whereas one smaller, but dedicated, supplier intermediary may serve one of the smaller supermarkets. The functions of the processor may include all or some of the following: slaughtering, cutting, boning, packing and processing. One role of the processor is to identify markets for those cuts

of lamb and beef not required by the supermarkets for their fresh meat market. Other markets include further processing and catering, and in the case of lamb only, the export market.

Figure 9: The Structure of Retail Supply Chains for UK Beef and Lamb



The processing sector is characterised by over capacity and has traditionally operated on low margins, with plants relying on high throughput to achieve profitability. During the past ten years, the number of plants has decreased by half, but average throughput has increased, confirming that there are a small number of larger processors serving the market. Processors may source animals through marketing agents, their own producer groups or through the livestock auction market. In comparison to those animals sourced through the auction markets, in which farmers receive payment on the basis of an estimation of the value of a carcass, animals sourced through marketing agents and producer groups will receive payment following slaughter, based on the actual value of the carcass.

In the beef industry, dead-weight sales are responsible for over half of all sales. In the lamb industry, where the auction market has traditionally played a bigger role, the importance of the direct dead-weight route has increased since the Foot and Mouth epidemic in 2001. Marketing agents can consist of groups of farmers who co-operate,

either formally or informally, in order to supply volume of animals to processors, or procurement companies. In general, the farming sector remains a fragmented sector, although some farms are becoming larger, and therefore responsible for a bigger percentage of production in the UK. Farmers may choose to supply through a number of different channels: they may commit all of their stock to the marketing agent; they may sell through the livestock market and through the marketing agent, or they may choose to sell stock only through the livestock auction markets.

In summary, the majority of fresh beef and lamb is sold through the retail sector, which is in turn dominated by a handful of large supermarket chains, resulting in extremely concentrated and competitive market conditions. At the abattoir/processor level, the trend for larger, higher throughput plants buying on a dead-weight basis and capable of achieving economies of scale and producing the volume and quality required by the supermarkets will continue, at the expense of some medium and small plants. Over the past ten years, the highly fragmented farming industry has started to move towards fewer, but larger and more specialised producers.

As a result, the number of smaller and mixed farms will continue to decline, a trend that is likely to gather pace during the immediate future. In general, prices paid to producers have declined, whereas retail prices have remained fairly constant. Given the long-term effect of the Foot and Mouth outbreak on the size of the UK beef and lamb herds, and assuming that the strength of the pound continues, imports will continue to rise. In the case of lamb, in addition to a declining export market also attributable to the strength of the pound, direct dead-weight sales to intermediaries will become more important than traditional sales through livestock auction markets.

5.1.3.3 Supply Chain Members Interviewed

Interviews were carried out with two red meat processors supplying the main supermarkets, one beef and one lamb processor, in addition to two livestock marketing groups. Two livestock farmers were also interviewed – one sheep farmer who sold his animals direct to a marketing group and also to the livestock market, and one cattle farmer who sold only to the local livestock market.

5.1.4 Pork and Bacon

5.1.4.1 Consumption, Production and Price Trends

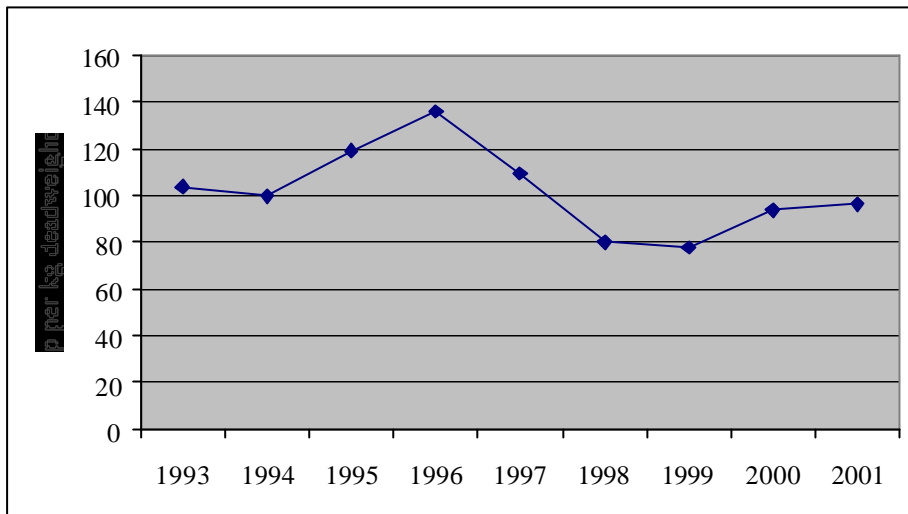
Overall consumption of both pork and bacon in the UK has fluctuated over the past seven years, but reached a peak during 1998. Per capita consumption of pork in 2001 has decreased in comparison to 1994, from 13.7 kg to 13.3 kg, whereas individual bacon consumption has increased slightly over the same period, from 7.1 kg to 7.6 kg (MLC, 2001).

Pig production in the UK is concentrated mainly in England and Northern Ireland and production takes place on a large number of holdings, with both extremely large and very small herds, although the larger, specialised holdings are more likely to be lower cost producers. Around 50 percent of output is produced in approximately 3,000 specialist pig farms. Within specialist pig farms, around ten percent of holdings produce over one third of pig output by value, but at the other end of the scale, one quarter of specialist producers account for less than five percent of the total output. In 1998, the UK was the sixth largest pig producer in the EU, although since the outbreak of Foot and Mouth Disease in 2001, numbers have declined significantly. Pig farms tend to have double the levels of debt compared to other sectors, with an average ratio of liabilities to assets of 26 percent in 1998/9 compared to 13 percent average for all types of farms in England (MLC, 2001).

The UK pig industry is cyclical in nature and relatively unsupported by the Common Agricultural Policy, which has led to periods of high profitability, especially during the mid 1990's. However, industry expansion, a consequent downswing in prices and the effects of a strong exchange rate on the export market combined with regulatory costs have led to a collapse in profits (MAFF 2000).

The volatility of and downward trend in average pig producer prices is illustrated in Figure 10.

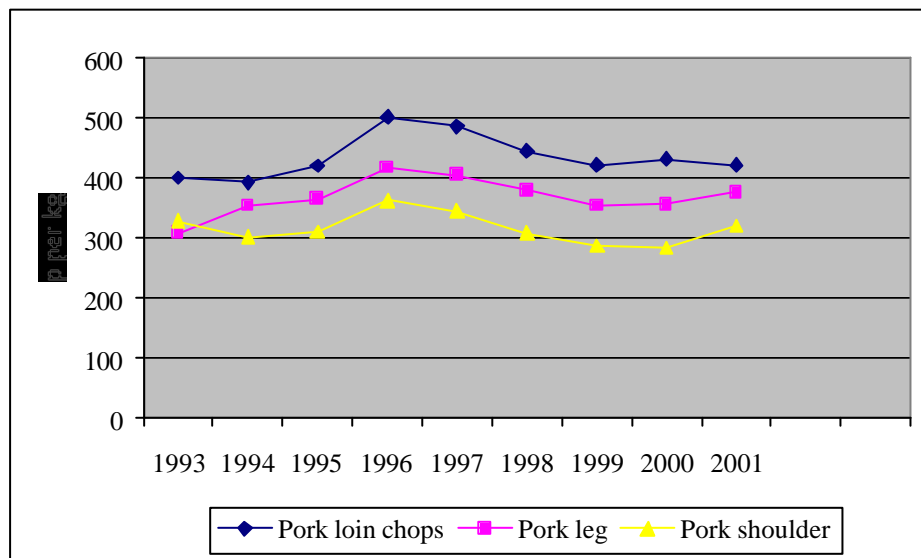
Figure 10: Average Farm-Gate Pig Prices (1993-2001)



Source: MLC

At the retail level, prices have also fluctuated following a similar pattern as prices paid to producers (Figure 11).

Figure 11: Retail Prices England/Wales: Pork (1993-2001)



Source: MLC

5.1.4.2 Supply Chain Structure

The majority of pork meat is sold mainly through the retail sector, accounting for approximately 66 percent of total volume. One quarter of all pig meat sales at retail level are as bacon, with 27 percent sold as processed products. At the catering level, approximately 4 percent is sold as fresh pork, with 11 percent sold as bacon and

around 13 percent sold as processed pork products. At the retail level, supermarkets dominate the market for both pork and bacon, and are now responsible for 72 percent and 77 percent respectively, compared to 59 percent and 68 percent in 1994. The top four supermarkets have a combined market share of approximately 61 percent for fresh pork¹⁷.

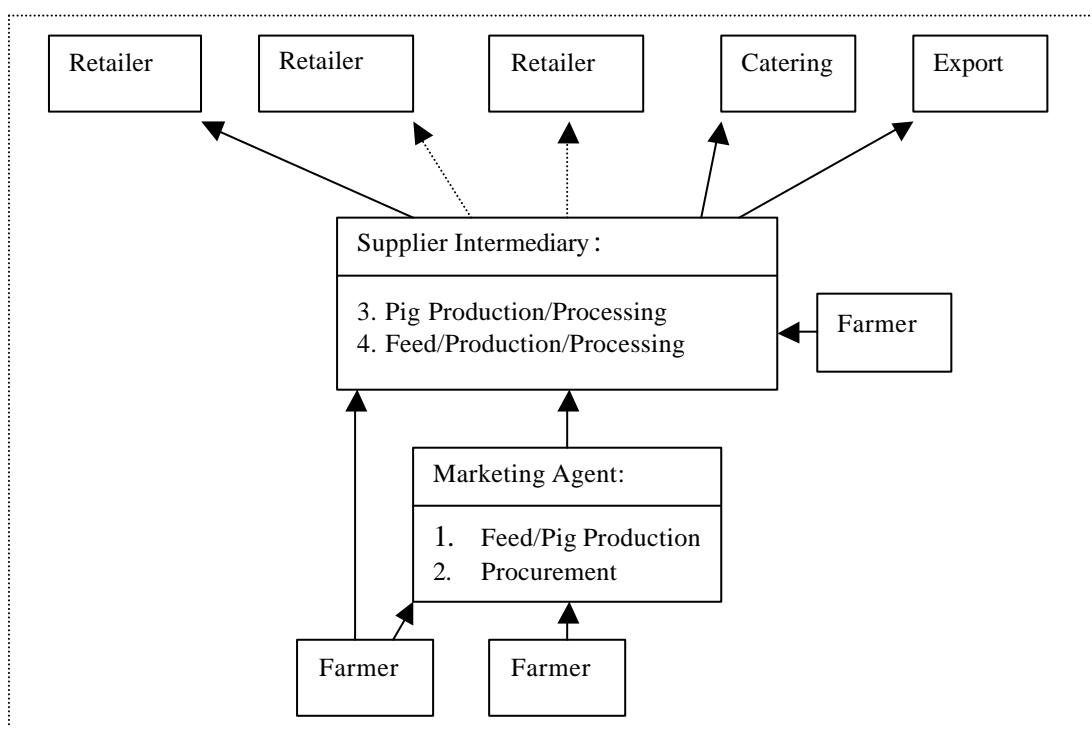
At the intermediary level, the trend for rationalisation of abattoirs and concentration continues, with larger, specialised plants slaughtering in excess of 100,000 animals per year responsible for a bigger proportion of production (MLC, 2001). In 1999/2000, the year before the outbreak of Foot and Mouth Disease, twenty-one specialist pig plants were responsible for slaughtering a total of 9.5 million animals, giving an average throughput of 452,381 animals.

The pig production and pork processing industry is more integrated than either lamb or beef but not as integrated as the poultry industry. The supply chain structure of the pork industry is shown in Figure 12.

Only 10 percent of pigs were sold through the livestock auction markets before the out-break of Foot and Mouth, but very few animals are sold through this channel today. Supplier intermediaries consist of five main processors who supply the supermarkets with fresh pork and added value products, and other sectors, including catering and the export market. Three large, partially integrated players have control over two out of three of the sectors – either feed and pig production (1.), or pig production and processing (3).

¹⁷ Source: TNS Data

Figure 12: The Structure of Retail Supply Chains for UK Pork and Bacon



Pig production is either contracted out to farmers, or carried out on farms owned by the organisation. These three organisations are responsible for around fifteen percent of pig production, but also buy animals direct from individual farmers and through marketing agents. Recent activity in the sector has resulted in one of the major players being sold to a large player in the poultry sector, and it is thought probable that full integration for pork will be more widely pursued, namely feed manufacture, pig production and pork processing (4). Supplier intermediaries also find markets for those products not required by the supermarkets, i.e.. catering or export.

Five marketing agents are responsible for the procurement and the marketing of 55 percent of pigs (2.), with the remaining 30percent supplying direct to the processor. Individual pig farmers can, therefore, sell some animals to a marketing agent and direct to the processor; they can supply all animals through a marketing agent, or they can only supply direct to the processor.

Consolidation and rationalisation in the sector have resulted in around 50 producers producing approximately 45 percent of the pigs. The industry is characterised by

over-capacity, and has been severely hit by recent events, including Foot and Mouth Disease, the Swine Fever outbreak, and the strength of the pound against the Euro.¹⁸

In summary, as with beef and lamb, the majority of consumption is through the retail channel, and is therefore dominated by the main supermarkets. As a result, the trend towards integration at the processing and production level will continue, resulting in fewer, larger and specialist organisations dominating the market. At the farming level, smaller pig producers will continue to exit the market driven by over-capacity, high levels of debt, low profits, increasing imports and difficult export market conditions.

5.1.4.3 Supply Chain Members Interviewed

One integrated pig producer and processor was interviewed, in addition to an independent pig farmer.

5.1.3 UK Milk and Cheese

5.1.3.1 Consumption, Production and Price Trends

The retail market for milk and dairy products is estimated to be worth approximately £6 billion per year, with average overall per capita consumption of around 250 litres of milk equivalent per year. Channel distribution of liquid milk at the retail level has changed significantly, as doorstep deliveries have declined from 50 percent in 1994 to 22 percent in 2000. Sales of liquid milk by retailers, predominantly the supermarkets, have seen a corresponding increase, from 50 percent in 1994 to 78 percent in 2000 (DEFRA, 2001).

The cheese market is the third largest grocery market sectors in the UK, with overall consumption increasing by one quarter during the period 1991 – 2001, averaging around 9 kg per person per year. The majority of growth has come from the foodservice and manufacturing sectors, with usage growing from 22 percent of the total market in 1994 to around 36 percent of the total market in 2000 (DEFRA, 2001).

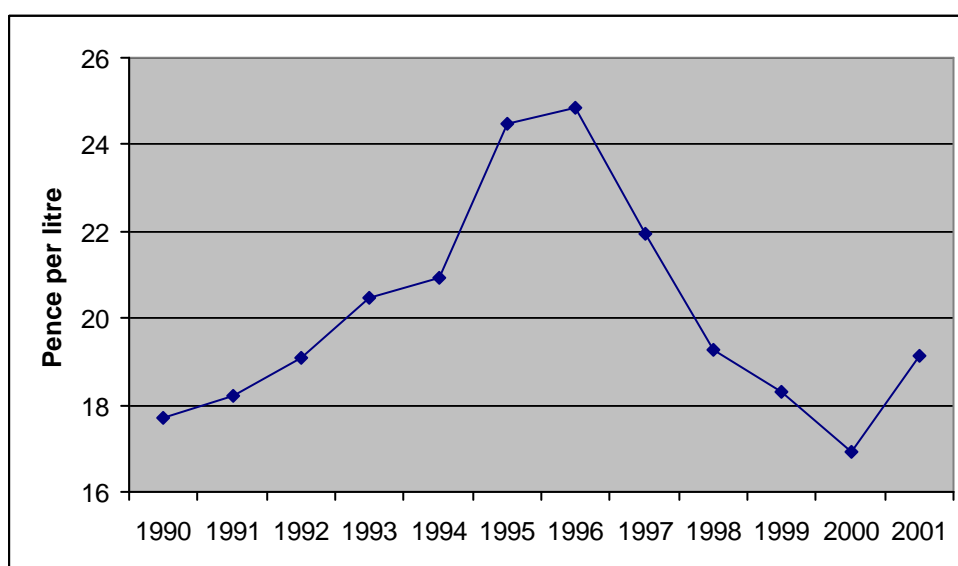
¹⁸ C.f. interviews with sector players.

The UK has the third largest total dairy herd in the EU, and also the largest average herd sizes in the EU. Around 10 percent of full time dairy farms account for around 30 percent of output, while at the other end of the scale, one quarter of farms produce only 8 percent of output. However, producer numbers have been in decline during the period 1994 to 2001 as a result of the constraints on production due to milk quotas and as average yield per cow increases driven by improvements in breeding, feeding and management systems (DEFRA, 2002)

Approximately 50 percent of UK milk production is used for the liquid milk market, with the just under one quarter utilised in cheese production. The remainder is used for the manufacture of other dairy products. The UK is mainly self sufficient in liquid milk, but participates in a significant trade in milk products, particularly cheese. In 1999, the UK imported 277,000 tonnes of mainly specialist cheeses mostly from Ireland, France and Germany, and exported 62,000 tonnes of cheese, mainly to the EU. The deficit in the UK trade balance in dairy products overall grew from £342m in 1994 to £564m in 2001 (MDC, 2002).

In common with the other major commodity sectors, average farm-gate milk prices are currently at the lower end of a range that has varied considerably pre and post de-regulation of the UK market in November 1994 (Figure 13).

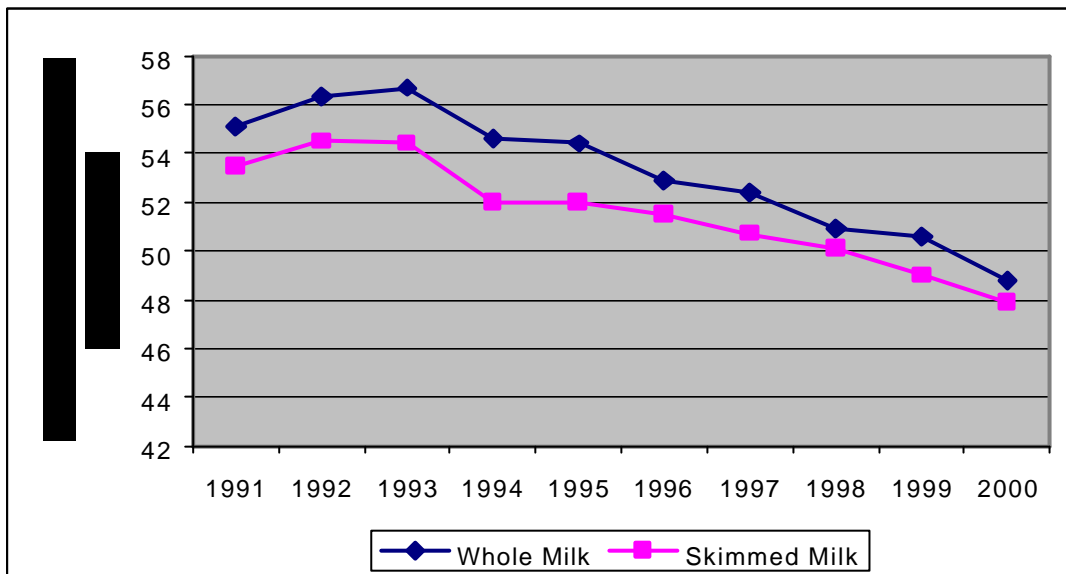
Figure 13: Average Farm Gate Milk Prices (1990-2000)



Source: Dairy Fact and Figures

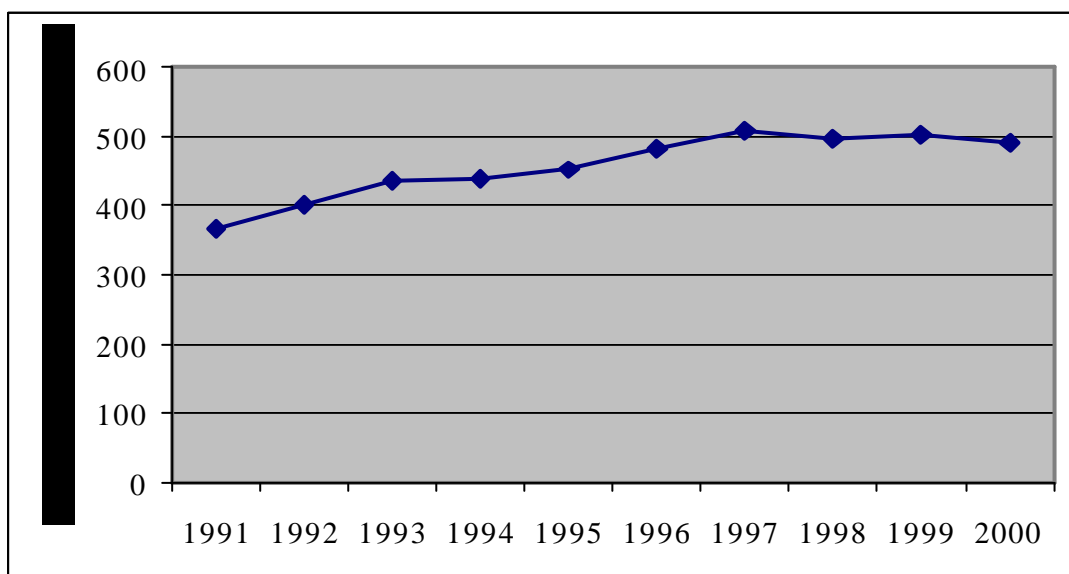
Retail prices for liquid milk have followed a more consistent downward trend (Figure 14), as new entrants have competed for market share by driving down the offer price. The pattern for cheese (figure 15) is more complex due to the great diversity of cheese products available. Thus, while the average price paid by consumers for cheese has increased over the past decade, the trend for bulk cheddar and the non-branded territorial cheeses is most likely negative.

Figure 14: Average Household Prices for Milk (pence per litre)



Source: National Food Survey

Figure 15: Average Household Prices Paid for Cheese (pence per kg)



Source: National Food Survey

What is evident is the fact that while dairy processors felt the squeeze post de-regulation, when farm-gate prices rose significantly yet retail prices continued their downward trend, dairy farmers have felt the squeeze in recent years as farm-gate prices have fallen considerably, in line with the downward trend in retail prices.

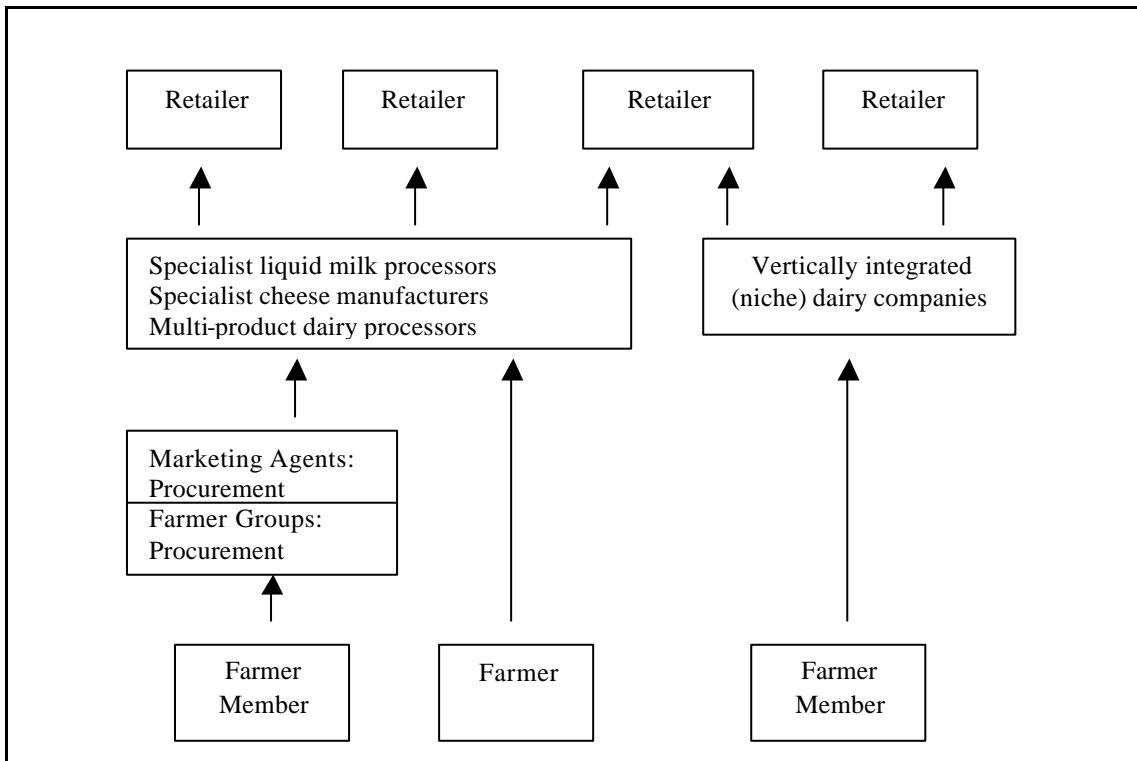
5.1.3.2 Supply Chain Structure

There are 130 registered purchasers¹⁹ of milk, ranging from small on-farm processors to formal and informal co-operatives varying in size and capacity. Large processors can also be purchasers, sourcing milk directly from contracted producers. Following a period of restructuring, there are now six large purchasers who are responsible for around two thirds of the UK milk supply (DEFRA, 2002b). At the processing level, there are 100 dairy processors in England and Wales, again ranging from small local dairies and specialist cheese makers to large organisations supplying the supermarkets and delivering milk to households. Only 2 percent of processing capacity is owned by producer co-operatives, compared with the European average of around one half. The six largest supermarkets have rationalised their supply base, and are now supplied with liquid milk from the leading four dairy companies, with three supermarkets only purchasing milk from two suppliers (DEFRA, 2001).

The dairy sector is the only one in which farmers can supply just one outlet. This is due to the form of the product as it leaves the farm (liquid milk) and the manner in which it is transported (bulk tanker). However, there are three distinct supply chains for UK milk and cheese, as illustrated in Figure 16.

¹⁹ As a requirement of the Milk Quota regime, all milk not directly sold to the public has to be sold through a purchaser registered with the Rural Payments Agency.

Figure 16: The Structure of Retail Supply Chains for UK Milk and Cheese



Farmers have essentially three choices – supply direct to large-scale dairy processors, which may be single product specialists (some of the major liquid milk suppliers and many of the speciality cheese makers) or multi-product processors (of which there are very few in the UK, the largest being Dairy Crest). The second alternative is to supply a milk procurement group, of which there are many but three regional procurement groups account for the vast majority. The final alternative is to supply a producer owned-controlled dairy processor, of which there are also very few, predominantly, niche organic or specialist cheese/yoghurt/ice cream manufacturers, but more are emerging as farmers increasingly seek value-adding opportunities.

There has been a radical change in the structure of the UK dairy industry since de-regulation in November 1994, which saw the removal of the statutory monopsonist, the Milk Marketing Board (MMB). The period post de-regulation has seen a battle for power and control, between the larger dairy processors, who account for the majority of the milk and cheese sold to retailers and the three regional producer owned/controlled milk procurement organisations (Zenith, Axis, Milk Link) which emerged from the old MMB. Continued rationalisation and consolidation is

inevitable, with more vertically integrated, producer owned/controlled dairy processors likely to emerge as the squeeze on returns to dairy farming continues.

5.1.3.3 Supply Chain Members Interviewed

Three representatives from the dairy sector were interviewed: one independent dairy farmer, one farmer owned/controlled milk procurement organisation and one large multi-product dairy processor.

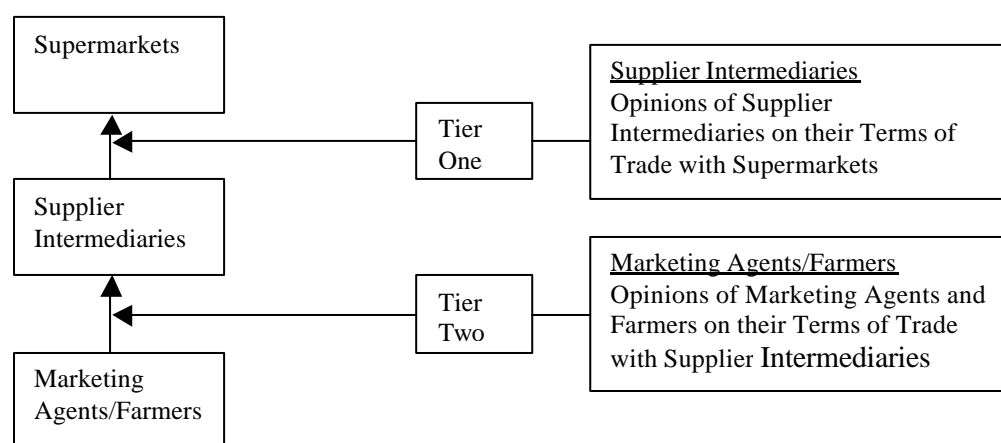
5.2 Interview Results

The results of the interviews that took place within the specified sectors, namely UK red meat, potatoes, top fruit and dairy, are presented in the aggregate in order to avoid the identification of organisations or individuals, to offer opportunities to compare opinions, and to avoid repetition.

5.2.1 Procedural Justice

Procedural justice, or the fairness of a party's procedures and policies for managing the relationship with its vulnerable partners, is built on six principles (Kumar, 1996). The issues that resulted from the interviews are presented under each of the six principles, but are not mutually exclusive. From the discussion of the industry structure it is evident that direct relationships only exist between supermarkets and their supplier intermediaries, (Level One), and that farmers do not have a direct relationship with supermarkets, but supply them indirectly through those supplier intermediaries (Level Two). Therefore, the results are presented in two sections: supplier intermediaries' opinions on their terms of trade with supermarkets, and the views of marketing agents and farmers on their relationships with those supplier intermediaries (Figure 17)

Figure 17: Format of Results: Retail Supply Chain Relationships



5.2.1.1 Bilateral Communication

The theory notes that a more powerful party should be willing to engage in two-way open and honest communication with its partners, and that procedures should be in place to encourage such communication. The Code of Practice states that standard

terms of business should be available in writing at the request of a supplier, and that reasonable notice of any changes in terms of business should be given.

Views of Supplier Intermediaries

In the majority of cases, with the exception of the pig sector, there were no formal legal contracts between supermarkets and their suppliers, but informal 'agreements to supply.' These included written product specifications and terms and conditions of trade, pre-requisites for supply, and volume supply programmes for a specified period of time. While quality specifications have to be strictly adhered to the terms surrounding the actual quantity of produce supplied are subject to change and are not binding.

The findings indicated that the degree of two-way communication between supermarket and supplier varied according to the strategic importance of the supplier to the supermarket, the market orientation and culture of the supermarket, and access to information technology. For example dedicated suppliers, or suppliers responsible for the majority of product supply, have increased access to supermarket information and are more likely to be involved in planning and strategic issues. They are also more likely to be involved in new product and process development.

Methods of delivery of information depend upon the individual customer and the level of sophistication of their information technology systems. However, in general information is exchanged through meetings, on-site visits, telephone conversations, e-mail communications and direct Internet access to supermarket data. In some instances, supermarket sales data is not available, or if access is permitted, suppliers may need to make payments to access this information, either to the supermarket itself or to a third party.

Quotes taken from the interviews that highlight how the terms of supply are arranged in supermarket-supplier relations and that provide insights in the type of communication that takes place in relationships are presented in Table 1.

Table 1: Supplier intermediary Quotes: Bilateral Communication

Terms of Supply Agreements

“No contracts, nothing’s written in stone. It can be terminated, it’s like the football analogy – you’re only as good as your last match, except that you’re only as good as your last delivery.”

“ No hard and fast contract, no forward agreement that they will take a certain volume”

“ There are formal agreements in connection with specifications for production, in terms of size and quality, but not actually on prices or quantities.”

“They provide us with an estimate of what they’re going to want through the season but there is no formal guarantee that they are going to take that amount. They may ask for more, or they may actually ask for a lot less. That’s the unknown quantity.”

Communication and Information Access and Exchange

“We will get a programme on Friday for the following week, and that is then confirmed by EDI every day.”

“They are more and more keen on the open book approach, so we have to declare what our efficiencies are, then they see how they can help us improve them, and then we share the resulting benefits”.

“They come to you, as quite a major supplier, to help them instigate new projects. So they will come and try and get your input into how things will work. Ultimately, although they want your help they will still decree what is going to happen.”

“The bigger supermarkets tend to dictate more than the smaller ones, but they do all tend to dictate. It’s a two way thing at times but at the end of the day the supermarkets will tell you what they want to do, but they do take on board to a certain extent what you tell them.”

“We have limited access to retailer information, we pay for that...it gives us wastage, turnover, but only for our own product”.

“One [customer] may say, well this document is available, at a certain address, and you can access it, and the other may have a more sophisticated system where we can check things, exchange information, not just one way...they give us access to things that we supply. If we are a number of suppliers, only the category captain will get access to that information.”

“The IT links are developing to varying degrees according to retailer...it moves their technical specifications and terms of trade on line. The retailers differ, some expect as conditions of supply that you are right inside their data and expect you to use it, to the extent you might have someone in their office, because you are key to their business, and you need to deliver to what they expect”.

Views of Marketing Agents/Farmers

The interviews with marketing agents and farmers, in addition to the interviews with supplier intermediaries, confirmed that there are no direct relationships between farmers and supermarkets, and therefore there is no bilateral communication between supermarkets and farmers. Some, but not all, supermarkets do attempt to communicate their quality requirements to farmers on a general level by attending producer/grower meetings organised by the supplier intermediaries.

Table 2: Quotes Confirming Supply Chain Linkages

<p><i>“I don’t know who that is [the customer], other than who the abattoir is”</i></p> <p><i>“Our not knowing where our product is ending up – we don’t know if it is going to a supermarket or to the butcher – I mean, we might be to blame as much as anyone because we don’t show enough interest”</i></p> <p><i>“I don’t know who the customer is – each animal has a different customer”</i></p> <p><i>“The [supermarket] buyer works with the pack-house and the pack-house works with us”</i></p> <p><i>“We are growers and pickers and then it is out of our hands... Haven’t got a clue where the fruit is going until we get a grade out of where the fruit has gone”</i></p> <p><i>“If I was just a grower and my fruit went out of here in bulk bins, I would be able to give you very little opinion about how the supermarkets operate.”</i></p> <p><i>“In the main, most farmers now have very little contact with supermarkets directly”</i></p> <p>[ability of farmers to rate terms of trade with supermarkets] <i>“No, not a hope. It is not in their series of operations.”</i></p> <p><i>“We know who they are, but trying to get any communication with them [the supermarkets] is horrendous. We do have contact, but not enough.”</i></p> <p><i>“I think if you went to half of farmers and say where do [milk processor] sell their milk to, they wouldn’t know.”</i></p>
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Two-way communication and information technology links between intermediaries, such as marketing agents, processors and their suppliers are much less common or developed than those between retailers and suppliers, particularly in the beef and lamb supply chains.

Table 3: Marketing Agents/Farmers Quotes: Bi-lateral Communication

<p><i>“Well yes, every time a load goes in to Quality Control, I get information straight away, either as a fax or through on the web.”</i></p> <p><i>“We need feedback so we can draw out the stock better in the future. I need to know how to draw out my lambs, and I don’t know unless the customer tells me.”</i></p> <p><i>“The only information we get from them is the price of cheese, and how much it has dropped, that kind of thing”.</i></p> <p><i>“The level of communication is minimal if they can get away with it.”</i></p> <p><i>“Co-ordination was bad, communication was bad. You couldn’t get any response from them. At times, they wouldn’t come back to you, they weren’t interested in what you’d got.... It was bad organisation. Rather than tell you what was going on, they just tried to fob you off all the time.”</i></p> <p><i>“We certainly have disagreements with our processors about the quality of their IT systems and their interest or willingness to supply us with data in a rapid format.”</i></p>

5.2.1.2 Impartiality

According to the theory, impartiality requires supermarkets to treat their channel partners equitably. Although impartiality does not require all suppliers to be treated identically, smaller suppliers could believe that the adoption of category management practices favour larger suppliers due to their greater resources and negotiating strength. In addition, impartiality addresses an issue highlighted in the Code of Practice; namely that reasonable notice should be given to suppliers regarding any variations in terms of business so they have time to adjust and do not feel unfairly treated.

Views of Supplier Intermediaries

In the majority of cases, the suppliers interviewed could not comment on whether they were treated any differently by their supermarket customers compared to other suppliers as they either “didn’t know” or said that it “wasn’t something they really heard about”. Others who did offer an opinion either did not think they were “any worse off”, or were “treated very fairly”.

Suppliers to supermarkets who had adopted category management noted that the approach varied across individual retailers. For example some retailers have ‘category captains’ who have access to information not available to other suppliers. The view

was that this gave an advantage to that supplier compared to others. On the other hand, for those dedicated suppliers to supermarkets, this was not an issue as they were the sole or main product supplier. Other supermarkets have not nominated category captains but have encouraged their suppliers to communicate between themselves in order to share technical development and manage seasonal supply.

Restrictions on trading with other supermarkets were not formally in place although many suppliers indicated that they were strongly implied. However this was not seen as an issue by the interviewees because of the efficiencies associated with dealing with one or two customers.

Table 4: Supplier Intermediary Quotes: Impartiality

Knowledge about customer treatment of other suppliers
<i>“Well, that is something we will never know, you have to take a decision whether you are satisfied yourself or not, and you don’t know what other suppliers have.”</i>
<i>“ You don’t really hear about it.”</i>
<i>“ We don’t really worry about other people particularly. All we worry about is ourselves and focus on trying to make this business pay for itself.”</i>
Category management
<i>“If you are not category captain, you don’t see all the information. That can hamper you. The category captain can see it first, and use it to their advantage. As the category captain there, we have seen where they should be moving into, things they should do better, we have directed the business for them and ourselves, grown it. I think it would be naïve to say that if we were category captain for whoever, and were party to certain information, we would hardly be likely to share that to our disadvantage”.</i>
<i>“The other retailers don’t want a single category manager relationship, they want a few key suppliers to co-operate rather than go down the category management route.”</i>
Trading restrictions with other customers
<i>“It suits us as well because we’re more efficient, rather than swapping and changing lines for different customers.”</i>

Views of Marketing Agents/Farmers

Further up the supply chain, impartiality was an issue for some smaller marketing agents and growers, who felt they were not treated equally by their customer, the direct supplier to the supermarkets, because they were not a big player or a sole supplier to that particular agent. For those farmers who chose to supply through the livestock auction market, impartiality was not an issue because of the transparency of the procedure.

Table 5: Marketing Agents/Farmers Quotes: Impartiality

Treatment compared to other UK producers

“Some people get treated better by the marketing people. Sometimes it’s because they’re a bigger supplier or a sole supplier to a marketing organisation. So all their fruit goes to one marketing company. Therefore the marketing company, I probably shouldn’t be saying this, give everything to that grower that they possibly can. So he will get preferential treatment, not us. It’s because he’s solely with them, which is fair enough to a certain extent.”

“The marketing organisations try to keep everybody happy basically. But they can’t do it and so sometimes the person, who’s the most important to them, their biggest supplier, will get the best orders.”

“I don’t think you can get fairer than the auction ring, as they don’t get any choice. I can’t see I get treated any differently.”

Treatment compared to overseas suppliers

“I think they cheat. I would say that any way. I suppose the unfairness of all those things is purely geographical. It’s bloody easy for a supermarket buyer to just pop into the pack-house on the way home as half of them live in Kent. Whereas the Buyer rarely goes to China and when they do, it’s all beautiful because they’ve got everything ready for their yearly inspection.”

“I think British growers are leading the way as far as supermarkets are concerned because we’re their first port of call geographically. We don’t get rewarded for that, and in that sense, we get a raw deal compared to overseas suppliers.”

“Why do supermarkets have one rule for one group of people and a completely different rule for all the others? That is so unfair, and that is my real grudge.”

“You’ve got to have a level playing field where we’ve all got the same rules. The supermarkets ought to endorse that but again it’s better for their profits to import cheap food and not too ask too many questions.”

Interviews with growers and marketing agents revealed that impartiality was associated with two particular areas: (a) that of the treatment of an individual supplier compared to other UK suppliers, and (b) the treatment of UK producers as a whole compared to overseas suppliers, in particular with regard to monitoring of production standards. In general the perception was that supermarkets treated overseas suppliers differently compared to UK producers.

5.2.1.3 Functional Conflict Resolution

The concept of Functional Conflict Resolution attempts to identify common sources of disagreements between suppliers and their customers, and to identify the processes in place to manage such disputes.

Views of Supplier Intermediaries

Some interviewees stated that disputes were rare as they made an effort to avoid them because of the damage they caused to the relationship. Other suppliers identified particular issues that caused disagreements, such as price negotiations and taking supplier ideas for process improvements or new products to other suppliers for development. The methods used to resolve disputes varied and included meetings, discussions, stand-offs, and building personal relationships at various levels across both organisations.

Table 6: Supplier Intermediary Quotes: Conflict Resolution

<p>Views on Conflicts/Disagreements</p> <p><i>“Any dispute would be a failure”.</i></p> <p><i>“For a start, if you have too many disputes, you lose the confidence of the customer.”</i></p> <p><i>“Massive bust-ups are very rare because whatever you say, the old style confrontational relationship between buyer and seller has gone, and category management has come in.”</i></p> <p><i>“We work pretty hard at relationship management. We choose the person who deal with the retailer carefully – must be fairly unconfrontational.”</i></p> <hr/> <p>Sources of Conflict/disagreements</p> <p><i>“New product development...we come up with some good ideas, they say great, and then they take the idea elsewhere to someone who will do it cheaper. It turns up on their shelves, yes, it is the same idea, but why it’s cheaper is because it is not such good quality”.</i></p> <p><i>“Price negotiations at certain times of the year are difficult.”</i></p> <p><i>“The biggest gripe is simply the price of the product and the lack of shelf space allocation. If a disagreement does occur, it is resolved by the Account Manager.”</i></p> <hr/> <p>Methods of resolving conflicts</p> <p><i>“...battling it out for weeks on end.”</i></p> <p><i>“The more recent formal Terms and Conditions say that before the problem escalates, you can go above the Buyer to Management.”</i></p> <p><i>“We would negotiate verbally.”</i></p> <p><i>“...sitting round the table and discussing it until we come to an agreement”.</i></p> <p><i>“ It depends on what the disagreement is about but you would start at the buyer level and you would gradually move it up until our chief executive is talking to one of the trading directors.”</i></p>
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Views of Marketing Agents/Farmers

Further up the supply chain, again, common sources of disagreement were centred around price, for instance, grading or weight, lack of orders and poor communication. In some cases they did not exist. Disputes, where they occurred, were resolved through meetings, negotiation or by withdrawing business.

Table 7: Marketing Agent/Farmer Quotes: Conflict Resolution

<p>Sources of conflict</p> <p><i>“the only other source of potential upset as far as I can see is the price.”</i></p> <p><i>“Oh, I would say the price... biggest contention is the price, nothing else. Huge grievance.”</i></p> <p><i>“If they can’t get the price, for goodness sake tell us now, and we’ll get out. Don’t let us carry on struggling.”</i></p> <p><i>“Price, always money. Because everything else is linked to it. We’re always moaning about our return, and they are always moaning about their return from the supermarkets.</i></p> <p><i>“... We’ve never had a problem we can’t sort out.”</i></p> <p><i>“Well, we don’t really have any disagreements at all really, because at the end of the day, the product is what it is, and to try and argue it is something else is pointless.”</i></p> <p><i>“ This year with the marketing organisations it’s been lack of orders and lack of communication.”</i></p> <hr/> <p>Methods of Resolving Conflicts</p> <p><i>“...having a meeting”.</i></p> <p><i>“Nothing we can’t negotiate around...”</i></p> <p><i>“I have had disagreements, quite serious ones, under the dead-weight system...I didn’t sell to that abattoir again.”</i></p> <p><i>“Have a meeting. The marketing organisations are working for you so they should be looking to keep you happy.”</i></p>

5.2.1.4 Refutability

According to the theory, refutability measures the ability of suppliers to raise concerns regarding the supermarket’s decisions and policies without fear of reprisals.

Views of Supplier Intermediaries

The interviews with immediate suppliers found that some suppliers had built a range of relationships at different levels in order to manage the situation and others felt they could complain without fear of reprisals. Other suppliers felt that although they did have access to higher authority, they would not use that route because of possible repercussions in the form of loss of orders. One supplier noted that a supermarket had included an appeals procedure in their supply and trading terms document.

Table 8: Supplier Intermediary Quotes: Refutability

<p><i>“We haven’t had a reason to do it but if we had to we could”.</i></p> <p><i>“No problem. We have always done that. I personally, when I was a youngster selling for my father, I always made contact with the boss!”</i></p> <p><i>“The only time we would need to speak to someone higher than the buyer would be if the pressure was on the buyer. If it’s a difficult year on potatoes we would go higher to help him out.”</i></p> <p>-----</p> <p><i>“You can, but you don’t, because if you go to a higher level, and it then comes down, and the person who it comes down to is going to stay in his job for 52 weeks or whatever, and the person at the higher level is going to move on, then that person is going to remember – well, you went above me.”</i></p> <p><i>“I wouldn’t dare say anything like that. I’m paid by growers not to jeopardise their business, so I’ll listen to stuff that I know is crap, purely because that is what I’m paid to do”.</i></p> <p><i>“The ultimate thing is that they are right. If push comes to shove they’re right. You couldn’t allow it to get to that point, so talk about negotiating with both arms strapped behind your back. You know that you are in a position of weakness.”</i></p> <p><i>“No, because if you did, you’d probably lose the customer. If you appealed over the supermarkets head to an independent party.”</i></p> <p><i>“You could do. But that would probably leave a nasty taste in the buyer’s mouth. You’d be very reluctant to do that. Most people wouldn’t because you’d be frightened of the buyer who’s still got the day to day trading relationship. If you upset him then you’re going to finish up losing the business probably. Obviously, Buyers are quite powerful. If they’re not happy with you for whatever reason, if you go to their boss, they won’t be very happy, will they?”</i></p> <p><i>“If they’ve got three suppliers, you’ll end up having 20 percent instead of 30 percent from one week to another.”</i></p> <p><i>“A threat in our minds is that what might happen is it will go quiet for a bit, but some time later, a bit of our business will disappear.”</i></p>
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Views of Marketing Agents/Farmers

Further up the supply chain, the ability of marketing agents, processors and growers to appeal to a higher authority without fear of reprisal was mixed. Some organisations had developed relationships at all levels with their immediate customers in order to appeal to higher levels, whereas other organisations or individuals had very little recourse, or withdrew their business. One grower had appealed directly to a supermarket regarding a dispute over price.

Table 9: Marketing Agents/Farmers' Quotes: Refutability

“Well, when I thought I was being underdone on the weights, I got on to [the producer group] to see what was happening. The next lot of lambs came back with what I thought was a fairer weight.”

“No, you would never win”.

“I came across this last year, and the MLC were willing to help and sent an area manager to the abattoir concerned....I didn't sell to that abattoir again.”

“He would just say that it was someone else's responsibility to deal with it and not his, and that would be the end of it.”

5.2.1.5 Explanation

The theoretical construct of explanation measures whether the more powerful party is willing to explain its channel decisions and policies, as such decisions are more likely to be accepted by suppliers when the logic behind them is revealed.

Views of Supplier Intermediaries

The interviews with immediate suppliers to supermarkets highlighted that explanations regarding strategy, decisions and policies depended upon the individual supermarket concerned. In addition, the willingness of supermarkets to explain their policies and actions to other players, e.g. marketing agents and producers, further along the supply chain also varied. One marketing agent in a sector with direct relationships with supermarkets explained that sometimes supermarkets do not explain some of their actions because they feel it is commercially sensitive.

Table 10: Supplier Intermediary Quotes: Explanation

“The last [supermarket] one I went to, it was interactive and they wanted feedback, very open to questions... all sorts of probing questions, they did take feedback, and they did publish the findings. That would have been very unusual a few years ago.”

“One of the larger retailers yesterday was setting out their five year strategic plan and communicating that to us and our suppliers which was refreshing, although the word that they had most on their lips was the word price.”

“We will occasionally go to Retailer B strategy meetings with Supplier C, and we are occasionally invited to Retailer C meetings.”

“I think that is something that puts them [the supermarkets] off getting closer to the producer because they know they don’t consider them the ultimate customer, and they think, well, if they can’t be bothered to work with us, why should we work with him?”

“Not so much with the likes of Retailer B, possibly more with Retailer C, but quite a lot with Retailer A. They mostly come to us”.

“They have been very good over the past two or three years.”

“We would only know the reason for the reduction in orders by walking into the store on Monday morning and seeing the promotion on [...]. They don’t tell us that sort of thing. They regard that as commercially sensitive. They don’t want the opposition to know.”

Views of Marketing Agents/Farmers

Further up the supply chain, explanation of policies and decisions between intermediaries such as processors, marketing agents and growers varied, ranging from “extremely good” to “none”. In addition, one producer stated that he did not require any explanation of policies and strategies because of the emphasis on price.

Table 11: Marketing Agents/Farmer Quotes: Explanation

“It just seemed like they were trying to ignore it or ignore you and hope the problem was going to go away. Rather than telling you exactly where you were, they weren’t telling us.”

“No, it was all just one way. They kept setting the rules out ... Just got to be under 14 months”.

“In the last month, they have woken up to it, there is so much distrust because farmers always winge – even when things are good, they winge.”

“I’d really like to be involved in the strategic long term thinking, and to be seen as a partner with the abattoir and the processor to the retailers but that has been denied.”

“The specs stay the same, so what would they explain?”

5.2.1.6 Familiarity

Familiarity of market conditions, and of supplier capabilities, is considered an essential principle of procedural justice, as it permits the more powerful party to ascertain the ability of its partner to meet requests or demands.

Views of Supplier Intermediaries

The extent to which the powerful party understands or is aware of the market conditions under which its channel partners operate was an issue on which opinions varied between the interviewees who were immediate suppliers to supermarkets. Indeed, some supplier intermediaries felt it was to their advantage to withhold information regarding market conditions, and acknowledged that understanding of the supermarket environment was also limited.

Some interviewees highlighted the link between awareness of market conditions and the knowledge and/or length of time in post of the Buyer as new buyers often have had no experience in the product sector to which they have been appointed. One intermediary explained that although the buyers at the customer changed regularly, the supermarket managed to keep “the stability and development from buyer to buyer” by managing the hand-over period.

Table 12: Supplier Intermediary Quotes: Familiarity

Level of Understanding

“Not fully, but to be fair, it is sometimes in our interests for them not to.”

“...but we don't always understand theirs.”

“...They are probably better than they were, but they still haven't fully grasped the issues that we face on a day to day basis”.

“I am not sure that they particularly want to understand because they obviously see themselves as customer focused rather than supply chain focused.”

Lack of Familiarity caused by Buyer Changes

“You have to almost retrain them and explain what your products are as they're not necessarily from produce or an agricultural background and so learning about that is quite a long process”.

“The problem is that they don't know your business and they don't know much about fruit, which obviously is a downside. They don't know one apple from another apple and that causes the marketing organisation problems.”

“ There needs to be an understanding that people need to be in produce longer, because the learning curve is so much longer. There are huge complexities within fresh produce that I don't think can be realised by a buyer who comes in from a different product every two years.”

“They have got a guy who is a farmer himself as well as working for the supermarket, and another one, the technical manager, he was a butcher. One of the Buyers was a butcher. Sometimes the supermarkets are accused, in a way, wrongly sometimes.”

“ For seasonal products intimate knowledge of production and the environment is very important. A longer handover period could reduce problems.”

Views of Marketing Agents/Farmers

Further up the supply chain, the perceptions of producers and intermediaries as to their immediate customers' understanding of their market conditions differed. Producers and intermediaries also offered opinions as to the extent of knowledge held by the supermarkets and the effect of the Buyer on that understanding of the market, even though they had no direct relationships.

Table 13: Marketing Agents/Farmers Quotes: Familiarity

<p>Views on Immediate Customers' Knowledge</p> <p><i>" Yeah they [Marketing people] need to be aware, they need to have their statistics right, they need to make decisions that are more appertaining to what the problems are. They need to co-ordinate better within themselves."</i></p> <p><i>"I think sometimes they're in an office and they're probably not aware of what the realistic situation is. They may not get the correct information from growers, which is not their fault."</i></p> <p><i>"Yes, I think they do. They know we have, and they try and find a good outlet for them. They come down here, they know the market."</i></p> <p><i>"Some people are pretty clued up."</i></p> <p>Views on Supermarkets' Knowledge</p> <p><i>"I would say that Packer A do, but I wouldn't say the supermarkets do. The management is just not sufficiently knowledgeable about their products on an on-going situation. They are just too naïve about the product".</i></p> <p><i>"I don't really think they do understand, no. I think some of them try quite hard, but you've got the problem that Buyers are on meat one minute and on carrots the next. They move Buyers around so they don't get too close to their customers".</i></p> <p><i>"I wouldn't say that supermarkets don't understand growers but they are more interested in their profit margin and their balance sheet than they are about growers."</i></p> <p><i>"The level of understanding of farmer problems by retailers and the farmers understanding of the retailers' problems is poles apart, quite frankly. Each of them doesn't understand the other".</i></p> <p><i>" I don't think it worries them, they look at their business from the other angle. "</i></p>

5.2.1.7 Courtesy

The interviewees were asked their opinions as to whether their relationships were built on mutual respect. This principle acknowledges the importance of building personal relationships between teams of people, and that such considerations should influence an organisation's recruitment and training policies.

Views of Supplier Intermediaries

Again, mutual respect varied according to the philosophy or strategy of each supermarket, but was also affected by the behaviour, attitudes and personality of their immediate contact, the Buyer. One supplier noted that those supermarkets that were more price orientated were not viewed as being respectful or courteous to suppliers,

whereas another deliberately chose non-confrontational employees at the Buyer interface level.

Table 14: Supplier Intermediary Quotes: Courtesy

“ If they deem something you’ve done as untoward or something that you shouldn’t have done, if you’ve been negligent in your practices then a few words will be exchanged.”

“Animals, is the best description for some of them...you certainly wouldn’t cross the road for some of them. But they’ll come a cropper. You can’t operate like that.”

“All supermarket Buyers are renowned for their totally unethical standards of trading, but is it getting better? Yes, but changing slowly, slowly”.

“It depends as much on the personality [of the Buyer] than the retailer. We have had some excellent relationships and appalling relationships with the same retailer.”

“Sometimes they can behave outrageously if they want to as when you’ve got someone in a position of power, some will always abuse it. There is no doubt that there is a certain arrogance that comes with power. If you are a Buyer or whatever, with these people you have a position of power and some people use power well and some people don’t.”

“It’s very hard to say they’re generally respectful as everybody’s different. I would say they are more or less but it can depend on who it is. All personalities are different.”

“Yes, I would hope so. It is a long relationship, that is the way we view it. We are not car salesmen, not brush salesmen. Business is about people.”

“We have got different individual customers, abroad as well, and that [respect] is very important we know, and they know, both our needs.”

“It varies from retailer to retailer”.

“Personally, I think now is probably the best it ever has been....The big thing is performance. If we don’t perform, then we lose respect.”

Views of Marketing Agents/Farmers

Further up the supply chain, a range of opinions was offered as to the presence of mutual respect between intermediaries and their suppliers. One producer and one intermediary also offered their opinions on the behaviour of supermarket Buyers.

Table 15: Marketing Agent/ Farmer Quotes: Courtesy

<p>Immediate Customers</p> <p><i>“It makes it a lot better, if you can get on with each other.”</i></p> <p><i>“I think we both understand that we’ve got a job to do, but the thing that is missing in this industry is trust. You can build up a good working relationship, but if that abattoir gets short of stock they will go wherever the hell they want.”</i></p> <p><i>“[Respect] We wouldn’t trade with them otherwise”.</i></p> <p><i>“Yes, we have a healthy regard for one another... for all the bluster, we like each other really.”</i></p> <p><i>“Yes, there is never any discourtesy.”</i></p> <p>Supermarkets</p> <p><i>“They can be absolute shits to the like of us, because next week they are off buying others, so what does it matter to them. All they have to do is hit their targets.”</i></p> <p><i>“Their business skills were based on, just stand there, and say no all the time, and eventually you will get what you want.”</i></p>
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5.2.1.8 Commitment

Interviewees were also asked to comment on how confident they felt in the long-term future of their relationships with their customers. Opinions were mainly positive, including “very confident”, “quite confident”, “very bright”, “more confident”, with one supplier noting that his confidence in the future was linked to the fact that he was responsible for a significant majority of one retailer’s product category. However, such confidence was not shared when consideration was given to wider issues, such as global competition.

Suppliers’ perceptions of the level of commitment by their customers, the supermarkets, were also influenced by the frequency of staff changes, and consequent lack of product knowledge. One supplier had experienced problems in the past caused by frequent changes at the Buyer level, and poor handing over periods, but their customer had now adopted a different policy, viewing long-term placements and product knowledge as essential to the supplier/retailer relationship. Another supplier commented that a retailer had now introduced a manual with written protocols for Buyers to provide greater stability.

Table 16: Supplier Intermediary Quotes: Commitment

“We are as important to them as they are to us because they rely on us now.”

“ I’m confident about being able to maintain the relationship, but I worry about price and shelf space. I’m not confident about being able to persuade them that their retail philosophy is right in terms of what its going to do for the UK. The large supermarkets are fundamentally more important in determining the landscape of the UK, particularly in horticultural terms than anybody else.”

“In terms of commitment to UK produce supermarkets are making all the right signs. What is a great pity is that they do not give home suppliers the best crack of the whip when the fruit is at its best coming straight from the orchard at the lowest cost and they don’t seem to get behind the product with realistic ordering.”

“I’m fairly confident about the future of our customer relationships. I think supermarkets want English fruit but having said that, if the English fruit industry wasn’t around, I think the supermarkets would put the flags up and say thank goodness for that because it would be a lot of aggravation they wouldn’t have to worry about...They have to be seen to be supporting the English industry basically, whether they want to or not.”

Views of Marketing Agents/Farmers

Further up the supply chain, some producers felt that confidence in the long-term future with immediate customers could be affected by external factors, such as consolidation and rationalisation within the intermediary sector of the industry. Another producer expressed his lack of confidence in the long-term future because he had taken the decision to stop producing that particular product, while another discussed his misgivings about the long-term future of farming in the UK. Another noted that confidence in the future of a relationship was dependent upon performance.

Table 17: Marketing Agent/Farmer Quotes: Commitment

<p><i>“It may not be Packer A in years to come, it may be Packer A plus somebody else, but at the end of the day, I am confident I can produce the product whoever they are.”</i></p> <p><i>“You can’t have a high level of confidence in your customer when [abattoir closed] you’ve had that kind of thing going on.”</i></p> <p><i>“It will only continue if we continue to deliver to their required standards. If we don’t, well, we won’t have the contracts.”</i></p> <p><i>“In fairness, it is probably nothing to do with the customer, it is the market.”</i></p> <p><i>“I have got very big reservations about the whole of the industry, and the whole of the farming industry”.</i></p> <p><i>“I think imported competition will kill us off. It’s a horrible fact of life that we are not a low cost producing country.”</i></p> <p><i>“ I probably won’t be here in 30 to 40 years time. I think it will just be a sort of niche industry.”</i></p>
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5.2.1.9 Solidarity

The interviewees were asked to comment on how supportive customers were during difficult trading conditions that had affected supply.

Views of Supplier Intermediaries

Reactions to problems with supply were mixed according to the retailer, the nature of the problem, for example whether it was incompetence or environmental conditions, and the overall performance of the supplier. One supplier explained that it was the possibility of, rather than actual, problems with supply that had resulted in loss of business with one of their customers.

Table 18: Supplier Intermediary Quotes: Solidarity

“When we couldn’t export, [BSE] and I will give the supermarkets credit, they did try hard to sell it but at a very, very low price, they did help to sell it. But then the problem was when you sell at a very low price, and encourage them to buy, they think it should be normal!”

“To be fair, the supermarkets did what they could to help with the situation [BSE]. There was quite a few things they did that kind of helped you to keep rolling.”

“If you can’t get it, somebody else can, be that at home or abroad.”

“They are very flexible people. So they work with us, basically if we need help then we get help. If we need help to cover orders then they will see that we get it.”

“...and they were concerned that we might have let them down. We hadn’t let them down, just kept them aware, but they still took business away in case of shortages. Which we did feel a bit hard done by.”

“We are measured on our quality levels and there is a quality league table. If we were at the bottom of the table they would be saying, what are you doing? You’ve got to perform, and if you make big mistakes, you will get a bollocking.”

“Even though we’ve been supplying one of our customers for 30 years, we’re still only as good as our last delivery. If we had a couple of rejections, the buyer would be on our backs just like any other supermarket.”

“A few years ago we were on promotion with a product and I had priced it too low, this was on foreign fruit. I bought some product and we agreed a price and then I realised it was too low. I spoke to the buyer and said I was losing a lot of money and he said we would sort it out at the end of the promotion. I could have just said I couldn’t get them anymore at that price. Anyway I ended up losing a lot of money on that deal and I went back after the promotion and the supermarket said they didn’t want to know. Refused to discuss it. That was it.”

Views of Marketing Agents/Farmers

Further up the supply chain, the views of the immediate customer were mixed. Two producers noted that one of the benefits of not committing to supply any one customer was that problems associated with supply did not occur.

Table 19: Marketing Agents/Farmers Quotes: Solidarity

“There is no obligation either way”.
“Oh, I have no contract with them –I’m a totally free agent.”
“...If I can’t supply they shrug their shoulders and go elsewhere”.
“You always get some lambs that are poorer quality, and they took them and I was very pleased.”

5.2.2 Distributive Justice

According to the theory, distributive justice indicates the extent to which the more powerful party recognises that they hold some responsibility for their partner’s profitability, and examines the distribution of benefits and burdens between the two parties. The principle should measure the extent to which the more powerful party understands the long-term importance of allowing channel partners to earn a fair return. The results of the interviews are presented under areas highlighted as an area of concern by the Competition Commission and can be viewed in the context of the distribution of benefits and burdens. Again, the results are presented in two sections under each area, offering the opinions of supplier intermediaries on their terms of trade with supermarkets, and those of marketing agents and growers on their relationships with supplier intermediaries.

5.2.2.1 Price

Views of Supplier Intermediaries

Immediate suppliers to supermarkets had mixed opinions as to whether the price was imposed, negotiated or decided by the UK and global market, with one supplier noting that the ability to negotiate was dependent upon the Buyer and the supermarket. One supplier noted that price was decided through a ‘continuous tendering process’ between suppliers, and that it was the deciding factor regarding obtaining business from customers.

Immediate suppliers were asked whether they and their suppliers received a fair price, and what they felt a fair price should cover. Some interviewees felt that a long-term view of price should be adopted, as prices changed during the year, and from year to year. Others felt that ‘fair’ was not a description that should be used to understand commercial negotiations, particularly in a global marketplace, while still others stated

that a fair price differed between retailer customers. On the other hand, other suppliers felt that a fair price should cover the costs of production, which were currently not being met. One issue that was mentioned by some suppliers was the spread of margins along the supply chain, with supermarkets growing their margins year on year at the expense of other channel partners, resulting in an unequal distribution of the benefits of exchange and affecting the ability of suppliers to reinvest.

Table 20: Supplier Intermediary Quotes: Price

<p>Determination of Price</p> <p><i>More and more, it is more open than the old haggling style”.</i></p> <p><i>“discussion and negotiation...[although] the price is determined predominantly by market competitiveness, which may or may not have anything to do with the costs of production”.</i></p> <p><i>“You’d think it would be easy to negotiate price because there’s only two or three of us but it isn’t because you’re in a world over supply situation.”</i></p> <p><i>“It’s a commercial negotiation. Obviously if you are dealing with one or two very big supermarkets and you are dealing with a diverse collection of English growers then you will be played off against each other as in any market.”</i></p> <p><i>There’s no guarantee on price. Its negotiated on a weekly basis, based on whatever the supply and demand situation is.”</i></p> <hr/> <p>The Issue of Fair Price</p> <p><i>“I wouldn’t use the word fair. It’s a commercial game and we are all in it for gain.”</i></p> <p><i>“Fair price doesn’t apply. The marketplace applies. So no growers are getting a fair price but I wouldn’t say that that’s necessarily because of the multiples, it a factor of the marketplace.”</i></p> <p><i>“It has to be a price that covers reinvestment, it is the key criteria, because at the point where the industry stops replanting is the point at which there is no future.”</i></p> <p><i>“One that covers the cost of production, takes into account transport costs and at the end of the day gives something back to the grower to reinvest in the farm.”</i></p> <p><i>“[Fair price] is one where our customer meets their targets, we meet our targets and our growers meet their targets. Over the year we do, yes. You have to look at it over the year.”</i></p>

Table 20 (continued)

“ The question is who owes who a living. There is no reason why supermarkets should pay over the market price for UK apples when apples are overproduced worldwide. The only reason why supermarkets would pay more would be if their supply base was under threat. This will not happen as growers come and go and so for today’s failures there will be tomorrows successes as there are enough vultures in the industry looking for disenchanted growers to buy out.”

“We receive a fair price from some retailers but not from others ...depends on the market position of the retailer”.

“For our members, no, not that they can stay in business. They are not getting the return from the marketplace, not in comparison to a few years ago, pre BSE.”

“Sometimes there are times when the price isn’t fair, but that is because they have other options from elsewhere, but at other times the price is fair. It does vary from time to time – foreign competition”.

“This year was not so good, but the last couple of years, we’ve had a good two years.”

“It depends so much on the supply and demand situation. This last year it has been difficult because the supply was so high. If you’ve got a very small crop then the price is higher and you get a higher margin. It’s just a matter of what the market situation is.”

“I suppose you could say we chose to be in the game, we see over the years retailers’ margins going up, and they are taking margins out of suppliers, i.e. the growers growing it.”

Views of Marketing Agents/Farmers

Further up the supply chain, price and the perception of fairness was dependent upon the availability of alternative channels, with some producers and intermediaries in particular sectors choosing amongst a portfolio of outlets according to the price on the day. In the pig sector, the costs of production together with the market price were considered for those producers who supplied intermediaries through fixed contracts. Marketing agents and farmers were also asked to comment on how they felt supermarkets influenced their costs, price and payment terms. Two farmers felt that supermarkets had a direct influence on price, with those farmers who did not know the identity of their final customers unable to comment.

Table 21: Market Agent/Farmer Quotes: Price

Price determination

“In terms of pricing, the biggest problem we have is that there is no recognition of the costs of production. Pricing is being driven by the market, rather than by us saying that this is what it is costing us to produce, therefore that is what we need for our price. We are in a pure market”

“I think the supermarket buyers of milk are relatively familiar with the costs, but it doesn’t actually in any way colour their dealings.”

“Absolutely not [consideration of costs of production]. A market’s a market as far as they are concerned. They’re not going to make themselves uncompetitive against their rivals.”

“There is a general feeling that supermarkets dictate to the abattoirs what the price should be. The producer is forced to accept a price that doesn’t cover production costs.”

Issue of Fair Price

“ A fair price is the cost of us picking and actually producing the fruit plus the cost of packing it and then a profit margin on top.”

“It has to be a price that covers reinvestment, is the key criteria, because at the point where the industry stops replanting is the point at which there is no future.”

“I think the price is inconsistent with the cost of production today in the UK for beef and lamb...They [farmers] are never ever going to be convinced that anybody is giving them a fair deal and they think that somebody else sets the agenda, and not them.”

“If you ask them at a farmer meeting...I would say that the majority of people would not know. But if you asked somebody who did know, they would say well, I need to cover the costs of production, have a reasonable living, cover any reinvestment in the business”.

“No, we never think we get a fair price. All farmers ought to get more ... but meat inspection costs, why is it that the farmer always has to pay?”

“ The market could be better. There’s so much foreign competition out there.”

5.2.2.2 Payment Terms

According to the Code of Practice, supermarkets shall pay their suppliers within a ‘reasonable amount of time’ after the date of the supplier’s invoice.

View of Supplier Intermediaries

The opinions of immediate suppliers to supermarkets regarding payment terms were mixed, ranging from “fair”, “reasonable”, “no problem”, “very good”, “good”, with periods of payment ranging from 4 days to 6 weeks, although queries regarding

disputed payments took longer, with one supplier waiting 18 months for a decision. One supplier did feel this was an area of discontent.

Table 22: Supplier Intermediary Quotes: Payment Terms

“ They are very good at paying. We will get our money within an average of 23 days outstanding. Well you can’t complain about that. The fact that they’ve sold it within 5 days, so they’re sitting on that cash for 18 days and earning interest, doesn’t cause us any problems. Some are slower than others but on the whole they are very good.”

“Why can’t we be paid within fourteen days? They actually get their money over the counter the same day, they get their money as soon as they sell it.”

Views of Marketing Agents/Farmers

Further up the supply chain, intermediaries and producers had different experiences, dependent upon the distribution channel used. Auction markets paid, on average, within 72 hours, although one producer commented that payment terms from the markets had recently increased to ten days. Payment from supplier intermediaries ranged from one week to six weeks, with one marketing agent stating that payment terms were an issue as his organisation paid farmers eight days before receiving payment from the supplier intermediary.

Table 23: Marketing Agent/Farmer Quotes: Payment Terms

“...[the processor] will not guarantee that the payment will be paid within a set time.”

“I am disappointed in the slippage of payment terms with the livestock auction but it was almost unrealistically good because there isn’t enough time for a sale on Tuesday and the customer paying for it, and that cheque to clear in time for a cheque on my doorstep on Friday”.

“Payments terms are alright, no problem with them. Four or five or six weeks is not too bad.”

5.2.2.3 Costs

The interviewees were asked to describe whether their customers had imposed changes that had reduced supermarket costs but had increased supplier intermediary costs. They were also asked whether the reasons for those costs had been explained. The Code of Practice identifies several practices, which can be described as a transfer of costs, although there are several qualifications to the prohibition of such practices;

namely retrospective reductions in price; marketing costs; payments for lower profits; payments for wastage, and lump sum payments as a condition of being a supplier. In addition, the Code also identifies the practice of tying suppliers to purchase goods and service from particular third parties.

Views of Supplier Intermediaries

Interviewees identified a number of practices that transferred costs from the supermarket back to the supplier intermediary. These included suppliers bearing the costs of rejection even though it was not due to their negligence; payments for packaging; bearing the costs of audits; making payments for lower profits and being required to use designated third party suppliers of transport and packaging.

All interviewees identified payments in various forms to supermarkets as being a source of discontent, with the exception of one supplier intermediary, who felt they could be used to grow business by increasing volume at the expense of other suppliers. Such payments were in the form of payments up front, discounts at a percentage per product sold, payments made retrospectively on the basis of turnover, and payments into ‘funds’.

Table 24: Supplier Intermediary Quotes: Costs

“Sometimes if you have a rejection for whatever reason, they can charge you for loss of profits. The grower bears the cost eventually.”

“If there is a problem with delivery they will not only take the cost of the fruit off us they will also take their loss of profit or their loss of sales and that can be quite a hefty sum. They actually fine us for the fact that the product wasn’t on the shelves. It’s also a case of whether it’s our fault or someone further down the line that’s caused the problem. It’s not necessarily down to us, it can be down to somebody in the middle, the transporters. We’ve had problems with that.”

“They had some new bags printed and we were sent a bill for £3,000, so they passed the cost of printing these onto us. We sent the bill back. But at the end of the day, they just knocked it off our payment.”

[costs of audits and quality standards] *“Ultimately, growers bear the costs. There’s nowhere else for it to go. It gets passed down to the grower. There’s very little profit left for the grower after everybody else has taken their cut”.*

“They say they want us to use a certain supplier and the reason they want us to use a certain supplier is because they get a rebate. That applies to every supermarket. That applies to labels and also to transport. If we could arrange it ourselves, we could get a better deal. Absolutely. No question. No shadow of a doubt. That’s 100 percent”

“They will nominate packaging suppliers to us and we know that we could go and get the same specification packaging, same print and everything for up to 30percent cheaper. So they are

making money on the dedicated packaging and also on transport. Someone who makes bags will go to the supermarket and say we will make all your bags for you and we will pay you whatever per 1000 for the privilege.”

“My biggest bone of contention is that they are in full control of our packaging materials...I just think it is unfair trading, they come to you, dictate what the price is going to be to you.... I know I can buy it for less...I know I can get them printed for ... per thousand and I know that ... of that amount represents over-riders.”

They demand overriding discounts on total business. If it can be set against targets for increased business that’s fine but they just say that for the pleasure of trading with us we want 2 percent of your business as an extra. So if we do a million pounds worth of trade, they will take 2 percent of that million.”

“I personally think over-riders are outrageous. If you are taking a 30percent margin off a product, I think that this is quite an adequate remuneration for what they are doing to facilitate my market. ...They shouldn’t be coming to me after that and saying, we’ve done really well for you and can you give us an extra one percent.”

“I don’t like over-riders. If we didn’t have to pay over-riders, the income back to farmers would be greater... initially they were used as an incentive to grow the business, but supermarkets have matured and so the market has got low growth, and we’re in a product that’s got low growth.”

“We have entered into a long, medium term agreement at a price...as well [over-riders], this is additional”.

“...so yes, there are over-riders, whatever you like to call them, with all the majors, and then they have a ‘marketing fund’They just dress them up in different names, well if it is not marketing, then it is advertising”

[Over-riders] “People are buying extra business. You get efficiencies by having more business and make more money out of it, and so it’s worth offering it to rationalise. We view it as a way to attack for more business. Put it this way, it is in our benefit as much as in their benefit.”

Views of Marketing Agents/Farmers

For marketing agents and farmers, the payment of retrospective discounts, reimbursements and lump sum payment in order to secure business were not an issue. None of the interviewees had been subject to these practices by the supplier intermediary customers. However, the final customer, namely the supermarkets, was felt to have passed their costs back up the supply chain through their treatment of the supplier intermediaries. In addition, the costs associated with the different requirements for quality assurance was also felt to be a transfer of costs from the supermarkets to the farmers.

Table 25: Marketing Agents/ Farmers Quotes: Costs

<p>[Do costs get passed back?] <i>“Yes, definitely, by screwing the processor into the ground.”</i></p> <p><i>“ These marketing organisations, they’re all earning money and they are going to make sure they earn money, the pack-house has got to make sure they earn money. Everybody’s got to make money. If anybody’s going to lose money it will be the grower. It’s always the grower that gets ripped off.”</i></p> <p><i>“The supermarkets will charge the marketers and they pass the costs back down the chain, as they’re not going to take the brunt of it. The grower bears the cost eventually.”</i></p> <p>-----</p> <p><i>“The majority of my customers say they want quality assurance which we had to jump on that particular bandwagon, but it increased our costs.”</i></p> <p><i>“We the growers have to pay to join the assurance schemes. The supermarket doesn’t say, well, we need your fruit to be in a scheme in order to sell it, so in order for us to make money we’ll help you set up the standards to do all of this. On no, we have to pay for all that.”</i></p> <p><i>“We got these assured produce schemes, which cost us a fee, not a great amount, just doing things properly and recording everything. ...however, because the supermarkets want to show the consumer they do a better job than the others they impose things over and above what is a perfectly reasonable way to grow crops. It annoys you, but you just seem to be locked into it.”</i></p> <p><i>“ They have certainly come out with issues that increase costs on the farm. Particularly issues like their growing charters. We have all the normal farm assurances but there are things in their charters that they want to be better at and that adds significant cost into the system. The problem is that each supermarket has their own wish-list and so you can end up being audited two or three times by different groups.”</i></p> <p><i>“OK, we have to work to a standard, but we don’t need two or three standards.”</i></p>

5.2.2.4 Promotions

The Code of Practice also identified practices associated with promotions, and interviewees were asked to comment on their views regarding the distribution of costs and benefits of promotions. In theory, the costs and benefits of promotions should be equally borne throughout the supply chain.

Views of Supplier Intermediaries

Opinions regarding promotions differed, with some suppliers viewing promotions as benefiting supermarkets but increasing supplier costs, because they were required to take a smaller margin in addition to contributing towards promotional costs. As a result, those suppliers felt that they predominantly funded promotions, which is against the spirit of the Code of Practice. Other suppliers viewed them as being helpful in moving product in periods of over-production, benefiting all in the supply chain.

Table 26: Supplier Intermediaries Quotes: Promotions

<p><i>“The general consensus is that there are three of us involved, us, the grower and the supermarket, and we all take a chunk off our margin in that period.”</i></p> <p><i>“The case is if there is a promotion, we can buy them from the growers, if there’s not, then we have to bin them”.</i></p> <p><i>“In terms of both monies towards promotions and price - they want to devolve all the costs they possibly can onto you.”</i></p> <p><i>“...normally they come to us, and say right, what promotion we are going to do here, we would like to do £1 off, so we pay for the promotion and the advertising that goes with it, and they are keeping their margins.”</i></p> <p><i>“We share it really. If there is a £1 off by the retailer, we may take off 40p here, we don’t stand the whole thing here. Depends on the deal, if it is a very big cut price promotion, then each of us benefits from increased turnover.”</i></p> <p><i>“You could argue that both parties have the benefits of promotions, albeit that the detrimental promotions are predominantly borne by the supplier... The commitment on promotional activity is to make the offer, but not to, in many cases, to guarantee to take the volume.”</i></p> <p><i>“There are benefits for both sides, but can also be costs on both sides as well.”</i></p> <p><i>“ In volume terms we benefit from promotions. Hopefully there’s a run offer after the promotion because people still tend to buy when the price goes back up. Therefore you gain after the promotion as much as while the promotion is going on.”</i></p>

Views of Marketing Agents/Farmers

Marketing Agents and Farmers were also asked for their opinions on the distribution of costs and benefits of promotions. Interviewees did not feel that promotions were a benefit for them. One producer group noted that advance notice of promotions was not communicated to them, as processors feared that farmers would withhold stock until the price increased.

Table 27: Marketing Agents/ Farmers' Quotes: Promotions

"You haven't sold any more, all you've done is move more in one week. The customer doesn't come back next week. They are not buying more, they just got one for nothing."

"Significant promotions on price, such as buy one get one free offers on bagged apples, crucifies producers, as you get half the price but you get double the costs".

"The only respect in which we did benefit was that it shifted fruit. The marketing organisation did a buy one get one free ... But as far as I can make out, that's not the supermarket buying all the fruit and saying buy one get one free, rather we are giving two pounds of apples away for the price of one pound. It doesn't affect the supermarket, it affects us; so that hurts."

"We do bear the costs. No doubt about it at all. Do you feel like giving a few potatoes away this month as we're having a promotion? It doesn't help us. We dread promotions, because no one wins. You've got a perishable item and you go and buy a five pound pack of potatoes and someone gives you another one. The consumer leaves it in the kitchen and the potatoes go green, and they throw them away!"

"That is something we know nothing about, something higher up, we don't get told about, it is too distant from us. But I dare say we are bearing the cost, as farmers, reflected through the price."

"Farmers might withhold product in the run up to the promotion which the abattoir so badly needs in order to get a better price. So that's why they don't tell us. So we get no forward planning at all".

5.2.2.5 Compensation

Compensation for losses incurred by suppliers due to actions of supermarkets is discussed in the Code of Practice, particularly with regard to changes to supply chain procedures, changes to specifications and limited compensation for erroneous forecasts. Interviewees were asked to comment on whether supermarket customers compensated suppliers for any costs incurred due to their actions.

Views of Supplier Intermediaries

Some suppliers felt that they could discuss any relevant issues with their supermarket customers, others that they would be compensated eventually but that it would take a period of time. Some suppliers also noted that supermarkets would never financially compensate suppliers even if they admitted the costs had been incurred because of their negligence.

Table 28: Supplier Intermediary Quotes: Compensation

“The lorry got there on time but the men at the depot wanted to go home, or decided they didn’t want to unload it and they rejected it. It was down to the supermarket. I spoke to the Buyer about it, and he was really annoyed, not with us, but with his own organisation but we still got rejected, still had to re-label and we bore the cost.”

“I wouldn’t say we were compensated, but we raise the issue and they would work with us to get around it. So we just raise the issue and say, this has cost us, they don’t compensate us but we are still making the profit that we wanted.”

“No, they don’t create problems, they say!”

“Yes, they take full responsibility. You may get an answer six months later, but they do take responsibility”.

“But they don’t tend to make those sorts of mistakes. If they did and they saw that it was their mistake, I think they would.”

Views of Marketing Agents/Farmers

The key point that growers highlighted was that fact that although their costs had increased and quality had improved they were not compensated financially for this in the form of a higher price from the supermarkets.

Table 29: Market Agent/Farmer Quotes Compensation

“Every year without exception there’s things laid on growers, such as myself, to do. Audits, environmental policies, traceability, residual testing etc. It’s all paperwork. The cost gets passed on to us. We don’t get any more money than we were getting five or ten years ago. It’s the same job but vastly more complicated.”

5.2.2.6 Consumer Complaints

The Code of Practice notes that supermarkets should not seek unjustified payments for consumer complaints, particularly if the complaint is not attributable to the actions of the supplier.

Views of Supplier Intermediaries

Interviewees did identify costs associated with consumer complaints as an issue, particularly if the products had been delivered into the depots in good condition.

Table 30: Supplier Intermediary Quotes: Consumer Complaints

“If you get a complaint, they can also charge you for that”.

“The things I think are totally unfair are returns from stores because of customer complaints. In my opinion, the right thing to do, what we always did, is that you agree a deal where you pack the product to a quality standard that you have agreed and you deliver it to their depot. So at that point we conclude the deal. But in fact what happens is that they say no, the deal concludes much later and therefore wastage and customer complaints about damaged products are seen as our responsibility. Well, the product could be damaged from depot to store and even from the back of the store to the front. We see that as genuinely immoral and wrong in that we pack and deliver to that depot, and they sign it off as agreed, and we’ve done our part of the transaction.”

“I would say there are some stores that don’t handle the meat right, the depots, and we get the blame for any discolouration”.

“...we are not actually allowed to go and look at it, and that is odd, an odd approach, in the depots. We say, hang on, lets go and look at it, and see if we can sort it out for both of us, but you get the right stuff on the shelves, and we wont have a problem here, but oh no, no!”

Views of Marketing Agents/Farmers

Interviewees did not specifically highlight issues regarding unjustified payments for consumer complaints.

5.3 Code of Practice

All interviewees were asked to whether they had heard about the Code of Practice, and if so, what had been the effect on their relationships with their customers to date.

Views of Supplier Intermediaries

Some interviewees were aware of the existence of the Code of Practice but had mixed opinions as to its impact on relationships. One interviewee had been supplied with a copy through his trade association. Others had not heard of the Code of Practice.

Table 31: Supplier Intermediary Quotes: Code of Practice

<p><i>“ I thought they [Competition Commission] monitored them and came out and said everything was okay”.</i></p> <p><i>“Yes I have seen it...it’s conceptually naïve”</i></p> <p><i>“No. We haven’t been told about it.”</i></p> <p><i>“Yes.. but doesn’t actually mention the very thing that actually pisses everyone off in the industry – over-riders, retro’s, and things like that.”</i></p> <p><i>“I have heard of it, but I’m not sure I have experienced it.”</i></p> <p><i>“There’s not a lot to show for it. There is a piece of paper sitting in the filing cabinet, saying if we commit ourselves towards this in return for ... you can bring that out, but you would need fairly dire circumstances to bring it up, but it is not part of your everyday trading relationships”.</i></p> <p><i>“At the end of the day, supermarkets are the ones that have got the power and to a certain extent they should be regulated, so you can have some sort of redress against them if they are being unfair to you. But it would be very difficult to prove. It is not so gung ho as it used to be.”</i></p> <p><i>“I would like it to be high profile in the press....The thing that can be done is to make it high profile, as bad publicity is the biggest threat.”</i></p>
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Views of Marketing Agents/Farmers

The majority of interviewees had not heard of the Code of Practice, while those that had heard of it expressed their concern regarding its effectiveness.

Table 32: Marketing Agents/Farmer Quotes: Code of Practice

<p><i>“What is that? Never heard of it.”</i></p> <p><i>“Vaguely. I don’t think so, no.”</i></p> <p><i>“No, not heard of it”.</i></p> <p><i>“Yes, I have heard of it but not knowingly affected”.</i></p> <p><i>[Yes] “It’s had no bearing on us whatsoever. But I have heard from the Chairman of the [...] that it is a waste of time”.</i></p> <p><i>[Yes] “It is meaningless. There are so many ifs, and buts, and as long as and reasonable. Your perception of what is reasonable as a retailer compared to my perception is different. I mean, it’s got to be an awful lot more specific and it’s actually got to nail some of the practices that we know go on...so how can you have a Code of Conduct that is written by the people that are supposedly controlling without any input from the suppliers, and then expect it to be effective?”</i></p> <p><i>“No, they have no morals, no scruples, no codes and no cop outs. They are about as honest as []. And just about as rich!”</i></p>

5.4 Problems in the Supply Chain

All interviewees were asked for their opinions as to the problems in the supply chain. As a result, the responses were sector specific, but there were similarities between the two levels of supply, notably the exchange rate and the need for more information along the supply chain.

Views of Supplier Intermediaries

Responses ranged from the reluctance of farmers to commit to suppliers, the need to move away from commercial trading relationships, the requirement for sharing information, over-capacity and fragmentation, the exchange rate, and the need to work with the supermarkets. Buyer changes were also highlighted as a problem.

Table 33: Supplier Intermediary Quotes: Supply Chain Problems

<p><i>“There are too many growers....”</i></p> <p><i>“We have to commit to the supermarkets to get the business, but farmers will not commit to us...”</i></p> <p><i>“You feel sympathetic but sometimes you think, for God’s sake, wake up, and work with the supermarkets.”</i></p> <p><i>“The reality of the situation is that the corner shop has gone.”</i></p> <p><i>“A lack of trust between the different parties and a lack of understanding of supply chain needs from farmer to retailer.”</i></p> <p><i>“ If you talk to any horticultural team that supplies the supermarkets they would say that one of their key issues is the constant rotation of staff.”</i></p> <p><i>“ Buyer changes are probably the fundamental reason why it is so difficult to deal with the supermarkets, because you get the big change of team. All the work th at you’ve done with them in the previous two years just goes out of the window.”</i></p>

Views of Marketing Agents/Farmers

Problems in the supply chain were identified as monitoring of standards, the unequal distribution of costs and benefits, double standards, lack of small abattoirs, inconsistency of product, the exchange rate and not knowing the final customer.

Table 34: Marketing Agents/Farmers' Quotes: Supply Chain Problems.

"I think there is an awful lot of rubbish produced in our industry, and it has improved, but you can still go to the livestock auction on a Tuesday and find some utter crap. They obviously haven't got a clue what the customer wants, and I don't know why they are in it, probably because they get the same subsidy as I do as a quality producer. And that crap has to go somewhere and it really drags down the whole industry."

"In my opinion, the supermarkets ought to take a greater interest in what their abattoirs and suppliers are doing and then be ruthless in making sure that that actually happens."

"There must be the same standards world-wide."

"The thing that annoys me about the supermarkets is their double standards on environmental issues. They want me to protect the environment but they don't care about it. They want me to be ecologically friendly but then they go blasting up the motorway in a lorry that can take 26 tonnes but only takes 18 tonnes because of their bloody packaging. Well, that's not very efficient, and then they pontificate to me about the environment!"

"Certainly this year there's been a lack of co-ordination from the marketing organisations."

"They've not been getting their act together because the price isn't right and we're not selling enough at the right time."

"Supermarkets have enormous power which if used mistakenly or malevolently can destroy small people and big people alike."

"The grievance we have is that perhaps the market isn't working because someone in the supply chain is taking more margin than he actually probably should, if we all work together."

6. CONCLUSIONS AND RECOMENDATIONS

6.1 Key Conclusions

The semi-structured interviews provided invaluable insights in three important areas:

- The appropriateness of the conceptual framework, based on the core constructs of procedural and distributive justice
- The degree of heterogeneity in behaviour between sectors and between retailers
- The structure of relationships between retailers and their suppliers

The interview guide was designed to cover the specific elements within the two core constructs, as developed by Kumar (1996). In practice, this proved to be a very useful and comprehensive way of categorising the many different aspects of retail buyer behaviour. However, the interviews did highlight that the concept of distributive justice is much more difficult to measure, objectively, than that of procedural justice. This is not surprising given the commercial sensitivity of financial measures and the imperative of the outcome, which many would argue is, in the final analysis, more important than the process. Thus, we would recommend that in this particular part of the research into the terms of trade between supermarkets and their suppliers the emphasis is placed on the process rather than the outcome, particularly as this is largely consistent with the findings of the enquiry by the Competition Commission.

The interviews also provide clear evidence that the nature of trading relationships and retail buyer behaviour varies considerably across sectors and between retailers, which provides some justification for the RTTT study as a whole. Whilst it would be dangerous to generalise on the basis of such a small sample, the interviews provided some support for the contention that relationships tend to be more equitable and 'just', at least in terms of procedures, the less commoditised the product category. Thus, for example, liquid milk and block cheddar suppliers would tend to have more transactional, arm's length relationships in which the level of communication is minimal and joint activity is limited, compared to the top fruit sector, in which the seasonal nature of demand and variability of supply require greater transparency in trading relationships. Having said that, it was equally evident that this is not true in all

cases and varies considerably from one supplier to another just as much as it does between retailers. We feel this is encouraging as it will facilitate a distribution in the scores for retailer performance, however measured.

Finally, the interviews provided substantial evidence in support of our original assumption that, in general, supermarkets do not have direct relationships with primary producers. Instead supermarkets deal with a handful of key suppliers in each product area who are the key link between farmers and supermarkets. In our opinion, any methodology that aims to monitor supermarket trading relationships can only accurately do so using information gained from the organisations that deal directly with the multiple retailers. Therefore it is the recommendation of this research that only direct suppliers to supermarkets should be included in a survey designed to track comparative supermarket performance in their terms of trade with suppliers.

It should be noted that ways to include farmers in the survey have been examined. In particular we considered developing two questionnaires: one for direct suppliers to supermarkets who would comment on their retail customers and another for primary producers who would comment on the supplier intermediary. In theory, this would provide insights into the effect that supermarkets have on the whole supply chain, given that the way in which supermarkets deal with their immediate suppliers has a knock-on effect on the treatment of primary producers by intermediaries.

However in practice this approach is not feasible, as it requires organisations to identify themselves in the survey in order for responses from both questionnaires to be matched. Due to the commercially sensitive nature of the information being sought, firms must be allowed to remain completely anonymous otherwise they will not respond due to the fear of reprisals. This was highlighted in the Competition Commission report where a supplier supported its claim for anonymity by stating “it would be commercial suicide for any supplier to give a true and honest account of all aspects of relationships with retailers.”

6.2 Recommended Methodology

The questionnaire developed to monitor supermarket relationships with their suppliers is presented in Appendix B. The questions have been designed to measure the issues

raised in the Code of Practice and also to monitor practices that were highlighted as key concerns of suppliers during the semi structured interview process. To provide greater insight into supermarket relationships each question covers three different aspects. The first measures the level of agreement or disagreement with respect to the current situation in the relationship. The second measures the significance of the issue for the business, and the third measures the degree to which the situation has improved since the introduction of the Code of Practice in March 2002. This questionnaire is currently being piloted on suppliers who were interviewed and also on suppliers that were not interviewed, in order to ensure that the questionnaire is easy to understand and complete.

It is recommended that suppliers in additional product sectors should be included in the survey to give a more complete picture of supermarket trading relationships in commodity sectors. The proposed sectors are: fruit, vegetables, lamb, beef, pork, cheese and liquid milk. To ensure confidentiality suppliers are not required to identify in which sector they operate.

It is proposed that the managing director of each supplier will be asked to distribute questionnaires to relevant personnel within the organisation, as some companies will have separate account managers for each supermarket customer. In order to do so, the names and addresses of suppliers must be obtained. Three options have been identified:

1. Suppliers' names and addresses to be supplied to the research team by each retailer,
2. Membership database from sector Trade Associations,
3. Use of commercially available databases.

The first option is the preferred option, as this would provide an accurate mailing list and would ensure that each supplier is sent the correct number of questionnaires, namely one questionnaire for every supermarket customer. The second option is to contact the trade associations in each sector and ask for their support in sending out questionnaires to all their members. However, this method would involve contacting suppliers that are not suppliers to supermarkets, as it is unlikely that the trade

association will know exactly who their members supply. The third option is the least favoured, as this will involve extra cost and will offer inadequate coverage.

The results will be reported in aggregate across the combined categories to give each retailer an overall score, using SPSS (Statistical Package for the Social Sciences). The score will be used to rank them annually in terms of their overall performance in the integrity and fairness of their trading relationships, and compliance with the issues raised in the Code of Practice. The data will also be analysed to identify areas of relationships where individual retailers perform particularly well and can be used to highlight examples of best practice, in addition to highlighting areas for improvement. In this way, the results of the survey can draw attention to the issues that most urgently need to be addressed by each individual retailer.

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APPENDIX A

RACE TO THE TOP PROJECT: SEMI STRUCTURED INTERVIEW GUIDE

1. INTRODUCTION

- Introduce self, role, aims/objectives of Race to the Top Project, purpose of interview.
- Determine type of business, product mix, lines of communication – Supply Chain Model.
- Interviewee – position and responsibilities.

2. PROCEDURAL JUSTICE

2.1 Bilateral Communication

- How are the terms of supply arranged with your customers (e.g. *negotiation or imposition, meetings, tenders*) and how are their requirements or changes to requirements communicated to you? (*written terms, contracts, specifications*).
- Is there a two-way exchange of information, and if so, what are the procedures? (*open book, cost plus, direct IT links, meetings/visits*).
- (**Not for direct Suppliers to Supermarkets**) Do you know who your final customer is? Do you have any communication with them, and if so, how? (*direct or via intermediary?*)

2.2 Impartiality

- What is your opinion regarding your treatment by your customers compared to their other suppliers? (*e.g. category management, overseas suppliers, trading restrictions re other customers?*)

2.3 Functional Conflict Resolution

- What are the most common sources of disagreement between yourself and your customers?
- How are such disputes resolved? (*e.g. negotiation, firm but fair, co-operatively, or inflexibility, confrontational, bullying, threaten to delist?*)

2.4 Refutability

- Are you able to complain and appeal to a higher level of authority if you are unable to resolve a dispute with your usual customer contact? Who and How?
- (**Not for direct Suppliers to Supermarkets**) Can you appeal to the final customer and if so, how?

2.5 Explanation

- Does your immediate customer explain its policies and actions to you? If so, how? (*e.g. personal meetings/phone calls, fax, presentations to suppliers of customer strategy etc*).
- (**Not for direct Suppliers to Supermarkets**) Does your final customer explain its policies and actions to you, if so how? (*direct, or via intermediary?*)

2.6 Familiarity

- Do you feel that your immediate customer understands or is aware of the market conditions in which you operate?
- If **yes**, how do they achieve this; if **no** does this cause you problems?
- **(Not for direct Suppliers to Supermarkets)** What about your final customer?

2.7 Courtesy

- Is your relationship with your customer built on mutual respect? (*e.g. personal relationships*).

2.8 Commitment

- How confident are you regarding the long-term future of your relationship with your customer? (*replacing suppliers, degree of loyalty, length of contracts, investments in assets*).
- Have you experienced problems due to staff changes, and if so, what can be done to minimise such problems? (*buyers, management level*)

2.9 Solidarity

- What has been your immediate customers' reaction when you have experienced problems with supply?
- **(Not for direct Suppliers to Supermarkets)** What impact does your final customer have on that reaction?

3. **DISTRIBUTIVE JUSTICE**

- How is the price decided? (*negotiation, dictation, competitor comparisons, mutual benefit*)
- Do you feel you receive a fair price and fair payment terms (*period of payment*)? What do you think a fair price should cover?
- Have your immediate customers imposed changes that reduce their costs but increase your costs, and have the reasons for these costs been explained (*e.g. QA, audits, equipment*)?
- Do your immediate customers impose retrospective discounts, and if so, are the reasons explained?
- Who bears the costs and of promotions, and who benefits from them?
- Do your immediate customers compensate you for any costs incurred due to their actions, e.g. failure to give reasonable notice of any changes to orders or procedures?
- **(Not for direct Suppliers to Supermarkets)** How does your final customer influence the price, costs and payment terms, if so how, and what action do you think they could take to improve the situation?

4. CONCLUSION

- What effect has the Code of Conduct had on your relationship with your customers?
- *(Not for direct Suppliers to Supermarkets)* How does your relationship with your customers affect your suppliers?
- What do you think the problems are in the supply chain, and how do you think they can be improved?

APPENDIX B - RACE TO THE TOP

SURVEY OF SUPERMARKET TERMS OF TRADE WITH THEIR SUPPLIERS

This questionnaire is designed to establish the terms of trade between supermarkets and their suppliers in three broad commodity sectors – fruit & vegetables, meat and dairy products. The national account manager for each of your supermarket customers should complete the questionnaire. **It should require no more than fifteen minutes to complete**. No individuals, organisations or sectors are identifiable from the information provided and the results will be reported in aggregate across the combined categories.

SECTION 1 *This section is concerned with the nature of your business with the supermarkets*

1. Supermarket account for which you are personally responsible _____
2. What is the approximate value of this account (per annum)? O <£1m O £1-5m O £6-10m O £11-15m O £16-20m O >£20m
3. What is the approximate share of this account in your total turnover (per annum)? O <10% O 10-29% O 30-50% O > 50%
4. For approximately how many years have you been supplying this supermarket? O <1yr O 1-5yrs O >5yrs O Don't know
5. How many supermarkets does your company currently supply? O 1 O 2 O 3 O 4 O 5 O 6 O 7 O 8 O 9 O 10

SECTION 2 *This section is about the terms of trade with the supermarket for whose account you are responsible. Each question requires three answers: one indicating your level of agreement/disagreement with respect to the current situation; one indicating the significance of the issue for your business; and one indicating the degree to which you think the situation has improved since the introduction of the code of practice in March 2002. For each answer place a tick in the appropriate circle.*

	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know	Significance of this issue for your business?			Improvement since March 2002?	
						High	Med	Low	Yes	No
This retailer provides us with a clear explanation of its strategy as it relates to our product(s)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer has a good understanding of the market conditions in which we operate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We have a mutually agreed business plan with this retailer, to which we both comply	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
There is a lack of continuity in our trading relationship with this retailer due to the high turnover of buyers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer measures our performance using objective measures of quality and service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer provides us with information to help us improve our performance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer is receptive to our ideas on improving the value proposition to their consumers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer does not use confidential information to our detriment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer expects us to undertake market research on their behalf, at our expense	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Demand forecasts for our product(s) in this retailer's stores are accurate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Orders for our product(s) are determined on the basis of collaborative demand forecasts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know	Significance of this issue for your business?			Improvement since March 2002?	
						High	Med	Low	Yes	No
We have access to EPOS data for our product(s) free of charge	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We have regular discussions with this retailer to help us plan production and delivery schedules	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer expects us to develop new product variants that are exclusive to them, at our expense	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer shares our ideas for new product variants with our competitors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer takes an active role in the development of new products when invited	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer consults us on the planning of Promotional campaigns	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sales forecasts relating to promotional campaigns with this retailer are subject to excessive margins of error	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We collaborate in forecasting sales relating to promotional campaigns with this retailer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Promotional campaigns with this retailer are always executed as planned at store level	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer shares in the costs associated with promotional campaigns	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We share the benefits that accrue from promotional campaigns with this retailer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The terms of supply for this retailer are subject to negotiation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The terms of supply for this retailer change frequently	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer gives us adequate advance warning of changes to the terms of supply	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We receive adequate explanation for changes to the terms of supply with this retailer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer threatens us with de-listing in order to obtain more favourable terms of supply	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We are required to tender for all or part of our business with this retailer (<i>if you disagree please skip the next two questions</i>)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The tendering process used by this retailer is transparent	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The tendering process used by this retailer is impartial	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
When disputes arise with this retailer they are resolved co-operatively by negotiation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
When problems arise in the supply chain this retailer works with us to help find a solution	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know	Significance of this issue for your business?			Improvement since March 2002?	
						High	Med	Low	Yes	No
This retailer generally treats our staff with courtesy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
When disputes arise with this retailer they are resolved co-operatively by negotiation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
When problems arise in the supply chain this retailer works with us to help find a solution	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
When problems arise in the supply chain this retailer makes it our responsibility to resolve them, irrespective of the cause	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If we were unable to solve a problem with the retail buyer there are other people within the retail organisation with whom we could discuss the problem	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We would be unlikely to involve other people to resolve a dispute for fear of commercial reprisals from the buyer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer considers our interests when making decisions that affect us	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer makes every effort to ensure that the prices they pay provide us with an adequate return on our investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The prices we receive for our product(s) from this retailer are determined by global market forces	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer uses threats of de-listing or reduced volume to secure lower prices	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We are obliged to pay overrides to this retailer (lump sum payments based on past turnover)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer deducts charges for customer complaints and/or waste with respect to our product(s), without explanation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We are obliged to use packaging suppliers designated by this retailer irrespective of cost	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We are obliged to use hauliers designated by this retailer irrespective of cost	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This retailer charges us for the cost of any problems related to the quality or delivery of our product(s) right up to the point of sale	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If cost savings are identified in the supply chain this retailer is prepared to share the benefit of any savings with us	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

SECTION 3 *In this final section we would like you to highlight the best examples of good and bad practice by this retailer.*

This retailer is particularly good when it comes to _____

This retailer is particularly bad when it comes to _____

Thank you for finding the time to complete this questionnaire. Please return it in the pre-paid envelope supplied.