Executive Summary of Workpackage 5

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INTRODUCTION

The WP5 report includes five separate country sections: Finland, Germany, Ireland, Poland, Spain and the UK (the country sections are presented in alphabetical order). In this chapter, a short summary of the country-specific research issues as well as the empirical data is given.

The Finnish country section concentrates on three specific issues, namely the role of trust, communication and commitment in developing, maintaining and enhancing business relationships. The research issues are approached from the viewpoint of processors. The empirical data for the section was collected through 25 face-to-face interviews with business owners or managers representing the pig meat-to-sausage and cereal-to-rye bread chains.

The German country section focuses on the role of personal bonds, communication quality and commercial rewards on the business relationships. These issues are examined in the context of different stages of the food chain (farmer-processor, processor-processor and processor-retailer). The empirical data is based on the face-to-face and phone interviews of 29 food businesses, operating in the three chains, namely wheat-to-bread, swine-to-sausage and barley-to-beer chains. The interviewed businesses represent the three stages of food chain.

The Irish country section seeks to obtain a richer understanding in relation to communication and economic relationships in the beef and pigmeat chains. The section focuses on clarifying the meaning and nature of formal and non-formal agreements, institutional and individual trust and communication content, quality and ICT from the viewpoint of producers and processors. The empirical data was collected through phone and face-to-face interviews from 20 representatives.

The Polish country section examines the phenomena of distrust between the business partners, the impact of middlemen for creating sustainable business relations and communication, as well as the role and influence of quality pressures in business relationships. The empirical data was gathered by interviewing the businesses as well as specialists representing the three levels of stakeholders (farmers, processors and retailers) in the pig-to-ham and cattle-to-beef chains. Altogether 19 interviews were conducted.

The Spanish country section concentrates on three specific issues, namely aspects related to the usual relationships with suppliers, critical entry and rejection conditions of suppliers and policy issues and norms implementation, in bread and cured sausage chains. The research issues are approached from the viewpoint of large retailers. The empirical data was collected through 18 face-to-face interviews with open semi-structured questions. The interviewees represented business managers from six national or regional distribution chains.

The UK/Scotland country section has taken the form of two case studies in the beef and barley to beer chains. The cases exhibit strong relationships and they also demonstrate clear supply chain relationships, communication features and innovations, good practices and potential for discernible benefit creation for all parties. The empirical data of the section is based on the face-to-face and telephone interviews of 19 key persons and companies.

Although the research topics were individually selected by each research partner, there appear, however, some overlapping themes. The summary findings are presented in the tables 3 to 8. The key findings arising from the country sections are:

- Trust (mistrust) in business-to-business relationships,
- Communication (quality, frequency and practices) in the business relationships,
- Commitment and satisfaction in the relationships
- ICT (usage and potentiality)
- Relationship types and quality

FINLAND

Two qualitative case studies were conducted for Finland. They focused on the pig meat-to-sausage chain and the cereal-to-rye bread chain. Three important issues influencing the business relations in the food chains were brought into more detailed analysis, namely trust, commitment and communication.

Information was collected through face-to-face interviews with business owners or managers. The survey focused on processors due to their special role in the middle of the food chain between primary production and retailers. The total number of interviews was 25, of which 14 businesses were from the cereal-to-rye bread chain and the remaining 11 from the pig meat-to-sausage chain. The size of the interviewed businesses varied considerably ranging from those employing only two people to those with several thousands of employees.

Trust was perceived as a continual process developing through business partners' common history and experiences. Although the emergence and maintenance of trust were often strongly related to the integrity, goodwill and competence of a business partner, this study indicated some essential organizational and product-related preconditions for trust as well. At the organizational level, reputation, certificates and the size of a business were perceived as antecedents of trust, while brand image and high quality were the two most important things to contribute trust from the viewpoint of a product. Despite the ever increasing competition in the food market, competition was not commonly seen as a threat to trustful business relations. The centralization of the retail sector was, however, thought to undermine the role of trust in business relations, especially from the viewpoint of small businesses. In many cases trust was discussed by using rather calculative terms emphasising the economic benefits of trust and threats of distrust. Furthermore, the written contracts were used to strengthen the trust between the business partners, and not regarded as a substitute of it.

Commitment in business relations was strongly related to the idea of continuance, economic satisfaction towards the present customers and unwillingness to make any major changes in the clientele. Commitment was perceived mainly as a positive phenomenon with desirable consequences, like better predictability in business decisions and common business planning. In some cases, however, commitment to a certain business partner, especially in highly integrated chains, was regarded to include some threatening elements as it was thought to limit the possibilities and autonomy of a business. Although the food businesses considered themselves to be rather committed to their customers, surprisingly many of them estimated the customers' level of commitment to be rather poor. The small market with limited number of operators was thought to force processors, especially the middle-sized and large ones, to invest in commitment, since the customers are hard to replace due to the low number of potential new customers.

According to this study, it is mainly the customer who dictates the way of **communication** in a business relationship. E-mail, the (mobile) phone and the personal contacts are the most important and widely used means of communication nowadays, regardless of the size of the business. E-mail is appreciated because of its easiness and flexibility, while the personal contacts enable more intensive interaction with business partners. The means of communication were evidently related to the nature of information shared. Thus, the operative information was usually communicated by e-mail and the phone, while more strategic information was considered to require personal meetings. Many of the interviewed businesses stated, however, that they do not get enough information from their customers concerning the consumers' views on their current products or cues for the development of new products. Furthermore, communication was seldom based on any strategic plans. The research indicates, however, that there is a positive connection between the frequency of communication and the quality of the relationship, i.e. the better the relationship with the customer is, the better and more frequent is the communication. Surprisingly, many interviewees thought that the length of the relationship does not have any particular meaning to openness of communication. The food businesses saw themselves as senders of information more likely than receivers and thought also that customers, especially the retailers, have the control over the information flows. Furthermore, the results seem to indicate that the exchange of strategic information between food processors and their customers is somewhat dependent on the size of a processor. This means that all the large businesses were rather satisfied with the depth of the information exchange while the smaller businesses wished that the customers would share more strategic information with them.

The development of electronic communication means is seen to have an important impact on the increase in the amount of information provided. The level of adoption of ICT in communication is also rather high in both Finnish food chains investigated. The Finnish WP5 report shows that this has increased the efficiency and effectiveness of the food chains by making the operative communication between the business partners easier and more flexible.

GERMANY

The case studies in Germany were based on a sample of three German agri-food chains: wheat-to-bread, swine-to-sausage and barley-to-beer and involved 29 interviews. In theses food chains, the relationships on the following single chain stages were investigated: farmer – processor, processor – processor and processor – retailer. The following topics were addressed: first, the influence of interpersonal communication and personal trust on commercial reward at each food chain stage was examined. Second, the role of commercial reward and previous length of relationship on the termination of relationships and therefore, on their sustainability, was explored.

The data, which was collected using face-to-face and phone interviews with the business representatives, was compiled by enterprise/company case studies conducted between August and October 2007. The respondents were mainly enterprises located in Saxony-Anhalt or enterprises which are in business relationships with them. The key informants were mainly owners or executives of their businesses.

The analysis revealed that some aspects of relationships' functioning are common for all three chains and businesses operating on individual chain stages. The investigation shows that for buyers (upstream relationships) factors such as competitive price and quality and supply continuity are of significant relevance to start and continue to transact with a business partner. For suppliers (downstream relationships), the price and the trust in that the bill will be paid is essential to conduct business. These factors are crucial for achieving commercial reward. When these conditions are fulfilled the relationships will be terminated very rarely in German food chains.

Two types of trust influencing relationships in the three chains could be distinguished. The first one is "personal trust". This type of trust arises when the business partners like each other personally. The existence of this type of trust depends especially on quality of interpersonal communication between the business representatives. Personal trust plays the most important role at the beginning of a relationship as it allows trusting the partner even though there is no past cooperation experience. Moreover, personal trust plays an important role for choosing a new supplier when more suppliers are offering equal/similar price-performance ratio. Especially small businesses stated that they will not cooperate with the business in case they do not like the representative personally. On the other hand, personal antipathy (the opposite of personal trust) is seldom the reason for termination of sustainable, long lasting business relationships in Germany. The reason for continuation in such a case is the second type of trust, trust based on positive collaboration history. This type of trust increases if partners' objectives were satisfied in the past. To achieve this objective, inter-organisational communication plays an important role. This holds especially in relationships consultation regarding product quality is required, exchange of information assuring traceability and/or negotiations of price and supply conditions.

IRELAND

The qualitative study in Ireland food chains, which aimed to further develop the research carried out in WP4, were focused on the farmer-processor relationship within the beef and pigmeat supply chains. The topics of the research were the nature of transactions, communication and trust in the farmer-processor relationship. The use of ICT in the communication process within both sectors was also examined.

In depth interviews using a semi-structured interview schedule were administered to a purposive sample. Procurement managers in six beef processing factories and five pig processing factories were interviewed, as well as two beef farmers and two pig farmers. A further two advisors from the Teagasc beef extension services, one research officer and advisor from the Teagasc pig unit and one development officer in the organic sector were also interviewed.

Procurement managers in the beef sector source cattle directly from farmers or use a network of third-party agents who act on a commission basis to procure cattle. All of the beef factories surveyed use agents. Reliance on agents differs from factory to factory with between 50-80% of cattle sourced through agents. There is a tendency to use agents amongst small-scale farmers whereas larger farmers tend to deal directly with processors. Agents provide a range of services for farmers other that than the purchase of cattle. These include transporting cattle to the factories, purchasing unfinished cattle and providing advice on feed and on when to finish cattle. Several procurement managers monitor the supply of cattle available at both local and national level through database management. This facilitates process and financial planning. Beef farmers operate under a production model whereby cattle are sold to the factories a few times a year as they are fit for market.

Agents are not feature of the procurement process in the pig processing sector with farmers dealing directly with processors. The fact that pig production units generally are concentrated with a small number of relatively large-scale farmers is one reason for this. The business model for pig processing requires pig farmers to supply pigs on a weekly basis to the factory. A number of rationalisations in the sector have led to a decline in processing capacity and resulted in a change in the market environment prompting some commentators to suggest that it is a “buyers’ market”, with bargaining power concentrated in favour of the processor. As in the beef sector no formal contracts were reported to be in use but verbal agreements are used. It is estimated that up to 20% of pigs could be sourced under verbal agreements. These agreements provide loyalty bonuses and quality premiums for preferred suppliers and while not legally enforceable, economic sanctions may be imposed for non-compliance with these agreements.

Procurement managers and pig farmers speak to each other at least once a week whereas beef farmers who supply the factories directly generally communicate on a less frequent basis. Communication generally focuses on quality and price issues. A third party, Bord Bia through its quality assurance scheme, has a particularly important role to play in relation to communication on quality. Procurement managers communicate with their agents on a weekly basis. Face-to-face contact between farmers and processors seems to be declining with the shift of responsibility for quality assurance farm audits from processor to independent auditor. Traditionally processors used these audits as part of their communications strategy with farmers. The impact of the reduction in farm visits has yet to be seen but may be considerable given the belief among some processors that face-to-face contact is very important to maintaining and strengthening relationships with the farming community. Currently however, both farmers and processors appear to be satisfied with both the frequency and quality of the communication process.

Communications in both sectors are based on mobile phone and face-to-face contact. The use of mobile phones in both sectors is pervasive. All stakeholders believe mobile phones serve their needs and allow immediate response in a business that works under considerable time pressure. Some processors report that kill-out reports are available via email but not all farmers avail of such services. Email use is predicted to increase with younger farmer entrants to the sector and as processors increase the use of email to send kill-out reports and information regarding electronic payments to farmers. The use of information and communication technology (ICT) is higher among pig farmers than among beef farmers. The scale of operation and sophistication of the business model are thought to be the main drivers in the use of ICT in the pig sector.

Trust between farmer and processor is considered important by all stakeholders. Trust levels in both sectors are thought to have improved over the years however it is thought that levels of trust in the pig sector are considerably better than those in the beef sector. Factors that have led to improved trust levels in both sectors include length of business relationship, clarity in the communications process, personal bonds and transparency in grading and pricing. Trading on a weekly basis, and the resultant communication frequency between pig farmer and processor, and the absence of agents are believed to be factors influencing the higher trust levels in the pig sector. Farmers who use agents are thought to have less trust in processors. This may be because of the absence of a personal relationship with the processor. There is agreement that lack of trust in both sectors has a historical foundation and there remains a residual mistrust which may be a factor in influencing the low use of contracts in the sector. An interesting study finding highlighted a concern among farmers that some farmers are given preferential prices by some processors and this may be a source of mistrust among farmers.

Few respondents in both sectors believe there is a role for the various agencies or third parties in improving communications or trust and most thought that improved levels of trust could only be achieved by the farmer and processor together. One processor thought that the Teagasc-Dawn partnership model which sought to improve communication between farmer and processor, and is considered to be a successful programme, should be extended to include all processors.

The results provide additional depth in the understanding of the farmer-processor relationship in the Irish beef and pigmeat chains. While much seems to have been achieved in recent years to counter the levels of mistrust in both sectors, there appears to be some residual mistrust. Direct relationships between the farmer and the processor through their nominee, the procurement manager, have led to significant improvements in communications and trust. However a considerable number of beef farmers do not have this level of interaction with the processor because of the use of agents. While agents provide a useful service to both farmer and processor it appears that if processors wish to improve their image with these farmers they need to seek ways of reinforcing trust in the farmer-agent-processor relationship.

POLAND

Three issues were qualitatively studied in the Polish meat chains. These were: (i) the role of trust/distrust, (ii) the impact of a middleman, and (iii) and relevance of quality pressure on the type and sustainability of relationships between chain partners.

The information for the analysis was collected on the base of interviews and discussions with the representatives of farmers, processors and retailers. It is important to note that according to their opinions, all three aforementioned issues are quite important for relationships and communication within the Polish meat chain.

The results indicate the existence of distrust between chain partners. Though respondents did not directly declare it as concern, detailed studies on their opinions about general business relationships in the chain, as well as regarding their attitudes towards other chain stakeholders, lead to this conclusion. In addition, some procedures and behaviours, like unwillingness to share information or to enter into closer links with other chain stakeholders, pointing out the necessity to verify information received from partners, etc., show the lack of trust within the chain. Personal relations are considered important for better and more trustful relationships building. However, less then half of the respondents declared that good personal bonds exist in their business relationships. The results also indicated that formalisation of the B2B relationships does not eliminate the importance of personal links. Simultaneously trust is not replaced, but supplemented by more formal types of relationships like written contracts.

Economic relationships between business partners in the Polish meat chains are carried out under the condition of strong competition. Aggressive strategies of one business partner lower the level of trust and deteriorate the quality of business relationships. Among economic and cultural factors which determine trust are veracity, credibility, openness for compromise, and keeping established prices following the conditions of supply. Trust is also considered as a factor positively impacting on performance, mainly through increased sales and reduced costs.

Finally, the predictability of a partner is also thought important from the view point of an enterprise's own strategic planning and carrying out those plans based on bilaterally established parameters.

A **middleman** separates the main partners (farmers and processors or processors and retailers) and thus can hamper relationship building in Polish meat chains, although not all of the respondents shared that opinion. The dominating type of economic relationships – repeated market transactions with the same partner may have a different meaning in the Polish meat chains, since this partner is often a middleman. In these circumstances, good personal links between direct partners might not contribute to a better integration of the whole meat chain. It was noted that the lower the mobility of a partner in a chain, the more positive was the opinion about the role played by a middleman. The results indicate that the middleman is considered to be not only an important channel for the trade of products, but also for the flow of information. At the same time, most of the respondents point out that the middleman is not a reliable source of knowledge about markets and market parameters. Distrust towards a middleman is often the main reason for the overall low level of trust in the chain. It is also demonstrated by insufficient loyalty in relations: supplier-middleman-buyer.

Increasing quality requirements become a more and more important reason for tightening and formalisation of links between all chain partners. Good quality can be assured only when it is supported at all levels of the chain. A stronger quality approach changes organisation and management patterns. Improvement in quality, influences the choice of a relationship type with preferences changing to closer and more formal links. Each chain stage gains different kinds of advantages as an effect of quality improvement. Thus, for a farmer, it is first of all an increase in sales at higher price; for the meat processor, an opportunity to capture competitive advantage on the market and to raise prices; and for a retailer, especially the small-to-medium sized ones, better quality means stronger links with suppliers and bigger turnover due to a better response to consumer needs. Increasing quality requirements supports the performance of chain partners of the whole chain. Growing pressure to adjust to the quality standards also enhances communication within the chains.

SPAIN

The case studies in Spain were focused on understanding the relationships between food chain distributors and their suppliers in the bread and cured ham supply chains. The reason behind this choice is that the survey work in WP3 and WP4 in Spain dealt with small, mostly independent, distribution shops. However, it is widely accepted that food distribution chains exert a dominant power in the agro-food chains because of their size and their knowledge of markets. Therefore, the case study complements the information collected in previous workpackages.

Four food distribution chains (Alcampo, Carrefour, Galerias Primero and Sabeco) were selected for the study due to their significance in Zaragoza, the fifth largest town in Spain. All the selected distributors were dealing with local and national suppliers. Both, Zaragoza and the selected shops, were representative of the situation in the rest of the country. 18 interviews were undertaken following a semi-structured questionnaire. For each food chain or establishment 3 interviews of approximately half an hour, were conducted. They were with the general manager, with the person responsible of the bread section and with the person responsible of the cured ham section.

The semi-structured questionnaire consisted of a total of 8 questions, differentiated in three blocks. The first block of 4 questions dealt with aspects related to the usual suppliers' relationships that could affect their economic and communication performance. The topics of the first 4 questions were as follows. The first question, which enquired about the use of written contracts, was selected to contrast their behaviour with other distributors of not so large size that were included in the quantitative survey (see WP3 and WP4). The second question searched for the characteristics of the ideal supplier. An extra effort was required to characterise those replies by order of significance. The third question tried to obtain information about the use of communication means, and the reasons for the use of each communication mean. The fourth question dealt with the process of solving conflicts, as it is a common presumption that there exist tensions and conflicts between suppliers and chain food distributors.

The second block of 2 questions dealt with the critical entry and rejection conditions that suppliers have to face. Again the economic and communication issues were kept in mind. As in the previous survey it was found that relationships were quite stable, critical breaking points were of particular interest. Finally, the third block, with 2 questions, was concerned with policy issues and norms implementation.

Results show that contracting is a compulsory norm between food chains and their suppliers. The terms of the contracts are under constant evaluation by checking the product quality conditions and the specified characteristics. Therefore, trust is not an important issue as compliance to the contractual norms is compulsory. Prices are not considered as the most important factor to choose a supplier. Quality and services are the elements that distinguish the good from the bad suppliers. Both terms (quality and services) have a wide range of interpretations which force suppliers to accomplish distributors' needs.

Daily delivery requests are performed using written means, either by e-mail or fax. Telephone is mostly used to solve problems or urgencies. Personal contacts are basically a way to get in touch with local providers to reinforce communication and to create new business. Managers mention that there are not many conflicts and there are various reasonable ways to solve them. Dealing with local suppliers is of different nature than dealing with national suppliers. In the first case, communication between suppliers and distributors goes from oral to written forms if problems become more important whereas, in the second case, it is just the opposite. Personal contacts are left as the last resort.

Novelty seems to be the most important requirement to accept a new provider and it applies to a product or a service. This holds for local and national providers alike. Food distributors want to continue their relationships with their providers and try to solve upcoming problems. However if, for example, a product does not sell well the relationship with the supplier will be terminated. Food distributors do not expect much involvement from the public administration, to favour relationships between them and their providers. However, rules enacted should be properly enforced. In addition, the enhancement of promotions and information exchange would be welcomed.

It is interesting that food distribution managers think that greater business concentration could help to ameliorate relationships between food distributors and their providers. Somehow they recognise that there is not a power balance between them and agro-food firms, which are at present too small. Altogether, distribution managers agree on the need of more stable relationships but conditional to the fact that consumers have the last word (i.e., product sales). Thus, a final decision to reject a provider or product is made depending on the product sales.

It is commonly accepted that businesses in the food industry have strained relationships with food distribution chains. This could be the outcome of many competitive forces influencing structural changes, such as the fact that agro-food industries used to be the most powerful part of the chain and now this role is now played by the distribution chains. While this conflicts should be solved among business partners policy could help to create a better environment.

THE UK/SCOTLAND

The WP4 research in the UK highlighted the importance of spot market and repeat transaction in the beef chain, and repeat transactions and more formal contractual relationships in the barley to beer chain. Moreover, it was found that personal bonds were important in helping the sustainability of relationships and that in both chains relationships were aided by the quality of communication between participants and by the existence of commercial reward for those involved. Therefore, these were the issues explored in the case studies carried out in the UK.

The UK research for WP5 took the form of two case studies. Although presenting different issues, they were selected because they appeared to exhibit very strong relationship and communication features, which reflected the key findings of WP4 with respect to communication quality and the potential for benefit creation for all parties. Moreover, both cases may be regarded as demonstrating clear supply chain relationship and communication innovation and good practice.

The first case - that of **Tesco, McIntosh Donald and Qboxanalysis** - is set in the Scottish beef sector with its predominance of spot trading and repeat transactions between chain participants. It involves a relatively high-powered communication system between a beef processor and its farmer suppliers. This system, known as Qboxanalysis, is provided with the assistance of the major retailer Tesco, and provides comparative cattle performance information back to the farmer. This information has the potential to assist in improving on-farm production performance and carcase quality across the processor's cattle intake. Qboxanalysis is provided to farmer members of the McIntosh Donald Beef Producer Club, which itself serves to improve communications between beef producers, their slaughterer/processor and its major retail customer.

The second case - that of **Camgrain, Greencore Malt and Greene King** brewery - is set in the English malting barley, malting and brewing sector, in which repeated transactions and contractual supply relationships are commonplace. It involves a large-scale, cereal producer co-operative with centralised, modern grain storage and handling facilities. With the assistance of specialist malting barley marketing expertise, strong personal bonds and high professional competence, the chain serves to generate considerable commercial benefits for all concerned.

The case studies are quite different in that they involve different sectors, differing degrees of processing, contrasting patterns of transactional relationships, and different parts of the chains making investments. Moreover, different collaboration structures and arrangements are evident. It is also important to note that the cases share some common features, which shed light on factors that are of importance in developing sustainable economic relationships and communication within agri-food supply chains.

The following conclusions were extracted by comparing both case studies: First, the businesses concerned have common, shared objectives and interests, or as in the beef case, the objectives of farmers and others in the chain are highly compatible.

Second, collaboration is evident. In the beef case this occurs through an informal collaborative structure - the beef producer club, which aids both vertical and horizontal information sharing, and in the barley to beer case through formal horizontal integration in the guise of a farmer co-operative, which is complemented by formalised contractual relationships elsewhere in the chain.

Third, the businesses are important to each other, in terms of being valuable suppliers or customers, and efforts have been made to understand each other's business and what is important to them (e.g. technical requirements, health and safety issues, good practice, etc.).

Fourth, investment has been made within each chain to help create value. In the beef case it is the processor and retailer who have made the initial investment and farmers may need to invest in cattle production system changes to improve performance. Whereas in the barley to beer chain, it is the farmers and their cooperative who have been major investors, although others in the chain have also made investments.

Fifth, a high level of professional / technical competence is evident amongst the participants and this is readily acknowledged by others in the chain. Considerable levels of trust also accompany this acknowledgement of competence.

Sixth, good quality communication is evident in each chain, both in relation to technical and logistical issues, as well as creating awareness about customer requirements. Thus the communication is serving both the efficient operation of the chains and their effectiveness; i.e. helping the respective businesses meet their objectives. A further aspect that was apparent in the barley to beer case is the capacity to resolve conflict in an expeditious manner, reinforcing the importance of both the quality of the communication and the personal bonds.

Finally, in connection with chain efficiency and effectiveness, it is apparent that both cases present a range of actual and potential commercial benefits for those involved. In some cases these are immediately apparent and of direct financial consequence, e.g. better prices or returns, in others they are longer term in nature, such as enabling a change to a more profitable farming system or concentration on core activities.