



**VALUE CO-CREATION BETWEEN SME SUPPLIERS AND LARGE  
CUSTOMERS IN THE UK ORGANIC FOOD SECTOR**

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## **Abstract**

### **Value Co-Creation between SME Suppliers and Large Customers in the UK**

#### **Organic Food Sector**

**Ngugi Isaac Komo**

As the distinction in roles of production by suppliers and consumption by customers become blurred, concomitantly there is increasing interest to understand the process of how value is co-created through interaction in business relationships. In this connection and in the context of larger customers and small and medium-sized suppliers' (SMEs) dyad, this study identifies the areas of collaboration, how value is co-created and the respective co-created value. This is based on five in-depth case studies (business relationships) drawn from the UK organic food sector. Theoretically, the investigation is grounded on the Industrial Marketing and Purchasing (IMP) group's interaction approach, given its assumptions. The larger customers and SME suppliers were found to collaborate in a wide range of areas including innovation, corporate social responsibility, inter-linked technical systems, planning, co-evaluation and interactive learning. Considering the value co-creation practices as representing how value is co-created, this occurred respectively in the form of, for example: exchanging ideas on product development; facilitating and sponsoring school children to visit farms; joint technical systems; consultations in the development of business plans; co-evaluating processes and staff; and internships. The collaboration led to co-creation of monetary and non-monetary values such as revenue and reputation respectively. Different collaborative areas led to the co-creation of various types of value and this underscores the potential of larger customer-SME supplier relationships and also has implications in resource allocation. The identified value co-creation phenomenon reveals the need to extend the IMP interaction approach by entrenching the concept of value co-creation such that the framework not only shows exchange but also value co-creation.

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## **Dedication**

With love and admiration,  
I dedicate this thesis to my parents.

*“To God be the glory great things he has done”*

## Declaration

I declare that no material contained in the thesis has been used in any other submission for an academic award.

Sign .....

Date .....

Ngugi Isaac Komo

## Acronyms and Abbreviations

ARA	Activities, resources, and actor bonds
B2B	Business-to-business
B2C	Business-to-customer
BSE	Bovine Spongiform Encephalopathy
CRM	Customer relationship management
CSR	Corporate social responsibility
DART	Dialogue, access, risk assessment, and transparency
EDI	Electronic data interchange
EU	European Union
EQM	Experience quality management
FAO	Food Agriculture Organization
FDF	Food and Drink Federation
FDIN	Food and drink innovation network
GCSE	General Certificate of Secondary Education
G-D	Goods dominant
GHG	Greenhouse gases
GM(O)	Genetically modified (organisms)
ICT	Information and communication technologies
IMP	Industrial Marketing and Purchasing
IPM	Integrated pest management
IS	International sourcing
IT	Information technology
IVR	Interactive voice response
JIT	Just-in-time

HACCP	Hazard analysis critical control point
MRLs	Maximum Residue Levels
NGOs	Non-governmental organisations
OWF	Organic World Foundation
POS	Point of sale
R&D	Research and development
RM	Ringgit Malaysia
SBA	Small business administration
S-D	Service dominant
SME	Small and medium-sized enterprise
SSI	Special Scientific Interest
TNS	Taylor Nelson Sofres
TQM	Total quality management
UK	United Kingdom
USA	United States of America
WWF	World Wide Fund for Nature

# **Chapter 1. Introduction**

## **1.1 Overview of the chapter**

This chapter introduces this study. It presents the background to the study, the research problem, objectives, contribution and also describes the structure of the thesis. As the study focuses on relationships between larger customers and their small and medium-sized enterprise (SME) suppliers, the chapter discusses the significance of the relationships. Recent market changes in the food and drink industry are discussed. Given 'organic' rather than 'general food and drink' as the industry of study, the chapter also presents an overview of the organic sector including both the global and the UK scenario. The focus is largely on issues related to marketing though production is also discussed to some extent. Lastly, the structure of the thesis is described.

## **1.2 Background**

The subject of inter-firm relationships and its relevance to value creation particularly in the context of a customer-supplier dyad has increasingly received attention. Both academic literature and business practice are increasingly focusing on how value is created in customer-supplier relationships (Cannon and Homburg 2001). At the same time, the interest in value creation is shifting from creation of value autonomously to co-creation of value whereby at least two parties cooperate together in the creation of value. Researchers, particularly in the Industrial Marketing and Purchasing (IMP) group, have already started to explore the phenomenon of value co-creation but this is still in its infancy (Forsstrom 2005a; Lefaix-Durand 2008). The distinction in roles of production by suppliers and consumption by customers and consumers is blurred as both parties

increasingly become active in creating value collaboratively (Prahalad and Ramaswamy 2004b). Accordingly, the exchange process is supplanted by co-creation.

In consistence with inter-firm relationships in a modern economy, companies are trying to re-invent their businesses and maintain their competitive advantage through collaboration (Bititci et al. 2004; Dyer and Singh 1998). Accordingly, Forsström (2005a p.9) indicates that increasingly, business is about working with the right partner, being able to utilize each other's resources, learning and innovating together. Considering heterogeneity in resources across firms, it makes sense to interact in order to create something together, provided that the companies can make use of each other's resources in a meaningful way (Forsström 2005a p.72). In this regard, the potential for value co-creation exists when there is interdependence – each party needs each other's resources and hence would prefer to collaborate rather than act independently. Not surprisingly, collaborative practices such as supply chains, value chains, extended enterprises, virtual enterprises and clusters are becoming commonplace (Bititci et al. 2004). Likewise, collaborative trends have emerged in various industries under names such as efficient consumer response, quick response, supply chain management and just-in-time (Cannon and Homburg 2001).

With reference to customer-supplier relationships, customers are increasingly seeking closer, more collaborative relationships with suppliers based on a high level of coordination, participation in joint programs, and close communication links (Day 1994). Business relationships are particularly important considering that the world is far too complex for individual firms to be able to do all things and therefore they need partners (Kothandaraman and Wilson 2001). Firms want to replace the adversarial model, which assumes that advantages are gained through cutting input costs, with a cooperative model that seeks advantage through total quality improvement and reduced time to market (Day

1994). There is a tendency to shift from a firm-centric approach to designing products, developing production processes, crafting marketing messages and controlling sales channels (Prahalad and Ramaswamy 2004a).

Business relationships enhance the development and maintenance of mutually advantageous relationships between two or more firms in a supply chain and use of their capability and resources to deliver the maximum added value for the ultimate customer (Doole and Lowe 2008 p.338). In this regard, both the supplier and the customer have something to gain from the relationship. The increasing adoption of relationship orientation to marketing is largely driven by factors such as: (i) rapid technological advancements, especially in information technology; (ii) the adoption of total quality programs by companies; (iii) the growth of the service economy; (iv) organizational development processes leading to empowerment of individuals and teams; and (v) increase in competitive intensity leading to concern for customer retention (Sheth and Parvatiyar 1995). It is also driven by the changing roles of the customer from isolated to connected, from unaware to informed and from passive to active. Furthermore, with the emergence of communities of connected/networked, empowered and active customers, the traditional firm-centric view of the world is being challenged in favour of a more collaborative view (Prahalad and Ramaswamy 2004). The development of business relationships points to a significant shift in the axioms of marketing from competition and conflict, to mutual cooperation and from choice independence, to mutual interdependence (Sheth and Parvatiyar 1995).

Most studies of business relationships have however tended to focus on the process of relationship development and maintenance (e.g. Dwyer et al. 1987; Narayandas and Rangan 2004; Spekman and Carraway 2005) and much of industrial literature is based on

research undertaken in large companies (Kale et al. 2002; Kale et al. 2000 ; Matlay 2002). Little has been done on the different forms of customer-supplier collaborations and how value is co-created in the relationships as opposed to creation by companies independently. With respect to the food industry in the UK, Duffy and Fearne (2004) note that although moves towards more co-operative customer-supplier relationships are evident in the industry, research that has investigated these relationships and has examined their outcomes, is limited. It is in an effort to fill these lacunae that this thesis is developed. The thesis is based on in-depth case studies of larger customer-SME suppliers' relationships drawn from the organic food and drink industry in the UK.

### **1.3 Research rationale**

As the distinction in roles of production by suppliers and consumption by customers become blurred (Sheth and Parvatiyar 1995; Prahalad and Ramaswamy 2004b; Ford et al. 2006), concomitantly there is increasing interest in understanding the process of how value is created through interaction in business relationships (Forsström 2005a; Ulaga and Eggert 2006). In business relationships, the interactions occur largely at areas of collaboration and these essentially are areas of collective action between customers and their suppliers. The collaboration is contrary to the mindset of maximizing profit through opportunistic behaviour and autonomy. In the context of joint creation of value by customers and suppliers in relationships, the exchange process is superseded by co-creation. The increasingly competitive, dynamic, interconnected and informed world is creating opportunities for new ways of co-creating value and it is essential that these are identified and understood.

Understanding the dynamics of value co-creation is particularly important for managers considering what business opportunities they are likely to lose if they may not understand

how value is co-created in business relationships. Such information is also relevant to the academic fraternity especially those interested in understanding the emerging new ways in which value is co-created and thus a new definition of value.

#### **1.4 Literature gaps**

In general, there is a limited understanding of how two parties (customer and supplier) in a business relationship jointly co-create value. Although studies have previously been done on value in a business context, these studies tend to assume one party creating value for the other thereby taking one perspective such as the customer's (Ulaga and Eggert 2006) or the supplier's (Walter et al. 2001) and hence assuming value creation rather than value co-creation. Others are not empirical (Bititci et al. 2004; Prahalad and Ramaswamy 2004a; Ulaga 2001; Vargo et al. 2008) in their analysis of how cooperative interactions in a relationship yield value.

Likewise, studies that have attempted to identify the collaborative areas fail to identify the associated value and how it is co-created. Other studies have used nomothetic research design (Duffy and Fearne 2004; Eng 2005a; Eng 2007) which while useful for instance in the discovery of correlations, tends not to emphasize the process of interplay between contextual and organizational/dyad characteristics. The extant literature therefore suggests relatively little about how customers engage with suppliers in the co-creation of value. The few empirical studies on value co-creation have been in sectors such as shipping (e.g. Forsström 2005a) and forestry (Lefaix-Durand 2008), although it would be important to understand how the co-creation is taking place across other industries.

Unlike in the past where firms tended to create value autonomously, increasingly firms are creating value jointly. However it is not well understood how firms, particularly

customers and suppliers, are co-creating value. Early empirical attempts to investigate value co-creation (Forsström 2005a) have assumed a single case study strategy and in different industries from food and drink (shipping). Adoption of multiple case studies in investigating value co-creation and in a different sector such as organic food and drink would likely generate new insights. The organic sector would likely provide a rich case for studying this phenomenon considering its unique characteristics. This enquiry hopes to build on the extant knowledge on how two parties, a customer and a supplier, co-create value.

There is no study that has been found which has investigated the co-creation of value in customer-supplier relationships in the organic food and drink sector. This sector would be interesting considering its unique characteristics including added value due to its method of production. The process of producing organic food and drink, from raw material to final products, is guided by set minimum requirements and is based on four principles, namely health, ecology, fairness and care (IFOAM 2008a). Agricultural products are also generally perishable and seasonal unlike most industrial products. These minimum requirements or legislation forces are all actors in the organic food chain, to act accordingly and together manage the risks involved in maintaining the status of organics (Kottila and Ronni 2008) as well as to increase benefits or rather enhance value co-creation.

In the organic food and drink industry, markets are increasingly dynamic as consumers increasingly become more health-conscious and concerned about the environment and the welfare of animals. A number of problems have been identified as hindering the growth of the organic market and these would probably require collaborative effort in overcoming them. They include (Kottila and Ronni 2008): poor availability and high

product prices; the imbalance between supply and demand; high operating costs; lack of information flow; and poor supply reliability. In this regard, it would be helpful to understand the collaborative areas of the relationship between organic SME suppliers and their larger customers as well as its perceived value. This involves understanding the aspects that the parties in the relationship perceive to be of value, and which are created jointly through interaction in a business context.

The importance of understanding how value is co-created in the customer-supplier dyad cannot be underrated. Some authors have frankly expressed the need to understand how interdependence in the customer-supplier dyad can be seen as a resource that can be managed and exploited for value co-creation (e.g. Forsström 2005a). Others have generally pointed to the need for more work in the area of co-creation and relationships (Payne et al. 2009). Comparably, the need for a sound understanding of the dimensions that drive value creation in customer-supplier relationships has also been expressed (Ulaga and Eggert 2006). The very limited extent of theories and empirical findings of relationship value has also been acknowledged (Ravald and Gronroos 1996). Investigating value co-creation in customer-supplier relationships in the organic food sector would contribute to filling these gaps.

In summary, previous studies have tended to assume value creation rather than value co-creation. Although there are some that have examined collaboration and others have examined value in business relationships, they tended not to clearly link the areas of collaboration to the respective co-created value. Furthermore, the organic industry which has its own unique characteristics has been neglected in the investigations of value co-creation in relationships, probably because of its low importance in the past. However, with its continuing growth now becoming substantial, an understanding of how its

suppliers in relationships with their customers co-create value becomes essential. This leads to the aim and objectives of this thesis.

## **1.5 Aim and objectives**

The motivation to study value co-creation in the organic food and drink industry is that there is a dearth of information in this area. Furthermore, the organic sector is increasing in importance yet has been neglected in the research into how the organic customers and suppliers co-create value. The overall purpose of the research is to explore the phenomenon of value co-creation in larger customer-SME supplier relationships. The findings are particularly relevant in informing the subject of “How to co-create value in customer-supplier relationships.”

The aim of this research is to create a more informed and sophisticated construction of the phenomenon of value co-creation in the customer-supplier dyad than the previous constructions (e.g. Forsström 2005a). Through the findings, the study argues that value co-creation should be entrenched in the IMP Interaction Approach.

### **General question**

How do organic food and drink SME suppliers co-create value in business relationships with their larger customers?

### **Specific objectives**

- i. To identify areas of collaboration by SME organic suppliers in relationship with their larger customers.

- ii. To identify the value that is associated with the respective collaborative areas in the relationships of the larger customers and SME suppliers in the organic food sector.
- iii. To investigate how value is co-created in the focal dyad of organic food and drink suppliers and their larger customers.
- iv. To identify the theoretical and practical implications of understanding the dynamics of value co-creation in the relationships of larger customers and SME suppliers.

## **1.6 Contribution**

Essentially, this study makes four main contributions to knowledge in value co-creation in business-to-business marketing. Firstly, it identifies the areas of collaboration in customer-supplier relationships based on case studies drawn from the organic food and drink sector. The degree to which the firms collaborate, or in other words the number of collaborative areas per case study (larger customer-SME supplier relationship) is identified. The collaboration has implications for practice that differ significantly from traditional logic of competition. Unlike traditionally, where firms competed to be independent and portrayed opportunist behaviour, this study recognises collaboration or interdependence as useful in competing in today's competitive world. This is consistent with the increasing recognition that the ability to collaborate essentially represents the ability to compete.

Secondly, this study investigates how value is co-created in the larger customer-SME supplier relationships. This involves the identification of value co-creation practices that are implemented by SME suppliers and larger customers in collaboration. In other words,

the value co-creation practices represent the manifestations of areas of collaboration. Quasi statistics in regard to value co-creation practices are generated.

Thirdly, this study builds on literature on the types of value that are generated in inter-organisational relationships. It identifies the types of value that are co-created through the respective collaborative areas. The number of types of value per collaborative area and per larger customer-supplier relationships is established. The understanding of value in customer-supplier relationships is important in contributing to the theory on conceptualization of value in business relationships. This is in line with Ulaga's (2001) remarks in regard to areas for further research that "From a theoretical point of view, the fundamental question of how to conceptualize value still merits further investigation" and also "What is relationship value and how can it be conceptualized and measured in comparison to product value?" The need to understand how both customers and suppliers perceive value and their roles in value co-creation is also highlighted by Möller (2006).

Fourthly, this study examines the implications of the findings both to theory and practice. In practice, understanding the dynamics of value co-creation is particularly important for managers considering that they are likely to lose business opportunities if they fail to understand how value is co-created in business relationships. Further, the knowledge of areas of collaboration and their respective types of value would likely guide managers in decision-making, especially in regard to the prioritisation of areas of resource allocation in business relationships. Theoretically, such information is relevant to academia, especially to those interested in understanding the emerging new ways in which value is co-created and thus a new definition of value. Also, the realization that there is more than just exchange (there is co-creation of value) in customer-supplier dyads is useful in informing traditional models or frameworks in business-to-business marketing such as the

IMP interaction framework. Furthermore, the combination of the themes of collaboration, value co-creation as well as co-created value into a parsimonious framework reflects novelty in this study.

### **1.7 Definition of key terms**

Bearing in mind that the use of concepts can differ widely depending on the context where they are used, this section presents definitions of key concepts that are used in this study.

#### **Organic food and drink**

Organic agriculture is a production system that sustains the health of soils, ecosystems and people (IFOAM 2009a). Organic farming is practised without the use of genetically-modified organisms and applies standards that protect the land and water supply. Organic agriculture is based on four principles, namely: health, ecology, fairness and care (IFOAM 2008a). Accordingly, organic food and drink refers to food and drink that is grown and processed in accordance with organic production systems or standards and hence without synthetic chemicals, additives, hormones or pesticides. Organic products are the only defined and regulated green products (Stern and Ander 2008 p.49).

#### **Business relationships**

This study adopts Håkansson and Snehota's (1995b) definition of relationship. They defined a relationship as 'mutually oriented interaction between two reciprocally committed parties'. This is consistent with Anderson and Narus (1990 p.43) who define inter-firm relationships as a process where two firms form strong and extensive social, economic, service and technical ties over time, with the intent of lowering total costs and/or increasing value, thereby achieving mutual benefit. Relationships are essentially

long-term. Customers and suppliers in relationships are characterised by a long time of interaction, collaboration and with the motive of benefiting mutually. In general, relationships are interaction processes over time (Forsström 2005a p.20) and they are by definition two-sided (Ford et al. 2006 p.132).

### **Value co-creation**

Applying the assumptions of the IMP interaction approach, for instance where two interacting parties are active in creating something together, this study assumes that since at least two active parties (herewith a larger customer and SME supplier) are involved collaboratively in the interaction process, then it's not one party that is creating value alone for the other but rather both parties are actively involved. Accordingly, similar to other studies (e.g. Forsström 2005; Lefaix-Durand 2008), this study adopts the term 'value co-creation' rather than 'value creation' to show that both parties are involved collaboratively as opposed to one party independently. The collaborative areas encompass value co-creation.

Value co-creation involves customers engaging in dialogue and interaction with their suppliers, during product design, production, delivery and consumption (Payne et al. 2009). It is characterised by a realization of the benefits by both SME suppliers and larger customers through collaborative effort. By joining activities and resources the firms (for instance customer and supplier firms) can produce something together that one company could not achieve alone (Freiling 2004). This is based on the logic of active parties interacting in order to create something and hence co-creation. To either party, this value is usually manifested in the form of increased benefits or reduced sacrifices and this may be monetary or non-monetary.

### **Larger customers**

In this study, a larger customer refers to the main buyer of a SME organic food and drink supplier and with whom the supplier has been involved in a long-term relationship. This is usually a chain of supermarkets where the SME suppliers of organic food and drink sell their produce.

### **SME suppliers**

SMEs have been defined differently, largely depending on the stage of economic development and the broad policy purposes for which the definition is used. The definitions are usually based on one or more of three measurements, namely: turnover, balance sheet total and number of employees (Table 1). Other variables that have been used in classifying or defining SMEs are industry market-share (Chen and Hambrick 1995) and type of customer and capital requirements (McCarton-Quinn and Carson 2003). The definitions tend to vary from country to country and across industries. This study adopts the European Commission's (2003) definition of SMEs.

**Table 1: Definitions of SMEs**

<b>Category</b>	<b>Turnover (million)</b>	<b>Balance sheet total (million)</b>	<b>Number of employees</b>
UK companies Act 2006: small company	≤ £5.6	≤ £2.8	≤ 50
UK companies Act 2006: medium-sized company	£5.7 ≥ £22.8	£2.9 ≥ £11.4	51 ≥ 250
British Bankers Association (2005): small business	< £1	-	-
European Commission (2003): Micro	≤ €2	≤ €2	< 10
European Commission (2003): small enterprise	≤ €10	≤ €10	< 50
European Commission (2003): medium enterprise	≤ 50	≤ €43	< 250
Commission of the European Communities (2003): SME	≤ €50	≤ €43	< 250
Malaysia (2005): Primary agriculture small enterprise	RM 0.2-1	-	5-19
Malaysia (2005): Primary agriculture medium enterprise	RM 1-5	-	20-50
USA- Small Business Administration (SBA) Size Standards Office	\$6 for most retail and service industries \$28.5 for most general & heavy construction industries \$12 for all special trade contractors \$0.75 for most agricultural industries	-	500 for most manufacturing and mining industries 100 for wholesale trade industries

Source: Strathclyde University Library (2007) and Bank Negara Malaysia (2007)

### **1.8 Significance of SMEs in the UK**

In the UK, the number of business enterprises was estimated at 4.5 million at the start of 2006, an increase of 2.9 per cent from the previous year. Almost all of these enterprises (99.3 per cent) were small (0 to 49 employees). Only 27,000 (0.6 per cent) were medium-sized (50 to 249 employees) and 6,000 (0.1 per cent) were large (250 or more employees). SMEs together accounted for more than half of the employment (58.9 per cent) and

turnover (51.9 per cent) in the UK. Small enterprises alone (0 to 49 employees) accounted for 47.1 per cent of employment and 37.2 per cent of turnover. In agriculture, fishing and forestry, 94.4 per cent of employment was in small enterprises. At the start of 2006, UK enterprises had an estimated combined annual turnover of £2,600 billion (6.8 per cent higher than previous year). Turnover in SMEs in 2006 was estimated at £1,358 billion, £108 billion (8.6 per cent) higher than 2005 (DBERR 2007). In 2004, the UK's estimated business turnover was £2,400 billion of which small enterprises accounted for 37 per cent and medium-sized enterprises accounted for 14.3 per cent (Turnbull 2006).

In the European Union, there are 23 million SMEs (of which 57 per cent are sole traders) accounting for 99 per cent of all undertakings and they are the backbone of the economy and provide 67 per cent of total private-sector employment and more than half of the European Union value added (Lopriore 2009). In the global arena, small firms are also significant. They are becoming increasingly international, and they have been reported to contribute between 25 and 35 per cent of world exports in manufacturing (Andersson and Flore'N 2008).

### **1.9 Relationship of UK large customers and their suppliers**

The main large customers of organic food and drink in the UK are supermarkets. Recent articles in the business press portray the current retail industry in UK as being characterised by a number of problems and uncertainty. The sources have pointed out that there prevails a poor relationship between some supermarkets and their suppliers (SMEs) in the UK. To protect suppliers, a voluntary code of practice was introduced in 2000 though only a tiny number of complaints have been filed under the code because suppliers appear to be afraid that they will lose business if they come forward (Butler 2007). Although its not clear if the enforcement will be successful, a Grocery Supply Code of

Practice came into force in February 2010 (Friends of the Earth 2010). This is expected to stop the bullying tactics of supermarkets towards suppliers. The Code of Practice is designed to promote fairer dealing between supermarkets and their suppliers and prohibit the biggest food retailers from unfair buying practices, such as retrospectively changing terms of trade (Friends of Earth 2010).

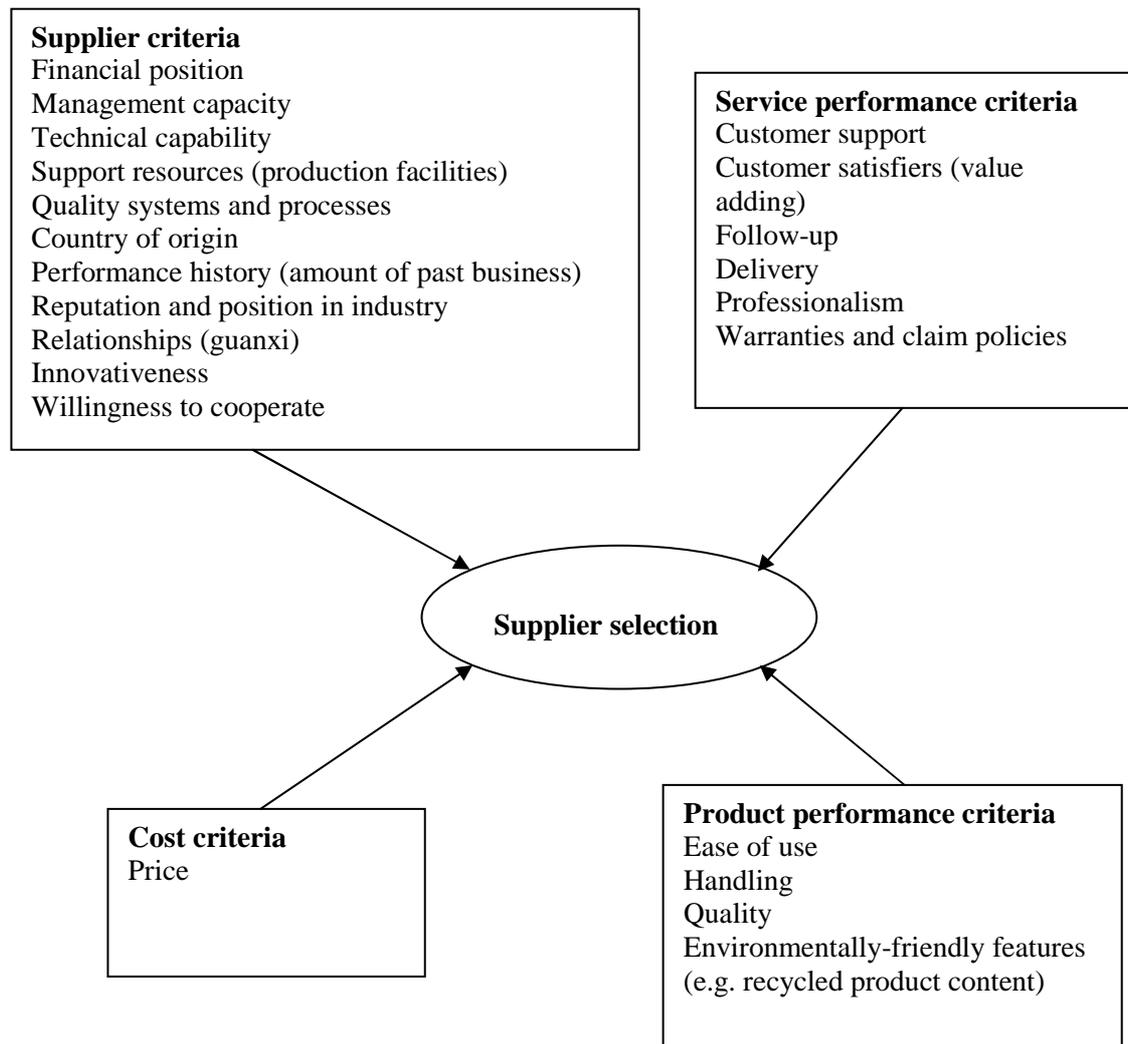
Some supermarket giants have been accused of slowly throttling any chance of any profitability out of the UK growers, with last minute price drops on produce that has to be picked that day, forcing some growers to produce, pick, and pack at a loss whilst supermarkets are still taking the profits made at the tills for themselves (Worcester 2007). Although there is an anti-monopoly legislation in the EU to stop major producers from abusing market dominance, there is no legislation that is specifically designed to tackle abuses of supermarket buyer power (AAI 2007). The EU is experiencing retailing that is dominated by a small number of supermarket chains.

As supermarket chains grow in size, the balance of power between them and other actors in the supply chain, from workers, suppliers, through to consumers, are disrupted thereby causing negative consequences (AAI 2007). Due to the dominance of a limited number of supermarkets in the retail sector, a characteristic of oligosponistic markets, then suppliers are dependent on very few supermarkets to get their products to the market and the supermarkets have been accused of unilaterally dictating terms and prices to their suppliers. As a coping mechanism, the suppliers demand from their workers longer hours at a faster pace, with worsening working conditions and job security. The situation is exacerbated by the supermarkets tending to source from large-scale suppliers so as to cut on transaction costs thereby creating a threat on the future of SMEs. SMEs are increasingly being taken over by fewer and bigger farm enterprises, many of which

dispense with local labour and employ cheaper migrants in order to meet the supermarkets' demands for lower prices (AAI 2007). The price squeeze also applies to international suppliers with similar consequences in their countries. This seems unfavourable considering that managing markets for competitiveness involves making sure that markets are as attractive as possible, for instance through stability and continuity (Caldwell et al. 2005). The price conflict is not only happening in the larger customer-supplier dyad but also, this is common between supermarkets and traditional retailers especially in developing countries (Reardon and Hopkins 2006).

In spite of the accusations that have been made against larger customers, the situation in the organic sector is likely to be different, particularly because it is practised in accordance with its guiding principles, one of which is fairness. Also, customer firms usually use certain kinds of known criteria in selecting their suppliers. Theoretically, customers will seek those suppliers whose problem-solving or transfer abilities most closely relate to their uncertainties (need, market and transactional). On the other hand, suppliers will seek those customers whose requirements most closely match their own abilities at problem solving and transfer (Ford et al. 2006 p.61).

**Figure 1: Criteria for selecting agribusiness suppliers**



Source: Ng et al (2006)

In addition to the characteristics of the offering, Ford et al (2006 p.161) indicate that a customer, in evaluating a supplier with the intent of building a relationship, will also assess the supplier's organisation and resources as well as its overall problem-solving and transfer abilities. According to Ng et al. (2006), several factors are considered by customers when selecting their suppliers for food and drink. These are presented by Figure 1. This implies that it is important for suppliers of food and drink to work together

with their customers to satisfy these factors. This could be partly the reason why the UK food industry is increasingly characterised by few but collaborative buyer-seller relationships (Duffy and Fearné 2004). Indeed in the UK, supermarkets are increasingly working with key suppliers and particularly in an effort to extend the season for many crops (Hingley et al. 2011).

### **1.10 Recent market-related developments in the food and drink sector**

Although it is difficult from a review of literature to distinguish the market changes that are specific to the organic industry and those that are happening in the food and drink industry in general, it is evident that in the food and drink sector, markets are increasingly changing concomitant with changing consumer habits and lifestyles. In the agribusiness industry, some of the recent market changes include the biotechnology revolution, pressures arising from globalisation for firms to maintain better process control, the need to ensure health-hygiene-safety, nutritional quality and to provide a new generation of functional foods, together with the consumers' demand for convenience, variety, and quality (Font and Harris 2004; Traill and Meulenberg 2002). There is increasing health consciousness and concern by consumers for the environment and welfare of animals (Scarpa et al. 2007; Walker and Brammer 2007; Wier and Calverley 2002; Xu et al. 2007). There is a trend from generic goods to processed products (Wier and Calverley 2002). Nevertheless, due to the recession (2008-2009), observed more recently is an increase in cost consciousness, which has created a growing interest in cooking from scratch to save on purchases of pre-prepared foods and processed products (Soil Association 2010 p.10).

The demand for food produced with environmentally-friendly techniques is growing in the EU largely due to consumer awareness about human health and environmental issues

and concern for food safety, quality and security (Scarpa et al. 2007). The factors influencing the market changes, especially the concern for environment, include: eco-literacy, perception of value, availability, convenience and trust (Xu et al. 2007). Health benefits are the main motive for buying organic food and drink, others being concern for the environment, animal welfare and taste (Wier and Calverley 2002). In addition to health and environmental concerns, Batte et al. (2007) mention consumers' perception that the products are supportive of small-scale agriculture and local rural communities as another reason that makes consumers value organic products.

The demand for convenience food is driven by changes in lifestyles, for instance increased female labour participation, the demise of family meal occasions, and increased snacking and grazing (Wier and Calverley 2002). Consumers have no time to prepare meals from many different raw ingredients – they want convenience or easily-prepared food. However, this convenience is traded-off against costs and, coupled with recession or economic hard times, there is a growing tendency to prepare from scratch which is considered cheaper (Soil Association 2010 p.10). Busy customers prefer shopping in supermarkets and therefore it is important that organic commodities are stored in such chains (Wier and Calverley 2002). Furthermore, today's households have less experience shopping for and distinguishing between ready-to-eat fruits and vegetables and ones that may be overripe (Stanton and Herbst 2005). Accordingly, there is increasing tendency for consumers to place their trust in branded companies to give an official endorsement that the product is indeed good and worthy of purchase (*ibid*).

The increasing health-consciousness corresponds to their interest in and desire to use organic products and implies an increased consumer focus on food safety and quality. They prefer food that does not have harmful additives, preservatives and agricultural

chemicals, which is the characteristic of organic food and drink. Ethical and environmental concerns also favour consumption of organic products.

In response to such market or consumer-led pressures, retail customers are making it a requirement for organic food and drink suppliers to increase their agility and flexibility in response to a wider variety of products and more sophisticated processes, production techniques and marketing of products. Thus, to gain and sustain market share, organic food and drink suppliers must develop capabilities to communicate innovative strategies and highly developed market-focused responses to become long-term preferred suppliers to major retail customers, both in the UK and in markets growing across the globe. As large food retailers face mounting pressures from consumers to stock more organic produce and extend their ranges, retailers place increasing demands on the firms in their supply chain to respond to market-driven requirements.

In the manufacturing sector there is a tendency towards agile manufacturing systems or lean production systems as opposed to mass production (Burgess 1994). The mass production approach is characterised by the production of high volumes of low cost, standardized products by the use of interchangeable parts, job specialization and hierarchical control systems. The study describe the agile manufacturing system's characteristics as including the ability to produce speedily, low cost, low volume, high quality, customized products.

Food and drink manufacturers know that the key to success is to make and supply products that the public wants. And because consumers' needs are changing all the time, it is important that companies are prepared to respond to new trends. In recent years people have become busier than ever, thereby leaving less time to cook meals from scratch

though the hard economic times are tending to promote the latter on cost grounds. The Food and Drink Federation (FDF 2008) reports that in the UK it is estimated that six out of ten mothers of children aged five or under have part-time or full-time jobs. The Federation also indicates that the food industry has responded to this by producing new, convenient products that offer great taste and nutritional balance. These include chilled prepared meals, washed and cut vegetables and fruit, and 'on-the-go' products.

Furthermore, it is estimated that in Britain, nearly a quarter of adults and nearly a fifth of children are obese after increases in the last decade largely caused by what people eat and reduced exercising – partly, again, because of having busier lives (FDF 2008). The food and drink industry has accordingly responded to rising concerns about the large proportion of overweight in the population. First, many food and drink manufacturers have now started putting clear, easy-to-understand front-of-pack nutrition labelling on their products in the form of Guideline Daily Amounts. These tell shoppers, at a glance, how much fat, saturated fat, sugar, salt and calories are in a portion of a product, and what percentage these levels represent of someone's recommended daily intake of each of these nutrients. Second, the industry has striven to reduce the amount of fat, sugar and salt in the products that people eat to ensure they are healthier but still taste good. In 2007 at least £15 billion worth of products had less fat, sugar and salt in them than they did in 2004. In addition, £11.5 billion worth of products have been launched as products 'lower in' these nutrients, giving consumers healthier options to choose from (FDF 2008).

Consumers are also becoming more concerned about the environment we live in, and how our behaviour affects it. Because of this, many food and drink companies are developing plans to enable them to conduct their business in a more environmentally- friendly way. The UK's Food and Drink Federation has helped them by developing a five-point

Environmental Ambition under which companies pledge to cut their greenhouse gas emissions, send less waste to landfill sites; use less packaging; cut water use; and be more efficient in ways of transporting food around the country (FDF 2008). Under the UK Low-Carbon Transition Plan that was published by the UK Government in 2009, the farming industry in England made a voluntary commitment to reduce its greenhouse gas emissions by 11 per cent by 2020 (Soil Association 2010 p.30).

Despite organic farming in the UK being supported by a number of local government initiatives, SMEs face challenges largely emanating from the markets. Increasingly, retail customers are making it a requirement for organic food and drink suppliers to increase their agility and flexibility in response to consumer-led pressures for a wider variety of products and more sophisticated processes, production techniques and marketing of products. In addition, organic food and drink suppliers are expected to understand and contribute to their customers' strategies in growth markets, by informing customers of new production techniques and product designs and specifications, in ever-increasing scope and scale ranges. Thus, to gain and sustain market-share, organic food and drink suppliers must develop capabilities to communicate innovative strategies and highly developed market-focused responses to become long-term preferred suppliers to major retail customers, both in the UK and in markets growing across the globe.

As large food retailers face mounting pressures from consumers to stock more organic produce and extend their ranges, retailers place increasing demands on the firms in their supply-chain to respond to market-driven requirements. The entire supply network therefore needs to work systematically to support the development of innovative responses to market-driven change, involving greater numbers of suppliers in the process and supporting the development of the ethical credentials of large retail customers.

Kotzab (2003) indicates that the European food industry is characterised by changing markets that are affected by the information age, more demanding consumers, and new retail formats. The study also note that food channels are far more concentrated and consolidated than they have been in the past largely owing to factors such as better access to valuable information by using point-of-sale (POS) data, the replacement of manufacturer brands by store brands and sophisticated retail logistics systems. Furthermore, the inherent uncertainties especially of fresh produce supply in terms of for instance weather, disease and perishability, and public sensitivities due to food-related controversies such as BSE, Listeria and genetic modification, have promoted closer links through out the food supply chain (Blundel and Hingley 2001).

Food has never been a bigger concern for the British public – or the subject of such intense media interest. In most regions in the world, especially in the developed nations, including southwest England, people are increasingly embracing a healthy lifestyle (CNN 2006). Society as a whole is also becoming more concerned with the natural environment. There is a change in consumer behaviour characterised by a gradual shift from consumption of conventionally grown food to that organically grown. According to Scarpa et al. (2007), among the environmentally-friendly production methods, organic production is the most common, the others being integrated pest management (IPM) and bio-dynamics. They explain that the demand for food produced with environmentally-friendly techniques is growing in the EU largely due to consumer awareness about human health and environmental issues and concern for food safety, quality and security. This has partly created incentives for change in product attributes as well as transaction conditions.

Customers want to know more about where their food comes from and they want closer links to the farmers who produce it. They want food that is fresh, tasty, healthy and safe. Health motivations are the leading determinants of choice for both regular and occasional organic consumers (Scarpa et al. 2007). Customers are increasingly paying attention to the importance of the social, ethical and environmental performance of businesses from whom they purchase. This calls for innovation if these customer needs are to be satisfied. The continuous market changes that are taking place and largely emanating from consumer-pull compel the suppliers to undertake successive and never-ending changes in the areas of technology, management and inter-firm organization.

In addition, consumers are increasingly showing a preference for companies that demonstrate Corporate Social Responsibility (CSR) (Xu et al. 2007). The study notes that CSR comprises actions that appear to further some social good, beyond the interests of the firm and that which is required by law. Consumers are increasingly favouring products and services that are perceived to be socially and environmentally responsible, or more sustainable (Euromonitor International 2005). There is increasing public concern about animal welfare. Furthermore, industries are increasingly becoming global and Non-governmental organisations (NGOs) have become more and more powerful in recent years advocating for businesses to account for policies in the areas of fair trade, human rights, workers' rights, environmental impact, financial probity and corporate governance (Knox and Maklan 2004).

There is a lot of debate on food miles and the GM technology is rapidly developing. Food standards are widely being developed including those restricting the use of nanotechnology (the new GM) and standards for food miles (Soil Association 2006). There is increasing internationalization and market concentration especially by

supermarkets. The supermarkets are increasingly setting higher supplier requirements and subsequently tougher market entry conditions. According to Susan and Gibbs (1995), the supply chains are also characterised by changing patterns of concentration, especially at retailing and manufacturing level. They explain that the rapid expansion of potential markets through easier access to international markets, in particular the growth of the single market within the European Union, has increased the need for more rapid and flexible responses through new types of relationship with both suppliers and even competitors and that developments in information technologies have provided a facilitating mechanism in linking separate businesses in the achievement of related tasks.

Across the board, there has been a shift in the role of the consumer – from isolated to connected, from unaware to informed, from passive to active (Prahalad and Ramaswamy 2004 p.2). They note that consumers now seek to exercise their influence in every part of the business system and they are armed with new tools and are dissatisfied with available choices. Consumers want to interact with firms and thereby co-create value. There is also convergence of technologies and industries. Driven by these forces, the consumer is increasingly influencing the firm and the value creating process and the consequence of this has been the emergence of co-creation of value, which actively combines the traditional roles of the firm and the consumer (p.90).

With respect to business relationships in the UK food industry, there is a growing trend towards fewer and more co-operative customer-supplier relationships (Duffy and Fearne 2004). This is driven by factors such as: the need for ensuring the integrity of customers' own label products, for instance in relation to quality and safety issues, the need to reduce supply chain costs in an effort to increase the collaborating parties competitiveness, and the need to enhance efficient consumer response which essentially compels the parties

involved to collaborate (ibid). In addition, a more direct marketing of agrifoods is being promoted as a means of mitigating some of the risks such as Foot and Mouth Disease (Tregear and Ness 2005).

Alongside the increasing direct-linkage tendency between multiple retailers (supermarkets) and food suppliers, there is also development of category management especially with fresh produce (Hingley and Sodano 2010; Hingley 2005). This occurs where a single supplier (usually the lead supplier) organizes the supply from all the suppliers of a given product category to the retailer. Multiple retailers have identified fresh produce as a key to attracting customers and as a consequent they have increased sales areas significantly over time (Blundel and Hingley 2001)

In the past decade, the UK food supply chain and particularly in fresh produce has undergone numerous changes with large supermarket retailers dominating and developing close vertical linkages with their suppliers (Blundel and Hingley 2001; Hingley and Sodano 2010). Also, there is no likelihood that the consumer cooperatives can threaten the market share and the dominance of the leading investor owned retailer or supermarkets (Hingley, 2010). In contrast, the traditional channels, such as fresh-produce wholesale markets are in decline (Blundel and Hingley 2001). The competition in the food channels is between different vertically integrated channels, for instance the Tesco supply network competing with that of Sainsbury or Wal-Mart-Asda (Hingley 2010).

In summary, the main market changes in the food and drink sector as identified from literature include: increased consciousness in health-hygiene-safety, a need to ensure nutritional quality, demand for convenience and variety, demand for better process control (traceability), increased concern for environment, and increased concern for

animal welfare (Font and Harris 2004; Scarpa et al. 2007; Traill and Meulenber 2002; Walker and Brammer 2007; Wier and Calverley 2002; Xu et al. 2007). Alongside the changes, supermarkets are influencing how suppliers conduct their business and vice versa. The various ways that suppliers and customers are collaborating are however unclear. This is part of the issues addressed by this research based on case studies drawn from organic food and drink.

### **1.11 Overview of organic industry**

As noted under definition of key terms in the introduction, organic agriculture is a production system that sustains the health of soils, ecosystems and people (IFOAM 2009a). The main components of organic farming are avoiding the use of artificial fertilisers and pesticides and the use of crop husbandry to maintain soil fertility and control weeds, pests and diseases (Defra 2009). Furthermore, organic farming is practised without the use of genetically modified organisms and applies standards that protect the land and water supply (CNN 2006). It relies on ecological processes, biodiversity and cycles adapted to local conditions, rather than the use of inputs with adverse effects. The organic agriculture system combines tradition, innovation and science to benefit the shared environment and promote fair relationships and a good quality of life for all involved (IFOAM 2009a).

Organic agriculture is based on four principles, namely: health, ecology, fairness and care (IFOAM 2008a). OWF (2008) describe the principles as follows. It should sustain and enhance the health of soil, plant, animal, human and planet as one and indivisible. It should also be based on living ecological systems and cycles, work with them, emulate them and help sustain them. Those who produce, process, trade, or consume organic products should protect and benefit the common environment including landscapes,

climate, habitats, biodiversity, air and water. Organic agriculture should attain ecological balance through the design of farming systems, establishment of habitats and maintenance of generic and agricultural diversity. It should build on relationships that ensure fairness with regard to the common environment and life opportunities. It should be managed in a precautionary and responsible manner to protect the health and well-being of current and future generations and the environment. Organic agriculture builds on relationships that ensure fairness, equity, respect, and justice between the different actors of the food chain (IFOAM 2008b).

Organic products are the only defined and regulated green products (Stern and Ander 2008 p.49). According to the Organic Trade Association (2008), organic refers to the way agricultural products (food and fibre) are grown and processed. It includes a system of production, processing, distribution and sales that assures consumers that the products maintain the organic integrity that begins on the farm. Organic production is based on a system of farming that maintains and replenishes soil fertility without the use of toxic and persistent pesticides and fertilizers. The use of genetic engineering, sewage sludge, cloning, and irradiation are prohibited in organic production and processing. Organic food therefore refers to foods grown and processed without chemicals, additives, hormones or pesticides (CNN 2006).

With production in over 150 countries, organic agriculture is the world's leading ecosystem-based farming system (IFOAM 2010a). Indeed, umbrella body (IFOAM) recommend that organic agriculture is the basis on which the Food Agricultural Organisation's (FAO) strategy for the sustainable intensification of crop production should be built. The adoption of an ecosystem approach in agricultural management is essential in order to achieve sustainable agriculture. The Organisation further explains

that high yielding organic agriculture is based on the intensification of ecological knowledge, ecological practices and ecological functions. They discuss that, with greater recognition and integration into national and international policies, extension services and research programs, organic practices could benefit many more producers and that organic farming practices are considered to be the only viable option for many of the world's small producers because they enable robust farming systems to be developed that are more resilient to the impacts of climate change.

In relation to the influences of organic agriculture to climatic change, Kotschi and Müller-Sämman (2004) describe that agriculture is a major contributor to emissions of methane ( $\text{CH}_4$ ), nitrous oxide ( $\text{N}_2\text{O}$ ), and carbon dioxide ( $\text{CO}_2$ ). On a global scale, agricultural land use in the 1990s has been responsible for approximately 15 per cent of all greenhouse gas (GHG) emissions. One third of all carbon dioxide emissions come from changes in land use (forest clearing, shifting cultivation and intensification of agriculture). Approximately two thirds of methane and most of nitrous oxide emissions originate from agriculture. At the same time, they explain that agriculture offers options to reduce GHG significantly in two main ways. One is to reduce emissions and, thereby, minimise the production of atmospheric  $\text{CO}_2$ ,  $\text{CH}_4$  and  $\text{N}_2\text{O}$ . Agriculture shares this emission reduction potential with industry and other sectors. The second option consists of systematically sequestering carbon dioxide in soils and in plant biomass. It is unique for all types of land use.

Organic agriculture is considered to be environmental friendly. It is associated with reductions in GHG - methane ( $\text{CH}_4$ ), nitrous oxide ( $\text{N}_2\text{O}$ ), and carbon dioxide ( $\text{CO}_2$ ) which are attributable to climatic change. For instance it can significantly reduce carbon dioxide emissions in a number of ways (Kotschi and Müller-Sämman 2004). As a viable

alternative to shifting cultivation, it offers permanent cropping systems with sustained productivity. For intensive agricultural systems, it uses significantly less fossil fuel in comparison to conventional agriculture. This is mainly due to the following factors: a) soil fertility is maintained mainly through farm internal inputs (organic manures, legume production, wide crop rotations etc.) b) energy-demanding synthetic fertilizers and plant protection agents are rejected, and, c) external animal feeds - often with thousands of transportation miles - are limited to a low level. According to the Soil Association (2010), organic farming continues to offer the best practical model for reducing emissions because; it stores significantly higher levels of carbon in the soil, is less dependent on oil-based fertilisers and pesticides and improves the resilience of crops and soils in the face of climatic extremes. The report suggests that if crop growing areas of the UK were to be converted to organic farming, this could take 3.2 million tonnes of carbon per year out of the atmosphere and store it in the soil and this estimate is equivalent to 23 per cent of UK farming's official global warming emissions.

According to the soil association (2009), over 20 per cent of the UK's greenhouse gas emissions come from food and farming today. Nitrogen fertiliser manufacturing is the worst offender. To produce just one tonne takes one tonne of oil, seven tonnes of greenhouse gasses and one hundred tonnes of water. They indicate that the carbon footprint can be significantly reduced by choosing organic.

Kotschi and Müller-Sämman (2004) explain how organic agriculture contributes to a reduction in nitrous oxides and methane. Nitrous oxides are mainly due to overdoses and losses of nitrogen but these are effectively minimized in organic agriculture because: a) no synthetic nitrogen fertilizer is used, which clearly limits the total nitrogen amount and reduces emissions caused during the energy demanding process of fertilizer synthesis, b)

agricultural production in tight nutrient cycles aims to minimize losses, c) animal stocking rates are limited (these are linked to the available land area and thus excessive production and application of animal manure is avoided), and d) dairy diets are lower in protein and higher in fibre, resulting in lower emission values. In avoiding methane, organic agriculture has an important though not always superior impact on reduction. Through the promotion of aerobic micro-organisms and high biological activity in soils, the oxidation of methane can be increased. Secondly, changes in ruminant diet can reduce methane production considerably.

In relation to health, IFOAM (2006) explain that, compared to conventionally-grown counterparts, organic products are: a) lower in water content, reserving higher nutrient density, b) richer in iron, magnesium, vitamin C, and antioxidants, and c) more balanced with essential amino acids. The report discusses further that in organic food processing, chemical aids, irradiation, harmful additives, flavourings and enhancers are prohibited, while the application of heat and pressure is minimized, and that organic produce has consistently been rated to have better flavour and texture than non-organic produce. Even after washing, over half of the conventional produce contains pesticide residues which: a) negatively affect the endocrine and immune system, b) are known animal and suspected human carcinogens, and c) can result in higher rates of miscarriages and reduced fertility in agricultural workers exposed to them.

Furthermore, there are more than 500 additives permitted in conventional food processing, some of which have negative human health effects. Conventional livestock is regularly provided with antibiotics to prevent disease and promote rapid growth. This can cause resistance to antibiotics in humans due to indirect consumption. The use of Genetically Modified Organisms (GMOs) in conventional agriculture compromises food

safety because: a) negative health effects have been observed in animals, and b) there is insufficient evidence that the consumption of GMOs is safe for humans (IFOAM 2006).

The results of research conducted by the Pesticide Residues Committee (2009) indicate some samples showing the presence of residues above Maximum Residue Levels (MRLs) in conventional foods sold in the UK, with food originating from outside the UK showing a higher level. However for organic samples, the level of residues, if any, was below MRL. Out of 4129 samples, 242 (5.9 per cent) were labelled as organic. The research reports that none of the residues in organic samples gave any concerns for the health of any group of people who might have eaten the foods (Pesticide Residues Committee 2009 p.8).

With respect to animals, organic livestock operations aim to optimize the health and welfare of the animals by ensuring a high quality, balanced diet and an environment that meets their behavioural and physiological needs. Organically-raised animals have (IFOAM 2006): a) better overall health, b) a reduced risk of contracting or carrying diseases such as Bovine Spongiform Encephalopathy (BSE), and c) a lower ratio of saturated to unsaturated fat.

### **1.11.1 Global organic agriculture**

#### **Organic agriculture production in the world**

Organic agriculture worldwide is developing rapidly with 35 million hectares of agricultural land managed organically by almost 1.4 million producers in over 150 countries (UNEP 2010). The global sales of organic food and drink reached 50.9 billion US dollars in 2008 (IFOAM 2010b). The land size under organic agriculture in different parts of the world is shown by Figure 2 and the statistics are also presented by Annex 5.

IFOAM (2009b) reports that with its vast grazing lands, Australia continues to account for the largest certified organic surface area, 12 million hectares, followed by Argentina (2.8 million hectares), and Brazil (1.8 million hectares). The greatest share of the global organic surface area is in Oceania (37.6 per cent), followed by Europe (24.1 per cent) and Latin America (19.9 per cent). In terms of certified land under organic management as a proportion of national agricultural area, the Alpine countries, such as Austria (13.4 per cent) and Switzerland (11 per cent), top the statistics. It also reports that the global market for organic products reached a value of over 46 billion US Dollars in 2007 (US\$ 50.9 in 2008), with the vast majority of products being consumed in North America and Europe.

**Figure 2: Land under organic management by region 2007**



Source: IFOAM (2009a)

## **Global organic market**

Globally, the demand for organic food and drink has been escalating and it is outpacing supply. Exceptionally high market growth rates are pushing global organic food and drink sales towards US \$40 billion in 2006 up from \$23 billion in 2002 (Organic-Monitor 2006) and even to a higher level of \$50.9 billion in 2008 (IFOAM 2010b). Wright (2007) also reports that the global market for organic food and drink was worth an estimated £19.3 billion (approximately \$40 billion) in 2006. In particular, in industrialised countries, there has been a tremendous growth in consumer interest for organic food in the last fifteen years (Wier and Calverley 2002). Both consumption and production have been on the rise.

The drivers of production and consumption of organic products vary from country to country. In Denmark, the expansion of markets for organic foods was initially driven by government subsidies, advisory services to organic farmers during the conversion period, and lowering of prices of organic products by supermarkets, but at a later stage, demand oriented forces became more influential (Wier and Calverley 2002).

The channels of distribution of organic production also vary across countries. For instance in Germany, organic products are sold in speciality shops while in UK they are sold to consumers mainly via supermarkets (Wier and Calverley 2002). Like in Germany, in the Netherlands, only a few organic products are offered regularly in supermarkets. Wier and Calverley (2002) attribute the lack of organic products in supermarkets in the two countries to a reluctance of distributors to cooperate with the conventional food distributors. This is a clear example of an existing potential for applying an interaction and relationship approach and thereby exploiting value co-creation opportunities. Furthermore, the existence of many links or market players along the distribution channel

increases costs and consequently product prices. A direct link between retailers and producers or rather enhancement of connectivity along the supply chain would more likely yield cost reduction benefits through collaboration and co-creation of value. Related to this, Hingley et al (2011) note that even markets with great potential may be held back by channel and network disconnection. In a nutshell, a well- functioning production, processing and distribution system as well as a reliable certification and labelling system are important for a successful organic industry. We argue that, well-functioning systems may be attained through networks of cooperation or rather through competent management in customer-supplier relationships.

The largest market for organic products in 2007 was Germany with a turnover of 5.3 billion Euros (2008: 5.8 billion Euros), followed by the UK (2.6 billion Euros), France and Italy (both 1.9 billion Euros) (IFOAM, 2009).

### **Prices of organic versus conventional products**

There have been criticisms of organic food because of its 'higher price'. However, although conventional food tends to have a lower shelf price, in reality it is associated with higher hidden costs than does organic food (IFOAM 2008b). Therefore, a greater adoption of organic agriculture in UK would likely reduce societal cost. For instance, the estimated total annual cost of removing pesticides from the water supply in the UK is £120 million (IFOAM 2008b) and this would likely be reduced by use of fewer pesticides which is a practice associated with organic agriculture systems, unlike conventional systems which customarily use pesticides. The report notes that if hidden costs were included in the shelf price, consumers would be paying the real costs of food and organic food would be cheaper than conventional food. The report further notes that the price difference (premium in organic food) reflects both higher production costs due

to alternative production practices (e.g. higher animal welfare standards, restricted use of chemicals, and soil fertility enhancement), and a higher demand from consumers for organic products. It argues that if subsidies (e.g. €40 billion paid by the EU annually under the Common Agricultural Policy) and other public support schemes were to be diverted away from production-linked aid towards support that encourages all farmers to adopt more environmentally friendly forms of farming, such as organic, the price of organic food would be comparable to that of conventional products.

The report also envisages that as demand for organic food and products increases and the sector develops, technological innovations and economies of scale are likely to reduce the costs of production, processing, distribution, and marketing for organic produce (IFOAM 2008b).

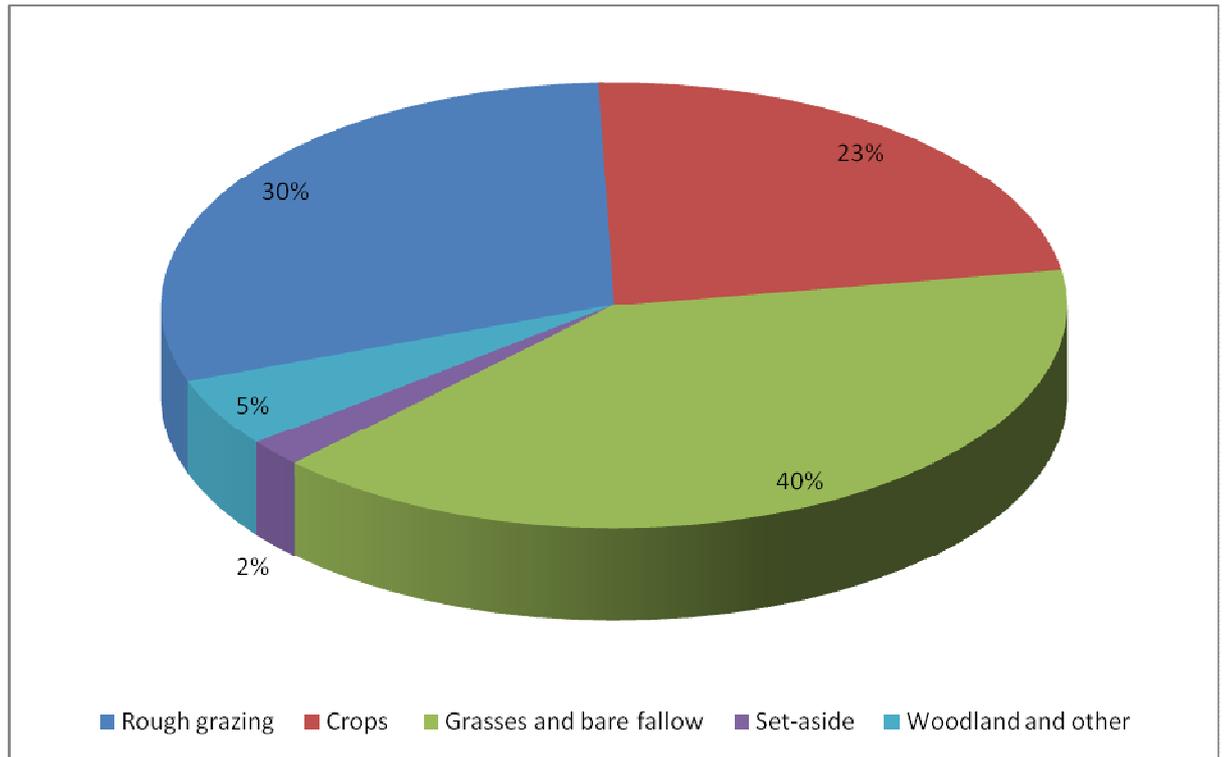
### **1.11.2 Organic agriculture in the UK**

#### **UK agriculture**

Agriculture accounts for about 76 per cent of UK land use. Organic farmland accounts for 4.3 per cent of UK agricultural land (Soil Association 2010). The respective proportions of arable land, grassland and rough grazing areas have remained more or less the same for the last 30 years (DEFRA 2008b). About 80 per cent of farmers in England have less than 200 hectares of land (Lobley et al. 2005).

Figure 3 shows the agricultural land use in the UK. Farming makes a huge contribution to the UK rural economy and way of life. In 2009, it (farming) contributed approximately £7.2 billion to the UK economy (Defra 2010).

**Figure 3: Agricultural land use in the UK 2007**

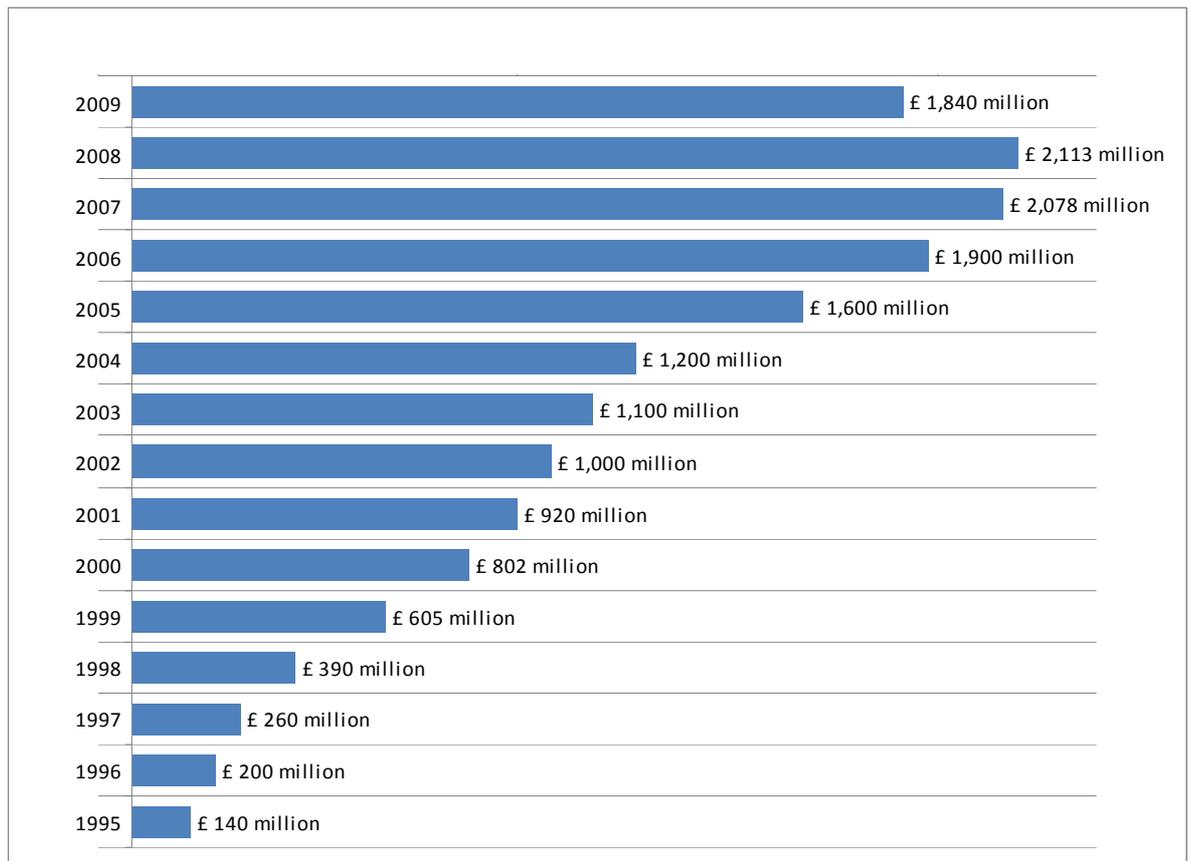


Source: DEFRA (2008b) [http://www.ecifm.rdg.ac.uk/current\\_production.htm](http://www.ecifm.rdg.ac.uk/current_production.htm)

### **Organic Market in the UK**

Figure 4 shows the growth of UK sales of organic products over the period 1995 to 2009. Over the period, there has been a consistently positive growth except in the year 2009 which was characterised by a slight decline and this is attributed to recession. In 2008, the sales were over £2 billion. In general, although the growth rates of the organic sector have been high (at least double digit) in recent years, this slowed down in 2009 registering a rate of 2 per cent in the UK due to the prevailing economic crisis (Organic Monitor 2009).

**Figure 4: UK sales of organic products**



Source: Soil Association (2010)

In 2005, the overall organic market in the UK grew by 30 per cent and specifically organic milk sales rose by about 65 per cent (Soil-Association 2006). Organic food and drink sales reached nearly £2 billion in 2006 (Soil-Association 2007). The UK organic figures in regard to production and processing as given by the Organic Centre Wales (2007) are herewith presented. In terms of production, over the decade 1997-2006, the area of land under organic management in the UK increased 10-fold and specifically growing from just 60,000 ha in April 1997 to 619,783 ha in December 2006. Between December 2005 and December 2006, the area of in-conversion land increased by 41 per cent to 121,137 ha and during the same period, the number of registered organic producers increased by 8 per cent to 4,639. In terms of processing and transport, the

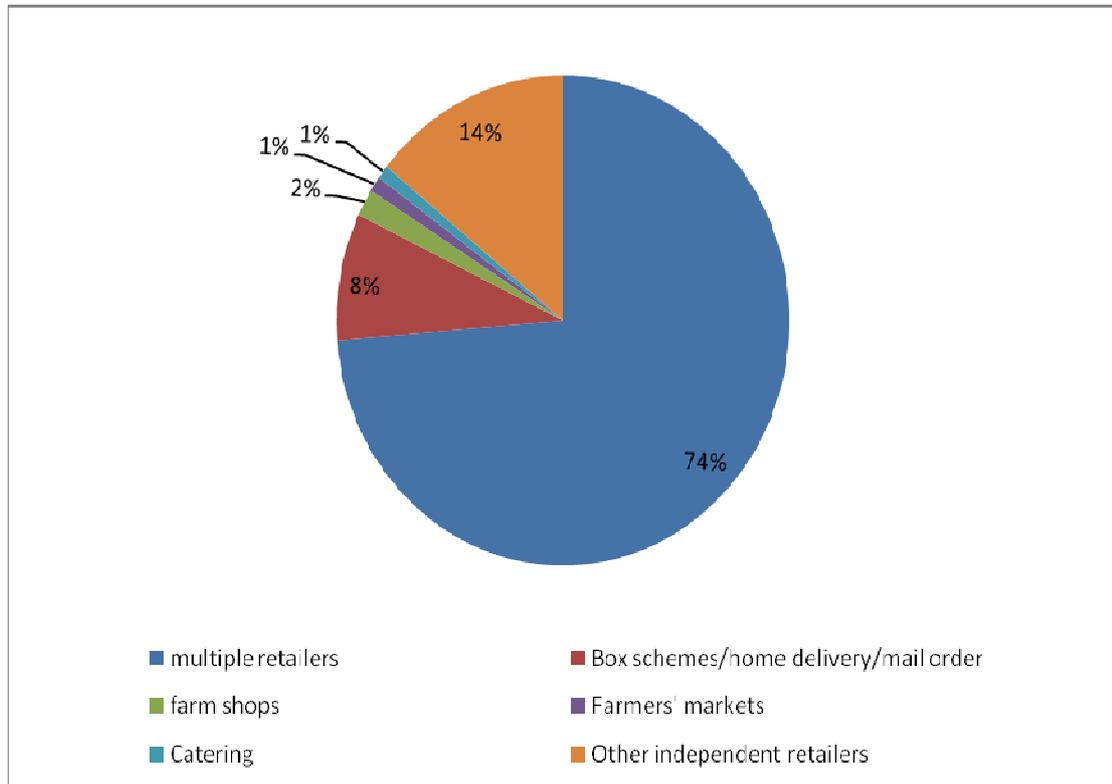
number of registered organic processors increased by 13 per cent to 2,404 in December 2006 sales. The retail sales of organic products continued to increase in 2006 being worth an estimated £1,937 million. Direct sales of organic food through box schemes, farmers' markets and farm shops grew by 54 per cent to £146 million during 2006 and in the same period the sales of organic products sold through supermarkets increased by 21 per cent. Imports of organic produce that were sold by the main supermarkets increased by 1 per cent from 46 per cent in 2003 to 47 per cent in 2005 and reduced to 34 per cent in 2006.

Growth in organic markets has been fuelled by consumer demand for organic food and drink across all retail outlets, but most significantly in the independent retail sector. Independent stores saw growth in organic food and drink sales of 43per cent in 2004 and direct farm sales increased by over one third (Soil Association 2006).

The food and drink manufacturing sector is the single largest manufacturing industry in the UK, accounting for 17 per cent of the total manufacturing sector, and is central to the food chain (DEFRA 2008a). Overall, organic food in the UK accounts for about 2- 3 per cent of all food sales with individual product sectors such as baby food registering higher levels of organic sales (Wright 2007). For the calendar year 2006 the UK market grew by around 22 per cent and annual sales of organic food and drink exceeded £1.9 billion. Around 34 per cent of all organic primary produce sold in the UK is imported. Supermarkets account for 75 per cent of all UK organic sales. According to DEFRA (2009) the retail market for organic products exceeds £1.8bn per year and the prediction is that this will increase.

Figure 5 shows multiple retailers as the dominant outlet of organic products in the UK, accounting for 74 per cent of the sales in 2009. The three supermarkets with the biggest organic market shares are Sainsbury's, Tesco and Waitrose.

**Figure 5: Retail share of the UK organic market in 2009**



Source: Soil Association (2010)

Table 2 shows the distribution of organic producers in the UK. It includes the number of producers in each of eight regions in England as well as the totals for each of the four countries in the UK. Among the four countries, England has the largest number of producers followed by Wales, then Scotland, and Northern Ireland has the least. In terms of regions in England, the table shows the southwest as the region with the highest number of producers. It accounts for 44 per cent of the producers in England and 29 per

cent of those in the UK. The figures reflect the strength of England and also of the southwest region in relation to organic agriculture.

**Table 2: National distribution of organic producers in the UK, 2006-2008**

<b>Region</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Annual change (%)</b>
Eastern	254	267	275	3
East Midlands	218	236	245	4
Northeast	103	116	120	3
Northwest	170	173	187	8
Southeast and London	422	423	463	9
Southwest	1,162	1,282	1,453	13
West Midlands	338	351	368	5
Yorkshire & the Humber	140	155	165	6
England	2,807	3,003	3,276	9
Northern Ireland	219	240	246	3
Scotland	636	686	629	-8
Wales	681	710	804	13
UK Total	4,343	4,639	4,955	7

Source: Soil Association (2009)

### **1.12 Structure of the thesis**

This thesis has presented the introduction above, Chapter One. Included in the introduction is a statement of the problem, a brief discussion on key studies, especially those focused on the phenomenon of value co-creation, deficiencies in the studies, and the significance and contribution of this study particularly to theory and practice. The objectives of the study were presented and important concepts defined. An overview of

the organic industry was presented comprising a discussion of the organic sector both in the global context as well as in the UK.

Chapter Two presents a literature review on business relationships and also on the concept of value in business studies especially in regard to business marketing and purchasing. Aspects of value and value co-creation are critically discussed alongside the changing marketing perspectives. Considering the focus of this thesis in business relationships rather than within a firm, this chapter also grounds the work in inter-organisational theories. In essence, the section deals with the theoretical cornerstones of the study. The justification in selecting the IMP interaction approach as the grounding theory is given.

Chapter Three develops the conceptual framework. This brings together the themes of collaboration, value co-creation and also the co-created value. This is related to the grounding theory, the IMP interaction approach, which is adopted in guiding this investigation of value co-creation in the larger customer-SME supplier's dyad.

The conceptual framework chapter is followed by the methodology in Chapter Four. This includes a discussion related to scientific philosophical orientation of the work, the research approach and methods. The qualitative research in general and case study method in particular are discussed. The selection procedures both for the study area as well as the cases and participants are described. The methods of data collection and analysis that were employed in this study are presented. Also discussed are issues related to quality and rigour, that is, validity and reliability.

Given the importance of context in studies adopting a case study method, Chapter Five is devoted largely to this aspect. The context in relation to the cases that are analysed in this study is presented. The descriptions including the background of the SME suppliers and their relationships with larger customers are presented.

The main findings of this thesis are presented in Chapters Six and Seven. The areas of collaboration and their manifestations (value co-creation) as well as the co-created values per relationship are identified in Chapter Six. In other words, the chapter focuses on within-case analysis. However, given the multiple case study strategy employed in this study, the thesis proceeds in Chapter Seven with a presentation of findings of cross-case analysis.

A detailed discussion of findings is presented in Chapter Eight. This relates to the areas of collaboration, value co-creation and the co-created value. These are critiqued alongside previous studies. Finally, Chapter Nine presents the conclusions and recommendations. A summary of the findings and their implications is presented. The contributions of this study to theory and to practice are also presented. In addition, the limitations of the study are described and also areas for further research are suggested.

## **Chapter 2. Literature review**

### **2.1 Overview of the chapter**

This chapter presents a review of literature that forms the foundation for the study on value co-creation in customer-supplier relationships. The chapter commences with a review of the circumstances that have led to growth in emphasis on relationships and accordingly on collaboration in business. The subject of value and value co-creation is critiqued and discussed in the context of business relationships and then more specifically with reference to SMEs. The theory that is grounding this work is also examined and its suitability in grounding this study described. Then a summary of the chapter is presented at the end.

### **2.2 Business-to-business relationships**

Business-to-business marketing is concerned with marketing when the customer is a business or organization (Morris et al. 2001). In other words, it is where one business markets and sells products and services for an organisation's own use or to sell on to other businesses for their own use (Wright 2004). It involves both the processes of marketing-mix management and of relationship or network management (Bremannan et al. 2007). The B2B marketing is usually characterised by development of relationships or relational exchanges. According to Andersson and Flore'n (2008) the main message in relation to business relationships is that cooperation is more efficient than competition for the firm's development. They explain that if companies trust each other and develop bonds and communication channels between the different actors in the relationships, the

resources and activities at their disposal can be organized in an efficient way and this creates competitive firms.

Business relationships imply a shift in decision-making among members including: (1) emphasizing the integration of the relationship partner into the organization's decision-making process; (2) developing interdependence between customer/organization and the focal organization; (3) creating a value chain that maintains and strengthens relationships over time; (4) emphasizing holistic, individualized relationships; and (5) a focus on increased transactional efficiency and effectiveness over the long-run for the relational partners (Harvey and Speier 2000).

Unlike in a discrete transaction which is manifested by money on one side and an easily measured commodity on the other, relational exchange transpires over time and participants can be expected to derive complex, personal, non-economic satisfactions and engage in social exchange (Dwyer et al. 1987). The development of a long-term approach to relationships is considered important for successful marketing and purchasing (Ford and McDowell 1999). Business relationships emphasize relationships rather than transactions. Morgan and Hunt (1994) explain that relational exchanges are characterised by partners exchanging resources and that this could be between competitors, between firms and government in public-purpose partnerships, between suppliers and customers, or in internal marketing. They consider commitment and trust as central to successful marketing in relationships. This is largely because they encourage marketers to: (1) work at preserving relationship investments by cooperating with exchange partners; (2) resist attractive short-term alternatives in favour of the expected long-term benefits of staying with existing partners; and (3) view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically. Ravald and Gronroos (1996)

indicate that a critical aspect in relationships is relations which imply a maintenance (not just attracting e.g. customers as was the case traditionally) between the firm and the actors in its micro-environment, i.e. suppliers, market intermediaries, the public and customers who are the most important actors.

There has been a growth of business relationships and the main macro-environmental forces that are driving this are: (1) rapid technological advancements, especially in information technology; (2) the adoption of total quality programs by companies; (3) the growth of the service economy; (4) organizational development processes leading to empowerment of individuals and teams; and (5) increase in competitive intensity leading to concern for customer retention (Sheth and Parvatiyar 1995).

An example of a situation where total quality programs enhance business relationships is the case of Total Quality Management (TQM). When companies embraced TQM to improve quality and reduce costs, it became necessary to involve suppliers and customers in implementing the program at all levels of the value chain. This needed close working relationships with customers, suppliers and other members of the marketing infrastructure. In regard to the service economy, as more and more organizations depend upon revenues from the services sector, relationships become prevalent especially because services are typically produced and delivered by the same institution. Some organizational changes have also enhanced the growth of business relationships in marketing. For instance, unlike in the past when specialized procurement departments tended to separate users and suppliers, increasingly the users are being involved. This direct interaction between users and suppliers promotes relationship orientation. In regard to competitive intensity, it is now widely acknowledged that retaining customers is less

expensive and perhaps a more sustainable competitive advantage than acquiring new customers and analogously it costs less to retain customers than to compete for new ones.

Development of business relationships points to a significant shift in the axioms of marketing: competition and conflict to mutual cooperation, and choice independence to mutual interdependence (Sheth and Parvatiyar 1995). According to the transactional exchange paradigm, competition and self-interest are the drivers of value creation. Through competition, buyers can be offered a choice, and this choice of suppliers motivates marketers to create a higher value offering for their self-interest. Proponents of relationships in business challenge this competition axiom and suggest that mutual cooperation, as opposed to competition and conflict, leads to higher value creation (Morgan and Hunt 1994).

Transactional exchange is a short-term event with low switching costs in which buyer and seller share little information beyond price and may be motivated by conflicting goals and is usually characterised by opportunistic behaviour (Spekman and Carraway 2005). On the other hand, by contrast, relational exchanges extend over a period of time, require high investments, and involve high switching costs due to the critical and idiosyncratic nature of the assets exchanged. In this regard, they indicate that opportunism is held in check for instance through the development of trust, commitment and communications that served as the mortar binding the parties together. Opportunism is manifest in such acts as withholding or distorting information with the intent to mislead, or failing to fulfil promises or obligations (Williamson 1975).

Sheth and Parvatiyar (1995) argue that the outcome in relationships is not necessarily an exchange of values but rather a process of value creation through cooperative and

collaborative effort. In relationships, customers and consumers are involved in co-production and have interdependent relationships with producers thereby making the concern for *value creation* paramount. They note that with the increasing emphasis on relationships, the roles of producers, sellers, buyers and consumers are blurring, whereby buyers are increasingly becoming co-producers. The cooperative relationships amongst marketing actors are not always for the purpose of exchange e.g. they can cooperate and share resources in joint research and development (R&D) partnering.

### **2.3 Structural aspects of business relationships**

A number of authors have attempted to define business or inter-firm relationships. Anderson and Narus (1990 p.43) define inter-firm relationships as a process where two firms form strong and extensive social, economic, service and technical ties over time, with the intent of lowering total costs and/or increasing value, thereby achieving mutual benefit. Holmlund and Törnroos (1997) defined a business relationship as an interdependent process of continuous interaction and exchange between at least two actors in a business network context. They state the core features of a business relationship to be mutuality, process nature, context-dependence and long-term character. Comparably, a relationship ought to have a mutual orientation, mutual dependence and bonds tying the actors (Johanson and Mattsson 1987).

Holmlund and Törnroos (1997) integrate business relationship concepts along three dimensions, namely; structural, social and economic (Table 3). This study is biased to the structural dimension.

**Table 3: Dimensions and relational concepts of business relationships**

	<b>Dimension</b>	<b>Relational concepts</b>
Relationships	Structural	Links Ties Connections Institutional bonds
	Economic	Investments Economic bonds
	Social	Commitment Trust Atmosphere Attraction Social bonds

Source: Holmlund and Törnroos (1997)

Holmlund and Törnroos (1997) define the various terms that are presented in Table 3. Under structural dimension, links refers to the activities the partners perform and how these activities are interlinked and interdependent. Ties refer to how the partners are resource-wise tied together. Connections refer to how relationships are connected to other relationships in the business network. Considering this study's focus on the customer-supplier dyad, then connections with the wider network are outside the scope. Likewise institutional bonds are beyond the limits of this study for the same reason. Institutional bonds reflect how relationships in a business network are connected to institutional actors. These structural concepts relate closely to visible aspects of relationships since they materialize in the activity patterns and flows of goods taking place between firms.

According to Holmlund and Törnroos (1997) the economic dimension of relationships reflects the investments and financial adjustments that partners make. Investments could be in different forms, mainly monetary, technological, market and in trust and commitment terms. On the other hand, relational concepts related to the social aspects of relationships are based on how people in firms interact with each other and they reflect the behaviour and perceptions of the people involved in the relationship. Although the relational concepts are grouped into three dimensions, it is important to note that they are interconnected. This study focus predominantly on structural dimension.

#### **2.4 The concept of value**

Although the concept of value is widely used in marketing, its relativity makes it difficult to study. At the same time the concept of value creation has been used in different research fields including economics, marketing, accounting, finance, strategy, organizational behaviour, and psychology and social psychology (Payne and Holt 2001). According to Fosstrom (2005, p.47), studying value is made difficult due to the relativity of the phenomenon such that value is defined and understood differently depending on who does the assessment, when it is done, under which circumstances and for what purpose. Ravald and Gronroos (1996) suggest that the reason why consumers may have different perceptions of the value of an offering is due to their different personal values, needs and preferences as well as the financial resources that they have. Ravald and Gronroos (1996) also indicate that while on an episode level the perceived value relates to aspects such as superior product quality, brand/image, tailoring and supporting services, at long-term relationship level, additional issues become important and these include safety, credibility, security, continuity and so on which increase the trust for the supplier and thereby support and encourage customer loyalty. In the context of business relationships, the assessment of value is further complicated by the fact that the

relationship value resides in the dyad/network and hence is influenced by interdependent resources that are controlled by each firm (Eng 2005a).

There is no universal definition or perspective of value. Contention over the definition of value is ancient, dating back at least to Aristotle, who first distinguished between two meanings: “use-value” and “exchange value” (Aristotle 4th century B.C.) (Dixon 1990; Vargo et al. 2008). Smith (often recognized as the father of economics) explained that “the things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use” (Smith, 1776/2000, p. 31) (Vargo et al. 2008).

Dixon (1990) discusses in detail the histories of both value in use and value in exchange. He narrates that a stream of thought, focusing upon exchange value rather than use value, can be traced to Adam Smith (1723-1790). Although Smith is aware of use value, as "expressing the utility of some particular object" (1776, p. 28), he devotes his attention to exchange value. Wealth consists of tangible goods, not the use made of them. The study argues that marketing is productive in the same sense as other branches of industry. The study explains that man creates no new matter. Neither the farmer nor the merchant adds one atom to the existing material of the earth. Yet they are both properly called producers. What do they produce? Simply, they produce quantities of utility. How do they produce quantities of utility? Simply by putting things in their proper places. Man can only move things, and when he moves them in a suitable manner he creates utilities (1889, p. 143) (Dixon 1990). Dixon (1990) indicate that marketing produces time and place value by adding properties to goods, "namely the property of being in the right place and of being there at the right time" (1889, p. 177). Thus, although the classical writers emphasized exchange value, it was seen that production resulted not in the creation, but the

modification of matter, so that there could be no analytical distinction drawn between marketing and other productive activities (Dixon 1990).

The value of goods is based upon the use made of them, and this is based upon men's needs (Dixon 1990). Two types of needs are identified: those that are "a consequence of our makeup," such as food, and those "born out of our practice" of choosing to satisfy our natural needs by particular methods. It is especially interesting that social needs, which "are a consequence of civilized societies," are as "natural" as the need for food (Dixon 1990). The end of economy is not the physical augmentation of goods, but always the fullest satisfaction of human needs (Dixon 1990).

The concept of value-in-use is potentially extended to a more descriptive "value-in-context". According to Vargo and Akaka (2009), the redirection of the focal point of value creation, away from a firm's output (and value-in-exchange) and towards the value derived and uniquely determined by an individual service system (e.g., customer – i.e., value-in-use) emphasizes a phenomenological and experiential conceptualization of value that has most recently been recognized in Service Dominant (S-D) logic as "*value-in-context*". Value-in-context highlights the importance of time and place dimensions and network relationships as key variables in the creation and determination of value. Thus, value-in-context is uniquely derived at a given place and time and is phenomenologically determined based on existing resources, accessibility to other integratable resources, and circumstances. Value cannot be created independent of the beneficiary and then delivered. In this study, the co-created value in customer-supplier relationships is elicited from SME suppliers.

Ramirez (1999) describes how concept of value has evolved. In the 13<sup>th</sup> Century value got its measurable connotation, in the 16<sup>th</sup> C it was directly associated with measurable units and by the 17<sup>th</sup> C it was labelled price. In the 18<sup>th</sup> C the subjectivity of value was recognised and in the 19<sup>th</sup> C, personal judgement as the basis of value was accepted. Although there is tendency to equate value to price in the business field, Anderson and Narus (1999) suggest a distinction. While price is what the customer pays for an offering, value is on the other hand what the customer receives in exchange for the price. They indicate that the difference between value and price is the customer incentive to purchase. The customer's perceived value forms a more appropriate base for pricing compared to cost of production. Price is likely to be part of cost from the customer's perspective and a benefit from supplier's perspective.

Likewise, Bowman and Ambrosini (2000) articulate the difference between use value and exchange value but with respect to a product rather than in relationships context. They suggest that use value is the specific qualities of the product that are perceived by customers in relation to their needs and so judgement to this value is subjective and pertain to the individual consumer –use value is perceived by the customer. On the other hand, they indicate that exchange value refers to prices and that it is the monetary amount realized at the single point in time when the exchange of the good takes place. Firms create perceived use value, and through the sale of products, exchange value is realized.

Accordingly, Gadde et al (2002 p.16) express that price is only one aspect of a complex pattern of primary and secondary cost and revenue patterns in the exchange process among buyers and sellers in industrial markets. Relationships allow both the customer and the supplier to evaluate costs and revenues of different alternatives thereby making price and pricing inherent dimensions of exchange rather than something decided by the

seller as usually conceptualised in transactional exchanges (Forstrom p.54). Ford et al (2006 p.116) suggest that when a customer bases his purchase decision on price only, as is common with low involvement relationships, this price orientation ignores the effects of the indirect costs of a purchase, the wider problem-solving abilities of particular supplies and the additional benefits to a customer that may come with a developed relationship. Price orientation tends to assume efficient producers of identical inputs and is common to adapt competitive tendering. It is characterised as adversarial considering that a reduction in prices in such a case is perceived as gain for customer and a loss for the supplier and vice versa. Rather than optimize on price, high involvement relationships involve attempts to reduce total direct and indirect costs of the relationship, for instance by effective adaptations by both collaborating firms (Ford et al 2006 p.117)

Anderson and Narus (1998) define 'value in business markets as the perceived worth in monetary terms of the economic, technical, service, and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative suppliers' offerings and prices. In the context of S-D logic and service systems, Maglio et al. (2009) define value as the improvement in a system, as determined by the system or by the system's ability to adapt to an environment. Forsström (2005a) defines perceived value in a business relationship as the difference between perceived benefits (including price) and perceived sacrifices (including price). Based on a review of literature, Krapfel et al. (1991) suggest that relationship value appears to depend on four factors namely; criticality and quantity of exchanged goods and service, and replaceability and slack contributed by the buyer.

Bowman and Ambrosini (2000) discuss the concepts of value creation and value capture. They argue that value capture, which is essentially the realization of exchange value, is

determined by the bargaining relationships between buyers and sellers. In relation to value creation, they argue that it is the idiosyncratic ways of doing things in the organization and notably entrepreneurial, labour that allows an organization to offer more consumer surplus than its competitors, and that may permit it to achieve above average profits. Consumer surplus is the difference between the customer's valuation of the product and the price paid. In other words, the customer is prepared to pay a price plus consumer surplus. They suggest that the source of value and hence profit (as the proportion of value captured by the firm) is the combination and deployment of labour with other resources.

As reported by Möller and Törrönen (2003), some researchers in the field of business marketing define value primarily in monetary terms. Others use broader definitions that include non-monetary benefits and sacrifices, such as competitive gains, competencies, social relationships, knowledge, managerial time spent, etc. Value has also been defined as willingness to pay (Porter 1985). The difficulties involved in defining value have been highlighted and these stem from the subjectivity of value, variations between customers, within customers, between cultures, in different situations, pre- and post purchase, between tangible and intangible offerings, and dynamism of value concept that evolves over time (Chernatony et al. 2000).

Controversial issues in regard to value relates to for instance: how to combine monetary and non-monetary benefits and sacrifices; how to distinguish value creation through products and services from the surrounding relationship between a supplier and a customer; and what is relationship value and how it can be conceptualized and measured in comparison to product value (Ulaga 2001). Forsström and Törnroos (2005) suggest that value should be viewed as something complex, dynamic and subjective and they also

indicate that monetary value is just one tangible manifestation of value in the context of buyer-seller relationships.

## **2.5 Value co-creation**

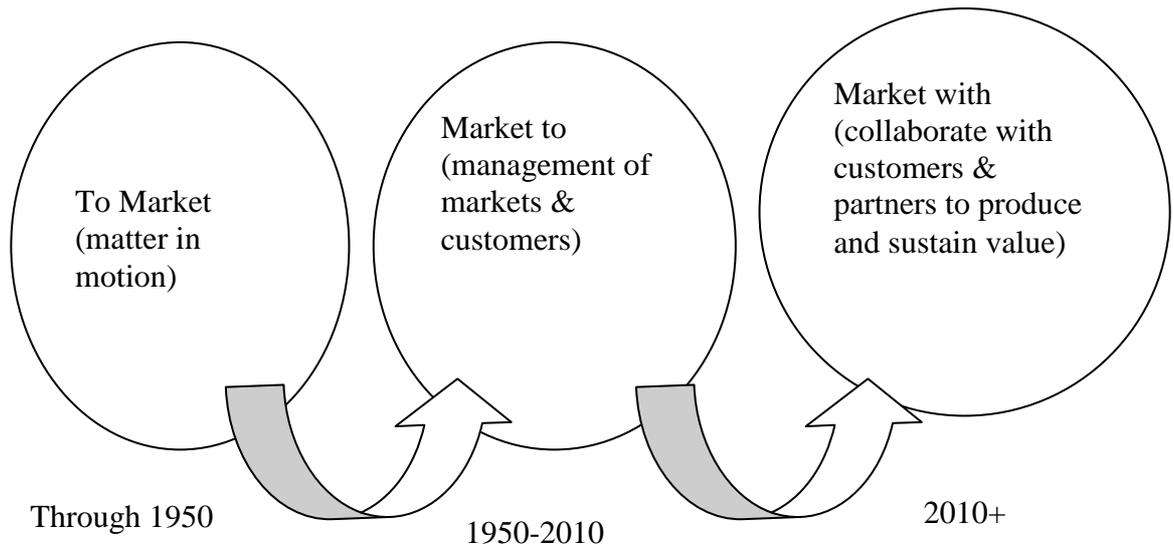
The view of the value creation process varies with market conceptualization. With the traditional conception of the market, the supplier and the customer had distinct roles of production and consumption respectively. The market, defined as a locus of exchange or as aggregation of customers, was separate from the value creation process (Kotler 2002). The customer was seen as exogenous to the value-adding activities; indeed, the customer was seen as a destroyer (consumer) of value. However, unlike in the traditional system where firms decided the products and services they will produce and consequently decided what is of value to customers, in the new system of value co-creation, both the customer and the supplier have a major role in value creation (Prahalad and Ramaswamy 2004b) and their roles converge. The supplier and the customer are both collaborators (in co-creating value) and competitors (in extraction of economic value).

The adoption of the interaction approach in investigating the phenomenon of value co-creation is consistent with S-D logic in many ways. First, considering both customers and suppliers as active participants implies that they are operant resources - consistent with S-D logic. They are both operant resources as operant resources are those which do something to something (Gummesson and Polese 2009). Second, it supports the assumption that the customer is always a co-creator of value. However, in some aspects, this study differs with S-D logic. For instance while S-D logic would consider the utilization of a product (by the customer alone) after delivery to be co-creation, this study considers value co-creation to refer to only the activities or aspects that are done collaboratively by the customers and suppliers and generate value. Furthermore, the S-D

logic tends to focus on a business-to-customer context and in instances where business-to-business is referred; this appears to be mostly in the network context. On the other hand, the IMP interaction approach is well known for its strength in investigations that relate to single or dyadic relationships and in a business-to-business context. Also S-D logic seems to consider mere participation as co-creation while this study emphasizes value co-creation to be applicable when there is real value emanating from the mutual participation/collaboration. Accordingly the study not only identifies the participatory or collaboration areas, but goes a step further in identifying the respective co-created value.

In co-creating value, competencies of both supplier and customer are required and both dependence and interdependence are potential triggers for creating something together. The market as a whole becomes inseparable from the value creation process. Firms with heterogeneous resources benefit by cooperating and utilizing each other's resources meaningfully (Forsström 2005a p.72). This is in line with Bititci et al.'s (2004) view that value creation in collaborative organisations should be a win-win situation for the collaborating firms. The collaborative areas by customers and suppliers reflect potential for value co-creation. In line with the increasing collaboration, marketing has evolved alongside (Figure 6).

**Figure 6: The evolution of marketing**



Source: Vargo and Lusch (2004a)

The co-creation conception challenges the basic tenet of traditional economic theory: that the firm and the consumers are separate, with distinct, predetermined roles, and, consequently, that supply and demand are distinct, but mirrored processes oriented around the exchange of products and services between firms and consumers (Prahalad and Ramaswamy 2004b). Firms strived to optimize and preserve bargaining power by being independent thereby viewing dependence as negative. In the co-creation view, value is co-created jointly and reciprocally, in interactions among providers and beneficiaries through the integration of resources and application of competences. Through value co-creation processes in business-to-business relationships, resources of the companies involved are combined thereby enabling them to achieve something that one of the parties could not achieve alone. Value is co-created through a reciprocal and mutually beneficial relationship (Vargo et al. 2008).

Prahalad and Ramaswamy (2004 p.23) suggest four building blocks of value co-creation. First is dialogue and this means interactivity, deep engagement, and a propensity to act – on both sides. Among others, dialogue allows consumers/customers to interject their views of value into the value-creating process (p.31). Second is access and this implies that one (e.g. an organic food and drink customer or supplier) need not own something to access an experience. Third is risk assessment and this refers to the probability of harm to the consumer/customer. Fourth is transparency and this refers to the rapidly disappearing information asymmetry which was a characteristic of traditional companies. Firms no longer assume opaqueness of prices, costs, and profit margins. Dialogue, access, risk assessment, and transparency (DART) are the preconditions for effective co-creation process (Prahalad and Ramaswamy 2004 p.91).

With the co-creation view, the external environments traditionally assumed as largely uncontrollable and forces to which the firm needed to adapt are viewed as resources the firm draws upon for support by overcoming resistances and proactively co-creating these environments (Lusch et al. 2007). Accordingly, the customer is a primary integrator of resources in the co-creation of value and hence viewed as endogenous rather than exogenous in the value creating process.

## **2.6 Value creation and marketing logic**

According to Vargo and Akaka (2009), the meaning of value, the process of its creation, and the locus of its determination have been discussed since the time of Aristotle and are central to Smith's (1776) work, as well as that associated with S-D logic (e.g., Vargo and Lusch 2004a; 2008) and service science (Spohrer et al. 2007; Maglio and Spohrer 2008). Throughout this extended period and as noted earlier, it has been recognized that there are, two broad conceptualizations of value: "value-in-exchange" and "value-in-use"

(Vargo et al. 2008). Historically, value-in-use has been recognized as the real meaning of value, at least until Smith refocused on value-in-exchange for convenience, given his national wealth standard, rather than a personal (or national) wellbeing standard. As indicated, his work led to Goods Dominant (G-D) logic and its conceptualization of value as something “added” to products by the firm and other suppliers and intermediaries, a notion with which value-in-exchange is particularly compatible. Thus, in G-D logic, the customer is seen as exogenous to these value-adding activities; indeed, the customer is seen as a destroyer (consumer) of value. More recently, attention has been refocused on value-in-use, to some extent indirectly, through service-marketing and B2B research. This refocusing points towards value as being co-created with customers, and determined by them.

Vargo et al (2008) indicate that in G-D logic, value is created (manufactured) by the firm and distributed in the market, usually through exchange of goods and money. From this perspective the roles of “producers” and “consumers” are distinct, and value creation is often thought of as a series of activities performed by the firm. Further, according to G-D logic, they explain that a firm’s production process, which may include resources from other firms, embeds value or utility into a good, and the value of the good is represented by the market price or what the consumer is willing to pay. From this perspective, maximum efficiency – and maximum profit – is achieved by standardization and economies of scale. In contrast, they indicate that in S-D logic, the roles of producers and consumers are not distinct, meaning that value is always co-created, jointly and reciprocally, in interactions among providers and beneficiaries through the integration of resources and application of competences. Customers and manufacturers co-create value. This is usually in the sense that the manufacturers are applying their knowledge and skills in the production and branding of the good, and customers are applying their knowledge

and skills in the use of it in the context of their own lives. At the same time, they explain that customers integrate and apply their own resources to provide service (often exchanged in the form of service rights – money – that the firm can use for its own value creating activities). Value is co-created by this reciprocal and mutually beneficial relationship (Vargo et al. 2008).

Vargo et al. (2008) indicate that the crux of the contrast between S-D and G-D logics lies in the basis of exchange. S-D logic focuses on the action of operant resources (those that act upon other resources), such as knowledge and skills, whereas G-D logic focuses on the exchange of operand resources (those that an act or operation is performed on, such as goods). For S-D logic, value results from the beneficial application of operant resources which are sometimes transmitted through operand resources or goods. From this view, value is co-created through the combined efforts of firms, employees, customers, stockholders, government agencies, and other entities related to any given exchange, but is always determined by the beneficiary (e.g., customer) (Vargo et al. 2008).

## **2.7 Assessment of value in business relationships**

### **2.7.1 Assessment of benefits in customer-supplier relationships**

Traditionally, the assessment of value focused on the value of the physical product or rather the core product and the surrounding services thereby neglecting relational dimensions of customer-perceived value (Ravald and Gronroos 1996; Ulaga and Eggert 2006). On the contrary, the value of a business relationship is a multidimensional concept that reaches beyond the price versus quality trade-off (Ulaga 2001). Ravald and Gronroos (1996) point to the need to incorporate in assessment of value the value of having a relationship such as the value of commitment from both parties. Value is dynamic, changes over time, context and is actor-dependent, and it is subjective (Forsström 2005a).

According to Forsström (2005a p.140), perceived value of a relationship is an *ex ante* assessment made before the actual potential has been realized. While the classical economic definition of price is where the supply and demand curves meet and exchange takes place, in industrial marketing price is most often seen as a quantification of value.

The logic that applies in pricing a single offering is not directly applicable when discussing value in the context of a business relationship. What is perceived to be the value gained from the relationship can be seen as the trade-off between benefits and sacrifices in long-term business-to-business relationships (Forsström 2005a). Woodruff (1997) indicate that one criterion for judging the impact of the organization's capability to learn about customer value is the degree to which managers' mental models approximate how customers actually perceive value (both desired and received).

A wide body of knowledge from many perspectives relating to value creation has been advanced in literature over time. Some of the studies on value adopted firm-centric approaches or rather assumed a firm's perspective rather than relationship. Table 4 summarises conceptualization of relationship value by different authors. Given the focus of this study on the customer-supplier dyad, the centre of attention is consequently the value that is created through inter-firm relationships. This implies that this study concentrates on value co-creation by both suppliers and customers rather than value creation by a firm autonomously.

**Table 4: Conceptualization of relationship value**

<b>Value dimensions</b>	<b>Perspective</b>	<b>Type of research</b>	<b>Author</b>
Benefits and costs and three levels at which these drivers operate, namely; core offering, the sourcing process, and firm's internal operations.	Buyer	Empirical	Ulaga and Eggert (2006)
Direct product costs (price); acquisition costs; operations costs	Buyer	Empirical	Cannon and Homburg (2001)
Benefits: a) cost benefits e.g. saving in operational costs due to such as joint effort in product development and integrated logistic operations b) revenue benefits e.g. due to improved product quality or performance that affect the competitiveness of the customer Costs: a) direct procurement costs b)direct transaction costs c) relationship handling costs d) supply handling costs	Buyer	Conceptual	Gadde and Snehota 2000
Categorize value into episode value and relationship value and indicate that they are created by a) providing more benefits b) reducing perceived sacrifice	Buyer	Conceptual	Ravald and Gronroos (1996)
Efficiency, effectiveness and networks and these are achieved through direct functions (profit, volume, and safeguard) and indirect functions (innovation, market, scout and access)	Seller/supplier	Conceptual	Möller and Törrönen (2003)
Customer value; Supplier value Buyer-seller value	Buyer Seller Buyer-seller	Conceptual	Ulaga 2001
Categorised value into a) value of an offering b) value of a relationship c) value in a relationship. Also economies of integration through sequential interdependence; economies of scale or scope through pooled interdependence; and economies of innovation through reciprocal interdependence	Buyer-seller	Empirical	Forsström (2005a)
a) Direct cost (for customer – price: for supplier- labour, materials, advice, adaption, delivery) b) indirect costs (general and specific)	Supplier Customer	Conceptual	Ford et al (2006 pp.211-213)

Source: Author's compilation

Supplier value relates to the revenue received from a customer and the cost of serving that customer (Möller and Törrönen 2003). The seller's perspective recognises the need to consider customers as a key asset of the firm and have emphasis on attracting, developing and retaining customers – the management of customer equity (Ulaga 2001). The buyer's perspective relates to how customers perceive superior value in a supplier's offering compared to competitors (Ulaga 2001). This has been the dominant orientation undertaken by traditional researchers on value in business markets. The buyer-seller perspective recognises business relationships and networks where firms jointly create value through relationships, partnering and alliances (Ulaga 2001). Through value co-creation processes in business-to-business relationships, resources of the companies involved are combined thereby enabling them to achieve something that one of the parties could not achieve alone. Value could be in form of monetary or non-monetary value. Considering the focus of this study on the customer-supplier dyad where both the actors are active in co-creating value, then it fits better in the buyer-seller perspective.

Forsström (2005a) points out three different perspectives of analyzing value. First is the value of an offering. This refers to the amount (often in monetary units) that buyers are willing to pay for a firm's goods and services. In other words the value of an offering refers to the perceived worth in monetary units of the set of economic, technical, service, and social benefits received by the customer firm in exchange for the price paid for a product offering, taking into consideration the available suppliers' offerings and prices. Second is the value of a relationship. The value of a relationship is broader than the monetary values. Third is the value created in a relationship and this refers to a trade-off between benefits and sacrifices. The perceived value in business-to-business relationships usually falls in this last category, trade-off between benefits and sacrifices (Forsström

2005a) and is subjective and based on people whose perception is sought. This conceptualization (trade-off between benefits and sacrifices) is however associated with the problem of comparing monetary and non-monetary benefits and sacrifices.

Uлага and Eggert (2006) suggest three value drivers in business relationships and identify two benefits that are associated with each. First is core offering which is associated with product quality and delivery performance benefits. Second is sourcing process and this is associated with service support and personal interaction. Third is a customer operation which is associated with supplier know-how and time to market. This categorization however seems limiting considering that it may not account for some non-monetary benefits such as reputation.

The core offering are those conditions that a preferred supplier must have/meet, from the customer's perspective (Uлага and Eggert 2006). Delivery performance was indicated by consistency in meeting delivery schedules (on-time delivery), ability to adjust to changes in delivery schedules due to spikes in demand or changes in the product mix (delivery flexibility), and, capacity to deliver the right parts consistently (accuracy of delivery). The direct cost is essentially the price and this is the core relationship cost driver. The capacity of suppliers to offer a fair market price and its commitment to reduce prices continuously is of value to customers and one incentive that customers give in recognition is increased order volumes (Uлага and Eggert 2006). The reduction in price is meant to lead to a reduction in consumer price, thereby improving the customer's competitiveness. In regard to the sourcing process, service support was defined by the supplier's level of responsiveness, information management and outsourcing of activities or delivering integrated systems as opposed to single parts (Uлага and Eggert 2006). According to the study, the knowledge by the customer of the supplier's key contact personnel, getting

along well with the vendor's representatives, and involving a supplier's top management all contribute to high levels of personal interaction which is an important value driver.

Cannon and Homburg (2001) in an empirical study indicate that the suppliers success in lowering a customer's cost would enhance a relationship. This study argues that from a co-creation perspective, the lowering of a customer's cost need not be effected by the supplier unilaterally but rather by both customer and supplier in collaboration. They indicate that such costs are applicable in three main areas namely: a) direct costs, b) acquisition costs, and c) operations costs. Direct cost is the actual price charged by the supplier for the main products sold to the customer. Acquisition costs are those costs incurred by the customer in acquiring and storing products from a particular supplier and include expenses related to ordering, delivering, and storing products, monitoring supplier performance and coordinating and communicating with the supplier. Operation costs are costs inherent in a firm's primary business. Revenue benefits include solutions that increase revenue especially those associated with product quality or performance. Although their argument tends to be more inclined to the buyer's perspective, this study focuses on both customer and supplier. In other words, it assumes that the relationship, in addition to lowering operation cost and acquisition cost for the customer, could lower operational cost and delivery cost for the supplier.

Ravald and Gronroos (1996) argue that the customer perceived value may not be derived just from the core product plus supporting services, rather it must also include the effects of maintaining the relationship. In other words, value in the context of the customer-supplier relationship ought to include both episode value as well as relationship value. This may be expressed as follows:

Equation 1: Value in the context of a customer-supplier relationship

$$\text{Total episode value} = \frac{\text{Episode benefits} + \text{relationship benefits}}{\text{Episode sacrifice} + \text{relationship sacrifice}}$$

According to Ravald and Gronroos (1996), value would be created in two ways, namely: a) providing more benefits and b) reducing customer-perceived sacrifice. They defined perceived sacrifice as all the costs that the customer faces when making a purchase. They include purchase price, acquisition costs, transportation, installation, order handling, repairs and maintenance, risk of failure or poor performance. On the other hand, they describe perceived benefits as some combination of physical attributes, service attributes and technical support available in relation to the particular use of the product as well as the purchase price and other indicators of perceived quality. The relationships component arises from the fact that although what the company produces is fundamental, this may not be the ultimate reason for purchasing from a given supplier. The reason for doing so may simply be because the customer has a relationship with the supplier and in some cases the offering may not be exactly the one sought. This underscores the importance of Experience Quality Management (EQM) in relationships.

In this regard, a poor episode value can be balanced by a positive perception of the relationship as a whole (Ravald and Gronroos 1996). The episode value and the relationship value however exist in a mutually dependent relationship in that positive episode value enhances the relationship value and a positive relationship value increases the total episode value. They indicate that safety, credibility and security contribute to a reduction of the sacrifice which is essential and very valuable from the customer perspective.

Ulaga and Eggert (2006) in an empirical study suggest a 2x3 matrix to conceptualize relationship value. The matrix distinguishes between two fundamental dimensions of value creation, namely benefits and costs, and three levels at which these drivers operate, namely the core offering, the sourcing process, and the customer firm's internal operations. The categorization mirrors that of other authors (Cannon and Homburg 2001; Gadde and Snehota 2000) who suggest that the value of supplier relationships may be divided into cost benefits and revenue benefits. Cost benefits include savings in costs of operation related to collaboration, for example joint product development and integrated logistics.

In a conceptual paper, Gadde and Snehota (2000) categorize relationship benefits into cost benefits and revenue benefits. On the other hand they categorize costs into four elements: a) direct procurement costs; b) direct transaction costs; c) relationship handling costs; and d) supply handling costs. They indicate that the direct procurement costs have always been the focus of purchasing attention yet there are other costs that originate in supplier relationships as well. They discuss that every purchasing transaction is associated with other expenses such as costs of transportation, goods handling and ordering and that these costs, "direct transaction costs," may be more difficult to measure, but as a rule they can be traced. They further discuss that other costs cannot be directly related to specific transactions but to an individual supplier and refer to them as relationship handling costs. They indicate that relationship handling costs depend on the extent of involvement with individual suppliers given that some relationships require lots of continuous interaction - and thus cost - for maintaining the relationship and sometimes for investments in terms of adaptations among the counterparts. Finally, they describe supply handling costs as the costs that the customer sustains that cannot be attributed directly to particular suppliers or specific transactions. They further explain that "supply handling costs" are structural and

common costs for the purchasing organization as a whole, including communication and administrative systems, warehousing operations, process adaptations and so on.

Bearing in mind that relationships may be examined along the dimensions of processes and outcomes (Holmlund 2004), Leek et al. (2006) use four outcome variables, namely; joint product development, innovation, market access and competitive advantage. On the other hand, they use five process performance indicators, that is, trust, commitment, power, cooperation and problem solving. Their results indicate that, in general, the more positive process and outcome qualities a relationship has, the more likely it is to be perceived as a successful relationship and vice versa for problematic relationships. This study argues that the process performance indicators would likely enhance the building blocks of value co-creation, particularly dialogue, access and transparency.

Although it is recognised that the immediate cost-and-revenue effects of a supplier relationship for the customer are largely due to direct functions of the business relationship and that the impact of the indirect functions is largely realised through linking of the supplier–customer dyad to other actors (Möller and Törrönen 2003), this study limits the analysis to the dyad rather than the wider network. Direct functions of customer relationships include activities and resources of the supplier and customer firms that may create value to the supplier without being dependent upon other (connected) relationships (Ulaga 2001, Walter et al. 2001)). These direct functions are: the profit function, the volume function, and the safeguard function. Indirect functions of business relationships capture connected effects in the future and/or in other relationships—the wider network (Ulaga 2001). Indirect functions are the innovation function, the market function, the scout function and the access function. The direct functions may be realised within a specific dyad, whereas the indirect functions rely on the linkages provided by the

customer to a larger network environment. Although their study considers one-sided value creation (supplier's perspective), on the contrary, this study is two-sided and hence concerned with the situation where value is co-created by both suppliers and customers in a relationship.

Although Customer Relationship Management (CRM) software may provide good information on the price that has been achieved from each customer and on some or all of the direct costs of a relationship, it is unlikely to provide the necessary data on the important indirect cost of the company's investment in each of its relationships (Ford et al 2006 p.214). Furthermore, CRM tends to be one-sided and therefore may not reflect value co-creation appropriately.

According to Ford et al (2006 p.220), a customer pays a price to receive value. They explain that the customer can receive value in two ways, namely, value of the offering and value of the relationship. They describe value of the offering as a measure of the extent to which the offering solves a problem for the customer and that this depends on the quality of both the offering itself and of its implementation as well as on how important the problem is for the customer to solve. If the offering is being outsourced, then the equivalent value in monetary terms could be what the customer was incurring by doing it on his own.

On the other hand, Ford et al (2006 p.220) indicates that the value of the relationship arises in two ways, namely, current value and potential value. This categorization augurs well with that by Forsström (2005a) who suggests 'value of' and 'value in' a relationship respectively. The relationship will have a current value because the customer and supplier will have learned about each other's operations and so the interactions between them will

be more predictable and reassuring. Furthermore, the adaptations that have occurred to suit each other's operations mean that the supplier's current offering may be enhanced or be more efficiently implemented. Likewise the relationship will have potential value because the learning and adaptation in a relationship may provide the potential for new solutions to evolve to address future problems.

In a model for co-creating the brand relationship experience, Payne et al (2009) suggest its four main components as comprising: a) the customer's value creating process, concerned with co-creating and experiencing a brand relationship; b) the supplier's value creating process, concerned with designing and co-creating a brand relationship experience; c) encounters, where ongoing interactions are involved in creating these experiences; and d) impact of additional sources of brand knowledge. Since in this study the focus is on the customer-supplier dyad rather than on individual firms, accordingly the focus is neither on customer processes nor on supplier internal processes but rather on the processes across the dyad or rather the activities that they undertake collaboratively. Furthermore, Payne's research has motivation in B2C and respondents are service providers while in this study the focus is on B2B and on 'good', food and drink. Also the model incorporates customer-to-customer interactions and stakeholders' endorsements and events which are beyond the focus of this study on customer supplier interactions. Their model therefore does not suit well in grounding this study though the encounter processes are relevant in the study. As may be noted from the above studies (Ulaga and Eggert 2006; Gadde and Snehota 2000; Ravald and Gronroos 1996), it would be difficult to assess value in business relationships without a good understanding of the cost as well. Accordingly, the next section describes how costs have been assessed in business relationships.

### **2.7.2 Assessment of costs in customer-supplier relationships**

Ford et al. (2006 p.211-213) classifies costs in business relationships into direct and indirect costs. They describe direct costs as the actual costs of implementing the offering in a particular transaction. The price the customer pays to the supplier is the most recognisable cost for the customer. On the other hand, for the supplier the most obvious costs are the direct costs of implementing an offering and comprise cost of labour, materials, advice, adaptation and delivery.

They describe the indirect cost as comprising general costs and costs specific to a particular relationship. General costs are those of running the entire business and are fixed costs such as rent and do not vary with the level of production. They also include the costs of operating the marketing function and the costs of delivering the company's technologies, offerings and operations. On the other hand, costs specific to a particular relationship are of two kinds. First, the initial cost of a relationship and these are costs incurred before any transaction has taken place such as costs for both firms for finding out about each other and communicating, influencing and negotiating about the offering and its suitability for the customer's problem. They also include the cost of developing a new offering particularly before a firm can get any order or rather this is developed as investment by a firm based on assessment of the initial potential of a relationship. Second, recurrent costs; these are incurred regularly throughout a relationship and they are investments in the continuing potential of the relationship. They include costs by both firms of developing and managing their relationship with each other (Ford et al 2006 p. 211-213). In other words, they (Ford et al 2006 p.246) explain that the customer's direct costs include the price paid for an offering and the costs of receiving and using while on the other hand the customer's indirect costs are the costs of its operations that will be allocated to this particular relationship.

Ravald and Gronroos (1996) note that one approach that has been used by suppliers is that of adding value in terms of 'extras' such as the addition of technical product features or supporting services to the core solution so that the total value of the offering is increased. This has a weakness in that some of the extras may not be driven by customers' needs. Further, such a treadmill of constantly developing and introducing extras implies additional costs and this has to be covered by charging a higher price. The study consequently recommends that in addition to considering what the supplier gives the customer, it is also vital to consider the sacrifice that the customer has to make.

Concentrating on the sacrifice is particularly important given that customers tend to be more sensitive to a loss than to a gain (Monroe 1991). Furthermore, the examination of how a company can add value to the offering by reducing the customer-perceived sacrifice forces the company to look at things from the customer's perspective, which is a central aspect in business relationships. To achieve this, Ravald and Gronroos (1996) suggest that the supplier has to get close to the customer to be able to understand his needs, preferences and all the activities which constitute his value chain or service system. They suggest that the reduction in sacrifice or effort that the customer has to undertake in order to purchase a product on an episode level may involve activities such as lowering the actual price, increasing convenience of the purchase for instance by improving on delivery and by improving on availability through changing the opening hours or introducing 'call back service'. These activities are indicative of costs to the supplier.

In buyer-seller relationships, costs involve those of the resources needed to maintain that association including those used in the conflict and haggling process and in addition the

opportunity cost of foregoing exchange with alternative partners (Dwyer et al. 1987). The costs of supplier relationships are direct procurement costs, transaction costs, relationship handling costs, and supply handling costs (Gadde and Snehota 2000). Ulaga and Eggert (2006) suggest the cost in business relationships to comprise direct (offering) costs, acquisition costs, and operation costs.

In a study of collaboration between beef suppliers and supermarket customers, Susan and Gibbs (1995) find that the requirements (costs) for success on the supply side include: a) a commitment by the retailer that, in return for exclusivity, the product is promoted effectively to consumers via attractive point-of-sale activity and other types of promotion; b) a willingness by the processor to extend the period of maturation. This increases storage costs for the processor and reduces flexibility to switch processing capacity between customers; and c) the ability to source supplies of consistent quality to relatively tight specifications. This sourcing was characterised by farmers incurring additional costs in growing animals to tighter specifications and holding them for longer time periods.

Understanding the costs of the customer and supplier in business relationships is particularly essential because it is on this basis that business pricing must be firmly based (Ford et al. 2006 p.210). In business relationships, both customer and supplier are likely to incur further costs after delivery such as that arising from integrating the offering into the customer's operations (Ford et al. 2006 p.210). Ford et al (2006 p.213) recommend that all relationship investments and individual transactions must take place on the basis of full cost analysis and must relate to the strategy for that relationship and the potential of that relationship for future revenue, profit or any other benefit.

According to Forsström (2005a p.141), the costs or sacrifices by the buyer in business relationships include; paid price, commitment to the seller on specified items, technological dependence and risk of missing out on something provided by others. On the other hand, the sacrifices by the seller include, time dedicated, price received, personal effort dedicated, special organizational arrangements and less focus on other possible customers.

## **2.8 Value co-creation in business relationships**

Unlike traditionally where firms strived to optimize and preserve bargaining power by being independent thereby viewing dependence as negative, with long-term business-to-business relationships, both dependence and interdependence are potential triggers for creating something together and hence value co-creation (Forsström 2005a). Consequently firms with heterogeneous resources would benefit by cooperating and utilizing each others resources meaningfully. Business relationships have been found to play a key role for instance in increasing sales volume or profits, gaining access to new markets, developing innovations (Ritter and Gemunden 2003) and in co-creating value in general (Dyer and Chu 2003; Dyer and Singh 1998; Forsström 2005a; Möller 2006; Ulaga 2001; Wagner and Hoegl 2006). They are also important in accessing, designing, and using resources across the relationships (Gadde and Hakansson 2008).

Resources of a company are integrated and activated through interaction or cooperation with other parties and thereby co-create value. This is more so necessitated by the interactions of the heterogeneous endowment of resources that exist in firms. Forsström and Törnroos (2005) suggest that co-creation of value needs mutual investments and bonding as well as mutual learning and/or unlearning in order to be able to develop and exploit mutual resource constellations in the focal dyad. Accordingly, organic food and

drink SMEs in a relationship would be expected to learn from their larger customers and vice versa and utilize dyad resources for mutual benefit.

Gadde and Hakansson (2008) explored the role of business relationships in systematic combining of resources. They enumerated key roles of business relationships, that is, in accessing, designing, and using resources. By using other's resources that are not fully exploited in their current settings, such as application of knowledge residing in other companies, and facilities that could be used for refinement of the physical features of product, firms managed to adjust the features of standardized products at reasonable cost. They noted that, by connecting the resources of two companies, a business relationship can improve operational efficiency, as well as contribute to innovation and development and consequently value co-creation.

Business relationships are likely to enhance closer coupling of different resources that are available in customer and supplier firms. In this vein, organic food and drink SME suppliers and larger customers may combine their capabilities and thereby develop new resources, knowledge and expertise. This consequently would co-create value in the form of development of unique combinations of offerings or innovations (Leonard-Barton 1992a).

Traditionally the assessment of value focused on the value of the physical product thereby neglecting relational dimensions of customer-perceived value (Ulaga and Eggert 2006). According to Ford and McDowell (1999), the concept of limiting value to value-in-exchange of the product offering that is exchanged or rather to "economic value to the customer" is restricted to narrowly defined product-related variables that may not be of major importance in the context of many relationships. Moreover, it is no longer enough

to develop a company's ability to identify customers' needs but in addition, this ought to be backed by development of its ability to build a relationship with them (Day 1994).

According to Gadde and Snehota (2000), the value of a relationship cannot only be judged by its product or service content. Some relationships are valuable because of the volume of business that they represent while others are valuable because of the future potential that they represent, in the form of technical development and product quality and performance. Ford and McDowell (1999) concur with this by suggesting that financial dependence alone may not mean that the company values a relationship more highly than others and that relationships of low financial significance may be highly valued for their knowledge transfer, reputation, or network-access characteristics. They further highlight the importance of expressing value in relationships in a disaggregated form, such as its value as a source of new process technology or as a way of gaining access to new relationships and so on as opposed to expressing it in simple financial terms.

The value co-creation potential in relationships may partly explain why supplier selection is not necessarily a question of choosing the lowest bidder but rather given certain cost constraints, it often focuses around selecting the supplier whose business processes and suggested solutions offer the best possibilities of becoming integrated with the processes and solutions of the buyer (Agndal and Nilsson 2009). The undertaking of interrelated activities of the buyer and supplier yields relational value and this value is conceived through the relationship itself (Möller 2006). This value emanates from the combined activities of the supplier and buyer. While exchange value is primarily supplier driven, on the other hand the relational value is embedded in the supplier-customer relationship.

Day (1994) suggests the mastery of the market sensing and customer linking capabilities as the most distinctive feature of market-driven organizations. This study argues that in the business-to-business context, the market sensing and customer linking will be enhanced by interactions in the customer-supplier dyad. Interaction between firms influences the creation and development of capabilities through the long-term intertwining of resources and activities, and the direction of two firms' capability development towards each other (Hakansson and Snehota 1995a; Johnsen and Ford 2006). Considering that smaller firms contain fewer capabilities than larger firms and are relatively in a constrained status (Spicket-Jones and Eng 2006), they are compelled to develop them through relationships with other companies such as larger firms (Johnsen and Ford 2006). Furthermore, it has been shown that in addition to internal firm factors, relational factors are important in realizing competitive advantages, even in an international context (Ling-Yee and Ogunmokun 2001).

Lavie (2006) suggests that when an alliance is formed (in this situation when a customer-supplier relationship is developed), each participating firm (customer and supplier) endows a subset of its resources to the alliance (relationship) with the expectation of generating common benefits from the shared resources of both firms. In the context of an organic food and drink SME and larger customer this may be related to a situation whereby the SME may devote human resources while a larger customer may devote technical resources to make a linkage information technology (IT) system operational across the two for mutual benefit. Barber (2008) relates this to value by suggesting that value can be found in both tangible and intangible areas of a supply chain or rather the customer-supplier dyad in this study's context.

Firms in relationships are likely to generate rents that may not be feasible if they operated individually. Dyer and Singh (1998) suggest that the relational rents generated by alliance partners are preserved because competing firms: a) cannot ascertain what generates the returns because of causal ambiguity; b) can figure out what generates the returns but cannot quickly replicate resources because of time compression diseconomies; c) cannot imitate practices or investments because of asset stock interconnectedness (they have not made the previous investments that make subsequent investments economically viable) and because the costs associated with making the previous investments are prohibitive; d) cannot find a partner with the requisite complementary strategic resources or relational capability; e) cannot access the capabilities or potential partners because these capabilities are indivisible, perhaps having coevolved with other firms; and f) cannot replicate a distinctive, socially complex institutional environment that has the necessary formal rules (legal controls) or informal rules (social controls) controlling opportunism/encourage cooperative behaviour.

Dyer and Singh (1998) identify four determinants of relational rents. Relational rent refers to a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners (Dyer and Sign 1998). The four determinants of relational rents were relation-specific assets, knowledge-sharing routines, complementary resources and capabilities, and effective governance. They indicate that relational rents are possible when alliance partners combine, exchange, or invest in idiosyncratic assets, knowledge, and resources/capabilities, and/or they employ effective governance mechanisms that lower transaction costs or permit the realization of rents through the synergistic combination of assets, knowledge, or capabilities.

In the value co-creation view, the customer is considered a co-creator and hence endogenous rather than exogenous. However, although this study is limited to value co-creation by customers and suppliers, it is worth noting that all parties are resource integrators (Vargo and Akaka 2009). Co-creation experience depends on the nature and level of access to the company's/supplier's employees and the extended community, as well as the level of transparency of all parties (Prahalad and Ramaswamy 2004 p.22).

For firms in relationships, organizational boundaries (e.g. in time, place and transactions) become blurred as companies in a relationship increasingly share activities such as joint planning, co-production, co-marketing, co-branding and so on (Sheth and Parvatiyar 1995). In other words, the boundaries of firms in a relationship have become blurred as they jointly develop offerings and merge their technologies, operations and information (Ford et al 2006 p. 206). In regard to value creation, it has even been suggested that 'added value' should be replaced by 'co-production of value', whereby customers and suppliers jointly create value through complementing each other's activities; thereby conceptualising the value process as a value constellation rather than value chain in which value is considered to be added sequentially (Normann and Ramirez 1994). An integrative relationship assumes overlap in the plans and processes of the interacting parties and suggests close economic, emotional and structural bonds among them (Sheth and Parvatiyar 1995). In the context of B2B food and drink, this may imply the supplier and customer firms drawing their annual business plans together and jointly creating an environment that will facilitate their achievement. Considering that most SME organic food and drink suppliers are farmers, such a plan may involve the development of an on-farm schedule of for instance when to plant, harvest and deliver, and so on. Such a plan will promote availability of the offerings throughout the year which is essential in sustaining an appropriate co-creation experience.

The interface between a customer and a supplier has increased in importance (Ford et al 2006 p.100). This is particularly so due to the relevance of activities happening in it, including for instance, issues related to just-in-time deliveries (JIT), total quality management (TQM) and the zero-defect principle of which their applications make the boundaries between customers and suppliers unclear (Ford et al 2006 p.100).

## **2.9 Characteristics of SMEs and involvement in business relationships**

There is no globally recognised definition of an SME. Table 1 show some definitions based on turnover, balance sheet total and number of employees. According to the Small Business Advisory Group (2004) and which is largely consistent with McCarton-Quinn and Carson (2003), while SMEs are diverse, typically an SME may: have begun spontaneously from just one idea or new product and may continue to be an incubator for innovative ideas and products; have an owner/manager with little formal business experience or few generic business skills; have begun because the founder/owner has a particular technical expertise; comprise the founder/owner and about four employees (often with an unpaid family member providing administrative support); have the owner as the only person in a managerial position, and no board or formal governance arrangements; operate on trust rather than on systems and contracts; have a tight family-like culture where the values of the owner are strongly shared by the staff; and, have workplace practices that are flexible and suited to individual employees' needs.

The report also indicates that SMEs focus on a small range of products or services sold mainly in the local domestic market. They have all personal assets, including the owner's home, committed as security for the business, acknowledge the owner's time as one of its scarcest and most valuable assets, operate flexibly on a reasonable person basis rather

than on an informed and strict observance of regulations, have a vision and outlook that is bounded by the horizons, skills and experience of the founder/owner and the pressures of day-to-day management and tight resource constraints (i.e. a tactical rather than a strategic approach). They endeavour to operate independently of other businesses and institutions and favour self-help over seeking advice, are not aware of the regulations to which they are expected to adhere in provincial areas, are a key part of the social fabric of the community, are likely to close within three years of their inception and not infrequently in circumstances that could easily have been prevented. They express the implications of these characteristics to be that managers in successful small firms need to be multi-skilled rather than specialists, with expertise in a diverse range of areas.

According to Zheng et al. (2006), the unique characteristics of SMEs present them with both opportunities and constraints especially when it comes to supplying to the public sector. While on one hand they are generally viewed as loci of innovation and can provide a flexible personalised service, at the same time they are characterised by a higher failure rate. For instance the failure rate (11 per cent) of SMEs has been estimated to be six times higher than the rate for larger businesses (Storey and Cressy 1995).

Given the constraints in which SMEs operate, the relationships that they maintain with customers is particularly a key source of valuable information because unlike large firms, they do not have the resources to engage in formal market research (Keh et al. 2007). SMEs are usually in a relatively constrained status (Spicket-Jones and Eng 2006). A number of studies have been conducted with the main focus on relationships with SMEs (Table 5).

Blundel and Hingley (2001) suggest six factors that play a key role in enabling SME suppliers to form relationships with larger customers. These are getting closer to source, greater motivation to collaborate, absence of competitive threat, source of innovation and differentiation, capacity for investment and growth, and resolving sporadic conflict.

While McCarton-Quinn and Carson (2003) presents characteristics of typical SMEs, this study argues that these characteristics (or at least some) are likely to be different for an SME that is in relationship with a larger customer. Alternatively, the effects of their characteristics would likely impact differently for an SME in relationship with larger customer versus that without. This is generally due to the effects that spill over during interactions with the larger customer. For instance, while SMEs are known to have limited financial, human, material and informational resources (*ibid*), this study argues that the SMEs could mitigate these constraints by accessing the resources through interactions in the relationship with the larger customer. Also, although typical SMEs are normally characterised by informality in planning, this may not be the case for SMEs in relationship with larger customers. The larger customer and the SME supplier would usually engage in collaborative planning whereby they discuss forecasts and business plans well in advance in an effort to enhance continuous supply amongst others, hence engaging in formal planning.

**Table 5: An overview of studies involving relationships with SMEs**

<b>Author</b>	<b>Method</b>	<b>Focus</b>	<b>Key Findings</b>
Scully and Fawcett (1994)	Survey – 500 USA firms, 72 responses (44% SMEs)	To compare and contrast International Sourcing (IS) activities between small and large firms	SMEs successfully engage in IS, although more limited. Tendency to focus on the immediate.
Holmlund and Kock (1996)	Semi-structured Interviews	Relationship between a dominant buyer and four small-sized suppliers	SMEs weak position based on lack of profitability, considered independent suppliers. Lack of social bonds, of uniqueness in offering, and search for new customers
Corless, et al. (1996)	Single case- manufacturer, 65 employees	Examines problem of material Procurement	Hybrid approach of planning features of MRP with principle of JIT resulting in reduced inventory and obsolescence yet improving cash flow
Kasouf and Celuch (1997)	Survey – 154 USA / Canadian firms, 62 Responses	Study of the relationship orientation in a fragmented supplier industry of firms operating within a competitive context.	Suppliers with limited resource and under pressure to provide better service /closer relationships faced intense price pressure. Firms optimistic about industry growth perceived alliances as important
Perkins and Gunasekaran (1998)	Single case	Investigation into the effectiveness of purchasing in a small company.	Centralisation of fragmented purchasing activities
Calabresse (2000)	Interview – 25 SMEs	An empirical study into the purchasing activities of 25 SMEs to the Italian Automotive Industry.	Vertical disintegration of sector; Rationalisation of supply base; Evolution of buyer supplier activities
Quayle (2000)	Literature review & 10 cases	Overview of the supplier development and supplier	Step / stage process for SME to achieve network development model SMEs ignore

<b>Author</b>	<b>Method</b>	<b>Focus</b>	<b>Key Findings</b>
Quayle (2002)	Survey – 400 SMEs,	association literature. Identification of the adaptation of Supply Chain Management techniques and the relationships between customers and small suppliers.	strategic procurement and supplier development Lack of effective adaptation from adversarial to collaborative form. Customers focus on price, quality and reliability - mirrored by suppliers. Supply Chain Management strategies missing from business plan. Use of e-commerce to facilitate small firm consortia
Mudambi, (2004)	Survey – 621 with a 25% response & 24 in-depth interviews	Seeks evidence of advanced purchasing practice	25% of respondents deemed to have advanced purchasing practices. From these identified three groups - deliberate strategies, emergent strategies, and close yet still adversarial
Morrissey and Pittaway (2004)	In-depth Interviews with 6 SMEs	Analyses the buyer-supplier relationships from the perspective of the SME	Scepticism of 'partnership' concept, rejection of the concept of purchasing consortia Highlights influence of non-financial motives in decision- making process. Current purchasing models lack complexity in particular the heterogeneity, underlying motives, and objectives pursued by SMEs
Spicket-Jones and Eng (2006)	Qualitative research with 8 SMEs and an audit of their communication activity	The study audits the communication effort of 8 SMEs and debates its strategic context	SMEs often focus on tactical need to maximize short-term sales opportunities. Direct and informal communication in SMEs can help put market insights from network partners at the centre of SMEs decisions. Network approach may provide a useful tool to assess SMEs

<b>Author</b>	<b>Method</b>	<b>Focus</b>	<b>Key Findings</b>
Johnsen and Ford (2006)	In-depth interviews with eight SMEs in relationship with larger customers	Interaction capability development of smaller suppliers in relationships with larger customers	Developed and applied an interaction capability framework to evaluate the types of interaction capabilities developed by smaller suppliers that enable them to cope and better manage in relationships with larger customers
Ngugi et al. (2010)	In-depth interviews with three SMEs in relationship with larger customers	Examines the relational capabilities that are developed by SME suppliers in relationships with larger customers and explores the influences of these relational capabilities on value co-creation and innovation	Identifies sets of relational capabilities that may be employed by SME suppliers in relationships with larger customers and examines their influences on value co-creation and innovation

## **2.10 The grounding theory: The IMP interaction approach**

A theory is an interrelated set of constructs or variables formed into propositions or hypotheses that specify the relationship among variables (typically in terms of magnitude or direction) (Creswell 2009 p.51). He elaborates that a theory might appear in a research study as an argument, a discussion, or a rationale, and that a theory helps to explain or predict phenomena that occur in the world. He indicates that theoretical rationale refers to specifying how and why the variables and relational statements are interrelated.

In line with the co-creation view, this study focuses on value within a business relationship or in a dyadic context rather than outside the relationship (firm-centric). Given the centre of attention in the larger customer-SME supplier dyad, then in essence inter-organizational theories become relevant in grounding the study. Inter-organizational theories focus on activities and processes that go on between organizations. They recognise that organizational boundaries (for example in time, place and transactions) become blurred as companies in relationship increasingly share activities such as joint planning, co-production, co-marketing, co-branding and so on (Sheth and Parvatiyar 1995; Ford et al. 2006 p.206).

The focus on dyadic relationships means that network theory, better suited for the wider network, may not be hereby adopted. Furthermore, the collaboration rule out opportunistic behaviour and therefore it is contrary to transaction costs theory (Williamson 1979). Therefore, the IMP interaction approach (Hakansson 1982), suited at least for investigations into single relationships and also recognising collaboration, is herewith adopted.

### **The IMP interaction approach**

The IMP interaction approach is considered the best equipped theoretical framework to deal with the various issues pertaining to buyer-seller relationships (Wilson and Mummalaneni 1986; Metcalf et al. 1992). The approach provides the conceptual understanding of a single relationship. A single relationship or rather a dyad (rather than single transactions) is the unit of analysis in this study though multiple case studies will be investigated. A dyad refers to two companies, a buyer and a seller (Forsström 2005a p.68). The importance of understanding the dynamics of a single relationship cannot be underestimated given that it is the management of each single relationship with a customer which forms the heart of business marketing (Ford et al. 2006 p.153).

The interaction model was developed by the IMP group to address some of the weaknesses that characterised the traditional consumer marketing models. Consumer marketing models are basically the traditional models that explained how organisations conducted businesses (Kotler and Armstrong 1994). According to these models, sellers were viewed as active actors seeking to approach buying organisations to persuade them to buy products or services. So in the transaction, the buyer was seen as passive while the seller was active. However, with the interaction approach developed by the IMP group, both buyer and seller are seen as active (IMPGroup 1982). The interaction approach focuses on the relationships between actors as the central unit of analysis rather than the individual transaction. The main body of concern has been the long-term processes.

The IMP interaction approach was developed with reference to two major theoretical approaches from outside the marketing literature namely, the Inter-Organizational Theory and the New Institutional Economic Theory (Hakansson 1982). The IMP interaction

approach was developed in the 1980s by a group of researchers called the Industrial Marketing and Purchasing (IMP) research group (Johnsen et al. 2008 p.24). This was following their large international empirical survey and in-depth case studies of buyer-seller relationships (Turnbull and Cunningham 1981; Hakansson 1982). The findings changed the way buyer-seller relations were understood in a number of ways (Johnsen et al. 2008 p.24). First, that the relationships were characterised by long-term relationship evolution and processes of institutionalization and adaptation rather than discrete one-off exchanges or transactions. Second, the approach emphasizes the important role of social interactions occurring in parallel with business interactions. Third, most fundamental was interaction rather than action and re-action. Related to this Rice (1992) notes that the IMP interaction approach stresses the importance of relationships between suppliers and customers rather than focusing on discrete purchase occasions.

The IMP interaction approach shares some of the advantages and disadvantages of both the marketing literature and the purchasing literature (Olsen and Ellram 1997). Olsen and Ellram (1997) discuss that the strength of the IMP approach is its face validity, its strong theoretical basis, and its extensive empirical testing using case studies of over 1000 buyer-supplier relationships. The model describes both micro and macro aspects, thereby combining some of the advantages of both approaches (Olsen and Ellram 1997). Unlike traditional approaches, the interaction approach recognizes the important role of social interactions that occur in parallel with business interactions (Johnsen et al. 2008 p.66).

The IMP interaction approach is a mixture of both the marketing literature approach and the purchasing literature approach (Olsen and Ellram 1997). For instance they explain that the marketing literature tends to focus on the micro aspects of the relationship, such as what constructs (trust, commitment, dependence, etc.) describe the relationship and how

these constructs are related, developing a basic understanding of the constructs describing buyer-supplier relationships. On the other hand, the purchasing literature focuses more on the general reasons for relationship formation and reports on actual results in companies (the macro level of the relationships). The interaction model depicts relationships on a macro level but the constructs inherent in the model, such as the variables describing the atmosphere, describe the relationship on a micro level (Olsen and Ellram 1997).

Essentially, the interaction approach provides a picture of inter-organizational relationships and exchange processes within them (Johnsen et al. 2008 p.24). The approach distinguishes between short-term episodic exchange, such as the placing of an order, and long-term exchange within relationships that institutionalize and adapt (Hakansson 1982; Johnsen et al. 2008 p.68).

According to the IMP interaction approach, the four types of variables that describe and influence the interaction between supplier and buyer organisations are: a) the elements and process of interaction; b) the participants involved in the interaction (individually and organisationally); c) the environment in which the interaction takes place; and d) the atmosphere affecting (and affected by) the interaction (Hakansson 1982). Among the four variables, this study's focus on value co-creation relates mostly to the process of interaction. Therefore, in consideration of the whole IMP interaction approach, this study assumes that value co-creation takes place at the interaction process component level. At this point, both firms in a relationship are active.

According to Ford et al (2006 p.46), interaction is the process of managing a company's customer relationships with that customer and it is considered to be at the heart of business marketing and purchasing and largely distinguishes it from consumer marketing.

Interaction recognises that neither customer nor supplier is free to act independently whether in a single relationship or in a network as a whole but rather each company is interdependent with others in its relationships (Ford et al 2006 p.46). In other words, companies need each other and the processes that occur in business relationships are those of interaction rather than those of independent actions (Ford et al 2006 p.40). Furthermore, by definition, any business relationship is the outcome of the managerial efforts of both collaborating firms. A supplier alone cannot manage its interaction with customers completely (Ford et al 2006 p.193).

Eng (2007) highlights that the interaction of firms in relationships entails the exchange, use, development and access to organisational resources. Accordingly, a business relationship has to capitalize on the respective skills, resources and technologies of both the companies and has to contribute towards problem solving for both the customer and the supplier (Ford et al 2006 p.45). With respect to the IMP interaction approach as a whole, this study assumes that value co-creation takes place at the process component level. At this point, both firms in a relationship are active. Also, considering this study's general question 'How?' then among the four variables of the interaction approach (participants, process, atmosphere and, environment), the process becomes the most relevant in this instance.

Hakansson (1982) indicates that social exchange episodes may be important in themselves in avoiding short-term difficulties between the two interacting parties and in maintaining a relationship in the periods between transactions. Furthermore it is recognised that information and social exchange between parties can continue for a considerable time without there being an exchange of product or money. For instance,

literature, specification development and visits between companies can occur before the first order is placed or between widely spaced individual orders (Hakansson 1982).

Interaction is a basic prerequisite for a relationship (it is what makes a relationship) and it is the means of two companies getting to (and making use of) each other's resources (Forsström 2005a). Relationships constitute the core aspect which connects actors, resources and activities in a business network (Holmlund and Törnroos 1997). Two aspects are identified by Holmlund and Törnroos (1997) as characterizing marketing through relationships. Firstly, interactions are connected to both previous and future interactions between the counterparts. Secondly, two or more counterparts may become interdependent over time as they continue to interact.

Interaction recognises that firms are interdependent with the other in the relationship (Ford et al. 2006 p.46). In other words, the interaction approach perceives business relationships as consisting of interdependent actors whose activities within the relationship are contingent on each other and accordingly the approach considers the relationship itself the unit of analysis (Henneberg et al. 2009). Firms choose to get involved in a relationship due to the conviction that being involved in a long-term relationship is a more fruitful way of organizing business activities, and that there is more to gain from this way of conducting business than there is from changing partner for each transaction (Forsström 2005a).

According to the approach, the interaction takes place between actors or parties who could be individuals or organisations. The parties in the short term exchange products and services (offerings), information, finance and social aspects. Through continued exchanges, they develop relationships and hence institutionalization or adaptations.

Adaptations may be in either the elements exchanged or the process of exchange and can occur during the process of a single major transaction or over the time of a relationship involving many individual transactions. Adaptations could be in product, in financial arrangements, in information routines or social relations (Hakansson 1982). While modifications to product, delivery, pricing, information routines and even the organization itself are part of the suppliers marketing strategy, on the other hand the customer organization will consider adaptations in its own product requirements, its production methods, the price it is prepared to accept, its information needs and the modification of its own delivery or stocking policies in order to accommodate the supplier organization (Hakansson 1982).

Adaptations reflect mutual commitment and this can be made in technical, administrative and logistic activities (Johnsen 2004). The network actors are operating in an atmosphere characterised by power-dependency, cooperation, closeness and expectations. This is happening in a wider environment characterised by market structures, dynamism, internationalization, position in the manufacturing channel and social systems.

The atmosphere encapsulates the interaction process and is described in terms of the power-dependence relationship between the parties, the level of conflict and/or cooperation, overall closeness or distance, and companies' mutual expectations (Hakansson 1982). Atmosphere is the outcome of as well as the condition for human interaction (Hedaa and Törnroos 2007). Lastly, the environment consists of market structure, dynamism, internationalization, position in the manufacturing channel (value or supply chain) and the social system. Atmosphere is considered as a group of intervening

variables, defined by various combinations of environmental, company specific, and interaction process characteristics (Hakansson 1982). Atmosphere is the factors that affect customer-supplier relationships as a combination of variables defined by various combinations of environmental, company specific and interaction process characteristics.

The IMP interaction approach serves as a firm theoretical starting point in positioning this study theoretically because it establishes some of the inherent characteristics of customer-supplier relationships in business relationships. According to the approach (Hakansson 1982; Ford 2002 p.22): a) buyer and seller are active participants in the market. This implies that marketing is not considered one-sided and characterised by action of one party and reaction of the other but rather both supplier and customer are active and operate collaboratively. b) The relationship between buyer and seller is frequently long-term, close, and involves a complex pattern of interaction between and within each company. c) The links between buyer and seller often become institutionalized into a set of roles that each party expects the other to perform, for example the division of product development responsibility, or the decision as to who should carry inventory and test products. d) Close relationships are often considered in the context of continuous raw material or component supply. The importance of previous purchases, mutual evaluation, and the associated relationship between the companies is emphasized in the case of infrequently purchased products.

Although it is well recognised that managing and developing a relationship is not an isolated activity but just one piece in a larger network (Ford et al 2006 p.32), for analytical purposes, this study chooses to focus on a dyad. In other words a dyad which is

the unit of analysis in this study is embedded in a larger network, and simultaneously connected to a number of actors in a network.

Applying the assumptions of the interaction approach, for instance where two interacting parties are active in creating something, this study assumes that there are two parties, a customer and a supplier that are actively involved in creating value in the relationship. Therefore, it is not one party that is creating value and the other one consuming it but instead both parties are actively involved in creating value jointly and therefore value co-creation rather than value creation.

Henneberg et al. (2009) suggests that the interaction approach perceives business relationships as consisting of interdependent actors whose activities within the relationship are contingent on each other. They explain that the relationship itself becomes the unit of analysis of the interaction model while the 'in-between' represents the research phenomenon (the *explanandum*), not the actions of firms.

According to Hedaa and Törnroos (2007), the semiosphere penetrates all dimensions of life and consists in a complexity of communication: sounds, odour, movements, colours, electro-magnetic fields, waves of any kind, chemical signals, touch, speech, etc. They suggest that semiotics relates to signs of for instance a party possessing or acquiring power, dependency, co-operation, conflict, distance and closeness.

The IMP approach has the advantage at least of its ability to combine views from both business marketing and business purchasing and further, it is characterised by strength in its face validity, its strong theoretical basis, and its extensive empirical testing using case studies of over a thousand buyer-supplier relationships (Olsen and Ellram 1997). Indeed,

the approach is considered the best equipped theoretical framework to deal with the various issues pertaining to buyer-seller relationships (Wilson and Mummalaneni 1986; Metcalf et al. 1992).

Moreover, the interaction approach serves as a firm theoretical point in positioning this study theoretically because it establishes some of the inherent characteristics of customer-supplier relationships in business relationships. The assumptions of the interaction approach are (Hakansson 1982; Ford 2002 p.22): (a) buyer and seller are active participants in the market; (b) the relationship between buyer and seller is frequently long-term, close, and involves a complex pattern of interaction between and within each company; (c) the links between buyer and seller often become institutionalized into a set of roles that each party expects the other to perform; and (d) close relationships are often considered in the context of continuous raw material or components supply.

Applying the assumptions of the IMP interaction approach, for instance where two interacting parties are active in creating something together, this study assumes that since at least two active parties are involved (herewith a larger customer and SME supplier) collaboratively in the interaction process, then it is not one party that is creating value alone for the other but rather both parties are actively involved. Accordingly, similar to other studies (e.g. Forsström 2005; Lefaix-Durand 2008), this study adopts the term value co-creation rather than value creation to signify that both parties are involved collaboratively as opposed to one party independently. There are many studies that have adopted the IMP interaction approach in the past. These are summarised in Table 6.

**Table 6: Summary of studies that have used IMP interaction approach**

<b>Sector</b>	<b>Summary of study</b>	<b>Methodology</b>	<b>Findings</b>	<b>Authors</b>
International trade shows	Used interaction approach to examine the role of trade shows in industrial firms' international marketing strategies	Conceptual/review of literature	-developed propositions based on the four variables of the IMP approach	(Rice 1992)
Shipping	-explore the phenomenon of value co-creation in an industrial buyer-seller partnership, how such a partnership emerges and develops, and what the prerequisites for value co-creation are	Single case study adopting constructivist philosophical stance	- no universal definition of value in the context of industrial relationships, but a notion that it is context-, time-, and actor dependent - once a partnership exists, the value co-creation potential is realizable through exploiting interdependencies	Forsström (2005a)
Generic	-aim to look more closely at the concept of relationship atmosphere presented by IMP-related research to see how well it has been defined and used in studies of business interaction.	Review of literature/conceptual	-many atmospheres exist simultaneously in each inter-organizational relationship -the surrounding has process rather than state characteristics - recommend replacing atmosphere with semiosphere with the potential to stimulate more research on complicated communication phenomena in seller-buyer relationships -suggest that if atmosphere were to be a useful concept in future interaction research it should be reserved as a category of emotions, and be held in the plural: atmospheres.	(Hedaa and Törnroos 2007)

Sector	Summary of study	Methodology	Findings	Authors
Information and communications technology (ICT)	<ul style="list-style-type: none"> <li>-illustrates characteristics of the ICT sector.</li> <li>-describes the nature of asymmetric technology partnership formation in the high-velocity environment.</li> <li>-describes the basic assumptions and propositions posed by the interaction approach.</li> <li>-draws some conclusions of the suitability of the interaction approach and present some guidelines for further research on the asymmetric technology partnership formation in the high-velocity environment.</li> </ul>	<ul style="list-style-type: none"> <li>Case studies with 8 small software firms</li> <li>asymmetric technology partnerships with 5 large firms were empirically analysed</li> </ul>	<ul style="list-style-type: none"> <li>-interaction approach provides appropriate conceptual framework for understanding dyadic inter-organisational relationships in general</li> <li>-however, the general and parsimonious nature of the theory makes it abstract and applicable basically to any situation</li> <li>-recalls for a more context specific or some sub-theory of the interaction approach to the high-velocity environment.</li> <li>-recommends exploration of possibility to combine the real (strategic) options theory originating to dealing with decision-making on risky investments to the interaction approach.</li> </ul>	(Blomqvist et al. 2002)
Aircraft in US	<ul style="list-style-type: none"> <li>-specified relationship (developed hypothesis) between constructs of IMP model (cooperation and adaptation, and the four elements exchanged) and empirically tested the relationship in US business environment.</li> </ul>	<ul style="list-style-type: none"> <li>-9 manufacturers of commercial aircraft engines (casting for aircraft engines)</li> <li>-interviewed both customer and supplier</li> <li>-evaluation done on four and five-point rating scales</li> <li>-did quantitative analysis including multiple regression analysis</li> </ul>	<ul style="list-style-type: none"> <li>-the size of business markets is likely to increase while the number of suppliers is likely to decrease in future due to rapid adoption of JIT manufacturing systems</li> <li>-there is reduction in number of suppliers that manufacturers deal with</li> <li>-industrial managers need to understand the critical factors that will enable them to develop close relationship with customers</li> <li>-confirmed that the interaction processes conceived by European IMP model also applied in US business environment</li> </ul>	Metcalf et al. (1992)

Source: author's compilation

## **2.11 Summary of the chapter**

The reviewed literature suggests an increasing trend towards emphasis on long-term business relationships which is contrary to the competition axiom. This change is occurring in tandem with the shift from industrial era to information age. The review highlights the increasing tendency to integrate customers in the value-creating process and hence value co-creation. Both customers and suppliers are actively involved in value co-creation unlike traditionally where the roles of producers (production) and customer/consumers (consumption/value destruction) were distinct. This is becoming blurred as both parties become involved in value co-creation. Given the focus of the study on the customer-supplier dyad and considering both parties to be active and in a long-term relationship, then the IMP interaction is found appropriate in grounding this work theoretically.

## **Chapter 3. Development of conceptual framework**

### **3.1 Overview of the chapter**

This chapter develops the conceptual framework to examine the phenomenon of value co-creation between larger customers and SME suppliers. The key themes of the thesis, namely, collaboration, value co-creation and co-created value are discussed in detail. A framework that links them parsimoniously is developed. The chapter concludes with its summary.

### **3.2 Collaboration and value co-creation**

Collaboration refers to many types of joint activities, from periodic information sharing to complex, multiyear development and marketing projects (Prahalad and Ramaswamy 2004 p.197). Collaboration is paramount in business relationships and accordingly, the importance of collaborative capability is underscored by Lusch et al. (2007). Lusch et al. (2007) suggest that there is one competence that is pivotal to any firm that wants to have sustained competitive advantage. They identify this competence as collaborative competence. They consider it to be pivotal because it assists in the development of two additional meta-competences (absorptive and adaptive) that they contend are critical in complex, dynamic, and turbulent environments.

They (Lusch et al. 2007) define absorptive competence as the ability of an organization to be able to comprehend from the external environment the important trends and know-how. This will assist in transforming these external environments into important resources that the firm can draw upon for support. Collaborative competency will aid a firm in

absorbing new information and knowledge from partners or improve its absorptive competence. On the other hand, they define adaptive competence as the ability of an organization to adjust to changing circumstances. By developing collaborative competence, they indicate that the entity is able to use its partner firms as mechanisms for adapting to change brought about by complex and turbulent environments and thus, improve its adaptive competence.

Better collaborative competency, coupled with improved absorptive competence and adaptive competence, can be used by an organization to lower its relative resource cost and enhance its relative value proposition (Hunt 2000). The only possible way to realize and maintain a nirvana position (position characterised by ability to offer more efficient and effective solutions to the marketplace) is to have superior collaborative competency because it leverages a firm's ability to absorb information and knowledge from the environment, customers, and its value networks and enables firms to adapt to dynamic and complex environments (Lusch et al. 2007).

Prahalad and Ramaswamy (2004 p.203) suggest that in the context of value co-creation, building the capacity to collaborate is in essence building the capacity to compete and that this is a more important dimension of strategy than any specific competitive move. Co-creation requires constant adjustments and adaptation to the evolving dynamics among consumers, suppliers, and companies. Furthermore, value creation opportunities mainly include: changing customer preferences and lifestyle; harnessing technological developments; and changes in industry logistics (Payne et al. 2008).

### **3.3 Collaborative areas in business relationships**

There are many areas in which customers and suppliers have been found to collaborate in the context of business relationships. Table 7 shows some of these collaborative activities. In addition, Agndal and Nilsson (2009) suggest six activities that are involved when taking the perspective of exchange as a process where both buyers and sellers play important roles. These are: supplier evaluation and selection which is largely a matching process between a supplier capabilities and buyers' needs; concept discussion; joint product design which is in many cases critical for cost reduction; joint process development whereby decisions are made concerning machinery, component-specific tools, sub-contracting and forms of interaction between supplier and buyer; price revisions with the purpose of offsetting costs or changes in the market, both over longer periods of time and changes occurring between signing of initial agreement and commencement of full-speed production; and, product and process redesign for instance in regard to changes in product features such as materials and design elements and also changes in manufacturing processes.

According to Day (2000), customers and suppliers can be connected in numerous ways including: (a) information-sharing which may range from simply opening the lines of communication and sharing the rationale for decisions to complete electronic data interchange (EDI) connections that link the partners with a digital umbilical cord of order, status, and payment information; (b) close links that can be created through social networks at all levels of management if a collaborative partnership is desired; and (c) process integration whereby the processes of two partners are jointly designed and managed. This may entail coordinating the order-fulfilment process, as well as joint staffing of process teams. Also, some firms have customers and suppliers in their new

product development teams to get early inputs, to share information more fully, and to achieve smooth integration.

Lee et al. (2006) enumerate indicators of a strong relational integration as including incidents of boundary-spanning tasks and activities, exchange of personnel for collaborative decision-making and formal, long-standing contracts designed around cooperative functions. Furthermore, in regard to internet-based information systems, the study cites the creation of an inter-organizational system that facilitates electronic exchanges and interactions among participating organizations (suppliers and customer firms). Moreira (2009) identified some of the main mechanisms used by larger customers to transfer capability flows to small suppliers as: a) product and process related specifications; b) annually negotiated improvement plans (cost, quality and delivery); c) quality management systems manuals; d) supplier assistance service and auditing; e) meetings and seminars; and f) training and visits. This study argues that the various collaborative/connection areas between customers and suppliers (e.g Day 2000; Lee et al. 2006; Moreira 2009) are manifestations of opportunities for value co-creation.

Susan and Gibbs (1995) identify several areas that were characterised by involvement of both supplier (manufacturers) of premium-differentiated beef products and their customers (supermarkets). These include the process of developing the product concept, forecasting volumes and timing, taste trials, development of product specifications, packaging, price negotiations and promotion. This study considers all these to be aspects of value co-creation in the customer-supplier dyad.

**Table 7: Literature on collaborative activities in customer-supplier relationships**

<b>Authors</b>	<b>E/ C*</b>	<b>Latent variables</b>	<b>Dimension</b>	<b>Observed variables</b>
Frohlich and Westbrook (2001)	E	Integration	Sharing resources	Access to planning systems; sharing production plans; common use of third-party logistics Joint EDI access/networks; common logistical equipment/containers Knowledge of inventory mix/levels
			Others	Packaging customization
Stank et al. (2001)	E	Collaboration	Sharing resources	Sharing operational information
			Collaborative process Operation	Integrating operations; operational flexibility Arrangements that operate under principles of shared rewards and risks
			Collaborative process Improvement	Developing performance measures Benchmarking best practices/processes
Gimenez and Ventura (2003; 2005)	E	Integration	Sharing resources	Shared information
			Collaborative process Operation	Joint planning to anticipate and resolve operative problems
			Collaborative process improvement	Joint development of logistics processes Established work team for the implementation and development of CRP or other ECR practice

Authors	E/ C*	Latent variables	Dimension	Observed variables
				Joint establishment of objectives; joint development of the responsibilities' understanding; joint decisions about ways to improve cost efficiencies
Rodrigues et al. (2004)	E	Integrated operations	Others Sharing resources Collaborative process operation Collaborative process Improvement	Informal teamwork Sharing operational information Operational flexibility; integrating operations Initiatives to standardize supply chain practices Initiatives to standardize operations
Sanders and Premus (2005)	E	Collaboration	Sharing resources  Collaborative process operation	Sharing cost information Sharing operations information; sharing cross-functional processes;  Engaging in collaborative planning
Simatupang and Sridharan (2005)	E	Information sharing	Sharing resources	Promotional events; Demand forecast; POS data; price changes; inventory-holding costs; on-hand inventory levels; inventory policy; supply disruptions; delivery schedules Order status or order tracking;
		Decision synchronization	Collaborative process operation	Joint plan on product assortment, promotional events; joint development of demand forecasts; joint resolution on forecast exceptions, order exceptions; consultation on pricing policy; joint decision on availability level, inventory requirements, optimal order quantity
		Incentive alignment	Collaborative process operation	Joint frequent shopper programmes; shared saving on reduced inventory costs; delivery guarantee for a peak demand; allowance for product defects; subsidies for retail price markdowns; agreements on order changes

<b>Authors</b>	<b>E/ C*</b>	<b>Latent variables</b>	<b>Dimension</b>	<b>Observed variables</b>
Agndal and Nilsson (2009)	E	Collaboration	Collaborative process operation	Supplier evaluation and selection; price revisions Concept discussion; joint product design; joint process development; product and process redesign
Day (1994)	C	Collaboration	Collaborative process operation	Jointly planning for promotional activity Harmonizing systems; jointly planning for product changes
		Information sharing	Sharing resources	Sharing logistics; sharing product movement information
Lavie (2007)	E	Collaboration	Sharing resources	Technology network resources were measured as the mean value of R&D investments of partners in the focal firm's alliance portfolio  Marketing network resources proxied by the mean value of advertising investments of partners; financial network resources calculated based on the mean value of cash funds available to partners Human network resources as indicated by the mean number of employees of partner organizations.
Moreira (2009)	E	Collaboration	Collaborative process operation	Product and process-related specifications  Annually negotiated improvement plans (cost, quality and delivery); Training and visits; quality management systems manuals; meetings and seminars Assistance service and auditing
Prahalad and Ramaswamy (2004 p.200)	C	Collaboration	Collaborative process Operation	Collaboration improves costs and response times, increases sales and marketing opportunities, and can enhance customer satisfaction
Prahalad and Ramaswamy (2004)	C	Collaboration	Collaborative process operation	Collaboration can also help companies to improve cycle time and cost reduction, achieve scale and scope, access knowledge, leverage investment, enhance

<b>Authors</b>	<b>E/ C*</b>	<b>Latent variables</b>	<b>Dimension</b>	<b>Observed variables</b>
p.198)				change - for instance a firm may find a partner a role model for change and a method for infusing a new culture
Cooper and Slagmulder (2004)	E	Collaboration	Sharing resources	Physical assets specificity Human assets specificity Sharing of strategic information

\*E/C represents empirical/conceptual

Source: Nakano (2009) plus others compiled by author

Similar to Hakansson and Snehota's (1995) conceptualization that actors in relationships interact through activity links, resource ties and actor bonds, Forstrom (2005 p.84) suggests that actors are involved in relationships along three dimensions. These are coordination of activities e.g. an integrated delivery system, adaptations of resources e.g. jointly developing product or process, and interaction among individuals. In regard to a single relationship, based on the ARA (Activities, Resources, and Actor bonds) model, activity links relate to systematically linking together some of the activities that are performed in a supplier and customer firm. This may involve linking the basic service or production activities of the firms e.g. producing input to customers to required specifications (adaptation) as well as linking activities that facilitate or control a production processes, for instance reducing inventory at both parties by ensuring "Just-in-Time" supplies (Ford et al. 2006 p.27). Resource ties may involve tying together physical facilities or knowledge resources of suppliers and customers (p.29). Finally, actor bonds relate to the social dimensions of a relationship and arise from people interacting and getting to know each other (p.30). It relates to development of commitment and trust between them.

In general, based on literature, collaborative areas in business relationships include: planning, technical inter-linkages, innovation and design dependence, development of knowledge and skills, joint teams, coordination and information-sharing, and development of commensurate cultures. These areas are discussed further in the next section.

### **3.3.1 Innovation and design dependence**

Increasing market changes and global competition call for more frequent and higher quality innovations from suppliers. The implication of this is the need for suppliers to adopt approaches that reduce product development time and cost, while improving the value of their innovations to their customers. The collaboration by customers and suppliers on product development is likely to yield benefits in relation to time-to-market of new products, product quality, development costs, and production costs (Wagner and Hoegl 2006). This can also help the customer gain new competences, share risks, move faster into new markets, and conserve resources (*ibid*). Furthermore, firms collaborating on product innovations can generate knowledge-sharing routines, complementary resource endowments and relationship assets (Dyer and Singh, 1998). Relationships therefore have the potential to enhance innovation and the speed at which products are introduced to the market (Rindfleisch and Moorman 2001).

Continuous innovation is imperative for suppliers to sustain their position and thrive as preferred suppliers to larger customers in dynamic environments. An innovation may enhance the customer-supplier relationship because it strengthens the competence of the SME to operate more effectively in meeting market demands and improving their knowledge of relationship development. There is increasing collaboration by customers and suppliers on development of innovations. As Schiele (2006) notes: innovation is no longer the sole domain of a remote laboratory of a firm anymore, but involves the supply chain, including the firms' suppliers. Moreover, the development of innovations is commonly taking place through joint action between the supplier and customer in multifunctional teams (Möller and Törrönen 2003) that create new layers of value across organisations. Therefore, relationships with customers become more important as a source and support for small suppliers' innovations.

Cooper and Slagmulder (2004) note joint design activities as a useful area for customer supplier collaboration. The study states that customer-supplier relationships may yield benefits in the form of lower costs and higher functionality of the end product. These are likely to be realized through joint design activities by customers and suppliers. Customers' involvement in design may be enhanced by the internet through online involvement and hence the internet provides opportunities for value co-creation (Holbrook and Hirschman 1982).

Through collaborative innovation, a customer-supplier team can produce new product and process solutions that, if very successful, may form new industry standards (Möller and Törrönen 2003). According to Lall (1992), the hallmark of a technologically mature firm is the ability to identify a firm's scope for efficient specialization in technological activities, to extend and deepen these with experience and effort and to draw selectively on others to complement its own capabilities.

### **3.3.2 Collaborative planning**

Business marketing emphasizes the integration of the relationship partner into the organization's decision-making process (Harvey and Speier 2000). This may involve joint development of suppliers' and customers' structures, strategies and relationships (Johnsen and Ford 2006). The overall strategic alignment of similar goals and objectives of customers and suppliers is crucial to develop the value from the relationship (Barber 2008). Planning together by suppliers and customers is a characteristic of symmetrical managerial systems capability (Johnsen and Ford 2006). Relationship cooperation (level of joint decision-making) significantly influences the achievement of strategically-oriented goals (Ling-Yee and Ogunmokun 2001). This study anticipates that joint

planning by customer and supplier firms would be relevant in minimizing the misalignment of internal and external resource and transaction attributes which would otherwise reduce the potential for value co-creation (Verwaal et al. 2009).

The importance of overall strategic management in reducing conflicting strategies that would otherwise result to zero value generation for participants has been noted (Barber 2008) though in the context of overall supply-chain, while in this study the focus is only the larger customer-SME supplier dyad. This study argues similarly that overall strategic management in the customer-supplier dyad is essential because if customer and supplier firms do not have a common direction and set of goals, then each participant could potentially end up in conflict with each other's strategies and no value in the dyad will be realized if this occurs.

In his study on examination of the role of collaborative forecasting and planning on performance, Nakano (2009) categorizes the concept of collaboration into three dimensions: sharing resources, collaborative process operation, and collaborative process improvement. The study describes sharing resources as sharing standardized information (e.g., forecast, shipment, inventory, production, and purchasing data) and customized information (e.g., factors of demand fluctuation, and operational resources and constraints). Comparably, Cooper and Slagmulder (2004) suggest two forms in which resource-sharing may take place. The first is asset specificity (both physical and human) and this relates to the degree to which an asset can be redeployed to alternative uses without sacrifice of productive value. The second is sharing of strategic information and this may have benefits such as: enabling customers and suppliers to effectively undertake joint development projects; effective co-design for instance by sharing considerable information about each other's design plans early in the product development process;

and, allowing the other party to find new ways to reduce cost by sharing cost information. This sharing is important for value co-creation as it will enhance co-production of compelling value propositions. Furthermore, the sharing is likely to be characterised by dialogue, transparency and access which are relevant in value co-creation (Prahalad and Ramaswamy 2004 p.23).

The second dimension, collaborative process operation, is to connect forecast and plan based on a schedule established in advance and to re-examine activities to adjust deviations from forecast and plan when contingencies arise – that is, coordination by plan and coordination by feedback respectively (Nakano 2009). Collaborative process improvement is to redesign and implement the forecasting and planning process collaboratively and continuously and is particularly relevant to firms in an unstable environment and therefore need to continuously modify the sales and operations planning process to adapt to market uncertainty (Nakano 2009). Although the Nakano (2009) study considered both the internal and external aspects, in this study the focus is limited to external aspects as these are the ones that relate to the dyad which is the unit of analysis.

The managerial aspects especially in the supply chain, or in this study's context in the customer-supplier dyad and how it creates value for participants, has been recognised to be particularly difficult to measure although they are recognised as having many value-adding attributes (Barber 2008). This study anticipates that joint managerial activities may contribute to value co-creation mainly through a reduction in transactional and operational costs, especially when both customer and supplier firms jointly develop organisational structures that are adapted to each other. Also, collaborative development of business plans and strategies would be important in setting objectives such as levels of production by the supplier that are appropriate to serve the customer continuously

throughout the year. The customer would also develop confidence in the supplier due to his reliability thereby reducing cost of stocking contingencies. Consequently, value is likely to be created in the form of reduced levels of slack.

### **3.3.3 Development and sustenance of technological inter-linkages**

Customers and suppliers may also be connected through technical systems that are interlinked across the dyad of a larger customer and its SME supplier (Cooper and Slagmulder 2004). This is in line with what Lall (1992) refers to as linkage capabilities which comprise the skills needed to transmit and receive information, skills and technology to/from, component or raw material suppliers, subcontractors, consultants, service firms, and technology institutions. Likewise, Day (2000) emphasizes the importance of internally integrating and externally aligning the key supplier processes with the corresponding customer processes in enhancing effective creation and maintenance of customer-supplier relationships. Information and social exchange of customers and suppliers has been empirically shown to contribute significantly to the development of a co-operative atmosphere between the parties (Metcalf et al. 1992).

Johnsen and Ford (2006) highlight that, it is important to integrate the technical systems of smaller suppliers and their larger customers. This has the potential for co-creating value, for instance in terms of enabling technological problems to be identified and coped with at an early stage and creating opportunities for a more open forum for exchange of technological expertise between the two firms. Bilateral identification of technological requirements of customer and supplier would enable technological developments to be better planned and predicted (Johnsen and Ford 2006).

Kothandaraman and Wilson (2001) suggest that the linking of computer systems builds structural bonds that are difficult and expensive to break. For instance, because an incumbent relationship partner has inertia helping to maintain the relationship and as long as the incumbent continues to deliver value, it will be difficult for a new supplier to break the relationship. Unlike traditionally, business relationships are today influenced by the internet. For instance, electronic commerce offers the buyer a choice of how they connect with the supplier. This could for example be through a sales person, over the web or a combination of the two.

Kothandaraman and Wilson (2001) suggest two views about the potential impact of the internet on relationships. One is that the relationships will get less intense as the cost of coming together to perform business activity becomes less due to the increased connectivity offered by the Web. The alternative view is that the emerging arena would formulate business models that need closer relationships to be effective. They indicate that the impact of electronic commerce will be significant in future and is likely to vary across industries and that careful analysis is necessary to determine where and how it will vary. They express that electronic commerce will not replace traditional business-to-business relationships but will become an important extension to how business is conducted. For instance, it will be the potent force redefining value networks. There is likely to be an increase in disintermediation - removal of middlemen in today's world of electronic commerce. For example, the functions of distributors may be eroded as firms go direct to their customers or an E-intermediary places itself between the firm and its customer.

Gordon (1998 p.28) suggests four key roles that are served by technology within a company and between a company and its customers, namely, external communications,

internal communications and computing and content. Considering the focus of this study on the customer-supplier dyad rather than within a firm, then the role of technology in external communications becomes of particular interest. In regard to external communications, technology may play the role of facilitating two-way interaction between customer and supplier firms about every aspect of their requirements such as collaboration in product or service design, product co-development, pilot testing, ordering, review of inventory levels in one another's warehouses and account status information. Furthermore, it may provide a more rapid or informed communication than was possible with manual intervention. It may also play the role of opening new approaches to communicate between customer and supplier firms such as Interactive Voice Response (IVR), EDI and use of the internet to communicate between them. Randall (2001 p.247) also notes that firms may be linked through technical systems such as EDI which allows a customer and a supplier (retailer and manufacturer) to link their computers directly, thereby ensuring rapid communication and potential for reducing errors and cost savings in stock levels for both parties

According to Anderson and Narus (1990 p.43), an inter-firm relationship is a process where two firms form strong and extensive social, economic, service and technical ties over time, with the intention of lowering total costs and/or increasing value, thereby achieving mutual benefit. Lall (1992) note that firms may be interlinked technologically and suggests that technological linkages enhance the productive efficiency of an enterprise and also the diffusion of technology through the economy and the deepening of the industrial structure, both being essential to industrial development.

### **3.3.4 Bilateral development of knowledge and skills**

In business relationships, firms may improve their staff knowledge through the bilateral development of knowledge by the employees of suppliers and customers, as well as in the form of combined and new areas of knowledge and expertise developed through sharing and intertwining of both firms' knowledge and expertise (Johnsen and Ford 2006). Bilateral development of knowledge may be indicated by the customer and the supplier engaging in joint exchanges or development programs to facilitate knowledge-sharing (Johnsen and Ford 2006). New intellectual capital is created through the combination and exchange of existing intellectual resources, which may exist in the form of explicit and tacit knowledge and knowing capability (Nahapiet and Ghoshal 1998). The closer different assets are coupled, the better the chances to generate and store knowledge (Freiling 2004). Specialist knowledge and skills of a firm's people or employees and the way they are employed in relationships makes the firm attractive to other parties (Ford et al. 2003). In this vein, organic food and drink SME suppliers and larger customers may combine their capabilities and thereby develop new resources, knowledge and expertise. Consequently this would co-create value in the form of the development of unique combinations of offerings or innovations (Leonard-Barton 1992a).

The actor bonds across firms in relationships are likely to build social capital. Just like social capital facilitates the creation of intellectual capital in an organisation by affecting the conditions necessary for exchange and combination to occur (Nahapiet and Ghoshal 1998), this study argues that likewise the social capital created through actor bonds would be likely to facilitate the creation of intellectual capital through sharing and creating knowledge in the dyad of suppliers and customers in relationships. Social capital especially in the form of high levels of trust, diminishes the probability of opportunism and reduces the need for costly monitoring, and consequently reduces transactional cost

(Nahapiet and Ghoshal 1998). Social capital includes both actual and potential capital. Nahapiet and Ghoshal (1998) define social capital as the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit.

The ability of firms in a relationship to generate rents through knowledge-sharing is dependent on an alignment of incentives that encourages the partners to be transparent, to transfer knowledge, and not to free-ride on the knowledge acquired from the partner (Dyer and Singh 1998). Related to this, Möller (2006) indicates that the creation of relational value requires both the supplier and the customer to develop relational competences in addition to their existing internally-oriented competences.

The ability to exploit outside sources of knowledge is largely a function of the absorptive capacity (the ability of a firm to recognize the value of new, external information, assimilate it and apply it to commercial ends) of the recipient of knowledge (Kogut and Zander 1992). In a dyad, partner-specific absorptive capacity refers to the idea that a firm has developed the ability to recognize and assimilate valuable knowledge from a particular alliance (Dyer and Singh 1998), in this study the larger customer and the SME supplier relationship. It is a function of two factors (Dyer and Singh 1998). One of them is the extent to which partners have developed overlapping knowledge bases. The other one is the extent to which partners have developed interaction routines that maximize the frequency and intensity of socio-technical interactions. Partner-specific absorptive capacity is enhanced as individuals within the alliance partners get to know who knows what and where critical expertise resides within each firm (Dyer and Singh 1998).

In contrast with horizontal relationships, vertical inter-organisational relationships, as in the case of customer-supplier relationships, are particularly more productive in terms of transmitting knowledge because of their higher level of relational embeddedness and lower level of knowledge redundancy (Rindfleisch and Moorman 2001). Knowledge gained through interactive learning between two firms is more likely to permit a firm to add unique value to its own capabilities compared to that gained through passive or active learning which provide articulable (observable) knowledge and hence not rare, imperfectly traded or costly to imitate (Lane and Lubatkin 1998).

### **3.3.5 Joint teams**

To reduce total system costs while helping customers improve sales, it is increasingly common for both suppliers and customers to assign multifunctional teams to deal with each other at many levels, including harmonizing systems, sharing logistics and product movement information, and jointly planning for promotional activity and product changes (Day 1994). These joint teams signify value co-creation in the customer-supplier dyad.

There may also be the establishment of certain committees such as customer-supplier relationship management committees, setting up of new departments such as forecasting departments, re-assigning responsibility for inventory, and rebuilding forecasting and planning processes (Nakano 2009). Customers and suppliers may work together in co-production, for instance in regard to a project by establishing a joint steering committee, a mixed project management team, and a larger set of people and processes that belong to both customer and supplier firms (Ordanini and Pasini 2008). Effective product development routines typically involve the participation of cross-functional teams that bring together different sources of expertise (Eisenhardt and Martin 2000).

### **3.3.6 Cross-functional coordination and information-sharing**

Day (1994) highlights the importance of coordinating activities across the customer-supplier dyad in order to achieve mutually satisfactory collaboration. The study suggests that in addition to the scheduling of deliveries, new management processes are needed for: (1) joint production planning and scheduling; (2) management of information system links so each knows the other's requirements and status and orders can be communicated electronically; and (3) mutual commitments to the improvement of quality and reliability. The study suggests that the cross-functional coordination and information-sharing required of customers and suppliers to work collaboratively enhances shared understanding of the strategy and role of the different functions.

Alliance partners can increase partner-specific absorptive capacity by designing inter-firm routines that facilitate information-sharing and increasing socio-technical interactions (Dyer and Singh 1998). In this regard, large customers and their SME suppliers can increase each other's absorptive capacity by designing routines across them that facilitate information-sharing and increase socio-technical interactions. Day (1994) suggests that suppliers must be prepared to develop team-based mechanisms for continuously exchanging information about needs, problems, and emerging requirements and then take action. They must also be prepared to participate in the customer's development processes, even before the product specifications are established. This continuous exchange of information about needs and so on will enhance transparency which is essential for value co-creation.

In connection to sharing, Dyer and Singh (1998) suggest that the ability of firms in a relationship to generate rents through knowledge-sharing is dependent on an alignment of incentives that encourages the partners to be transparent, to transfer knowledge, and not to

free-ride on the knowledge acquired from the partner. Greater knowledge-sharing between customers and suppliers enhances learning, especially within supplier firms (Dyer and Hatch 2006). Gordon (1998 p.27) notes that a company that is interested in building and sustaining its relationship with customers needs to train, develop and grow people into owners of a process which seeks to build customer-bonding and purchase favourably. Related to this, Möller (2006) indicates that the creation of relational value requires both the supplier and the customer to develop relational competences in addition to their existing internally-oriented competences.

Gordon (1998 p.24) recommends that leadership must view sharing as a virtue and understand the real meaning of a relationship before committing the company to a long-term business relationship. A firm that is engaged in a business relationship will have executives in charge of improving and focusing the capabilities that advance relationships, such as people, processes, technology and, knowledge and insight (Gordon 1998 p.25). In other words, Gordon (1998 p.26) expresses the need to go beyond considering traditional organizational structures such as business units organized by product and market, and to consider organizing by relationship and capability and consequently have managers in charge of each material category.

### **3.3.7 Development and sustenance of commensurate culture**

Dyer and Singh (1998) suggest that relational rents (value) can only be realized if the firms have systems and cultures that are compatible enough to facilitate coordinated action. Bilateral development of supplier and customer's culture and values is necessary for a symmetrical relationship (Johnsen and Ford 2006). For a sustained relationship, it is essential that a customer's culture and values are conducive to the formation of an enduring relationship with suppliers (Gordon 1998 p.23).

Ploetner and Ehret (2006) perceive common norms, values and a shared vision as the key characteristics of successful partnerships. Comparably, Beugelsdijk et al. (2009) while reviewing literature, mention that differences in organizational culture may hamper the development of empathy thereby negatively influencing the relationship. Furthermore, according to Jap and Ganesan (2000), large perceived organizational cultural differences may negatively influence the feeling of “we-ness” that is an important aspect of relational norms. Nevertheless, although less successful inter-firm relationships tend to be characterised by larger differences in organisational culture, the relationship between cultural distance and perceived relationship performance was found not to be statistically significant (Beugelsdijk et al. 2009). Therefore, given that value could as well be created with a dissimilar culture, the objective should not be to make the culture similar but rather to understand each other’s culture and work together. A shared understanding of the differences is said in fact to be an important source of trust (Beugelsdijk et al. 2009). They suggest that if organizational norms and values are communicated and known to the partner, this may in fact positively affect the relational quality.

According to Day (2000), for effective creation and maintenance of customer-supplier relationships, a relationship orientation must pervade the mind-set, values, and norms of the organizations (suppliers) thereby influencing all interactions with the customer – before, during and after sale. From a supplier’s perspective, a relationship orientation appreciates the lifetime value of a customer, makes retention a priority and opens the collective mind-set to new possibilities for relationship-building. The study notes that it is essential to engage the entire organization (both hearts and minds), and hence the culture should be supportive and allow broad acceptance that every interaction matters. The relationship orientation mind-set ought to be adopted by all the relevant parties in the

organisation including the salesperson, gate agent, customer service representative, checkout clerk and senior manager. They conclude that the determinant of suppliers' success in developing a market-relating capability that is superior to their rivals depends on three elements namely, their willingness to change their mind-set and behaviour (orientation), to acquire knowledge and skills about their most valuable customers, and to integrate and align their key processes.

Beugelsdijk et al. (2006) use six dimensions of organizational culture in the investigation of its influence on relationship performance. These are results orientation, employee orientation, communication orientation, innovation orientation, stability orientation and team orientation. Using a sample of 102 SMEs' inter-firm relations, the study finds that firms with organizational cultures that are characterized by an orientation towards stability and predictability, a positive orientation towards innovation, and are not characterized by a strong focus on immediate results, scored high on relationship skills and in turn the relationship skills positively affected the perceived relationship performance. The study defines relationship skills as a firm's ability and behavioural tendency to actively cultivate and manage its ties with other firms, and defines relationship performance as the extent to which the relationship is perceived to be productive and rewarding. They indicate that relationship performance is different from overall firm performance in that the latter depends on a large number of variables, such as debt structure, degree of centralization, industry life cycle, etc., other than inter-firm relationships.

A structure of a company that is organized in such a way as to promote relationships with customers would be characterised by managers who own a specific category of relationship, such as that of current customers, new customers, employees, suppliers,

investors and so on (Gordon 1998 p.25). For example instead of having a sales and marketing department, such a company may have a department to create new value with current, important customers (Gordon 1998 p.25). Day (1994), acknowledge that strong leadership is essential in mobilizing the cross-functional capabilities to carry out the vision and this may involve designing the organization around the flow of value-adding activities rather than by distinct functions.

According to Day (1994), two themes are relevant in infusing discussions related to bracing for environmental dynamics. These are the power of a coherent and shared vision and the need for fundamental rethinking and radical redesign of core processes. The study elaborates on this by indicating that a vision or strategic intent (Hamel and Prahalad 1989) is a shared understanding of how the environment will unfold and what the business intends to become in the future. Nonetheless, Beugelsdijk et al. (2009) found that a shared vision can also be achieved between partner firms with different organizational cultures and therefore managers need not focus too much on achieving similarity. In spite of this, it is always vital that the firms in relationships do understand the similarities and differences between their cultures as this is essential in coping with conflict and inconsistency in the relationship (Gordon 1998 p.22).

### **3.4 Value co-creation and co-created in customer-supplier relationships**

#### **3.4.1 Value co-creation practices in business relationships**

According to Gulati et al. (2000), value could be created through access to valuable information, markets and technologies, and enhanced transaction efficiency and improved coordination between firms. They highlight that relationships potentially provide a firm with access to information, resources, markets, and technologies; with advantages from learning, scale, and scope economies; and allow firms to achieve strategic objectives,

such as sharing risks and outsourcing value-chain stages and organizational functions. They further suggest that a firm's relationships enhance the creation of inimitable and non-substitutable value as an inimitable resource by themselves, and as a means to access inimitable resources and capabilities. Srivastava et al. (2001) likewise remark that since relational assets are based on factors such as trust and reputation, the potential exists for any organization/supplier to develop intimate relations with customers to the point that they may be relatively rare and difficult for rivals to replicate and that relational resources tend to be intangible, hard to measure and therefore not nurtured. From a customer perspective, supplier relationships are one of the most important assets of a company (Forsström 2005a).

In general, the logic for a high-involvement relationship is either to benefit from cost benefits i.e. reduced costs in production and material flows, improved flexibility and service levels or to benefit from revenue benefits, by taking advantage of supplier skills and capability to improve the quality of product (Forsström 2005a). The relationship between larger customer and smaller supplier is essential in developing smaller suppliers technologically. One is by expanding the smaller suppliers' view of technical systems and technological innovation. Another is by offering opportunities for combining technologies that are available in the wider networks or rather through participation in collaboration between the two actors on new technological configurations (Ford and Saren 2001).

According to Martinez (2003), value resides in the satisfaction and fulfilment of a customer's expectations, at the same time generating wealth for the supplier firm (or organisation's shareholders). In this regard, the customer therefore gains through the satisfaction and the supplier gains through the wealth that is created for its shareholders. It is imperative for firms particularly in the business-to-business market to build

relationships to retain their most valuable customers in the long term especially because of the high cost of winning and losing customers (Doole and Lowe 2008 p.341). Barber (2008) notes that value is added most successfully with collaborative partnerships that recognize all contributing areas including processes, procedures, information and financial linkages, management of knowledge, innovation, strategies, change and relationships.

Anderson et al. (1994) indicate that the primary functions of the relationships corresponding to activities, resources, and actors are efficiency through interlinking of activities, creative leveraging of resource heterogeneity, and mutuality based on the self-interest of actors. They suggest that activities performed by two actors through their relationship, can be adapted to each other so that their combined efficiency is improved, such as in just-in-time exchange. Furthermore, they state that the two collaborating firms can learn about each other's resources and find new and better ways to combine them and that through working together, the two parties can learn how they can increase their benefits through cooperating.

Business relationships are especially essential in the wake of the trends towards the use of fewer suppliers which are driven mainly by quality improvement and uncertainty reduction (Han et al. 1993). In a study of asymmetric technology partnership formation in the ICT sector, Blomqvist et al. (2002) found that large firms were looking for complementary capabilities, technology options and flexibility while on the other hand small firms were looking for complementary resources, legitimacy and stability.

Uлага and Eggert (2006) find that a supplier's know-how provides many opportunities for value creation in a customer-supplier relationship. They explain that this is largely

through the suppliers' deep knowledge of the supply market, prior experience with customer operations and products, and through an early involvement in new product development. They further suggest that in relation to time to market, suppliers add value through accelerating design work, developing prototypes faster, and speeding up the testing and validation process.

### **3.4.2 Value co-created in business relationships**

Dwyer et al. (1987) indicate the benefits involved in buyer-seller relationships as including reduced uncertainty, managed dependence, exchange efficiency and social satisfactions from the association. Kingshott (2006) distinguishes two key aspects of mutual relationship performance or satisfaction. These are economic satisfaction relating to direct performance aspects like turnover and profit and social or non-economic satisfaction relating to indirect performance aspects. Indirect results of a relationship are often not anticipated, and may exist in improved market information, innovation, or other types of learning (Beugelsdijk et al. 2006). This lack of anticipation of results accentuates the importance for firms to focus on the experience environment that would enable customers to co-create value. Leek et al. (2006) note that relationships are likely to enhance joint product development, innovation, market access and competitive advantage.

Inter-firm relationships play a key role for instance in increasing sales volume or profits, developing innovations (Ritter and Gemunden 2003) and in co-creating value in general (Dyer and Chu 2003; Dyer and Singh 1998; Forsström 2005a; Möller 2006; Ulaga 2001; Wagner and Hoegl 2006). They are equivalently important in accessing, designing, and using resources across the customer and supplier firms (Gadde and Hakansson 2008). Collaborative approaches seek to lower acquisition and operating costs through the joint

efforts of customer and supplier (Cannon and Homburg 2001). Inter-firm relationships recognise that value would be created through a reduction in total cost including direct product costs, acquisition costs and operational costs when customers and suppliers work closely together (Fearne and Hughes 1999; Van Mieghem 1995).

Möller and Törrönen (2003) suggest that business relationships are beneficial in promoting efficiency, effectiveness, and networks. This arises through: increased direct revenue, increased volume of business, guaranteeing a level of business and revenue through contractual arrangements, product and process innovation, access to market and other information, and access to relevant other actors. Ulaga and Eggert (2006) suggest that business relationships may generate benefits such as improved product quality, delivery performance, service support, personal interaction, supplier know-how, and time to market.

According to Dwyer et al. (1987), the benefits involved in buyer-seller relationships include reduced uncertainty, managed dependence, exchange efficiency and social satisfactions from the association. Furthermore, Spekman and Carraway (2005) highlight the benefits of buyer-seller relationships as comprising reduced transaction costs, enhanced productivity, and higher economic returns for collaborating parties.

According to Chernatony et al. (2000), customers would be willing to pay price premiums if perceived benefits exceed perceived sacrifices, for instance, customers will pay more for products for reasons such as the associated peace of mind or symbolic value. Symbolic benefits include brand image or exclusiveness associated with ownership of a particular product (Srivastava et al. 2001). A brand that satisfies a customer's practical needs delivers functional value whereas a brand that satisfies a customer's self-expression

needs delivers symbolic value (Bhat and Reddy 1998). If one party for instance the supplier has global brand recognition, then the customers would be likely to gain from product status, lifestyle statement, and a feeling of superiority (Bititci et al. 2004). Some authors have cited quality as the customer's primary benefit and that the sacrifice of value exerts the greater influence on a customer's value perceptions (Monroe 1991). Customer value is characterised by quality, cost (monetary and non-monetary) and schedule (delivery: quantity, time and place) (Band 1991). From a co-creation perspective, the customer will be involved in co-production and consequently co-creation thereby defining the quality that suits them.

Dyer and Chu (2003) finds that relationships embodied with trust enhance value creation though reduced transaction costs. Furthermore, the collaborating firms can generate relational rents through relation-specific assets, knowledge-sharing routines, complementary resource endowments, and effective governance (Dyer and Singh 1998).

The benefits of supplier relationships are divided into cost benefits and revenue benefits (Gadde and Snehota 2000). Cost benefits include savings in costs of operation related to collaboration, for example joint product development and integrated logistics. Revenue benefits include solutions that increase revenue linked to product quality or performance. Pursuing a high-involvement relationship with a supplier is sensible only if the benefits of the involvement outweigh the costs. Through interdependencies, the study also shows that benefits may arise in the form of economies of integration, economies of scale and scope, and economies of innovation.

The benefits involved in buyer-seller relationships include reduced uncertainty, managed dependence, exchange efficiency and social satisfaction from the association (Dwyer et

al. 1987). There is also the possibility of gains in joint and consequently individual payoffs as a result of effective communication and collaboration to attain goals. Costs involve that of the resources in maintaining that association including those used in conflict and haggling processes. Also, the opportunity cost of foregone exchange with alternative partners (Dwyer et al. 1987). Spekman and Carraway (2005) highlights the benefits of buyer-seller relationships as comprising reduced transaction costs, enhanced productivity, and higher economic returns for collaborating parties (Spekman and Carraway 2005).

The benefits associated with high-involvement relationships may be summarized as follows (Ford et al. 2003 pp.91-101): access to both technical and commercial skills; lower operational costs; reduced development expenses for both companies; improved material flow for both companies; quicker and more cost-efficient problem-solving; reduced administration costs; learning, which can be applied in other relationships; and, access to other parts of the network.

Related to this, Ford et al. (2006 p.221) indicate that business relationships may provide value to customers and suppliers in many ways including: a) a relationship can lower operational costs because the supplier and/or customer have modified their offerings so that they “fit” more easily with that of the counterpart; b) a relationship can reduce development expenses for both companies based on information from each of them about their capabilities or the use of the offering; c) a relationship can improve material flow for both companies brought about by reduced inventories due to changes in delivery frequency and lot sizes; d) a relationship can lead to quicker and cheaper problem-solving through familiarity with each other’s ways of working and through trust in each other; e) a relationship can reduce administration costs through more integrated information

systems and because of experience of each other's ways of working; f) both customer and supplier in a relationship may be able to apply what they have learned in any one relationship to their other relationships; and, g) the companies may be able to gain access to other parts of a network through their relationship with particular customers and suppliers.

Customer-supplier relationships may be useful in generating experiential benefits. Experiential benefits include intangible factors such as perceived reliability, ease-of-use, and time required to learn about how to use the product (Srivastava et al. 2001). The study indicates that this allows the products or brands in question to enjoy a competitive advantage over others. In relation to experiential or hedonic perspectives, experiential consumption may include the flow of fantasies, feelings and fun in which processes are more sub-conscious and private in nature (Holbrook and Hirschman 1982; Payne et al. 2009). In a study of collaboration between beef suppliers and supermarket customers, Susan and Gibbs (1995) identified the benefits to the collaboration as increased net margins for both retailer and processor. There was also reduced risk and increased price stability for both parties. Farmers also benefited through better returns for the animals and a stable outlet for their products.

There is a myriad of benefits that the collaborating firms would be likely to receive. Based largely on a literature review, Bititci et al. (2004) enumerate them as including: increased market share, increased asset utilization, enhanced customer services, reduced cost of new product development, reduced time in product development, decreased risk of failure of product development, increased quality of product, enhanced skill and knowledge, enhanced technological capabilities, sharing risk due to the complexity and rapid rate of product obsolescence, rapid access to market, economies of scale, reduced

order fulfilment time, rapid response to customer complaint, and inventory reductions. Ford and McDowell (1999) suggest that by developing a relationship with the customer, the supplier expects this to lead directly to increased market share as it becomes the customer's preferred channel to market. On the other hand the customer expects to improve his cost basis from the relationship. According to Dyer and Singh (1998), relation-specific investments may generate value through lower total value chain costs, greater product differentiation, fewer defects, and faster product development cycles. They highlight that through business relationships, long-term suppliers not only gain access to global markets but also receive technical assistance, leased equipment, and advice on bringing production up to world quality standards.

The benefits or value co-created in relationships may be implied from the objectives of relationship oriented marketing that Doole and Lowe (2008 p.339) indicate. These are to: a) maintain and build existing customers by offering more tailored and cost-effective business solutions; b) use existing relationships to obtain referral to business units and other supply chain members that are perhaps in different parts of the world and not currently customers; c) increase the revenue from customers by offering solutions that are a combination of products and services; and d) reduce operational and communications costs of servicing the customers, including the work prior to the trading relationship.

According to Prahalad and Ramaswamy (2004 p.200), collaboration improves costs and response times, increases sales and marketing opportunities, and can enhance customer satisfaction. Collaboration can also help companies to improve cycle time and cost reduction, achieve scale and scope, access knowledge, leverage investment, and enhance change. For instance, a firm may find a partner a role model for change and method for infusing a new culture (Prahalad and Ramaswamy 2004 p.198). Cannon and Homburg

(2001) indicate that relationships are likely to yield benefits to the customer in terms of reduced direct costs, acquisition costs, and operations costs. Kothandaraman and Wilson (2001) suggest that value can be created through lower prices, a value-added product, and a deep relationship that creates value through reducing transaction costs. Co-creation can also reduce costs and add to the convenience of a service (Payne et al. 2009).

Involving a supplier in product development is important in many ways including reducing the internal R&D headcount and resources as well as in creating access to knowledge located with suppliers (Wagner and Hoegl 2006). The study also indicates that the involvement is likely to yield benefits in connection with time-to-market of new products, product quality, development cost, and product cost as well as help to the customer to gain new competences, share risks, move faster into new markets, and conserve resources. Rindfleisch and Moorman (2001) concur that relationships through alliances enhance innovation and speed at which products are introduced to the market.

Customer-supplier relationships may also yield benefits in the form of lower costs and higher functionality of the end product that are likely to be realized through joint design activities by customers and suppliers (Cooper and Slagmulder 2004). The joint activities signify value co-creation. By sustaining a continuous stream of breakthrough designs and products with new and unique features, the customers would benefit by having access to new innovative designs and products never seen before (Bititci et al. 2004). To achieve this, it would require the supplier to have a long-term vision, robust R&D and product development capability as well as the capacity to innovate within short product lifecycles. Furthermore, by tailoring specific and continuous solutions for carefully selected customers on the basis of a permanent relationship, the customer would benefit through access to tailored products and services (Bititci et al. 2004). Also, by building

streamlined processes to make life simple and uncomplicated for customers in a novel and profitable way, the customer would benefit through convenience and availability of products (Bititci et al. 2004).

Randall (2001 p.247) notes the potential benefits in linking firms through technical systems such as EDI. It allows a customer and a supplier (retailer and manufacturer) to link their computers directly. This has the advantage of allowing rapid communication and has potential for reducing errors. Randall (2001 p.247) remarks that EDI has the co-creation potential in the form of cost savings to both parties and also savings in stock levels as well as in generating greater co-operation across the parties involved. The motives and means of suppliers getting closer to customers are enhanced by network technologies that enable addressability, interactivity and demand chain coordination (Day 2000). Lall (1992) indicates that technological linkages enhance the productive efficiency of an enterprise and also the diffusion of technology through the economy and the deepening of the industrial structure, both essential to industrial development.

Customer-supplier relationships especially those characterised by trust tend to exhibit greater information sharing (Dyer and Chu 2003) with potential value co-creation for instance through avoidance of costly crash programs that would likely arise from lack of early communication say on availability and delivery changes by suppliers (Cannon and Homburg 2001). Trust in customer-supplier relationships also plays the key role of stimulating new ideas and innovation among the relating parties (Cooper and Slagmulder 2004).

It is expected that relationships allow greater involvement by customers in product development and hence provide opportunities for them to express their preferences

thereby yielding customized products. Such customization has been shown empirically to bring about higher benefits for customers in terms of willingness to pay, purchase intention and attitude towards the product than with standard products (Franke et al. 2009).

The contribution of formal and informal relationships is consistently cited as a key driver of innovation and likewise business relationships and networks are considered important to firms in many ways including: sharing and discussion of ideas; shared learning around addressing problems and constraints to growth; supply chain development; and addressing the negative impact of isolation (Mahroum et al. 2007).

One of the potential benefits of strong external relations is joint innovation (Gemünden et al. 1996). In business relationships, customers are important to suppliers for several reasons including (Ford et al 2006 p.90): a) they have to face the problems of using current offerings and have the greatest knowledge of how a new offering can provide an improved solution; b) they know how the offering will be used by their customers and at other points in the network; c) they know how a single offering can be used in combination with others from different suppliers; d) they know about alternative and substitute offerings and how a new offering compares to alternatives; and e) they are likely to be committed to the development process because they will benefit from improved performance.

According to Forsström (2005a p.141) the benefits to the buyer of a relationship with a supplier include: a reliable fleet (pro active and condition-based maintenance); risk sharing - openness in communication; access to technical information; increased cost efficiency in operations - efficiency in spare parts handling, smooth routines, logistics,

administration, fuel economies, "tailor made" service; and, joint business development. On the other hand the benefits to the supplier of a relationship with a customer include: business security-sales, price received, predictability (economies of planning and coordinating); efficiencies in operations - lower warranty costs, lower costs for spare parts, handling, smooth routines, ease of communication; learning to work in a new way; new business through product development - development of new technological solutions, fun to work with a demanding customer and develop new things; public visibility; and, reference value (Forsström 2005a p.146).

A customer and a supplier will develop relationships as a way of solving some of their own problems. Customer problems relate to rationalization and development activities (Ford et al. 2006 p.102). Supplier problems may include the need to generate cash, earn profit, develop new skills that may then be applied elsewhere and cope with a loss of business from other customers. Nevertheless, although relationships are an asset for instance in terms of being a source of problem solutions, sales, purchases, profits, technology and new ideas, on the other hand they are a costly burden and require investments of time and money and involve risk, uncertainty and dependence on others (Ford et al. 2006 p.126).

**Table 8: Value co-created in business relationships**

<b>Category</b>	<b>Value co-created</b>	<b>Source</b>
Direct benefits (revenue)	Turnover	Kingshott (2006)
	Increased volume of business/sales	Möller and Törrönen (2003); Prahalad and Ramaswamy (2004 p.200); Ngugi et al (2010)
	Higher economic returns/profits	Spekman and Carraway (2005); Doole and Lowe (2008 p.339); Dyer and Singh (1998); Kingshott (2006); Susan and Gibbs (1995); Reicheld (1996); Cannon and Homburg (2001)
	Price premiums	Chernatony et al. (2000)
Acquisition/ delivery cost	Generic exchange/transactional efficiency	Dwyer et al. (1987); Spekman and Carraway (2005); Dyer and Chu (2003); Gulati et al (2000); Cannon and Homburg (2001)
	Delivery performance	Band (1991); Ulaga and Eggert (2006)
	Improved time to market	Ulaga and Eggert (2006); Band (1991); Wagner and Hoegl (2006); Rindfleisch and Moorman (2001)
	Reduced costs in material flows	Forsström (2005a); Ford et al. (2003 pp.91-101)
Operations	Enhanced productivity	Spekman and Carraway (2005); Prahalad and Ramaswamy (2004 p.200); Lall (1992)
	Reduced cost in production	Forsström (2005a); Ford et al. (2003 pp.91-101)
	Reduced time in product development	Bititci et al. (2004); Dyer and Singh (1998)
	Saving in costs of operation e.g. through integrated logistics	Forsström (2005a); Doole and Lowe (2008 p.339) Cannon and Homburg (2001)
	Reduced order fulfilment time	Bititci et al. (2004)
	Inventory reductions	Bititci et al. (2004); Randall (2001 p.247)
	Increased asset utilization	Bititci et al. (2004)
	Fewer defects	Dyer and Singh (1998)
	Reduced errors	Randall (2001 p.247)
	Improved response times	Prahalad and Ramaswamy (2004 p.200), Ford et al. (2003 pp.91-101)
	Reduced administration costs	Gulati et al (2000); (Day 2000)
	Improved coordination	Bititci et al. (2004); Gulati et al (2000); Forsström (2005a); Prahalad and
Economies of scale		

Category	Value co-created	Source
	Economies of scope	Ramaswamy (2004 p.200), Gulati et al (2000); Forsström (2005a); Prahalad and Ramaswamy (2004 p.200)
	Economies of integration and economies of innovation	Forsström (2005a)
	Quicker and more cost efficient problem solving	Ford et al. (2003 pp.91-101); Bititci et al. (2004),
	Efficiency, effectiveness	Möller and Törrönen (2003)
	Improved flexibility	Forsström (2005a)
	Improved service levels	Bititci et al. (2004); Forsström (2005a); Ulaga and Eggert (2006)
Non-monetary benefits	Social satisfactions	Dwyer et al. (1987); Kingshott (2006)
	Personal interaction	Ulaga and Eggert (2006)
	Learning – improved knowledge and skills	Beugelsdijk et al.(2006); Gulati et al (2000) Ford et al. (2003 pp.91-101); Bititci et al. (2004), Prahalad and Ramaswamy (2004 p.200), Wagner and Hoegl (2006); Johnsen and Ford 2006; Rindfleisch and Moorman (2001); Lane and Lubatkin (1998); Dyer and Hatch (2006); Dyer and Singh (1998); Ngugi et al (2010)
	Symbolic value	Chernatony et al.(2000); Srivastava et al.(2001); Bhat and Reddy (1998); Bititci et al.(2004)
	Experiential benefits	Srivastava et al. (2001)
	Access to information	Möller and Törrönen (2003); Beugelsdijk et al.(2006); Gulati et al (2000); Dyer and Chu (2003); Dyer and Singh (1998)
	Convenience	Payne (2009)
	Enhanced customer satisfaction	Prahalad and Ramaswamy (2004 p.200)
Others	Managed dependence	Dwyer et al. (1987)
	Reduced uncertainty/ risk	Gulati et al (2000); Möller and Törrönen (2003); Susan and Gibbs (1995); Bititci et al. (2004); Wagner and Hoegl (2006)
	Market access	Leek et al. (2006), Möller and Törrönen (2003); Gulati et al (2000); Bititci et al. (2004); Ford and McDowell (1999); Dyer and Singh (1998); Prahalad and Ramaswamy (2004 p.200); Wagner and Hoegl (2006)
	Competitive advantage/relational rents or supernormal profits	Leek et al. (2006); Dyer and Singh (1998); Gulati et al (2000); Srivastava et al. (2001)

Category	Value co-created	Source
	Improved product quality	Ulaga and Eggert (2006); Monroe (1991); Wagner and Hoegl (2006); Forsström (2005a); (Bititci et al. (2004); Ngugi et al (2010)
	Lower costs and higher functionality of the end product due to joint design activities by customers and suppliers	Cooper and Slagmulder (2004)
	Networks	Möller and Törrönen (2003); Ford et al. (2003 pp.91-101); Doole and Lowe (2008 p.339)
	Innovation	Beugelsdijk et al.(2006); Leek et al. (2006); Möller and Törrönen (2003); Bititci et al. (2004); Dyer and Singh (1998); Wagner and Hoegl (2006); Rindfleisch and Moorman (2001); Gemünden et al. (1996); Lall (1992); Cooper and Slagmulder (2004); Ngugi et al (2010)
	Access to technologies	Gulati et al (2000); Ford and Saren (2001)
	Access to resources	Gulati et al (2000)
	Access to technical assistance, leased equipment, and advice on improving quality	Dyer and Singh (1998)
	Reduced development cost/ leverage investment	Ford et al. (2003 pp.91-101); Wagner and Hoegl (2006); Prahalad and Ramaswamy (2004 p.200)
	Enhanced change	Prahalad and Ramaswamy (2004 p.198)
	Access to tailored and cost-effective business solutions/ attainment of differentiation-based advantages	Doole and Lowe (2008 p.339); Ling-yee and Ogunmokun (2001)

Source: author's compilation

In general, the above reviewed studies and discussion demonstrate that relationships are important in co-creating many types of values ranging from monetary to non-monetary (see Table 8). This is consistent with Forsström (2005a p.39) who noted the different types of value as comprising competence related value, reputation related value e.g. brand and reference, value related to long-term security, different monetary value, social value, value related to logistics or organisational architecture, and other types of value. However it is unclear how value is co-created in the context of the dyad of SME suppliers and their larger customers in the organic food and drink sector considering its unique characteristics. Also, it is not well understood which areas of collaboration bring about the benefits or value. This study informs these aspects.

### **3.5 A conceptual framework to examine value co-creation**

This section presents a conceptual framework to examine value co-creation in the relationships of larger customers and their SME suppliers. The above reviewed literature has shown that there are many types of value comprising both monetary and non-monetary value. This implies that firms in relationships could co-create both monetary and non-monetary value. Monetary value includes volume of sales (Möller and Törrönen 2003; Ngugi et al. 2010), price premiums (Chernatony et al. 2000) and higher economic returns or profits (Cannon and Homburg 2001; Doole and Lowe 2008 p339; Reicheld 1996; Spekman and Carraway 2005; Susan and Gibbs 1995). On the other hand, non-monetary value includes social satisfactions (Dwyer et al. 1987; Kingshott 2006), competences (Beugelsdijk et al. 2006; Dyer and Hatch 2006), symbolic value (Bhat and Reddy 1998; Bititci et al. 2004) and experiential value (Srivastava et al. 2001). These types are in line with Forsström (Forsström 2005a p.39) who noted the different types of value in business relationships as comprising competence-related value, reputation-related

value (for example brand and reference), value related to long-term security, different monetary value, social value, value related to logistics or organisational architecture, and other types of value.

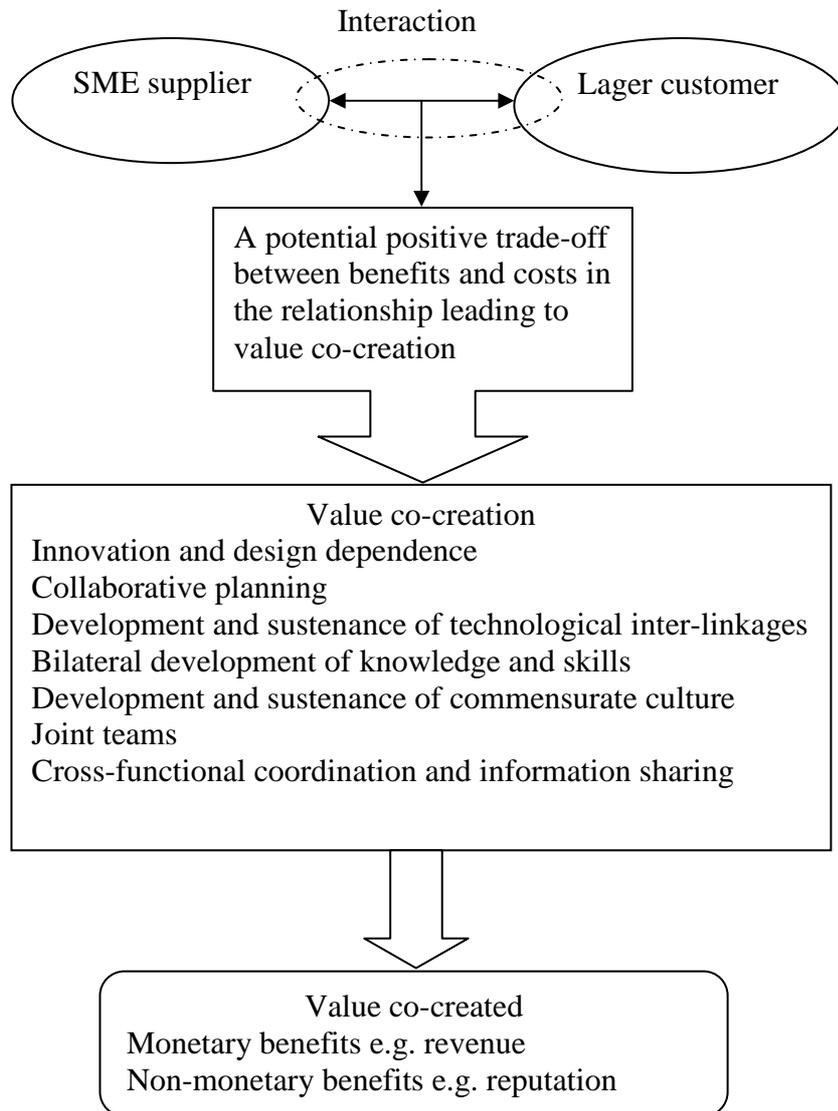
Traditional studies on value assumed customers and suppliers acting independently and thereby characterised by distinct roles of consumption and production respectively. On the contrary, customers and suppliers are increasingly working collaboratively or collectively. Therefore, the parties are not generating value autonomously but they are both contributors to value creation. Hence, rather than treating the customer as exogenous, similar to Lusch and Vargo (2006), this study considers both parties as endogenous to the value-creating activities and processes. Customers are particularly considered to be co-creators of value because they mobilize knowledge and other resources that influence the success of a value proposition (Ordanini and Pasini 2008). In this regard, the collaborative areas by customers and suppliers reflect potential for value co-creation.

Collaboration allows access and utilization of resources not owned or fully controlled by a particular firm and hence contrasts the traditional resource-based view (Barney 1991). The collaborative areas include: planning (Harvey and Speier 2000; Johnsen and Ford 2006; Ngugi et al. 2010), joint technical systems (Day 1994; Dyer and Singh 1998), innovation (Agndal and Nilsson 2009), bilateral development of knowledge and skills (Johnsen and Ford 2006; Nahapiet and Ghoshal 1998; Ngugi et al. 2010), joint teams (Day 1994), cross-functional coordination and information-sharing (Day 1994), and development of commensurate culture (Johnsen and Ford 2006). The value associated with these areas is however not well understood neither is it clear whether these are the only extant collaborative areas. This study informs this perplexity.

In line with the co-creation view, this study focuses on value within a business relationship or in a dyadic context rather than outside the relationship (firm-centric). Given the centre of attention in larger customer-SME supplier dyads, then in essence, inter-organizational theories become relevant in grounding the study. In particular the IMP interaction approach is chosen given its assumptions that are consistent with value co-creation.

In accordance with the IMP interaction approach, this study assumes that since at least two active parties are involved (herewith a larger customer and SME supplier) collaboratively in the interaction process, then it's not one party that is creating value alone for the other but rather both parties are actively involved. Accordingly, similar to other studies (Forsström 2005a; Lefaix-Durand 2008), the study adopts the term value co-creation rather than value creation to show that both parties are involved collaboratively as opposed to one party independently. Value co-creation relates to the aspects that the parties perceive to be of value, and which are created jointly through interaction in a business context (Forsström 2005a p.70). The conceptual framework, Figure 7, is assumed in the investigation of the value co-creation phenomenon. It links the themes of: customer-supplier interaction, collaboration and hence value co-creation, and the co-created value.

**Figure 7: A conceptual framework to examine value co-creation in the larger customers-SME suppliers' dyad**



The framework is developed on the basis that value is co-created jointly and reciprocally, in interactions among providers and beneficiaries through the integration of resources and application of competences. This is consistent with other authors (Ford et al. 2006 p.46; Vargo et al. 2008). Through value co-creation processes in business-to-business relationships, resources of the companies involved are combined thereby enabling them to achieve something that one of the parties could not achieve alone (Freiling 2004). In

summary, Figure 7 assumes that it is rational for large customers and SME suppliers to interact in order to create something together, through the use of each other's resources for instance. They are compelled to collaborate if they perceive this as beneficial. Interaction implies that neither party is passive nor independent but rather both parties are active and interdependent and act collaboratively. Value is co-created through the collaborative areas. The specifics or manifestations of collaborative areas represent how value is co-created and the co-created value includes both monetary and non-monetary values. These manifestations are essentially the value co-creation practices. The conceptual framework (Figure 7) is useful in many ways. It is a guide and a sensitising device. It is useful in establishing areas of focus as well as development of interview questions.

### **3.6 Summary of the chapter**

This chapter has shown that there are a number of studies that have demonstrated that business relationships have the potential to generate value for customers and suppliers. The studies have however largely considered only one end of the dyad. Also those that addressed themes of collaboration, co-creation and co-created value tended to consider them separately and hence it is unclear how they are interlinked. Furthermore, the organic sector which has its own unique characteristics has been neglected in the investigations, probably because of its low importance in the past. However, with its continuing growth now becoming substantial, the understanding of how its customers co-create value with suppliers in relationships becomes essential. This study contributes to filling these lacunae. The chapter has developed a conceptual framework that links the themes of collaboration, value co-creation and value co-created.

## **Chapter 4. Research methodology**

### **4.1 Overview of the chapter**

Clough and Nutbrown (2007 p.23) distinguish between methodology and methods. They explain that whilst methodology provides reasons for using a particular research recipe, on the other hand, methods may be perceived as being some of the ingredients of research. They also indicate that one of the tasks for a methodology is to explain and justify the particular methods used in a given study (p.28) and that methodology represents the ongoing task of justification (p.23). In this regard, this chapter describes the research methodology that is employed in the study. This methodology guides this investigation thereby enabling us to address the study's research question – how organic food and drink suppliers in relationship with larger customers co-create value and consequently address the objectives, which include, identifying the areas of collaboration and their respective associated value as well as describing how the value is co-created. The methodology starts with a discussion of research philosophy, and then presents the research approach and the methods used. Data collection and analytical procedures that were applied are described. Validity and reliability issues in relation to this study are then discussed including the methodological path that was followed in implementing the study. Finally, some concluding remarks about the whole chapter are made.

### **4.2 Research philosophy**

Research philosophy relates to the development of knowledge and the nature of that knowledge (Saunders et al. 2007 p.101) and can be thought of in three major ways

namely: epistemology, ontology and axiology (p.102). The three are dimensions of a paradigm. A paradigm is a set of basic beliefs based on ontological, epistemological and methodological assumptions, and deals with ultimate or first principles (Guba and Lincoln 1998 p.107). It (paradigm) is a basic set of beliefs that guides action (Guba 1990 p.17). A paradigm represents a worldview that defines, for its holder, the nature of the world, the individual's place in it, and the range of possible relationships to that world and its parts (Guba and Lincoln 1998 p.107). Ontology reflects the nature of reality (knowable), epistemology relates to the nature of the relationship between the knower (inquirer) and the known (or knowable) and methodology relates to how the inquirer goes about finding out knowledge (Guba 1990 p.17). Epistemology concerns what constitutes acceptable knowledge in a field of study (Guba and Lincoln 1998 p.102). Ontology on the other hand relates to the nature of reality and it is characterised by two aspects: objectivism and subjectivism (p.108). Objectivism portrays the position that the social entities exist in reality external to social actors. On the other hand, subjectivism asserts that social phenomena are created from the perceptions and consequent actions of social actors (p.108). Axiology is a branch of philosophy that studies judgements about value. It relates to personal values in relation to a topic of research.

Collis and Hussey (2003 p.47) suggest two main research paradigms or philosophies. First are positivist (quantitative) where researchers believe that the objects they are studying are unaffected by their research activities and will still be present after the study has been completed. Second is phenomenological (Qualitative) which they indicate is also referred to as interpretivist to prevent confusion with phenomenology methodology. Along the dimensions of ontology, epistemology, axiology and rhetorical, they distinguish the two research paradigms (Table 9).

**Table 9: Assumptions of the two main research paradigms**

<b>Assumption</b>	<b>Question</b>	<b>Quantitative</b>	<b>Qualitative</b>
Ontological	What is the nature of reality?	Reality is objective and singular, apart from researcher	Reality is subjective and multiple as seen by participants in a study. Researcher interacts with that being researched
Epistemological	What is the relationship between researcher and the researched?	Researcher is independent from that being researched	Researcher interacts with that being researched
Axiology	What is the role of values?	Value-free and unbiased	Value-laden and biased
Rhetorical	What is the language of research?	Formal Based on set definitions Impersonal voice Use of accepted quantitative words	Informal Evolving decisions Personal voice Use of accepted qualitative words

Source: Collis and Hussey (2003)

Four epistemological orientations may be distinguished namely; conventionalism, constructivism, positivism and realism (Easton 1998 p.73). Schurr (2007) describes the positivism, critical realism and constructivism as represented in Table 10: Conventionalists argue that there is no reality except that agreed by convention but such conventions are caused to occur by human actors (Easton 1998 p.77). Analogously, constructivists argue that reality is socially constructed, that is, humans cause reality to occur and describe how this reality is created (Easton 1998 p.77). While constructivist and conventionalist would argue that reality is socially constructed or, that there is no reality and that all knowledge claims are relative to the system that produced them, on the other hand the fundamental assumption of the realist position is that there is a reality “out there” waiting to be

discovered and that reality is independent of us (Easton 1998 p.77). To uncover reality, positivist researchers rely on the analysis of event regularities or correlation (Ramsy 1998), in closed or close-able systems through isolation and control of variables.

Much of the past studies in business and industry embrace a positivistic paradigm, which attempts to reduce the study of a phenomenon to something that can be measured (Gibson 2004). Positivism focuses on large-scale empirical hypothesis testing and deductive reasoning (Ramsy 1998). Perry (1998) compares positivist and constructivist and suggests that the objectivist approach is predicated on explaining and predicting phenomena while the subjectivist approach emphasises describing and understanding phenomena.

From a realist point of view, positivism is limited in at least two ways (Tsoukas 1989). First, its evaluation of knowledge claims lacks an explicit backward link with ontological assumptions of what the world must be like if our knowledge claims are true. Second, it lacks a forward link with the sociological arrangements of the social relationships in which the scientific adequacy of knowledge claims is ascertained. Realists argue that the world is composed of real objects and their relations, though they cannot be directly apprehended, have structures but, more importantly, causal powers which combine in complex ways to create events which occur in the actual world (Easton 1998 p.80). They distinguish three domains, namely, empirical, real and actual (Bhaskar 1978) and explain that the empirical domain is where events are experienced by observers. This is in comparison to the real domain which contains the independent-from-observer mechanisms which create events and to the actual domain which is where the events created by the interaction of the real mechanisms appear.

**Table 10: Range of research paradigms**

<b>Paradigm Characteristic</b>	<b>Positivism (Objectivism)</b>	<b>Post-positivism (Critical Realism)</b>	<b>Constructivism</b>
Ontology	Reality can be known and observed-at least as an approximation.	Reality exists independently of our knowledge of it.	Reality is relative-local, with deep underpinnings that are context embedded.
Epistemology	We come to know reality through objective findings that are true and founded in internal and external validity.	We come to know reality by going beyond concepts of truth and falsification to seek deeper, possibly subjective understanding.	We come to know reality through subjective reasoning and insights.
Methodology	Falsificationist, using quantitative methods that test hypotheses; experimental manipulations.	Weighs internal and external validity yet creating substantive raw data that enables description and interpretation.	Descriptive; using interpretation, discussion, and reasoning.
The Nature of Knowledge	Verified or nonfalsified hypotheses.	Empirical methods check and enhance our understanding. Effectiveness in informing and explaining is not by accident.	Individual reconstructions coalescing around consensus.
Type of Narration	Scientific report.	Combined description, interpretation, and scientific report.	Interpretive case studies.
Investigator's Posture	Neutral, dispassionate.	Involved yet actively planning to reduce sources of bias.	Involved, cognizant of biases and values.
Inquiry Goal	Explanation, production, and control.	Understanding with control.	Understanding and reconstruction.

Source: Schurr (2007)

Epistemologically, constructivism avows that we know reality through subjective reasoning and insights and it recommends use of a methodology that is descriptive; using interpretation, discussion, and reasoning (Schurr 2007). The findings are created as the research goes on especially through the interaction of the researcher and the respondent. The paradigm is characterised by interpretive case studies and the investigator is involved and cognizant of biases and values (Schurr 2007). This study assumes a constructivism paradigm thereby assuming relativist ontology and subjectivist epistemology. In line with constructivism, the aim in this research is to create a more informed and sophisticated construction than the constructions presented before (Guba and Lincoln 1998 p.114) and hence the researcher strives for a greater understanding and description of the phenomenon value co-creation in larger customer-SME supplier relationships than previously done.

Constructivism views reality as being socially constructed (Saunders et al. 2007 p.108). Actors will perceive different situations in varying ways as a consequence of their own view of the world. Relating this to value in business relationships, the subjectivist view is that value is produced through the interaction between suppliers and customers and is likely to change continuously.

With constructivism, the aim is to distil a consensus construction that is more informed and sophisticated than any of the predecessor constructions (Guba and Lincoln 1998 p.111). In other words, the aim of enquiry is understanding and reconstruction of the constructions that people (including the researcher) initially hold; aiming toward consensus but still open to new interpretations as information and sophistication improve (Guba and Lincoln 1998 p.113). Accordingly, the criterion for progress is that over time,

everyone formulates more informed and sophisticated constructions and becomes more aware of the content and meaning of competing constructions (Guba and Lincoln 1998 p.113).

Considering the main goal of this inquiry is in understanding without control the phenomenon of value co-creation in the customer-supplier dyad, Schurr (2007) suggests that the philosophy that is suited to such a situation is constructivism. Constructivism is characterised by relative reality (Schurr 2007). Relativist ontology excludes the possibility of a “true” construction (or objective world or truth) and avers that there are only more or less informed or sophisticated constructions (Guba and Lincoln 1998 p.114). The aim of the research in this context is not to reach an objective truth, but to create an understanding of a studied phenomenon under certain, thoroughly described circumstances.

### **4.3 Research approach**

The two main research approaches are deductive and inductive. A deductive approach is usually associated with positivist philosophy and normally involves testing of hypotheses. Given the focus of this study in building rather than testing theory, the inductive approach is chosen. Inductive data analysis is characterised by qualitative researchers building their patterns, categories, and themes from the “bottom-up,” by organizing the data into increasingly more abstract units of information (Creswell 2007 pp.38-39). This involves researchers working back and forth between the themes and the data base until they establish a comprehensive set of themes (p.39). Furthermore, it may involve collaborating with the participants interactively, so that they have a chance to shape the themes or abstractions that emerge from the process (p.39).

Induction reasoning may be considered as reasoning from the particular to the general (Johnson 1996). While deductive reasoning asserts that if the premises are true, the conclusion must be true, on the other hand inductive reasoning supports the conclusion by showing only that it is more probably true (Johnson 1996). The purposes of using an inductive approach are to (Hussey and Hussey 1997; Sarantakos 1993): a) condense raw data textual into a brief, summary format; b) establish clear links between the evaluation or research objectives and the summary findings derived from the raw data; and c) develop a framework of the underlying structure of experiences or processes that are evident in the raw data. An inductive approach is associated with qualitative research. It tends to be more flexible than a deductive approach. It provides opportunities to address any unexpected issues that may arise during the research. With inductive reasoning, the truth of the conclusion does *not* necessarily follow from the truth of the premises and denial of the conclusion does not logically contradict the premises (Johnson 1996). Inductive arguments provide less certainty; they are murkier than deductive arguments. More evidence strengthens the plausibility of the conclusion. Inductive arguments may be strong or weak depending on the evidence marshalled in support of a conclusion (Johnson 1996). Inductive reasoning, by necessity, is much richer and more complex because it must provide strong evidence that a particular conclusion is the most probable (Johnson 1996).

Researchers have tended to categorize research into either qualitative or quantitative research. This study is essentially qualitative. Qualitative research involves data analysis inductively building from particular to general themes and the researcher making interpretations of the meaning of the data (Creswell 2009 p.4). Creswell (2007 pp.36-39)

discusses the characteristics of qualitative research. These are: a) natural setting: natural setting (field focused), a source of data for close interaction; b) researcher as key instrument: researcher as key instrument of data collection; c) multiple sources of data: multiple data sources in words or images; d) inductive data analysis: analysis of data inductively, recursively, interactively; e) participants' meanings: focus on participants' perspectives, their meanings, their subjective views; f) theoretical lens: framing of human behaviour and belief within a social-political/historical context or through a cultural lens; g) emergent design: emergent rather than tightly prefigured design; h) interpretive inquiry: fundamentally interpretive inquiry – researcher reflects on her or his role, the role of the reader, and the role of the participants in shaping the study; and i) holistic account: holistic view of social phenomena.

Creswell (2007 p.39) indicates that qualitative research is characterised by a holistic account which involves identifying many factors that are involved in a situation and generally sketching the larger picture that emerges. Accordingly, researchers are bound not by tight cause-and-effect relationships among factors, but rather by identifying the complex interactions of factors in any situation. In this regard, this study aims to capture the whole picture or all the collaborative areas and how value is co-created in the customer-supplier dyad as well as the types of the co-created value.

Creswell (2007 p.53) suggests five main qualitative approaches. These are narrative research, phenomenology, grounded theory, ethnography and case study. Other qualitative approaches include participation action research and discourse and conversational analysis (Creswell 2007 p.11). Participation action research is usually at macro-community level and aims at social change and examining the political structures

that deprive and oppress groups of people. Discourse analysis and conversational analysis are usually at micro-level and involve analyzing the content of text for syntax, semantics, and social and historical context.

Among the main qualitative research approaches, narrative research is considered best for capturing the detailed stories or life experiences of a single life or the lives of a small number of individuals (Creswell 2007 p.55). Creswell (2007 p.55) contrasts that, whereas a narrative study reports the life of a single individual, a phenomenological study describes the meaning of the lived experiences of a concept or phenomenon for several individuals. It focuses on describing what all participants have in common as they experience a phenomenon. Its (phenomenology) basic purpose is to reduce individual experiences with a phenomenon to a description of the universal essence (p58). Creswell (2007 p.60) states that the type of problem best suited for the phenomenological approach is one in which it is important to understand several individuals' common or shared experiences of a phenomenon.

In distinguishing phenomenology with grounded theory, Creswell (2007 p.62-63) explains that although phenomenology emphasizes the meaning of an experience for a number of individuals, the intent of a grounded theory is to move beyond description and to generate or discover a theory or rather an abstract analytical schema of a process. Grounded theory is defined as a qualitative research design in which the inquirer generates a general explanation (theory) of a process, action, or interaction shaped by the views of a large number of participants (Creswell 2007 p.63). It is characterised by constant comparative method of data analysis which means a process of taking information from data collection and comparing it to emerging categories (p.64).

Grounded theory is considered a good design to use when (Creswell 2007 p.66): a) a theory is unavailable to explain a process; b) the models available in literature are developed and tested on samples and populations other than those of interest to the qualitative researcher; and c) the available theories are incomplete because they do not address potentially valuable variables of interest to the researchers. The primary outcome of grounded theory study is a theory with specific components: a central phenomenon, causal conditions, strategies, conditions and context, and consequences (Creswell 2007 p.68). A grounded theory researcher develops a theory from examining many individuals who share in the same process, action, or interaction. However, the study participants in grounded theory are not likely to be located in the same place or interacting on so frequent a basis that they develop shared patterns of behaviour, beliefs, and language.

In contrast to grounded theory, ethnography is a qualitative design in which the researcher describes and interprets the shared and learned patterns of values, behaviours, beliefs, and language of a culture-sharing group (Creswell 2007 p.68). It is a way of studying a culture-sharing group as well as the final, written product of that research. As a process, it involves extended observations of the group, for instance through participant observation in which the researcher immerses himself in the day-to-day lives of the people and observes and interviews the group participants. Ethnography is appropriate if the needs are to describe how a cultural group works and to explore the beliefs, language, behaviours, and issues such as power, resistance, and dominance (Creswell 2007 p.68). The aim in this study is not to explore these aspects but rather to describe the phenomenon of value co-creation and for this reason ethnography is found to be inappropriate for this purpose.

In comparing a case study with ethnography, Creswell (2007 p.73) states that while the entire culture-sharing group in ethnography may be considered a case, the intent in ethnography is to determine how the culture works rather than to understand an issue or problem using the case as a specific illustration. He indicates that a case study involves the study of an issue explored through one or more cases within a bounded system, that is, a setting or a context. In other words, the case is typically selected to illustrate an issue, and the researcher compiles a detailed description of the setting for the case (Creswell 2007 p.76). While some authors consider case study a methodology, others consider it a choice of what is to be studied. Similar to Creswell (2007 p.73), this study views case study as a methodology, a type of design in qualitative research, or an object of study, as well as a product of the inquiry.

#### **4.4 Research method: Case-study**

There are different research methods that an investigator may adopt in the course of research work. These include experiments, surveys, history, archival analysis, and case-study (Yin 2009 p.8). Each method can be used in undertaking any of the three research investigations, namely, exploratory, descriptive, or explanatory (Yin 2003 pp.7-8). The choice of a method depends on the type of research question, the control the investigator has over actual behavioural events and the focus on contemporary as opposed to historical phenomena (Table 11). This study's main question is a 'how' question (how is value co-created in the larger customer-SME supplier dyad?). Furthermore, considering the dynamic nature of customer-supplier relationships, the investigator has no control over them, and lastly the research focus is on contemporary issues. The method that fits best under these circumstances is case-study (Table 11) and hence its choice for this study.

Related to this, Creswell (2007 p.74) suggests that case-study is a good approach when the inquirer has clearly identifiable cases with boundaries and seeks to provide an in-depth understanding of the cases or a comparison of several cases. Furthermore, case-study in the context of business relationships is said to be an appropriate research strategy since it allows for catching the complexities and dynamics of business markets (Forsström 2005a).

**Table 11: Relevant situations for different research methods**

<b>Strategy</b>	<b>Form of research question</b>	<b>Requires control of behavioural events</b>	<b>Focus on contemporary events</b>
Experiment	How, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival analysis	Who, what, where, how many, how much?	No	Yes/no
History	How, why?	No	No
Case-study	How, why?	No	Yes

Source: COSMOS Corporation, adopted from Yin RK (2009), *Case Study Research: Design and Methods*, 3<sup>rd</sup> ed. London, SAGE Publications, p8.

A case-study is an empirical inquiry that investigates a contemporary phenomenon in-depth within its real life context, especially when the boundaries between phenomenon and context are not clearly evident (Yin 2009 p.18). Furthermore, considering that phenomenon and context are not always distinguishable, the case-study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulation fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection and analysis (Yin

2009 p.18). Creswell (2007 p.73) defines case-study research as a qualitative approach in which the investigator explores a bounded system (a case) or multiple bounded systems (cases) over time, through detailed, in-depth data collection involving multiple sources of information (e.g. observations, interviews, audiovisual material, and documents and reports), and reports a case description and case-based themes. In the context of networks, a case strategy refers to an intensive study of one or a small number of business networks, where multiple sources of evidence are used to develop a holistic description of the network and where the network refers to a set of companies (and potentially other organizations) connected to each other for the purpose of doing business (Halinen and Törnroos 2005).

Case-study has a unique strength in its ability to deal with a full variety of evidence such as documents, artefacts, interviews and observations beyond what might be available with other strategies such as history (Halinen and Törnroos 2005 p.11; Yin 2009). Nevertheless, it is possible to do a valid and high-quality case-study without leaving the telephone or internet, depending upon the topic being studied (Yin 2009 p.15). The distinctive need for case-studies mostly arises out of the desire to understand complex social phenomenon and the method allows the investigator to retain the holistic and meaningful characteristics of real-life events (Yin 2009 p.4). Case-studies, like experiments, are generalisable to theoretical propositions and not to populations or universes and also like an experiment, a case-study does not represent a 'sample' and hence the goal in conducting a case-study is to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization) (Yin 2003 p.10). Case-study strategy may adopt single-case design or multiple-case design.

According to Eisenhardt and Graebner (2007) and consistent with Yin (2009), multiple cases are chosen for theoretical reasons such as replication, extension of theory, contrary replication, and elimination of alternative explanations. In this study, the main reason is extension of theory in particular the IMP interaction approach. Multiple-case designs are less vulnerable and the analytic benefits of having two or more cases may be substantial (Yin 2003 p.53). The analytic conclusions independently arising from multiple cases, as with multiple experiments, are more powerful than those coming from a single case (Yin 2003). Furthermore, multiple case-studies typically provide a stronger base for theory building (Eisenhardt and Graebner 2007; Yin 2009). Along the same line, theory building from multiple cases is known typically to yield more robust, generalisable, and testable theories than single-case research (Eisenhardt and Graebner 2007). This research hence adopt multiple-case design. The main aim is however not on getting common characteristics per se but rather to create the whole picture of the phenomenon. The use of multiple-case design is common in a business environment (e.g. Johnsen and Ford 2006; Palmer 2006). In this study, cases comprise relationships between SME suppliers and their larger customers. Although case-study has been in the past considered a soft approach, it is remarkably hard to conduct. Against the misconception of qualitative research, the research, just like quantitative research, can be hard-nosed, data-driven, outcome-oriented and truly scientific (Yin 2003 p.33).

Whilst quantitative research aims to produce general statements about large populations, qualitative research seeks detailed explanations of situated events (Dubois and Araujo 2007). Furthermore, while cases in statistical design are simply observations in which the cases lose their integral character, in a multiple comparative case design cases have clear identities and are chosen because of their theoretical relevance and the set of what are

deemed relevant cases for comparison may shift during the research process (Dubois and Araujo 2007). In addition to being inductive tools, case-studies, can also serve as important complements to quantitative research, testing theories in concrete instances and helping to refine their scope and applicability (Dubois and Araujo 2007).

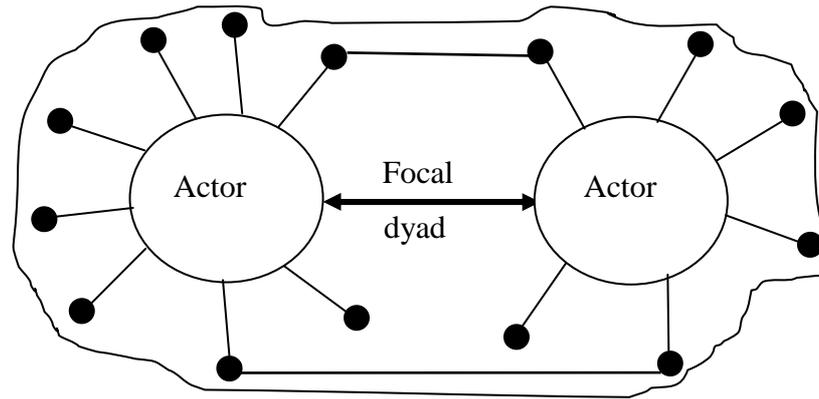
Case-study strategy has been suggested to be most suited for the study of business networks (Halinen and Tornroos 2003). A move away from econometric analysis as a tool to examine relationships between variables and a greater willingness to accept qualitative research processes in regard to investigations in agrifood business relationships was also expressed by Susan and Gibbs (1995). This is in the backdrop of considering the interacting nature of activities that make it difficult to understand the development of strategies and decision processes unless by undertaking a detailed investigation of the relationship itself, whether relationships are dyadic or part of a larger network. Gummesson and Polese (2009) also encourage researchers to welcome complexity and context by increasingly using methodologies that allow complexity and context to come forward, specifically expressing favour in case-study research and network theory.

Despite the undeniable merits of case research in the study of business networks, it poses four major challenges, namely, the problems of network boundaries, complexity, time and case comparisons (Halinen and Törnroos 2005). A business network may be defined as a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors and whereby connected means the extent to which exchange in one relation is contingent upon exchange (or non-exchange) in the other relation (Anderson et al. 1994). The problem of network boundaries relates to the difficulty of separating the content and context of

business networks especially in the backdrop that network setting extends without limits through connected relationships thereby making any network boundary arbitrary. In defining the unit of analysis, network studies have been carried out by using focal organizations (actor-network), dyads (dyad-network), small nets for organisations (micronet-macronet perspective) and lastly the intranet perspective which refers to the internal networks of big national or global corporations composed of several business units (Halinen and Törnroos 2005).

Comparably, business relationships could be analyzed at different levels. According to Eng (2005b), the first level is concerned with a dyad or focal exchange relationship between two parties which is the basic unit of analysis for analyzing business relationships. The second level extends to the firm's focal relationship to include all its direct relationships, namely a portfolio of relationships. The third level accounts for indirect or third party relationships of the firm connected through both dyad and customer portfolio relationships within the focal firm industry. The fourth and final level comprises relationships beyond third parties connected indirectly to the firm in industries and networks. Guided by the focus of this research, which is largely in regard to understanding the co-creation of value in customer-supplier relationships, the dyad-network perspective seems the most suited in defining this study's' case boundaries. This may be illustrated by Figure 8.

**Figure 8: Case boundaries through the dyad-network perspective**



Source: Halinen and Törnroos (2005)

Since the focus of this study is value co-creation by customers and suppliers in relationships which are a property of the customer-supplier dyad, the interest here is on the focal dyad. Figure 8 shows that a focal relationship is connected to several different relationships that either the supplier or the customer has, including those that both parties have with same third parties. Anderson et al. (1994) identifies the relationships that the supplier has as including: other customers, other units in a focal customer firm, supplier's suppliers, other supplier units, other ancillary firms, and third parties in common. On the other hand the relationships with customers apart from the focal dyad include: other ancillary firms, supplementary suppliers, customer's customers, other units in a focal customer firm, other units in a focal supplier firm, competing suppliers, and third parties in common.

With reference to business networks, Anderson et al. (1994) distinguish between primary and secondary functions. Primary functions are the positive and negative effects on the two partner firms of their interaction in a focal dyadic relationship. On the other hand,

secondary functions, also called network functions, capture the indirect positive and negative effects of a relationship because it is directly or indirectly connected to other relationships.

The focus on the dyad further implies that this study adopts a micro-position rather than macro-position. The micro-position is characterized by an investigation of value co-creation in larger customer-smaller supplier relationships. Network boundaries in terms of network horizon, context and relationscape were defined through informants that were used in the empirical study. Network horizon denotes how extended an actor's view of the network is and is more so dependent on the experience of the actor and on the structural network features, which implies that the actor's horizon is likely to change over time, for instance as a consequence of doing business (Halinen and Törnroos 2005). With respect to this study, the wider network is actually not the focus since the interest is largely the customer-supplier dyad.

Network context refers to that part of the network/dyad horizon that the actor considers relevant (Anderson et al. 1994) and as defined through the ARA approach (model) (Hakansson and Snehota 1995a), the perceived context includes the actors and their relationships that the actor regards as relevant, the activities performed in the network and the resources used and created within it. The concept of relationscape is used when the interest of research is more in the potential network than in the perceived or active one. The focus of this study is on active relationships and hence relationscape may not apply.

Business relationships as a target for research are complex in four main ways (Halinen and Törnroos 2005). Firstly, they always involve at least two actors or rather several

actors and several different links between them, some of which are direct and others indirect. This increases the potential access problems and the workload in data gathering. Secondly, as a cooperative arrangement between firms, they are not legal entities, although often governed by some kind of formal or informal agreement. This makes their identification problematic. Thirdly, they are typically characterised as loosely coupled systems and flexible by nature, which also means that change is an inherent feature in them and hence the temporal dimension which needs attention in research. Fourthly, business relationships are often viewed as embedded in different spatial, social, political, technological and market structures, which makes each set of relationships (network) somewhat unique and context-specific.

In the backdrop of the network complexity, it is important that a researcher designs and conducts the study in such a way that the basic characteristic of business relationships are revealed rather than hidden, that is, in such a way that the inherent nature of a network is not lost. In this study, this was achieved by undertaking a thorough description of each case so as to reveal the complexities involved in the functioning of the relationships. In this connection, in-depth interviews were undertaken with several respondents that were well-informed in the studied issues (value co-creation and co-created value) in the case dyad. A close and direct relationship between the researcher and practitioners (SMEs and larger customers) was established and observation employed. Accordingly, in-depth and broad empirical data were obtained, analysed, presented and displayed in various forms including narratives, graphs and matrices.

Networks and subsequently dyads by their very nature are dynamic and susceptible to change. They are changing in relation to the value they create and the problems that they

aim at solving over time (Halinen and Törnroos 2005). The problem of time was addressed in this study by taking into consideration both past and future loadednesses. Past loadedness of business relationships entails how the relationship actors are guided by their past and to what pasts they are connected with. On the other hand, future loadedness refers to where the relationship actors want to be and what they want to become.

The problem of case comparisons is particularly relevant to case-studies that aim to generate theory. Multiple case-studies have much potential for both greater explanatory power and greater generalisability than a single case-study (Halinen and Törnroos 2005). The idea of case comparison is based on replication logic, not on sampling and statistical representativeness. To mitigate the problem of case comparison, a conceptual framework was developed prior to data collection. This conceptual framework was also relevant in guiding the conduct of the study, helping in the selection of cases and limiting the number of theoretical dimensions to be compared (Halinen and Törnroos 2005). Furthermore, theory is recognised as important for several reasons including providing a framework for analysis, providing an efficient method for field development, and providing clear explanations for the pragmatic world (Dubois and Araujo 2007). In addition, to enhance comparison, research questions and the industry to be studied (food and drink) were determined a priori. In attempting to compare the cases, caution was taken not to ignore the value of rich holistic description that makes it possible to reveal the complex and changing nature of a business network/dyad.

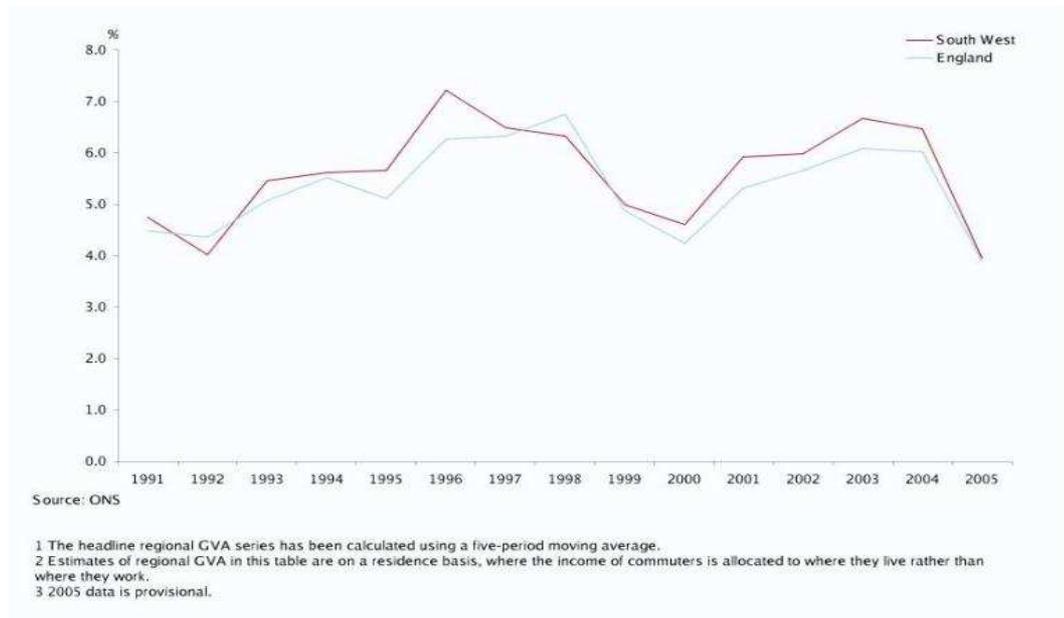
#### **4.5 Selection of study area**

The research was undertaken in the south-west region of the UK. This region has its own distinctive characteristics. For instance its population has grown at a faster rate than any

other English region, it has the lowest rate of unemployment, its economy benefits from high rates of business stock and investment in R&D, it has a skilled workforce though with some problems with basic and particularly advanced skills, has relatively low stock of capital and its international trade performance is modest. Its exported output is relatively little and concentrated in only a few sectors, aerospace, and markets, particularly the EU (Southwest-Observatory 2006). According to a small business survey conducted in 2005, 13 per cent of SMEs in the region were exporting compared to 17 per cent across the United Kingdom.

The economy of the South-West was valued at £84.6 billion in 2005. This was the sixth largest of any English region. The average annual growth rate of the region was 5.8 per cent between 2000 and 2005 though with great differences across sub-regions ranging from 40 per cent below the English average in the poorest sub-region (Torbay) to 53 per cent above the national average in the most productive region (Swindon) (South-west-Observatory 2006). The regional economy has generally mirrored the national economy Figure 9. Support of business (including food and drink businesses) productivity is recognized in the regional economic strategy of the South-West as one of the principal means of reducing the regional and sub-regional productivity gaps. This is in line with the UK Government's Public Service Agreement (PSA) whose target is to improve comparative rates of productivity. Innovation is recognised as one of the drivers of productivity with the others being skills, investment, enterprise and competitiveness.

**Figure 9: Economic Growth Rates (GVA) at Current Prices 1991-2005 (%)**



Source: South-West RDA (2007)

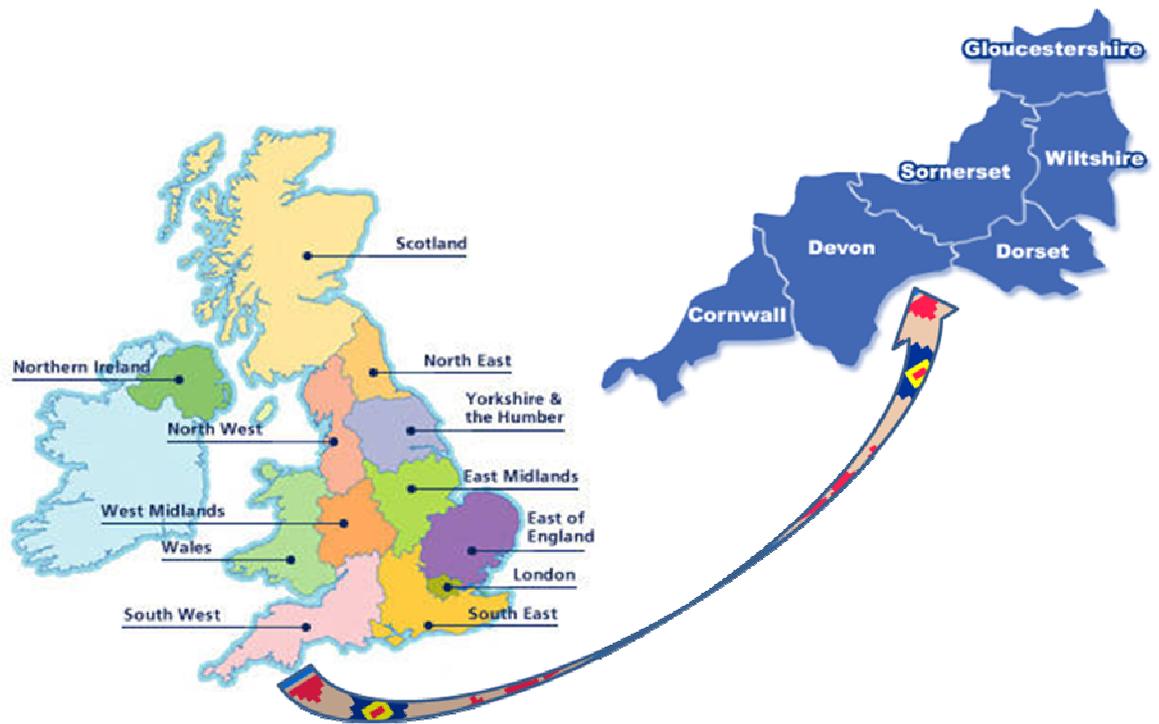
South-West England is one of the strongest food and drink producing regions in the UK offering a diverse range of products and producers. There are over 3,000 food and drink producers in the South-West. Many small, traditional and new companies are located in this region providing a highly innovative and focused business region. Larger food and drink manufacturers are also well represented in the region, with over 60 companies employing more than 200 people (South-West RDA 2007). The presence of many small and medium agribusinesses (suppliers) as well as large customers such as Waitrose, Marks and Spencer and Tesco supermarkets makes the region appropriate for this study.

The South-West has the largest agricultural region in England boasting over 1.8 million hectares of agricultural land with a very mild climate which allows a prolonged growing and rearing season. The natural high quality of the primary foods produced in the region, i.e. milk, meat, fish, fruit and vegetables, ensures that the local supply chain is constantly

in demand. As the consumer becomes more aware of food safety and quality, environmental and welfare issues, the South-West is an excellent location for future investment. In the organic sector, the region is the strongest of all English regions, accounting for 26 per cent of all organic farmers. More than 30 per cent of the UK's dairy production is from this region (South-West RDA 2007).

The eating habits in the South-West are considered healthier than in other regions of the UK (Southwest-Observatory 2006). This is an indication that people are becoming more cognisant of the diet that they take including the production methods. This health-diet awareness in the South-West may be considered one of the market changes characterising food and drink industries in the region. This has ramifications on the processes through which food and drink firms undertake their businesses. Many of the key changes in the organic sector have been supported by the developments of small and medium-sized organic suppliers in the South-West region involved in relationships with large retail chains such as Waitrose and Marks and Spencer.

**Figure 10: Map showing UK regions and counties in the South-West**



Source: <http://www.autoindustry.co.uk/regions> and  
<http://www.lettingfranchise.co.uk/images/southwest-map.gif>

The South-West region is geographically the largest region in England. It contains the counties of Cornwall, Devon, Dorset, Gloucestershire, Somerset and Wiltshire (Figure 10). The region is one of the strongest food and drink producing regions in the UK (South-West RDA 2007). The county of Devon has the highest number of organic farms of any county in England as well as some of the oldest (Lobley et al. 2005).

Therefore, in summary, South-West England was purposely selected as the study area for many reasons. The region has over 3000 producers, more than 1.8 million hectares of agricultural land and a mild climate which allows a prolonged growing and rearing season. It has many small, traditional and new companies as well as larger food and drink manufacturers with over 60 companies employing more than 200 people (South-West

RDA 2007). The presence of many small and medium agribusinesses (suppliers) as well as large customers such as Waitrose and Marks and Spencer supermarkets makes the region appropriate for the study. In the organic sector, the region is the strongest in England accounting for 26 per cent of all organic farmers.

#### **4.6 Selection of cases and respondents**

Given that the purpose of this research is to develop theory (expansion of interaction approach), not to test it, then theoretical sampling rather than say random or stratified sampling is found to be appropriate (Eisenhardt and Graebner 2007). Theoretical sampling simply means that cases are selected because they are particularly suitable for illuminating and extending relationships and logic among constructs (Eisenhardt and Graebner 2007). In particular, SMEs were identified from an internet search of organic farms in the South-West. Sites such as the Soil Association were consulted as well as Google search using key words such as “organic food South West” and “organic suppliers South West”. Firms in the organic food and drink industry were selected as this tends to be the current shift of consumer taste and preferences. Furthermore, an organic system requires adherence to certain principles and standards which requires collaborative effort by actors in value networks. This characteristic makes customer-supplier dyads (unit of analysis) in the organic sector attractive and interesting for studying the phenomenon of value co-creation, not to mention the potential extent of information-rich cases.

Although more than fifty cases were contacted by email or telephone, not all of them were considered in this study for varied reasons. They included lack of response, not being certified organic though considering themselves partly organic, not selling to larger customers but via other outlets such as their own farm shop, feeling that the information

was too confidential and therefore not willing to share with anyone outside the firm, and declining participation by for instance claiming to be very busy and therefore couldn't allocate time to the research. In addition, given the study's focus on relationships between SMEs and larger customers, then the SMEs had to be consistent with the Commission of the European Communities (2003) definition of SMEs, that is, enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding £41.8 million (€ 50 million) (Exchange rate 1£= € 1.1962, Bank of England 09/07/2010), and/or an annual balance sheet total not exceeding £36 million (€ 43million).

In regard to the appropriate number of case-studies for consideration in a qualitative study, suggestions have varied across authors. For instance Creswell (1998) recommends between five and twenty-five interviews for qualitative research. At the same time, four to ten case-studies have been suggested as appropriate in providing a good basis for analytical generalization (Eisenhardt 1989; Gibbert et al. 2008). The number of relationships (case-studies) that were considered in this study is five and therefore falling within the range that is suggested by the authors.

Following the identification of the SME suppliers, they were asked to identify the larger customer with whom they had been doing business with for the longest period of time. This was essential in increasing the likelihood that the suppliers commented on a relationship that was properly formed and had established patterns of behaviour (Duffy and Fearne 2004; Leuthesser 1997). It is on this relationship with larger customers that data collection was concentrated. The selection process for cases ceased when saturation was reached and this was indicated by information redundancy. Data saturation is achieved when no new data are being found in the interviews of the participants (Pickler

2007). The use of saturation in the determination of the number of cases to study has been used before (e.g. Ulaga and Eggert 2006) and is recognised by researchers in qualitative methods (Yin 2003). Likewise, Morse (1995 p.147) suggests saturation as the key to excellent qualitative work.

The SMEs' personnel that were better informed in terms of collaboration with customers were identified. In other words, the criteria used for the selection of informants were their knowledge of the focal relationships as well as the willingness to communicate with the researcher. The same criteria were used by Beugelsdijk et al. (2009) in their study, "the role of organizational culture in the performance of buyer-seller relationships". Considering the SMEs' context, the Managing Directors were selected as the main respondents within the supplier firms because of their knowledge and experience of areas of collaboration, value co-creation and involvement in relationships with larger customers. The collection of data from suppliers on the relationship between larger customers and SME suppliers is consistent with other studies (e.g. Johnsen and Ford 2006).

#### **4.7 Data collection**

In-depth interviews were the main data collection method in this study though other methods such as observation were employed to corroborate interview data. Interviews are one of the most commonly used data collection methods in qualitative research (Mason 2002) and also one of the most important and essential sources of information in a case-study (Yin 2003 p.89). They are also considered to be a highly efficient way to gather rich, empirical data (Eisenhardt and Graebner 2007). Data were collected by the researcher through face-to-face in-depth interviews at the respective companies'

premises. Compared with other interview methods such as telephone and online, the personal interview method, despite being the most expensive, has the advantage in enabling the interviewer to ask more questions and record additional observations about the respondent such as body language (Kotler and Keller 2006). Furthermore, considering the focus of this study on a relatively new concept of value co-creation in business relationships, in-depth interviews become relevant. According to Martin et al. (2009), the goal of the in-depth interview technique is to yield insights about less researched concepts that can guide theory development and/or future research and hence can be empirically verified in subsequent research.

Prior to face-to-face in-depth interviews, company websites were visited and in some cases telephone conversations were made. This was important in informing the researcher of background information on companies, their size, activities and involvement with larger customers. A similar procedure was used by other studies (e.g. Johnsen and Ford 2006). A brief of the research study was sent to respective suppliers and customers and appointments made prior to interview dates. During the interviews, the researcher travelled to the premises of the interviewees to conduct the interviews. This was necessary considering the in-depth nature of interviews and also to allow for collection of some information by observation, which is relevant for instance in discovering any discrepancy between what the respondents say and what actually happens and consequently enhancing data triangulation. Table 12 shows a summary of fieldwork aspects including the durations in respective in-depth interviews.

An interview guide (annex 7) was used to aid data collection in the field. Such a data collection instrument is appropriate so as to allow for in-depth interviews and

subsequently allow for collection of comprehensive data. According to Patton (2001), the use of an interview guide (a semi-structured questionnaire) has the advantages of easing the interviewer to gather data in deeper detail and enabling a conversational and situational interview. Furthermore, semi-structured interviews allow for the collection of a large amount and wide variety of information while at the same time safeguarding the coverage of all topics (Valk 2007). For instance in this study the questions focused on areas of collaboration, value co-creation and the co-created value hence safeguarding the coverage and they were open rather than strictly structured questions, hence enabling the respondents to exhaust their opinions on these issues. Nevertheless, the use of an interview guide should be used bearing in mind its potential weakness that important and outstanding topics may be skipped over as the interviewer may be diverted by other topics in the conversation (Patton 2001). The in-depth interviews were audio-taped, transcribed verbatim and then analyzed. Annex 6 shows a sample transcript.

**Table 12: Summary of field-work aspects**

<b>Name of company</b>	<b>Chesa</b>	<b>Sowa</b>	<b>Bete</b>	<b>Spibe</b>	<b>Laberi</b>
Date of data collection (in-depth interviews)	24/04/2008	23/04/2008	13/05/2008	06/01/2009	08/01/2009
Duration of first round interviews	2 hr 20 min	1 hr 8min	2 hr 27min	3 hr 35 min	2 hr 57 min
Duration of second round interviews (verification)	1 hr 9 min	1 hr	1 hr 12 min	1 hr 44 min	1 hr 14 min
Number of people interviewed	1	1	2	3	1
Duration in the company premises	1 day	1 day	2 days	1 day	1 day
Data and data collection method	-recorded face-to-face interview with the MD -organisational structure chart -took pictures especially at the farm shop	- recorded face-to-face interview with the MD -observation through a tour of the processing premises -took some pictures	- recorded face-to-face interview with the MD (partner) -unrecorded discussion with personal assistant to MD -observation through a tour of the beef farm with the MD -took some farm pictures	- recorded face-to-face interview with the MD & Director -observation and discussion with a technician during a tour at the processing plant -email data -took some pictures -organisational structure chart -herbal related pamphlets and other materials	- recorded face-to-face interview with a partner (manager) -observation through a tour of the farm -email data -two farm pamphlets -took some farm pictures

Source: Author's compilation

The data collected comprised both primary and secondary data, though predominantly primary. Primary data though often expensive and time-consuming is important for it is tailored to a specific purpose of interest and is originated by a researcher (Patton 2001). Secondary data is data already collected for purposes other than the researcher's problem and is often quick and less expensive to obtain (Patton 2001). Secondary data were collected from internet, newspapers, product brochures, magazines, businesses' reports, research reports, and government and relevant institutions' reports. The different sources are important at least in enhancing data triangulation (Yin 2003 p.98). The data collected included that on: background of the firms, background of the customer-supplier relationships, characteristics of the firms and respondents, areas of collaboration between customers and suppliers, and manifestations of areas of collaboration as well as the benefits/value associated with the respective collaborative areas. These are in line with this study's conceptual framework.

#### **4.8 Data analysis**

Yin (2003 p.109) points out the need for every case-study to have a general analytic strategy that relate to defining priorities for what to analyse and why. The main general analytic strategies are: relying on theoretical propositions, setting up a framework based on rival explanations and developing case descriptions. This study, having generated research questions and objectives, relies on theoretical propositions and these are depicted through the conceptual framework. This is the most appropriate analytic strategy in this study, especially considering that the question and the conceptual framework shaped the data collection plan (Yin 2003). Given the subject of study as value co-creation in customer-supplier relationships, then a dyad (a single relationship) is taken as the unit of

analysis. This is consistent with the IMP interaction approach that takes a *relationship* as its unit of analysis, rather than for instance single transactions. Taking inter-firm relationship as the unit of analysis is common even in food industry studies of relationships between large customers and SME suppliers (e.g. Blundel and Hingley 2001).

Data analysis comprised three main interactive activities, namely, data reduction, data display and drawing or verification of conclusions (Miles and Huberman 1994). Data reduction is a form of analysis that sharpens, sorts, focuses, discards, and or organizes data in such a way that final conclusions can be drawn and verified (Miles and Huberman 1994). Attention is paid to information that is relevant to this study's research question and objectives. The aim is not to compare the information provided by different informants and find common characteristics, but rather it is to create the whole picture of the phenomenon of value co-creation. A display is an organized, compressed assembly of information that permits conclusion-drawing and action (Miles and Huberman 1994). The two families of displays are matrices (the crossing of two lists, set up as rows and columns) and networks (collection of 'nodes' or points connected by lines-links) (Miles and Huberman 1994). Conclusion and verification involve deciding what things mean – noting regularities, patterns, explanations, possible configurations, causal flows, and propositions. The analysis was guided by the objectives and the conceptual framework that have been presented earlier in this thesis. Matrices and graphs were used to structure and analyse the data as well as summarise the responses from interviewees.

The analysis involved annotating and classifying transcripts into meaningful themes and categories. The analytical strategy adopted in this study was to seek to relate data to the

research question through the conceptual framework derived from literature (Figure 7). This was relevant in displaying and reducing data. Nvivo 7 software was used in analysing the transcripts. This largely involved coding into free and tree nodes based on the themes that emerged. Annex 8 is a screen printout showing examples of nodes that were created during analysis. The manifestations of collaboration (value co-creation) as well as the respective co-created value were grouped into collaborative areas that they best fitted. These were later cross-checked with the transcripts and also the draft findings were reviewed by key informants as a means of verification.

Since the study adopts a multiple case-study strategy, analysis involved providing a detailed description of each case and themes within a case (within-case analysis) and this is followed by a thematic analysis across cases (cross-case analysis), as well as assertions or interpretation of the meaning of the case (Creswell 2007 p.75). Cross-case comparisons are done at least for external validation of the individual case-study findings. Patterns are identified in terms of commonalities and divergences across the individual cases. These patterns are identified by use of cross-case comparison meta-matrices. Use of quasi-statistics was also employed. Quasi-statistics refer to the use of simple numerical results that can be readily derived from the data (Maxwell 1996 p.95). Quasi-statistics are useful not only in allowing the testing and support of claims that are inherently quantitative, but also in enabling the researcher to assess the amount of evidence in the data that bears on a particular conclusion or threat (p.95). Quasi-statistics are used in this study for instance in relation to an identified number of value co-creation practices and types of co-created value per relationship and collaborative area.

#### **4.9 Validity and reliability**

Four criteria are commonly used to assess the rigour of field research including case-studies. These are: internal validity, construct validity, external validity, and reliability (Gibbert et al. 2008; Yin 2009 p.41). Equivalently, Trochim (2006) and Guba and Lincoln (1998 p.114) use different terminologies in referring to the criteria for judging qualitative research, namely, credibility, confirmability, transferability and dependability. Nevertheless, in consistence with Yin (2009), Morse et al. (2002) argue for a return to reliability and validity as appropriate concepts for attaining rigour in qualitative research and they recommend that qualitative researchers should reclaim responsibility for reliability and validity by implementing verification strategies that are integral and self-correcting during the conduct of the inquiry itself. Furthermore, given that the methodological path that this study adopts is mainly that described by Yin (Table 13), then accordingly his terminologies are herewith adopted. Moreover, all the issues that are described under credibility, confirmability, transferability and dependability are also covered when adopting the Yin's (2009) and Gibbert et al.'s (2008) criteria, namely, internal validity, construct validity, external validity, and reliability.

##### **Internal validity**

In this study, internal validity (logical validity) was enhanced through three strategies which are also the main ones suggested by Gibbert et al. (2008). The first is by deriving a research framework explicitly from literature. This shows the relationships between the key constructs of this study, namely; interaction in the customer-supplier dyad, collaboration, value co-creation and value co-created. Second is through pattern-matching (Gibbert et al. 2008; Yin 2009 p.41) and this largely involved matching themes that were

identified with those reported by other authors. In addition to details under 'development of conceptual framework', this (pattern matching) is thoroughly described especially in the 'discussion of findings' section whereby the findings are compared and contrasted with those of other authors. Third is the use of theory triangulation whereby different theoretical lenses (e.g. G-D logic as well as S-D logic) and bodies of literature (e.g. marketing and strategic management) are used in developing the conceptual framework as well as in interpreting the findings.

### **Construct validity**

Construct validity refers to the extent to which a study investigates what it claims to investigate, that is, to the extent to which a procedure leads to an accurate observation of reality (Denzin and Lincoln 1994; Gibbert et al. 2008). For instance in this study the value co-creation practices are assumed to generate some value. These value co-creation practices are grouped into areas of collaboration. In enhancing construct validity, this study employed five strategies which are also suggested by Gibbert et al. (2008). The first is through a review of transcripts and drafts by my peers, PhD colleagues, in which they confirmed the themes. Second is through review of draft findings by key interviewees or rather by key informants. This involved visiting each company that participated and taking the respondent through the findings thereby seeking confirmation of the findings. Only one company had a different respondent from the one interviewed during the initial data collection round. In this instance, the partner assumed the role as this was a family business and both parties were well-informed on the aspects being investigated and are actively involved in running the firm. Third is through a clear indication of data collection circumstances whereby the explanation for instance on how access to data has been achieved is clearly presented under the 'data collection' section. Fourth is through a

detailed explanation of data analysis (in data analysis section) whereby clarifications are made on the data analysis procedure. Fifth is through data triangulation. This specifically involved the use of original interviews carried out by the researcher, use of secondary data especially from company websites and also through data derived by direct observation by the researcher. This was enhanced through tours around the participating companies' premises.

### **External validity**

External validity relates to generalization (Gibbert et al. 2008). It relates to defining the domain in which a study's findings can be generalized and it deals with the problem of knowing if whether a study's findings are generalisable beyond the immediate case-study (Yin 2009 p.40). Unlike other research strategies such as surveys, case-studies generalize analytically rather than statistically. Analytical generalization as opposed to statistical generalization refers to the generalization from empirical observations to theory, rather than a population (Gibbert et al. 2008; Yin 2009). Gibbert et al. (2008) suggest three main strategies for ensuring that external validity is maintained, namely, cross-case analysis, rationale for case selection and details on case context. The same strategies are used in this study to ensure that external validity is maintained. First, having employed the multiple case-study design, the study employed a cross-case analytical technique involving case-studies (relationships) of different organizations (Ericksen and Dyer 2004; Gibbert et al. 2008; Yin 2009 p.136). Second, the rationale for case-study selection is explained (in the case selection section) in which the reasons are given on why the investigated case-studies were appropriate in view of the research objectives. Third, details on case-study context are elaborately presented and one full chapter (chapter 5) largely deals with this issue.

## **Reliability**

Reliability relates to demonstrating that the operations of a study - such as the data collection procedures - can be repeated with the same results (Yin 2009). The objective is to be sure that if a later investigator followed the same procedures as described by an earlier investigator and conducted the same case-study all over again, the later investigator should arrive at the same findings and conclusions. Gibbert et al. (2008) and Yin (2009 p.41) suggest two ways to enhance reliability in case-study research, namely, the use of case-study protocol and a database. Another one suggested by Gibbert et al. (2008) is use of an organisation's name. The first two (protocol and database) were applied in this research. However, during the data collection phase, the participants were promised anonymity of their companies in writing the thesis. Therefore, due to ethical reasons the actual names of the companies are withheld.

In regard to the database, this was developed and is available especially in regard to interview transcripts and other available documents. In regard to case-study protocol, details of how case-studies were conducted were presented under the relevant sections in methodology (e.g. in the data collection and analysis sections). Furthermore, Table 13 is prepared and presents a detailed methodological path that was employed in this study. Essentially, this study was conducted following the interactive process recommended by Yin (2009 p.2) in doing a rigorous case-study research. Qualitative research is recognised to be iterative rather than linear, so that a good qualitative researcher moves back and forth between design and implementation to ensure congruence among question formulation, literature, recruitment, data collection strategies and analysis (Morse et al. 2002). The interactive process is characterised by six main phases (Table 13). Accordingly, the study unfolded as described by the six steps.

**Table 13: Methodological path**

<b>Step</b>	<b>Details</b>
Plan	Thorough literature review was conducted whereby a general research question as well as objectives was formulated. In the backdrop of the identified question (how value is co-created in the larger customer-SME dyad) and the complex contemporary phenomenon of the value co-creation within real life context, and the fact that the researcher has no control over the events, the use of the case-study method was found to be more appropriate compared to other methods. This phase included the understanding of the strengths and limitations of the case-study method.
Design	At this phase, the unit of analysis was defined, namely, the dyadic relationship. The cases were to be drawn from the organic sector as this is more likely to illuminate the phenomenon under investigation, value co-creation. The criterion for deciding the number of cases for study was also decided, namely, saturation. A conceptual framework was also developed and this essentially represents the theory as well as the issues to be studied. The study design, multiple-case, was also found as appropriate and the procedures to maintain case-study quality were defined as discussed in the above section.
Prepare	To sharpen skills, the investigator attended a session on conducting case- study research. This was offered through the Bournemouth University's Graduate School. An interview guide was developed with questions to guide data collection. An internet search was conducted for organic food and drink suppliers in the South-West UK including their contact and subsequently a telephone-call was made or an email was sent requesting their participation in the research. This involved briefing about the research and requesting attention from the appropriate respondent - in the SMEs' context this was mainly the Managing Director. Appointments for interview were made with consenting SMEs. The interview guide was emailed to the SMEs who were informed that the discussion (interview) would revolve around the questions.
Collect	Data were collected from many sources thereby using multiple sources of evidence. First were in-depth face-to-face interviews using the interview guide and these were recorded for eventual transcription. Second was observational data and this was enhanced by a tour around each company's premises. Third was secondary data from sources such as company pamphlets, website, etc. A case-study database was created comprising various files related to respective cases. Effort was made to maintain a chain of evidence.
Analyse	The analysis was guided by a conceptual framework. Transcription was done on the in-depth interviews. Within-case analysis was done using NVivo 7 and results verified by interviewees. Given the multiple case-study design of the study, a cross-case synthesis analytic technique was then employed in the analysis. Also used in addition to matrices were graphs for data display.
Share	A lot of evidence was displayed in the thesis. This is largely to enable the reader to reach their own conclusions. Preliminary results from within-case analysis were verified by interviewees. Also the draft thesis was reviewed by other academicians and re-written by the investigator to perfection.

Source: Author's compilation and in consistence with Yin (2009 p.2)

#### **4.10 Summary of the chapter**

This chapter has discussed the methodology that was employed in this study. The relevance of constructivism philosophy, inductive and qualitative approaches, and the case-study method with respect to this study were explained. Also described were the procedures that were employed in selecting the study area in line with the case-study method, cases as well as respondents. Data collection and analysis procedures were also explained. Finally, the chapter depicted how validity and reliability issues were ensured in the study to maintain quality and rigour. This included a presentation of the employed detailed methodological path which is consistent with the case-study research method.

## **Chapter 5. Findings: Within-case analysis**

### **5.1 Overview of the chapter**

This chapter presents the findings of this study based on within-case analysis. This includes the areas of collaboration in the larger customer-SME supplier dyad, value co-creation as well as the respective value co-created. The findings are presented on per case-study basis and are in line with the objectives of this study as presented in the introduction chapter of this thesis. In terms of structure, under each case-study, the main heading represents the area of collaboration. The sub-headings reflect the manifestations of the respective areas of collaboration and hence represent value co-creation. The values co-created are indicated within the respective paragraphs. This structure is found appropriate as it allows for capturing the holistic nature of the phenomenon under investigation. The need to maintain the holistic nature in case-studies is emphasised by Yin (2003) and Creswell (2007 p.39).

### **5.2 Description of the cases (relationships)**

The SMEs that participated in this research were in relationship with larger customers. Table 14 presents information about the SMEs with respect to their size, annual turnover, balance sheet total, number of employees and their main products. The organisations ranged from micro to medium-sized enterprises. Anonymity was offered to the firms to encourage openness of response.

**Table 14: Description on the larger customer-SME supplier relationships**

<b>Name of company</b>	<b>Chesa</b>	<b>Sowa</b>	<b>Bete</b>	<b>Spibe</b>	<b>Laberi</b>
Company size*	Medium	Small	Micro	Small	Micro
Annual Turnover	£20m	£1m	£60,000	£1.4m	£185,000
Balance sheet total	£9m	Declined to reveal	£12,000	£835,424	£193,000
No. of employees	115	18	5	24	3
Main products	Cheese	Soups and sauces	Beef	Organic herbs	Lamb and beef

\*classification of company size is based on number of employees, consistent with the definition of SMEs by The Commission of the European Communities (2003).

### **5.3 Alpha-Sowa relationship**

#### **5.3.1 Innovation and design dependence**

##### ***5.3.1.1 Product development and market success assessment***

Based on a larger customer's market intelligence or rather experience with consumers, through the customer-supplier relationship, Alpha advised the smaller supplier (Sowa) on the possibilities of success of their new product. This is clear from the following statement by Sowa:

*“If we want to introduce a new product... or an idea for new product we would take it to Alpha and tell them we are thinking of launching this new product what do you think, and they would give us advice. They would say, in our experiences this soup will work, this soup will not work.”*

### ***5.3.1.2 Packaging development and product name determination***

Alpha and Sowa collaborated in packaging especially by deliberating on any preferable change. In addition, the larger customer recommended changes in relation to taste, ingredients, name of product and pricing. Sowa suggested that this was useful in enhancing success of the products in the market. This may be an indication that the larger customer made the recommendations guided by market intelligence probably due to its position downstream. In regard to collaboration in packaging and product name determinations, Sowa indicated that:

*“We (Sowa) run the packaging by them as well, you know, any packing changes. Alpha buyers are very very experienced buyers and we would often seek their help and advice when we are going to launch new products so they are very supportive with us...Yah, taste and ingredients absolutely, the packaging, name of product they can help us on.”*

### ***5.3.1.3 Design dependence***

Design dependence was noted in the Alpha-Sowa relationship. This took the form of the larger customer suggesting the need for increasing the shelf-life of products and the SME supplier implementing this requirement. To respond to the requirement, innovation was relevant. Sowa equipped its kitchen with state-of-the-art processing machinery which allowed the firm to employ hot filling techniques – in which pasteurised liquids were poured directly into their final containers and immediately sealed – and blast chilling – whereby the temperature of the hot containers was rapidly reduced to below 5 degrees Celsius. This process increased the shelf-life of products to at least 16 days, 4 days above the minimum requirement by larger customers.

In this connection, Sowa stated that:

*“We now offer our customer a minimum 16 days shelf-life. The situation before is that we had very short shelf-life. And how has that enabled us to overcome market challenges? Well, it makes a big difference just between us being able to supply the supermarkets really. I mean you would not be allowed to supply a supermarket if there is less than 12 days shelf-life. That is why it has been a fantastic thing for us.”*

The longer-lasting products were beneficial to the supplier in terms of non-monetary value co-created in the form of achieved and sustained preferred supplier status in the eyes of the larger customer. This also indirectly had monetary implications. It enhanced access to the supermarket outlet. It was also beneficial to the supermarket in lowering its transactional costs through less frequent but larger purchases, and accordingly enjoying economies of scale.

### **5.3.2 Collaborative planning**

As noted above Alpha and Sowa discussed new ideas prior to the development of products and new products prior to introduction in the market. This was useful in enhancing the market success of new products. This essentially indicates that the two firms were involved in collaborative planning.

### **5.3.3 Co-evaluation**

In the Alpha-Sowa relationship, the supermarket staff together with those of the smaller supplier audited the supplier's factory as well as the staff.

Sowa stated the following in relation to the audit:

*“If you sell to supermarkets nowadays, you have to have an audit of your factory and all the staff. So the supermarkets will tell you exactly the standards that you have to adhere to and the training that your staff need to have. So all our staff are trained in accordance with their audit. So our staff have to have for example hygiene training, they have to have something called a HACCP which is all about procedures within, that has to be adhered to... They look at the cleanliness, they look at all the paper work and they look at the ingredients that we use. Yah.”*

### **5.3.4 Marketing and promotion**

#### **5.3.4.1 Collaboration in product launch**

The larger customer was instrumental in the launching of new products in the Alpha-Sowa relationship.

*“Alpha buyers are very very experienced buyers and we would often seek their help and advice when we are going to launch new products so they are very supportive with us.”*

#### **5.3.4.2 Collaboration in product distribution**

Sowa claimed to be saving money through the use of a larger customer’s distribution system. The smaller supplier stated that the larger customer’s extensive store networks were useful in promoting the distribution of its products widely.

The SME indicated that:

*“Well, basically there is a lot of difference. If you have 25 little vans going out to take one order to Alpha depot, as opposed to one huge 8-tonne lorry, that is how we save money. It’s a huge benefit to us by going to the large distributors.”*

### **5.3.5 Participatory pricing**

In the Alpha-Sowa relationship, collaboration or co-participation in pricing was identified. Sowa said that:

*“And they (Alpha) help us in pricing. So they are very very useful customer to us.”*

## **5.4 Omega-Chesa relationship**

### **5.4.1 Innovation and design dependence**

#### ***5.4.1.1 Design dependence***

In the Omega-Chesa relationship, the larger customer recommended the need for developing a very small cheese that could fit into children’s lunch packs. Such cheese did not exist before and represents a new innovation. This study argues that such innovation is likely to generate more revenue for both the smaller supplier and the larger customer. The small cheese for children lunch packs in packets of five were observed in the smaller supplier’s farm shop.

### **5.4.2 Collaborative planning**

#### ***5.4.2.1 Collaboration in drawing of business plan***

Chesa worked in collaboration with the larger customer in drawing up the business plan. This was usually drawn up during the period December to the end of March each year.

The plan became effective on the first of April. The process started with Chesa convening a meeting and kick-starting the process of business plan development. Chesa's team progressed with development of the business plan in consultation with Omega's staff and most of these communications were done by email. They came up with a draft business plan which was then presented to Omega for further discussion including face-to-face meetings and round table discussions. From the supermarket side, those involved in the process included, Omega's buyers, merchandisers (those that arranged goods on shelves), quality assurance team, design team or labellers and so on. Once the plan was finalised by the two teams, it was discussed by Chesa's Managing Director and the supermarket buyer's boss and once approved or signed it was adopted by the smaller supplier. The issues in the plan included volumes to be produced, new products that would be developed and promotions that would be done during the year under consideration. The collaboration in planning had value co-created at least in terms of enhancing continuous supply, maintaining promotions and hence boosting sales and consequently ensuring guaranteed cashflow.

In relation to the collaborative planning, Chesa indicated that:

*“What happens is that we have a meeting, we come up with a business plan, we present it to them (Omega) and they will say yes we like that, we like that, no we don't like that, we take that out you know and so we come up with at the end of the period, that is before start of April, with a whole series of issues that we are going to address, and volumes that we are going to meet, new products that we are going to develop, promotions that we are going to do, yah... But the importance of having a business plan is that we know what they are expected to take and we can make sure that we make enough cheese to meet those requirements.”*

In connection to the business plan development, Chesa added that:

*“Staff at Omega and here put together what we are going to be able to do and finally myself (Managing Director) and the buyers’ boss sign it off saying its right and that is the plan we gonna go with.”*

### **5.4.3 Development and sustenance of technological inter-linkages**

#### ***5.4.3.1 Installation and sustenance of a stock-flow monitoring system***

A computer system of monitoring flow of stocks in the larger customer’s outlets was installed in Chesa premises through commissioning by the supermarket (Omega). This connected the various branches of Omega to Chesa’s computer systems. Successful installation and sustenance of such a system required support and collaboration between the two parties – smaller supplier and the larger customer. This system enabled the small company to look everyday and know exactly how much of their cheese was sold through Omega. By monitoring the stocks, they could then replenish accordingly. This ensured that stocks were replenished promptly and this generated co-created value at least in terms of higher sales through enhanced continuous supply.

Chesa, in connection to the interlinked technical system, expressed that:

*“In terms of actual happening on daily basis, our computers are connected to Omega’s computers and we can look everyday how much of our cheese is being sold through Omega today. In all the branches, we know exactly how much cheese has gone today. So there is a pipeline of distributors feeding that cheese in and so what has been sold today*

*we know we have to put in the pipeline the other end tomorrow. So we keep the pipeline full all the time.”*

#### **5.4.4 Bilateral development of knowledge and skills**

##### **5.4.4.1 Internships**

Interactive learning in the form of internship was noted in the Omega-Chesa relationship.

This is evident from this statement by Chesa:

*“The idea is really, ah, Omega have a very busy time over Christmas. And usually speaking as far as we are concerned most of our products Omega will sell over Christmas, and they go in about a week before. So in few days before Christmas we are not very busy here. Products are in the supply chain already. So some of our staff would go to Omega and help them to stack the shelves or do whatever needs to be done just to get a feel of what is like inside a supermarket”*

In commenting on the value of such internship, Chesa identified the understanding of customer and consumer needs as the main one. The smaller supplier stated that:

*“It’s just an understanding of your customer needs because sometimes people will come back with a very simple thing. They will say, well, if the packaging was a bit different it would fit on the shelf better or it would present better or wherever. So sometimes you get people come up with ideas through doing the job that you won’t realize through sitting around the desk.”*

#### **5.4.4.2 Exchange visits**

It was common for the larger customer and the smaller supplier to visit each other. The visits by the larger customer involved going round the smaller supplier's premises and observing what went on. This enabled the larger customer to familiarise itself with the smaller supplier's system. During the data verification visit, the smaller supplier elaborated that such visits were relevant in enhancing loyalty and this made the larger customer give special attention to products that were procured from the smaller supplier. The supplier explained that the visits were not audits but were mainly for learning purposes. In relation to the visits, Chesa expressed that:

*“They (larger customer) come here but not to work. They come here and take an interest on what we are doing and go round and have a look but that is all.”*

#### **5.4.5 Development and sustenance of commensurate culture**

##### **5.4.5.1 Quality orientation**

Quality sensitivity seems to be ingrained in Chesa's way of life. In relation to quality, Chesa's Managing Director expressed that:

*“All the way through our systems we are driven by quality.”*

Quality in cheese is largely assessed by taste, smell, texture and body. To build integrity as to the quality of systems, Chesa had the British Retail Consortium accreditation. The SME had a whole manual of quality management systems which was a pre-requisite for accreditation. The larger customer, Omega, was also keen on quality.

#### **5.4.5.2 Greening culture**

Related to integrated systems and reduction in waste, Chesa mentioned that:

*“The beauty of it is, the by-products from one system are the raw materials for the next. For instance the waste from the cheese making process is normally a nuisance to most cheese makers. But because we have got pigs, it is the idea of feed for pigs and because when you keep pigs the biggest problem is manure, too much manure, but manure is the idea for fertilizing the grass. So all the by-products that are a problem in other peoples systems, are the raw material for the next stage... We must address waste. We have far far too much waste. In this country they say 30 per cent of all food is wasted. Sinful! Sinful!”*

#### **5.4.6 Marketing and promotion**

##### **5.4.6.1 Smaller supplier supporting larger customer during promotions**

In the Omega-Chesa relationship, the smaller supplier’s staff sometimes helped at the larger customer’s premises during a promotional period. The promotions were found to yield dramatic sales increases. Costs were also reduced considering that the larger customer would be likely to engage additional staff to serve the increased number of customers who are attracted by promotions. In relation to benefits from promotion, Chesa indicated that:

*“We normally sell 25 tonnes of that product in a month and we sold 125 tonnes in the month with that promotion... what we see happen, and it happens after every promotion is that it goes up to 125 tonnes in a month, the next month when no promotion it goes back down to ordinary shelves, it will come back to around 45 tonnes and then it will trickle*

*down again 45, 40, 35, 30 and then we might promote again. When it gets down to 30 we might promote again. So that is how promotion goes.”*

#### **5.4.6.2 Collaboration in distribution of products**

During the findings verification visit, the smaller supplier (Chesa) clarified that they sometimes use the trucks of the larger customer (Omega) in distribution of their products. For instance, when the trucks were going back to the larger customer’s depot, instead of going empty, they would pass by and carry products with them rather than the smaller supplier using its own. This generated value in the form of reduced costs, increased capacity utilization of the larger customer’s trucks and contributed to a reduction in carbon emissions.

#### **5.4.7 Co-participation in corporate social responsibility**

The Omega-Sowa relationship was characterised by co-participation in corporate social responsibility (CSR). Chesa indicated that:

*“And this is what Omega are interested in because the public relationship of educating people, particularly city people, on how their food is produced is important. ...because we pay our staff to tell the children how to..., you know, all there is to learn. We have to pay for the buses to bring them to the farms and of course with all these, if Omega contributes some money they would get the benefits of positive public relations...positive advertising. Absolutely, social responsibility.”*

#### **5.4.8 Collaborative communication**

Chesa indicated two-way communication as one of the benefits that they got through the relationship with the larger customer (Omega). This was important in enhancing an understanding of customer wants. The smaller supplier indicated that:

*“The benefit we get from our customers is about two-way communication. You have to understand what the customer wants and make sure you supply it.”*

### **5.5 Zeta-Bete relationship**

#### **5.5.1 Bilateral development of knowledge and skills**

##### **5.5.1.1 Learning through open days**

Zeta used to invite its suppliers of beef to its abattoir and gave them information on how to improve the quality of their beef. Bete attended the open days and this was useful in enabling them to understand the quality that the larger customer demanded.

In this relation, Bete expressed that:

*“They occasionally have days when you can go to their abattoir and they can tell you what they want... they might say, ok, you need to have a change of breeding of your cattle, have a different bull may be, have different breed of cows, something like this.”*

#### **5.5.2 Communication**

Bete considered the feedback given by the larger customer to be difficult to accept. The supplier had this to say on customer feedback:

*“Zeta’s feedback is difficult to swallow whereas for the people who understand what we are doing here feedback is very good.”*

### **5.5.3 Generic relationship**

Bete acknowledged that selling to a supermarket had the advantage of providing a big market or business compared to, say, individual private buyers. Referring to the big market that was provided by the larger customer, Bete said that:

*“It’s a very big market”*

## **5.6 Gamma-Laberi relationship**

### **5.6.1 Innovation and design dependence**

In the case of the Gamma-Laberi relationship, the larger customer advised the small supplier, especially in regard to quality improvement. They discussed appropriate breeds or best products. However, the degree to which the requirements were satisfied by the smaller supplier was constrained by outsourcing – the SME outsourced some of its supplies and did not have much control over its supplier. This is reflected by this statement:

*“We would talk about the breeds of cattle, and there are some that they (larger-customer) prefer to others. So we would try and do that but we cannot always produce exactly what they want because we buy some from another farmer and he has different breeds that are quite as good because he comes from further west where it is much harder country.”*

As an indication of the limitation in influencing the smaller supplier’s supplier (outsourcing), Laberi suggested that:

*“We would like him to produce like different cattle and use a different bull but we are not good at persuading him.”*

## 5.6.2 Collaborative planning

### 5.6.2.1 Collaborative planning and communication

Laberi and the larger customer (Gamma) collaborated in planning and this had benefits such as reducing wastage. For instance, by planning together, the animals were slaughtered at the appropriate age thereby avoiding accumulation of fat that would otherwise be wasted. Co-planning was also helpful in promoting continuous supply. When responding to the question of if there were times when the SME (Laberi) would have liked to deliver to the larger customer but then the customer indicated that they already had enough for instance from other suppliers.

*“Ah, sometimes but very rarely because they plan and we plan ahead with them and say we will have 100 cattle in this next nine months and therefore we need to sell you so many a month. And mostly that works pretty well.”*

The collaborative planning involved a lot of consultations across the two firms (Laberi and its larger customer, Gamma). This was characterized by weekly communications and also at the beginning of a season the two parties agreed on the number of cattle as well as sheep that the larger customer would buy. This was clear from the response by Laberi when asked how the process was like in planning together.

*“Basically a lot of conversations between the main butcher (larger-customer’s employee) who does all the buying. We would speak every week but also at the beginning of the season we would say we know we will have 500 lambs, we will have 100 cattle, so that we need to know that you will take those, and he may be have, I don’t know, 10 suppliers. He will know he will have however had many cattle to buy and he will plan it and make sure that he takes them from people regularly according to what suits their farm.”*

When asked about the modes of communication that were used, Laberi indicated that it was mainly by telephone, email as well as by physical visits especially during deliveries/supply.

*“Ah, email and telephone, very personal, very personal. (Or you go there also?) Yes yes, we deliver anyway. We have our own lorry now so we will be taking stock regularly. But mostly by phone and email.”*

The planning seemed more targeted to actions by the smaller supplier (Laberi) rather than the larger customer. In other words, the larger customer seemed to be the one contributing more to plans of the smaller supplier rather than the supplier contributing to the plans of the larger customer. Laberi considered itself as having no input to the larger customer’s plan. However, the SME used to have input when the customer was small but this scenario changed when the larger customer grew. As Laberi indicated:

*“I think we used to, but now they are so big, I am not sure we do any more because they have grown so much. In the early days, yes... But now they are so big, they can’t be quite flexible because they have grown massively.”*

#### **5.6.2.2 Collaboration in enhancement of continuous supply year round**

Laberi and the larger customer (Gamma) collaborated in ensuring that there was a continuous supply of organic beef and lamb throughout the year.

*“We collaborate in that we have worked to produce animals all the year round. So one of the key things is to make sure that we can deliver to them every week a small number of animals and with both cattle and the sheep we have worked quite hard to do that and we*

*manage it quite carefully. Whereas most farmers want to produce all their lambs and sell them all in large batches, we sell about 12 lambs a week and may be five cattle every week for of much of the year as we can. So we have adjusted our systems to make sure that we can have continuous output.”*

### **5.6.3 Development and sustenance of technological inter-linkages**

Laberi did not have interlinked technical systems with its larger customer such as EDI. They felt that they were too small for such a system. When asked if they had any interlinked system with the larger customer, for instance one that which could allow access to information across the two firms, they responded that:

*“No, we don’t do that. Probably we are too small for that. It is just by personal means.”*

### **5.6.4 Bilateral development of knowledge and skills**

#### **5.6.4.1 Mutual learning**

Laberi and its larger customer learned by visiting each other and being shown around the host’s premises and processes. This is confirmed by this statement by Laberi:

*“The butcher (main buyer) we would have him come down once in a while for a farm visit to come and show him what is going on.”*

Laberi’s larger customer (Gamma) also gained from SMEs especially in regard to understanding farm systems and quality. They could then use such knowledge in advising other smaller suppliers. The SME expressed that:

*“I think they have learnt that ah, they have learnt more about farming systems and quality. They would use us as an example of good practice for other newer suppliers.”*

*Because we are very established, lot of organic suppliers are much newer, and they would use this as an example. They could then send other farmers to get some experience or training or advice from us.”*

Laberi learned from the expertise of the larger customer especially in regard to practices that would enhance the display appeal of products. This was particularly useful to the SME because it had another outlet, the farm shop, in addition to the larger customer. In this case, the smaller supplier was able to apply the knowledge gained from the larger customer in the farm shop. The relationship with the larger customer therefore enhanced its understanding about butchering and presentation or display.

This learning from the larger customer through the relationship is clarified by this statement by Laberi:

*“We have gained a lot in terms of understanding of butchering and it’s the way that meat must be presented to be good quality. And I think we have also learnt from their marketing because they have very high emphasis on quality and local and they have got a particular way and reputation. So we have learnt that... knowledge of presentation of beef is beneficial to us because we also sell a little bit from here. We sell some at home.”*

### **5.6.5 Co-evaluation**

As noted above under the section on mutual learning, it was common for the larger customer to visit the smaller supplier and be shown around. When asked if there were times when the larger customer recommended the sort of training that the smaller supplier’s personnel needed to undergo, Laberi responded that:

*“Ah no, I don’t think so. But I think to be fair, we are very experienced organic farmers so is more likely we will be giving training than eh, because we have eh, we do quite a lot of education here and farm walks and demonstration ourselves.”*

## **5.6.6 Development and sustenance of commensurate culture**

### **5.6.6.1 Quality orientation**

Quality orientation was relevant in improving and maintaining quality and subsequently enhancing preferred supplier status. In Laberi’s case, the partner, while commenting on quality in relation to the customer-supplier relationship, indicated that:

*“Yes as they have become more professional, they have become more specific about the quality, that is for sure, and many organic farmers have had to improve their quality a lot. Over time we have worked out what suits us best in terms of farming and also what is quality for our customers.”*

### **5.6.6.2 Greening culture**

Laberi stated how they relied on only feed produced on-farm (rather than bought concentrates) to feed their livestock and how they recycled almost everything, all of which relates to greening:

*“We grow all the grass to feed them, make silage and hay and we feed them a little bit of cereals and nothing else... So the only real waste issue we have on the farm like this is all the black plastic from silage. We have lot of black plastic. And at the moment we cannot recycle that, it has to go to landfill which is bad. So that is the main waste we have.”*

## **5.6.7 Marketing and promotion**

### **5.6.7.1 Collaboration in promotion**

Gamma and Laberi were found to be collaborating on promotion. Laberi suggested that:

*“And also we have benefited from that because they (larger customer) do a lot of publicity about their suppliers, for instance on their website they would have stories about their suppliers which is good for both of us....Sometimes we enter competitions, ah food competitions, we have tried various media things ah press things where we might both be involved in article for something. That is pretty much it really. ..We would always make sure that we acknowledge the other.”*

*Information in the larger customer’s (Gamma) website confirmed the participation of the larger customer in promoting the smaller supplier. This comprised pictures of the SME supplier’s livestock as well as a story in praise of the smaller supplier.*

Laberi suggested the benefits of collaborative promotion as including reduced cost and much more importantly, gains through reputation as a result of association with the larger customer who already had good reputation.

*“Yes I think so (save cost through collaborative promotion). We get some advertising benefits from that but this is fairly small as I said, but yes, it is certainly good for our reputation. They (large customer, Gamma) have a very good reputation and so we benefit from that as well.”*

In addition to the verbal communication, the low-cost point was validated by a research report by a university which ranked Laberi’s farm as the most efficient among other

organic farms in the region. A copy of the research report was with the smaller supplier and was shown to the interviewer.

In relation to cost, Laberi expressed that:

*“The other side of it is that we keep our costs too low. On the side of economic side, the business is very tight in terms of keeping costs low. So it is very high performing business. We do this farm business survey with “Phi” University and from results of 2007; our farm is the top performing farm in the survey. Ah, generally in incomes, in profits. So in the survey we come out very very high. So that is interesting...I think we analyse our business very carefully all the time, we look at our cost and our performance. Something like this (referring to the university research report) is very useful because it is very detailed. Then you can think, ok, which bits of the business are doing well and where are the good bits, where are the bad bits and you can actually look at areas that you need to improve on. And many farmers aren’t very good at that. So perhaps that is different business background may be”*

#### **5.6.8 Participatory pricing**

Gamma and the smaller supplier, Laberi were found to practise participatory pricing.

Commenting on the co-participation and fairness in pricing, Laberi indicated that:

*“So they always offer a very fair price. And sometimes that means that we get paid a bit more than the average. And sometimes we even get paid a little bit less. But we agree we are going to be paid at certain level and then we stick by that. And that requires a lot of trust, a lot of trust.”*

### **5.6.9 Collaborative communication**

The relationship between Gamma and Laberi was characterised by collaborative communication. This was useful in many ways including improvement in animal welfare and management and consequently quality. The essence of feedback is emphasized in this statement by Laberi:

*“It is useful to get feedback because, you know ah, it helps you manage animals as well as possible, to prevent stress particularly. So if we get feedback that a certain animal was not good, we might understand why that was. It might have been upset in the lorry, you know, there are lot of things that can affect. Also we feed different groups of animals slightly differently, so it is also useful to know which ones have been the best because on the two farms they are slightly different.”*

Laberi’s larger customer provided the smaller supplier with feedback especially in regard to quality and the two parties (larger customer and smaller supplier) discussed the best product. In this regard, Laberi mentioned that:

*“We get feedback, feedback of quality. We will discuss together what the best product is and we would make sure that we are giving them what they want. Yes they would ask us for something and we would do it.”*

### **5.6.10 Collaboration in solving each other’s problems and being responsive**

#### ***5.6.10.1 Collaboration in implementing each other’s requests***

Laberi considered itself reliable in solving its larger customer’s problems and on the other hand, the larger customer (Gamma) also put effort into sustaining the supplies from Laberi. This is reflected by this statement by Laberi:

*“We are totally reliable. And whenever they ring up and say we have got a problem, we will always sort it out...They are also very interested or concerned in making sure that they are able to sustain us or to honour whatever they promise.”*

Also as noted in the section on collaborative planning and communication above, effective communication was relevant in enhancing prompt deliveries and in appropriate quantities, thereby reducing waste.

Laberi also indicated that the two parties responded to requests by the other party and worked together in implementing the requests.

*“We have always worked with them responding to what they want and very much working with them to produce what they ask for. So the relationship has grown over 18 years. And as they have changed we have made sure that we always produce what they want.”*

## **5.6.11 Provision of services to SMEs**

### ***5.6.11.1 Service provision to smaller suppliers***

In the Gamma-Laberi relationship, the larger customer was noted to provide butchering and packaging services to the SME. This was done at a cost by the larger customer rather than at a profit. The meat was then sold by the SME at its own farm shop. Although the meat belonged to the SME supplier, the packaging carried the larger customer’s brand. Indeed packaged/sealed meat bearing the larger customer’s brand was observed at the SME supplier’s farm-shop.

In connection to the butchering and packaging services, Laberi suggested that:

*“They do our butchering so we get back meat here to sell. They do the butchery for us which is very good for us because they are very good butchers, so we get back packed meat to sell. They butcher and give us back some of our own (meat) to sell here. They do it at a cost rather than at profit.”*

#### **5.6.11.2 Subsidizing smaller suppliers**

In addition to the butchering and packaging services described above, in the Gamma-Laberi relationship, the larger customer paid for slaughtering services for smaller suppliers. This involved absorbing some of the costs of slaughtering and processing that would otherwise be incurred by the supplier. This was considered by Laberi a rare thing and not common with other businesses/customers.

In connection to payment for slaughtering costs, Laberi expressed that:

*“And they also pay the cost of slaughtering. So we get a very good price because we don’t get very many deductions. I think they pay slaughtering for everyone who uses the abattoir in Devon. But compared with other businesses, they absorb some of the costs of slaughtering and processing in a way that in other companies you would not find. So I think they are quite generous.”*

#### **5.6.11.3 Encouragement and confidence building in growth**

Moral support through encouragement and confidence-building in growth was identified in the Gamma-Laberi relationship. As the larger customer grew, it encouraged the SME to grow as well. In other words, the larger customer gave the SME confidence to grow.

Therefore, the growth by the larger customer trickled down to the smaller supplier. The supplier benefited for instance in terms of increased profits and improved efficiency due to increased production and gains from economies of scale.

The encouragement and confidence in growth is reflected in this statement by Laberi:

*“They encouraged us to expand. In the early days whatever we had they would have but it was very very small but yes, certainly they gave us the confidence to expand our farm for sure. As they grew, we grew. ... We developed our supply, as they grew we grew and sort of synchronised what we did...Ah, it just allowed us to expand so that we can grow the business. Yes it has been good for us because we have become more profitable. So we spread our costs over a bigger area and have become more efficient.”*

## **5.6.12 Value of generic relationship**

### ***5.6.12.1 Co-creation of a guaranteed market***

Although Laberi and the larger customer did not have a written contract, the SME indicated that they had commitment to buy the produce that they supplied. This guaranteed market gave the SME some confidence.

Related to guaranteed market and confidence, Laberi expressed that:

*“The point is we have had commitment of the contract so we always know that they will buy what we can supply. So that has given us some confidence.”*

### ***5.6.12.2 Elimination of middlemen***

Laberi indicated that the relationship with the larger customer, Gamma, was important or beneficial in enabling the elimination of brokers and this subsequently promoted better price. When asked if the relationship with the larger customer had contributed to the elimination of brokers or middlemen, the supplier indicated that:

*“Yes. Well, because it is a direct relationship, we don’t for instance belong to a cooperative which lots of other producers might belong to a cooperative and have their marketing done through that. But we always have done it directly. That is good for us because we get a better price.”*

## **5.7 Delta-Spibe relationship**

### **5.7.1 Innovation and design dependence**

#### ***5.7.1.1 Design dependence***

Some degree of design dependence in product development was noted in the Delta-Spibe relationship. The larger customer provided specifications whilst the smaller supplier advised on preferred parts, product availability, pricing and provision of a free trial to enable taste and package testing by the larger customer. The trials were also useful in enabling the assessment of processing capability. Spibe expressed that:

*“It’s our customer’s blend. So they will say, actually we want this ingredient at this percentage. And then we will blend for them”*

Related to product development, they (Spibe) elaborated that:

*“So what we do, they (larger customer) will give us the ingredients and tell us how much they want of each ingredient in their blend and we will blend a small trial, which will be*

*monitored for any processing issues, and then sent to them to ensure the blend can be packaged. The larger customer will taste the product in addition to other quality tests. Then they will send us feedback and ask for our feedback as well, like how difficult was it to run the plant or process it and they will ask their packers as well, was it ok packing or were there problems? Yes it's a fully involved process there is no question."*

For the new products that were developed based on specifications from the larger customer (Delta), the smaller supplier (Spibe) perceived this process as investment. They therefore tended to supply the trial products to the customer free of charge.

*"Because we are trialling a new blend for them (the larger customer) which could lead to more business, we will of course provide the trial for free. This is not a service that is offered for all customers; but dependant on the nature of the relationship with that customer and history. Some suppliers may feel that new product development should be paid for by the customer; but we feel it is an important part of building a relationship with our customers. It is kind of an investment from our point of view"*

The free trials or rather the cost forgone because of not being charged may be considered as value to the customer that is co-created through the relationship. This is so because the SME (Spibe) indicated that if the trials were done with any other customer that had not been in a relationship with them for long, they would charge that customer.

*"In general, if it was a new customer that approached us in relation to new product development, we would of course charge them, there is no doubt about it. But in terms of customers that have been with us for years and years, where we process most; if not all their blends, we will not charge".*

### **5.7.2 Collaborative planning**

Collaboration in forecasting and planning

Spibe indicated that they usually got forecasts from their larger customer and this enhanced smooth delivery.

*“Certainly in terms of forecasting, we will ask them (Delta) for their forecast which they will give us. It obviously benefits them because if they give us forecast, we can organise improved delivery schedules.”*

### **5.7.3 Development and sustenance of technological inter-linkages**

#### ***5.7.3.1 Unique manufacturing system and mix of raw materials***

Spibe expressed the existence of a very strong bond between them and the larger customer and this provided a continuous stream of business. The linkage was characterised by systems that were difficult to imitate as well as dismantle as resetting was estimated to take long time, about a year. This is evidenced by the statement by Spibe:

*“I guess we are tied into some of our customers but probably more to the nature, I mean for example if one of our customer who does blend want to leave and go elsewhere. They have to reset all the manufacturing, all the broad ingredients that we hold for them. So it will take quite a long time to move and go somewhere else. It would take probably about a year to stop using us and go somewhere else. What I mean is, yes we have strong relationships with our key customers and notably those where not only do we provide ingredients but process for them as well. It is difficult for customer or an alternative supplier to not only match quality of ingredients but also taste profiles and the quality of*

*the finished product in terms of cut size. It would probably take a customer a year to move to an alternative supplier.”*

Related to switching costs, Spibe added that:

*“If it was just a case of buying the product in, I think it would be quite difficult to keep hold of customers because they are also going to be quite price-sensitive especially at the moment with the economy the way it is. The ingredients we purchase are based on quality; rather than price. Blend is affected by the quality of the processing as well. With all our ingredients we try and test. It is therefore quite a long process to get to the product and also to appropriate quality standards and so it will take quite a long time to move elsewhere. With the processing service and account management that we offer, it can make difficult for the customer to switch to an alternative supplier.”*

#### **5.7.3.2 Collaboration in development of quality systems**

Spibe supported some of its customers in developing or setting up a quality management department. During the setting up and initial operations period, the SME and the larger customer’s staff worked together in order to accomplish the project. This took place largely in the larger customer’s premises. Such a quality management department was relevant to value co-creation at least in the form of improving quality. In this connection Spibe suggested that:

*“We have helped our customers in producing quality management systems. For instance we have assisted some of them in setting up their quality department.”*

## **5.7.4 Bilateral development of knowledge and skills**

### **5.7.4.1 Exchange visits**

Spibe indicated that it was common for them and the larger customers, especially the top ones, to visit each other regularly. The smaller supplier stated that:

*“For example our top customer they came down here in November and we are going to see them in February. Yes, with three or four of our top customers it’s a regular kind of thing.”*

Spibe explained that the exchange visits usually took one day and they were important as they provided a forum for discussing issues such as forecasting, new product development and pricing. They also discussed issues related to the sourcing of ingredients and they expected this to contribute to improved procurement. Spibe indicated that, during the visit, the larger customer would sometimes suggest sourcing of new ingredients that they did not stock normally. This indicates the potential of such visits to introduce new ingredients and hence products and subsequently enhanced innovation.

In regard to the visits and what they involved, Spibe suggested that:

*“In one meeting we talked about their forecasting, discussed new product development and an update on sourcing products, we explained the reasons for price increases. Its kind of sit down conversation and is the same kind of conversation that we will be having when they come next week... yes, it’s like ask them what ingredients they need in their products. In relation to new product development we will find out what products are required, as it may not be products we normally source, and due to long lead times it is necessary that we have this information as early on as possible. So, when we meet the*

*next time, they will ask how well we are doing in sourcing these products, you know, have you managed to find a certain product etc.”*

#### **5.7.4.2 Bilateral knowledge combination**

Both Spibe and the larger customer (Delta) worked together, especially when there was need to improve or amend a product. Each had a different expertise. Spibe’s owner was very knowledgeable about the blends, particularly in relation to textures and volumes in regard to the ingredients that were mixed together. On the other hand, the larger customer was more knowledgeable in terms of the health benefits that would be derived from different ingredients. In such situations, the two worked together to develop more appealing products. This is clarified by this statement by Spibe:

*“We would send ingredients up to them and again we will collaborate like if they have got issues with it lets say if they say this density is not right, we can unpack it, then Y who is the owner of the company is very knowledgeable about blends, he will say how we will mix the ingredients till we get it right. We will use our expertise to use different parts/cut of an ingredient to develop a product that will pack. So, he would kind of work with them a little bit and kind of identify may be a better way of doing it. So like textures and volumes he is more knowledgeable about it and obviously they will be better in kind of health benefits of the blends and the ingredients and how it tastes and what have you. And also we have got experience from a former company.”*

### **5.7.5 Co-evaluation**

The larger customer, Delta, and the smaller supplier, Spibe, were both active in the evaluation process. In relation to the audit, Spibe indicated that:

*“Because our customers do come and audit us and say look, you know; do you have proper food safety systems in place, how do you check that there is not foreign contamination in the products, have you trained your staff for instance on basic food hygiene, and so we have customer audits...an audit per customer can take two days, so that is the quality manager and the assistant sitting here and going through all the paper work and going to show them outside and talking to them.”*

### **5.7.6 Development and sustenance of commensurate culture**

#### **5.7.6.1 Quality orientation**

To improve on quality, the Delta-Spibe relationship implemented systems that promoted quality. The co-evaluation mentioned above was also useful in improving and maintaining appropriate quality. Spibe indicated that:

*“Ah, some of our customers we have helped in terms of like quality for example we have helped them set quality departments.”*

### **5.7.7 Marketing and promotion**

Spibe was looking forward to collaborative promotion with the larger customer. In relation to featuring the larger customer in the smaller supplier’s website, Spibe indicated that:

*“One thing we are looking at doing now is re-designing our website and we would like to do some shared marketing. So we are looking at having case studies of some of our key customers.”*

#### ***5.7.7.1 Display of products at each other’s premises***

Joint promotion of products was expressed and observed in the form of displaying products in each other’s premises. In the Delta-Spibe relationship, the smaller supplier displayed in its premises samples of finished products that were supplied by the larger customer. These products were developed through the smaller supplier supplying ingredients to the larger customer and the latter doing the packaging. During data verification discussions, the smaller supplier expressed that this was important especially because they usually have annual open days when they invite the general public and hence the consumers/visitors get a chance to see what they produce. This contributed to increases in sales. Also the larger customer and the smaller supplier consulted on products for promotion and this was essential in enhancing products for promotion. Spibe expressed that the larger customer also did similar displays of the products at its premises.

#### ***5.7.7.2 Joint decision-making in promotion***

The larger customer (Delta) and the smaller supplier (Spibe) were found to be involved in joint decision-making in promotion. Spibe indicated that:

*“They (larger customer) would send a couple of months’ notice and say, look, we are promoting this particular product therefore we need to make sure that you are able to produce extra to ensure that demand can be met.”*

### **5.7.8 Collaborative communication**

The Delta-Spibe relationship was characterised by continuous and mutual willingness to communicate. The smaller supplier commented the following in relation to communication with Delta:

*“We work so closely with them and speak to them on a daily basis to ensure tight communication and so that any issues can be raised at the earliest opportunity. They also want to be closely involved as the supply chain is as with any business essential to ensuring demand is met. Thus, we work so closely together with them and, you know ah, you want to keep communication with them, you are talking to them on telephone perhaps daily and actually they want to as well ... with a customer characterised by such high level involvement and relationship, they expect you to phone them every day just to say everything ok? Anything I can do? You know its actually daily contact we have with them anyway.”*

### **5.7.9 Co-pricing**

As noted under the section on bilateral development of knowledge above, Spibe and the larger customer made frequent visits to one another and among the issues they discussed was pricing. The fact the both parties participated in pricing was relevant in promoting fairness. During the findings verification visit to the smaller supplier, Spibe added that co-participation in pricing was also useful in ensuring competitive prices.

## **5.7.10 Collaboration in solving each other's problems and being responsive**

### ***5.7.10.1 Collaboration in sharing experiences***

Sharing experiences between larger customers and smaller suppliers was found in the Delta-Spibe relationship. If one faced a problem in which the other party had previously gone through, it would seek ideas or opinions from the already experienced party. For instance, Spibe asked its larger customer for some advice in regard to recruitment of a delivery services provider. Delta had just recruited their delivery service provider and therefore had experience in such recruitment as well as the efficiency and effectiveness of the provider. Spibe stated that this sharing contributed to reduced costs in sourcing a new delivery services provider and also there was knowledge gained by the smaller supplier in relation to the effectiveness of the provider. This study therefore argues that such sharing of experiences is relevant for efficient and effective problem-solving. This is particularly the case considering that, without the relationship with the larger customer the smaller supplier would probably have spent more resources, for instance in terms of time or even finance.

Spibe described the sharing of the delivery service provider as follows:

*“For example we talked to some of our customers the other day about couriers because we are looking at changing our supplier who delivers our packages and our parcels. So we go to our other customers and say to them, we know that you have changed yours recently, who do you use, how do you go along with them and what sort of deal have you got? Yes, we talk to them like that. We have very good relationships with our customers.”*

## **5.7.11 Value of generic relationship**

### ***5.7.11.1 Provision of business***

Spibe mentioned the value of the customer-supplier relationship in providing business.

The supplier said that:

*“We continue to get their business including all new product development.”*

### ***5.7.11.2 Enhancing customer retention***

In the Delta-Spibe relationship, when asked if the relationship that the smaller supplier had with the larger customer was beneficial, the supplier suggested that it was useful in terms of enhancing customer retention. This retention was buttressed largely by the nature of the manufacturing process which according to the smaller supplier was long and difficult for other suppliers to implement with respect to the high quality of products that it yielded. Also the development of some products required a long period of learning and hence the huge cost of setting up appropriate systems. This may imply high switching costs.

The customer retention benefit of relationship is clear from this phrase by Spibe:

*“I think it (collaboration) is beneficial in terms of retention of customers. I think it is more difficult particularly for our blend customers to move elsewhere because it’s quite a long process and requirement to match the quality of the existing product, as just because they know what the ingredients are, they can’t just go elsewhere to have it processed because it does not mean it has the same quality necessarily. I mean it has been a learning experience for us. So the blend they have now, want it consistently on a regular*

*basis and if they went somewhere else it may be of lower standards. So I think we benefit in that respect and we do give our customers a lot.”*

## **5.8 Summary of the chapter**

This chapter has presented the within-case analysis of the five case studies that form the larger customer-SME supplier relationships that are considered in this thesis. It is interesting to see the varied ways in which the larger customers and their smaller suppliers collaborated, co-created value and the different types of value that they co-created. The findings suggest many areas of collaboration and these include: innovation, planning, development of knowledge and skills, marketing and promotion, and communication. There are also varied value co-creation practices that were implemented by the SME suppliers in relationship with the larger customers. The co-created value comprised both monetary and non-monetary value. The findings are analysed further in the next chapter through cross-case analysis.

## **Chapter 6. Findings: Cross-case analysis**

### **6.1 Overview of the chapter**

This chapter presents the findings of this study based on cross-case analysis. This covers the areas of collaboration in the larger customer-SME supplier dyad, the manifestations of the value co-creation as well as the respective value co-created. This involves the examining of the conceptual framework presented in chapter three which identified the following areas of collaboration: collaborative planning; joint technical systems, innovation and design dependence; bilateral development of knowledge and skills; joint teams; cross-functional coordination and information-sharing; and, the development of commensurate culture. Consistent with the conceptual framework or rather the previous studies, this thesis recognises value to include both monetary and non-monetary elements. The chapter also presents quasi-statistics that are generated through cross-case analysis. The quasi-statistics include number of collaborative areas, value co-creation practices and types of value per larger customer-SME supplier relationship (Table 16). Others are the number of types of co-created value, value co-creation practices and applicable relationships per collaborative area (Table 17).

### **6.2 Findings on collaborative areas, value co-creation and value co-created**

The previous chapter has presented the key findings of this study based on within-case analysis. Larger customers and the SME suppliers were found to collaborate in many aspects including innovation, planning, development and sustenance of technological inter-linkages, bilateral development of knowledge and skills, development of

commensurate culture and promotion. These were manifested in varied ways and this reveals the various practices of value co-creation that were implemented by the larger customers in relationship with their SME suppliers. The findings suggest different types of value being created in the relationships. All these findings are summarized in Table 15.

**Table 15: Summary of findings on collaborative areas, value co-creation and value co-created**

<b>Areas of collaboration</b>	<b>Manifestation (value co-creation)</b>	<b>Value co-created</b>	<b>Relationship</b>
Innovation and design dependence	-Consultations and exchange of ideas e.g. deliberations on a) product development and concept evaluation b) product name c) packaging	-Increased ranges of products -Enhanced success of products due to being interesting to consumers -Preferred supplier status	Alpha-Sowa
	-Larger customer recommending development of products with longer shelf-life and the smaller supplier implementing this requirement	-Reduced transactional cost -Preferred supplier status -Reduced waste	Alpha-Sowa
	-Recommending development of very small cheese to fit children's lunch packs	-Increased revenue	Omega-Chesa
	-Discussion on appropriate breeds (raw materials) -Discussion on best product	-Improved quality	Gamma-Laberi
	-Product development: larger customer providing specifications whilst smaller supplier advising on preferred parts, product availability, pricing and provision of a free trial to enable taste and package testing. This also enables assessment of processing capability	-Perceived investment by smaller supplier -Waive cost for the larger customer through free trials -Enhanced innovation -Successful products especially in terms of both taste and packaging -Enhanced processing capability	Delta-Spibe
Planning	-Development of business plan through several iterations in consultation with both larger customer's and smaller supplier's staff. This included agreeing on promotional products	-Continuous supply and in appropriate quantities -Boosting sales through promotional products agreed during co-planning -Guaranteed cashflows -Boosting innovation	Omega-Chesa

<b>Areas of collaboration</b>	<b>Manifestation (value co-creation)</b>	<b>Value co-created</b>	<b>Relationship</b>
	-Agreeing ahead on quantities of lambs and cattle to be supplied	-Reduced wastage -Enhanced continuous supply	Gamma-Laberi
	-Forecasting: exchange of forecast plan.	-Enhanced smooth delivery of products	Delta-Spibe
	-Smaller supplier discussed new ideas prior development of products and new products prior introduction to the market	-Enhanced market success of new products	Alpha-Sowa
Technological inter-linkages	-Collaboration in establishment and utilization of EDI	-Higher sales for both firms -Continuous supply: no empty shelves	Omega-Chesa
	-Implementing projects for quality improvement: smaller supplier helping some larger customers set quality management departments	-Improved quality	Delta-Spibe
	-Complex and unique manufacturing system and mix of ingredients; characterised by high switching cost	-Continuous provision of business	Delta-Spibe
Bilateral development of knowledge and skills	-Internships: smaller supplier's staff, with support from the customer, help at customer's premises e.g. in stacking shelves	-Enhanced understanding of consumer needs -Enhanced understanding of customer needs -Enhanced innovation	Omega-Chesa
	-Larger customer visiting and being taken round the smaller supplier's premises -Suppliers staff sensitized on quality issues at customer's premises.	-Familiarization with smaller supplier's systems and loyalty building -Improved quality -Enhanced understanding of customer's needs	Omega-Chesa Zeta-Bete

<b>Areas of collaboration</b>	<b>Manifestation (value co-creation)</b>	<b>Value co-created</b>	<b>Relationship</b>
	-Larger customer and smaller supplier visiting each other. Smaller supplier learnt about meat presentation and used this knowledge in displaying at its own farm shop. Larger customer learnt about farming system and used the smaller supplier as a reference point for other suppliers	-Knowledge for instance on product display -Improved meat presentation at smaller supplier's farm shop -Reference point by the larger customer to other suppliers in regards to appropriate production methods	Gamma-Laberi
	-Exchange visits: larger customer visiting smaller supplier and vice versa	-Participation in pricing -Product development -Enhanced procurement of ingredients	Delta-Spibe
	-Bilateral knowledge combination: Spibe's owner knowledgeable in mixing ingredients to achieve appropriate textures, pricing and availability of product. Larger customer knowledgeable in health benefits of blends, taste and ingredients. The two worked together by combining respective knowledge to develop more appealing products	-Development of more appealing products	Delta-Spibe
Co-evaluation	-Larger customer staff and smaller supplier's directors together evaluate factory and staff and identify training needs	-Improved quality -Preferred supplier status	Alpha-Sowa
	-Larger customer visiting the smaller supplier and together doing the evaluation especially on quality aspects	-Enhanced food safety and hygiene. -Improved quality	Delta-Spibe
Marketing and promotion	-Product launch: smaller supplier sought advice from larger customer when launching new products	-Enhanced product success	Alpha-Sowa

<b>Areas of collaboration</b>	<b>Manifestation (value co-creation)</b>	<b>Value co-created</b>	<b>Relationship</b>
	-Product distribution through use of large customer's lorry	-Reduced cost -Improved capacity utilization of larger customer's lorries -Reduced carbon emissions	Omega-Chesa
	-Smaller supplier found larger customer's extensive store networks useful for effective distribution of the products	-Reduced distribution costs	Alpha-Sowa
	-Acknowledging each other and co-promotion through: website, media, newsletters and award winning competitions	-Reputation -Reduced cost	Gamma-Laberi
	-Display of samples of end products at each party's premises -Planned case-study (shared marketing through website) -Consultations on products to be promoted	-Increased sales -Enhanced availability of promotional products	Delta-Spibe
	-Co-participation during promotion	-Increased sales -Reduced costs	Omega-Chesa
Co-pricing	-Both larger customer and supplier participating in pricing	-Fairness	Alpha-Sowa
	-Co-participating in pricing	-Ensured competitive pricing -Fairness	Delta-Spibe
	-Prices were not unilaterally determined but instead, both parties agreed and committed to price	-Fair prices -Satisfaction -Price stability	Gamma-Laberi

<b>Areas of collaboration</b>	<b>Manifestation (value co-creation)</b>	<b>Value co-created</b>	<b>Relationship</b>
Corporate Social Responsibility (CSR)	-Collaboration in exposing school children to agricultural aspects e.g. through facilitating and sponsoring visits to farms	-Reputation/public relations	Omega-Chesa
Communication/feedback	-Feedback on quality e.g. on condition of beef and lamb	-Improved quality -Improved management of animals while transporting as well as at farm and subsequently improved animal welfare	Gamma-Laberi
	-Continuous communication (e.g. weekly) on quantities to be supplied and other delivery issues	-Reduced waste -Prompt deliveries	Gamma-Laberi
	-Maintaining communications and exchange visits by a) frequent visits by larger customer and smaller supplier to each other's premises b) almost daily telephoning and this could be made by either party	-Enhanced forecasting, -Enhanced new products development -Favourable pricing -Ensured everything was ok -Improved procurement -Enhanced innovation	Delta-Spibe
Problem-solving	-Two-way communications	-Enhanced understanding of customer's wants -Mutual satisfaction	Omega-Chesa Gamma-Laberi
	-Smaller supplier working with larger customer in responding to what they (larger customer) want and working with them to produce what they ask for -Smaller supplier responding in case of any call to solve larger customer's problem -Larger customer endeavoured to sustain the smaller supplier and honoured promises		
	-Sharing experiences: for instance Spibe solicited larger	-Reduced costs in sourcing new	Delta-Spibe

<b>Areas of collaboration</b>	<b>Manifestation (value co-creation)</b>	<b>Value co-created</b>	<b>Relationship</b>
	customer's opinion on contracting alternative delivery services provider	delivery services provider -Knowledge about the effectiveness of the provider	
Development of commensurate culture	-Quality orientation	-Improved quality -Enhanced preferred supplier status	-Delta-Spibe -Omega-Chesa -Gamma-Laberi
	-Greening culture: a) closed-loop systems b) recycling	-Sustainability	-Omega-Chesa -Gamma-Laberi
Generic relationship	-Co-creation of a guaranteed market through mutual development of commitment to the contract -Elimination of middlemen	-Build smaller supplier's confidence -Better prices	Gamma-Laberi
	-Enhancing customer retention	-Enhanced customer retention -Provision of business consistently	Zeta-Bete Delta-Spibe

Source: Author's compilation

### **6.3 Areas of collaboration**

The findings suggest twelve areas of collaboration in the relationships of the larger customers and the SME suppliers in the organic sector (Table 15). It is through these collaborative areas that value co-creation aspects were implemented and thereby generated value. The identified areas of collaboration are innovation, corporate social responsibility (CSR), technological inter-linkages, planning, co-evaluation and development of training needs, bilateral development of knowledge and skills, marketing and promotion, co-pricing, communication/feedback, problem-solving, development of commensurate culture and generic relationship.

#### **6.3.1 Innovation and design dependence**

The collaboration in innovation is particularly useful bearing in mind that by being further downstream, the larger customer/retailer tends to have closer contact with consumers than the SME supplier and hence is more likely to have a better understanding of consumer needs. Such knowledge of consumer needs is useful in developing products that are successful. Based on the larger customer's market intelligence or rather experience with consumers, through the customer-supplier relationship, Alpha advised the smaller supplier (Sowa) on the possibilities of success with their new products.

Customer-supplier relationships were found to be important in achieving packaging and product name that appealed to consumers or markets. For example the Alpha supermarket runs packaging in collaboration with a smaller supplier, Sowa. They discussed the best packaging for a particular product and deliberated on changes when needed.

Since the assessment of new ideas as well as products was largely based on the larger customer's knowledge of consumer needs, subsequently this was useful in enhancing market success of potential products for development as well as the developed products about to be introduced to the market. Spibe (smaller supplier) and its larger customer (Delta) also collaborated in developing products. The larger customer usually provided specifications and then the smaller supplier did the development, in this case blending various herbs. The role of the party further downstream in the development of new products is again noted here. This was critical in developing products that satisfied customer needs and hence success in the market. Also, due to exchanged ideas, innovation was enhanced.

### **6.3.2 Co-planning**

Four relationships were found to collaborate in planning. These were the Omega-Chesa, Gamma-Laberi, Delta-Spide and Alpha-Sowa relationships. This took slightly different forms such as: development of business plan through several iterations in consultation with both larger customer's and smaller supplier's staff as was the case in the Omega-Chesa relationship; informal agreement on quantities to be produced and supplied in the Gamma-Laberi relationship; exchange of forecast plans in the Delta-Spide relationship; and, discussion of new ideas prior to development of products and new products prior to introduction to the market as was the case in the Alpha-Sowa relationship.

### **6.3.3 Development and sustenance of technological inter-linkages**

Technological inter-linkages were found in two larger customer-smaller supplier relationships. These were the Omega-Chesa and Delta-Spide relationships. In the Omega-Chesa relationship, this took the form of collaboration in establishing and utilizing

electronic data interchange. In the Delta-Spide relationship, the smaller supplier had a complex and unique manufacturing system and mix of ingredients and this bonded it strongly to the larger customer thereby making switching very expensive.

#### **6.3.4 Bilateral development of knowledge and skills**

Four larger customer-SME supplier relationships were found to collaborate in the development of knowledge and skills. Short exchange visits that necessitated one party to learn from the other was common in Gamma-Laberi, Delta-Spide and Omega-Chesa relationships. However, in the Zeta-Bete relationship, the larger customer did not visit the smaller supplier but instead Bete visited the larger customer together with other suppliers and they were sensitized on quality issues. In addition to the short visits, in the Omega-Chesa relationship, relatively prolonged visits were found and this took the form of internship whereby the smaller supplier's employees were engaged in the larger customer's premises for a number of days and in the process they interacted with consumers as well. Consequently, this enhanced their understanding of customer and consumer needs. In the Delta-Spide relationship, a bilateral knowledge combination was identified. Spibe's owner was knowledgeable in mixing ingredients to achieve appropriate textures, pricing and availability of product while the larger customer, Delta, was knowledgeable in the health benefits of blends, ingredients and in tasting. The two worked together by combining respective knowledge to develop more appealing products and this was not possible to achieve singly.

#### **6.3.5 Co-evaluation**

In the Sowa-Alpha relationship, the larger customer staff together with those of the smaller supplier audited the latter's factory as well as the staff. In so doing, they identified

the gaps that the small company needed to fill or address to sustain its position as a preferred supplier to the larger customer. The audit covered issues such as cleanliness, paperwork and ingredients that were used. Sowa explained that the audit by the supermarket normally involved three main activities. First was the factory tour whereby the supermarket staff together with the SME's staff (normally the Managing Director) followed the flow through which food and drink were processed from goods-in to dispatch plus waste disposal and staff facilities.

Second was documentation and reports review. This involved inspection of the various documents including those on traceability aspects, HACCP, calibration certificate, cleaning schedules and so on. Supermarkets required SMEs to adhere to HACCP standards though even without supermarkets pushing for this, Sowa considered it good practice. Third was the discussion on findings of the audit and this included deliberating and agreeing on corrective actions. The audits influenced how the small company conducted its businesses. For instance the employees were trained in accordance with the audit. Such training could be on hygiene and such like issues. Considering the issues that were deliberated during the audit such as hygiene, HACCP and cleanliness, this implies that the co-evaluation contributed to improved quality. Also, since the audit was an essential requirement by supermarkets then it put the participating supplier at a preferred status compared to those not participating in the audit.

Similar to the Alpha-Sowa relationship, the Delta-Spibe relationship was characterised by co-evaluation. This involved the larger customer visiting the smaller supplier and together doing the evaluation. In other words, it was participatory in that both parties were actively involved in the evaluation. The main issues that were covered during the co-evaluation, as

may be inferred from the sort of the questions that the larger customer asked the smaller supplier as well as the personnel that were involved (quality manager and his assistant), revolved around areas of food safety and hygiene as well as quality. We therefore interpret that the audits or the co-evaluation were useful in co-creation of value at least in the form of enhanced food safety and hygiene as well as quality.

Unlike Sowa that identified training needs in collaboration with its larger customer, not all SMEs and their larger customers practised bilateral identification of training needs. In the case of the Gamma-Laberi relationship, neither the SME nor the larger customer was involved in training each other nor in identifying each other's training needs. Laberi considered itself to be very experienced in organic matters and hence would rather train others than being trained. None of the two recommended the sort of training that the other one needed to undertake.

### **6.3.6 Marketing and promotion**

#### ***6.3.6.1 Joint promotion through websites, newsletters, media and events***

The relationship with larger customers was useful in promoting SME suppliers. For instance in the Gamma-Laberi relationship, the larger customer used very nice images of the SME's animals in its website. Also through websites, the larger customer did a lot of publicity for the smaller supplier. This included publication of stories about the supplier. There was also collaboration in promotions, for instance in websites, newsletter, media and joint participation in competitions. Such promotion in addition to benefiting the SME supplier is likely also to benefit the larger customer for instance by getting access and

using the SME's information and materials (such as products e.g. animal images) and subsequently making the website appealing.

Unlike the Gamma-Laberi relationship whereby the larger customer already featured its suppliers in its website, in the case of the Delta-Spibe relationship, Spibe indicated that plans were underway for them to collaborate with customers in joint promotion, especially through websites. However, their anticipated model was slightly different in that rather than the larger customer featuring the smaller supplier in the website; it was the smaller supplier that was to feature the larger customer. Although the co-promotion through website had not taken-off, both Spibe and the larger customer (Delta) displayed end products at their respective premises. This display of products was observed at the smaller supplier's meeting room where there was an attractive glass shelf well-packed with sample end products. The smaller supplier expressed that the larger customer did likewise.

#### ***6.3.6.2 Collaboration in product distribution***

In the backdrop of larger customers' extensive distribution systems, some SMEs were found to make use of these systems with the impact of reducing their distribution costs. The distribution system was in the form of using larger customers' lorries as well as their extensive store networks. The greatest potential for Sowa was in exploiting the networks offered by Alpha (its larger customer) and this led to greatly reduced costs. On the other hand, Chesa used the larger customer's lorries when they were going back to depots rather than going empty thereby increasing their capacity utilization and reducing carbon emissions by sparing use of their vehicles too.

### **6.3.6.3 *Joint decision-making in promotion***

Larger customers and SME suppliers were found to be involved in joint decision-making for instance in regard to promotion. So, the larger customer did not take the decision unilaterally but rather sought approval from the SME supplier. This was the case in Spibe's and Chesa's relationships with their respective larger customer.

### **6.3.7 Participatory pricing**

Participatory pricing was found in the relationships of the larger customer and their SME suppliers. The SME suppliers did not fix prices autonomously but rather their larger customers also played a role in pricing the products that were being produced by the SME suppliers. This was important for the sustainability of the parties, SMEs and larger customers. Participatory pricing was found in the Alpha-Sowa relationship whereby Alpha was involved in pricing Sowa's products. Co-pricing was also found in the Delta-Spibe relationship whereby the larger customer visited the smaller supplier and discussed prices among other issues.

Likewise, in the Gamma-Laberi relationship, it was neither the larger customer nor the smaller supplier that decided on the price unilaterally. On the contrary, both parties participated and the appropriate price was mutually agreed upon. Due to the agreement or co-participation, the joint pricing generated value in the form of mutual satisfaction through fair prices. Also related to pricing, Laberi indicated that the larger customer always provided a fair price. The two parties (larger customer and smaller supplier) agreed on price in advance and even if the general price level declined thereafter, the

SME was still paid at the agreed higher price as the larger customer was already committed to it. This reveals the role of the larger customer-SME supplier relationship in promoting price stability.

### **6.3.8 Co-participation in corporate social responsibility**

Although corporate social responsibility activities are usually associated with large firms, this study identifies participation of SMEs as demonstrated in the Omega-Chesa relationship through sponsoring school children to visit farms. This was achieved through a collaborative programme. The main aim was to expose school-going children to agricultural aspects so that they are well-informed on how the food that they eat is produced. Both the smaller supplier and the larger customer would contribute to funding trips for the children when going to visit the farm. The supplier also provided staff to take the children round the farm and explain to them accordingly. The supplier was also encouraging other farms to join so that the children would visit not only its farm but also many more.

### **6.3.9 Collaborative communication**

Larger customers and their SME suppliers were found to be collaborating in communication across the parties. This was essential in enhancing the relationship. For instance Omega and Chesa maintained a two-way communication. Delta and Spibe communicated almost on daily basis and this could be initiated by either party. Although SMEs valued the feedback from their customers, which they considered a great benefit, sometimes the feedback from larger customers sounded too harsh or stringent from the point of view of the SME supplier and this was the case with the Zeta-Bete relationship.

Laberi considered feedback essential for several reasons. These included improved management of animals while transporting, improved management of animals at farm level through feedback on quality with respect to different feeding systems under which animals were produced, improved animal welfare for instance through reduction in stress, and generally improved quality.

### **6.3.10 Collaboration in solving each other's problems and being responsive**

#### ***6.3.10.1 Collaboration in implementing each other's requests***

The relationships between the larger customers and their SME suppliers were found to be useful in solving each other's problems and being responsive to each other. For instance Laberi considered itself reliable in solving its larger customer's problems. The larger customer (Gamma) also put effort into sustaining the supplies from Laberi. This study considers this mutual responsiveness to be essential in enhancing mutual satisfaction.

### **6.3.11 Development and sustenance of commensurate culture**

#### ***6.3.11.1 Greening culture***

Larger customers were increasingly sensitive to consumer needs and this had strong repercussions on the way the suppliers were expected to adapt their businesses to changes in consumer culture. For instance, the climate change debate led to a cultural change in favour of environmentally friendly products as well as firms that supported recycling. In this connection, consumers and supermarkets are increasingly interested in food that has less 'food miles'. The SME suppliers in this study had to change their procurement culture in line with larger customers by giving preference to local sourcing, to minimize carbon footprints and reduce food miles. Organic consumers and larger customers were

increasingly in favour of 'green' suppliers and handmade processes. Accordingly, the suppliers were increasingly restructuring their systems in order to emphasize recycling and other sustainable processes.

For example, Chesa devised an integrated process whereby output from one level fed the next level as input. The process comprised cows-milk-cheese-whey-pigs-manure-grass-cows. So, all the by-products that were a problem in other peoples' systems were the raw materials for the next stage in Chesa's system. This contributed to 'greening' within the relationship and also reduced production costs and increased competitiveness, thus contributing to new technological innovations and value co-creation in the Omega-Chesa relationship.

#### ***6.3.11.2 Quality orientation***

In addition to environmental concerns, there was increased sensitivity towards quality. Delta-Spibe, Omega-Chesa and Gamma-Laberi relationships were all characterised by the adoption of quality orientation and this was in line with larger customers' requirements. The relevance of collaboration by larger customers and SME suppliers in achieving and sustaining appropriate quality was also noted by Moreira (1996 p.95). Likewise the influence of larger customers' culture and values on their SME suppliers was observed by Johnsen and Ford (2006), though in the textile industry. In this study, larger customers had a high quality orientation culture and accordingly the smaller suppliers tended to follow suit.

### **6.3.12 Value of generic relationship**

Sometimes the SME suppliers could not identify the particular collaborative area that yielded benefits in the customer-supplier relationships. However, they were categorical that the relationship was beneficial. In the Gamma-Laberi relationship, the value of the relationship was identified as better prices through elimination of middlemen and also confidence-building. The elimination of intermediaries is likely to reduce the number of points of contact for supply and this delivers considerable benefits in terms of transaction cost savings and also generates relational benefits in dealing with fewer but closer partner suppliers (Hingley and Sodano 2010).

In the Delta-Spibe relationship, the smaller supplier considered the relationship with the larger customer as being beneficial because it necessitated customer retention and subsequently provided business all the time. The contribution of customer-supplier relationships to the financial performance of SME suppliers was empirically confirmed by Duffy and Fearne (2004) and therefore this finding is not a surprise. This contribution underscores the importance of customer-supplier relationships in generating revenue.

## **6.4 Value co-creation**

### **6.4.1 Value co-creation across relationships**

Maxwell (1996 p.95) recommend the use of quasi-statistics because at least they enable the researcher to assess the amount of evidence in the data. Table 16 shows on a per relationship basis the number of areas of collaboration, identified value co-creation practices and types of values that were co-created. More details on how the quasi-statistics were estimated are shown by Annex 1. Graphically, the quasi-statistics are represented by Annex 3. Among the five relationships that were considered in this study, the Delta-Spibe relationship had the highest number of types of co-created value (22) while Gamma-Laberi was characterised by the highest number of value co-creation practices (18). On the other hand, the Zeta-Bete relationship registered the lowest number across the three aspects (collaborative areas, value co-creation practices and types of co-created value). Apart from the Zeta-Bete relationship that had only two collaborative areas, one value co-creation aspect and three types of co-created value, all the other four relationships had at least five areas of collaboration, ten value co-creation practices and seven types of co-created value.

The low levels of collaboration in the Zeta-Bete relationships may be attributed to the mistrust that characterised the relationship. The smaller supplier accused the larger customer of setting unreasonable demands and at the time of data collection the supplier was considering concentrating on alternative markets and local individual customers, rather than the larger customer. Probably such discontent contributed to low investment in the relationship and subsequently low levels of collaboration and value co-creation. Indeed, during the data verification visit (two years later), the smaller supplier indicated

that there were no deliveries that had been made to the larger customer in the previous eight months.

Table 16 presents quasi-statistics for amongst others, the number of collaborative areas per larger customer-smaller supplier dyad of the relationships that were considered in this study. The Delta-Spide relationship was marked by the highest number of collaborative areas (11) followed by the Gamma-Laberi relationship (9). The Zeta-Bete relationship had the least number of collaborative areas and it is in this relationship that mistrust characterised the larger customer-smaller supplier dyad.

**Table 16: Quasi-statistics on the number of collaborative areas, value co-creation practices and types of co-created value per customer-supplier relationship**

<b>Larger customer-smaller supplier relationship</b>	<b>Number of collaborative areas</b>	<b>Number of value co-creation practices</b>	<b>Number of types of co-created value</b>
Alpha-Sowa	5	10	7
Omega-Chesa	8	11	14
Zeta-Bete	2	1	3
Gamma-Laberi	9	18	18
Delta-Spibe	11	15	22

Source: Author's compilation

#### **6.4.2 Value co-creation across collaborative areas**

The identified collaborative areas were manifested in different specific ways and these represent how value was co-created. These included (Table 15): consultations and exchange of ideas especially in relation to new product development; implementation of

programmes that supported urban school children to visit farms; collaboration in establishment and utilization of EDI; SME supplier working together with larger customer in setting up a quality management department; consulting and agreeing well ahead on quantities of products to be produced and delivered; larger customer and the SME supplier together evaluating SME processes and staff and identifying training needs; supplier's staff's sensitization on quality issues at larger customer's premises; supplier's staff having internships at larger customer's premises; and, participation and acknowledgment of each other in website, media, newsletter and award winning competitions. The number of ways in which value was co-created (value co-creation practices) and also the number of types of co-created value per collaborative area is shown by the quasi-statistics presented in Table 17. Annex 2 provides the details on how the quasi-statistics were derived.

**Table 17: Quasi-statistics on number of value co-creation practices, types of value and customer supplier relationships per collaborative area**

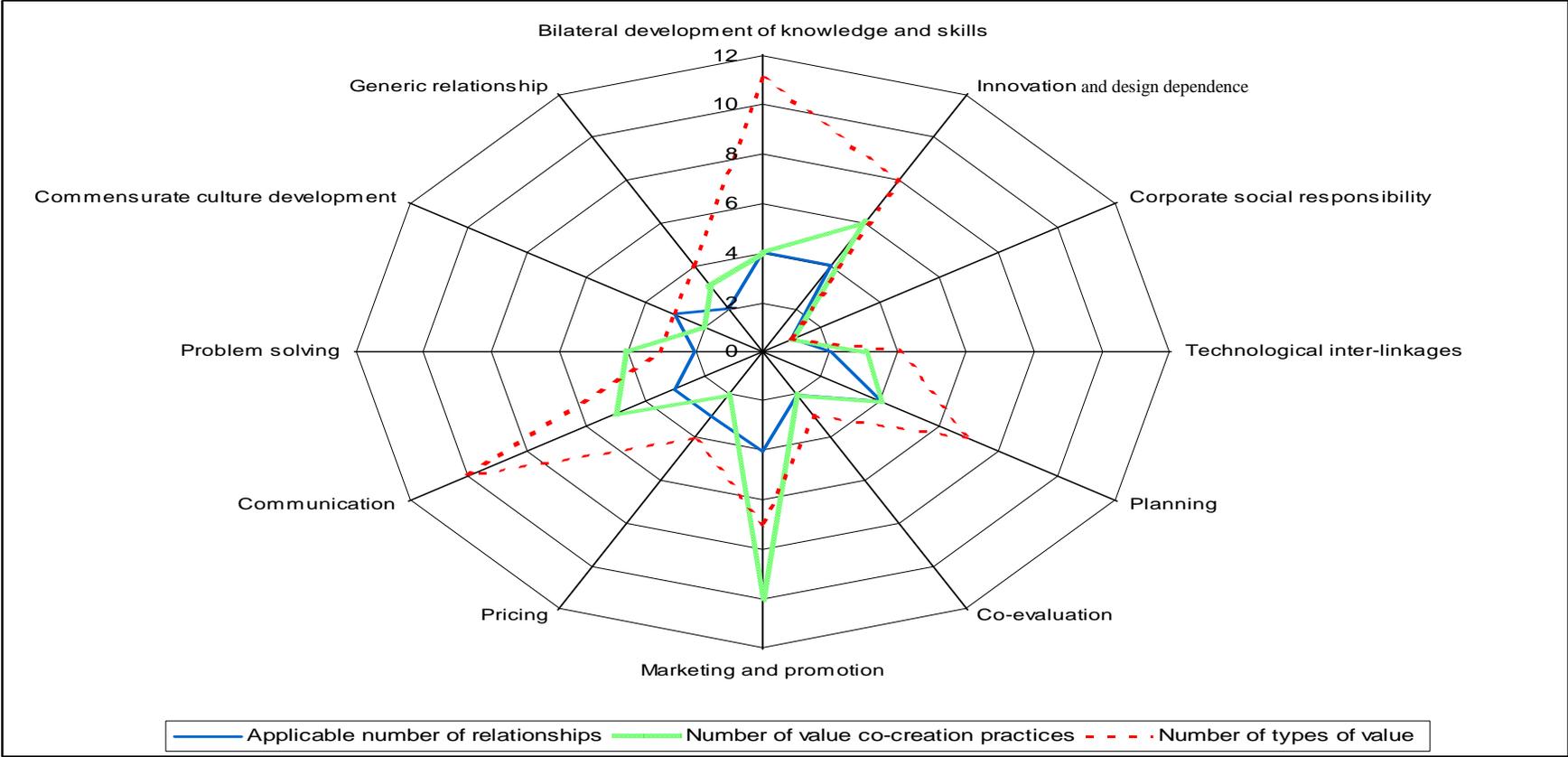
<b>Areas of collaboration</b>	<b>Applicable number of relationships</b>	<b>Number of value co-creation practices</b>	<b>Number of types of value</b>
Innovation	4	6	8
Bilateral development of knowledge and skills	4	4	11
Corporate social responsibility	1	1	1
Technological inter-linkages	2	3	4
Planning	4	4	7
Co-evaluation	2	2	3
Marketing and promotion	4	10	7
Pricing	3	2	4
Communication	3	5	10
Problem solving	2	4	3
Commensurate culture development	3	2	3
Generic relationship	3	3	4

Source: Author's computation

## **6.5 The co-created value**

The collaborative areas and the various ways of co-creating value generated several types of value. Figure 11 shows on a per collaborative area basis the number of types of value co-created, the number of value co-creation practices and also the number of relationships that these were applicable.

**Figure 11: Graph showing number of value co-creation practices, types of value and customer supplier relationships per collaborative area**



The figure shows bilateral development of knowledge and skills having the highest number of types of value (11) followed by collaborative communication (10) and then innovation (8) and joint planning, and marketing and promotion tying (7). CSR register the least number of types of value and was manifested in only one value co-creation practice. The numerous types of value that are associated with bilateral development of knowledge and skills underscores the importance of collaborative learning in larger customer-smaller supplier relationships in co-creation of value. The numbers presented by the figure (Figure 11) should however be interpreted with caution given that the quantification of the types of value for example in monetary terms is lacking as this is beyond the scope of this study. The figure also shows that collaboration in innovation, planning, development of knowledge and skills, and marketing and promotion were exercised by the largest number of relationships (4) while CSR was noted in only one relationship. Considering that bilateral development of knowledge and skills was found to be generating the most types of value and was associated with the largest number of relationships while CSR had the least types of value and in only one relationship, then the findings suggest that larger customers and their smaller suppliers were more likely to collaborate in areas that generated more types of value.

In relation to collaborative areas and the respective value co-created, collaboration in innovation through the related various value co-creation practices led to co-creation of the values, enhanced innovation or increased new products, enhanced market success of products through the development of increased ranges of products that are interesting to customers and consumers, increased revenue, increased investment, improved quality and lower costs.

Co-planning took the form of development of a business plan through several iterations in consultation with both customer's and supplier's staff, agreeing ahead on quantities to be produced and supplied, deliberating and agreeing on new products that are to be developed, and exchange of forecast plan whereby the larger customer gave the SME its forecast plan. The co-planning was beneficial in terms of enhancing continuous supply and in appropriate quantities, boosting sales through promotional products that were agreed during co-planning, guaranteed cash-flows, boosting innovation, reducing wastage, and enhanced success of new products.

Technological inter-linkages generated three types of value, namely, higher sales for larger customer and SME supplier, continuous supply and improved quality. An interlinked information system was the typical technological inter-linkage and this was found in the Omega-Chesa relationship. In addition, joint establishment of projects such as a quality management department was found in the Delta-Spibe relationship. Unlike Delta-Spibe, the situation with the Gamma-Laberi relationship was different. Laberi and the larger customer did not have a common project or structures that they had established together and also did not have inter-linked technological systems. For instance, when asked if there was any structure that they had put up with input from the larger customer, Laberi indicated that there was none.

Bilateral development of knowledge and skills took the form of: internships whereby the SME staff worked for some time at the larger customer's premises; larger customers and SME suppliers paying each other short visits where they learnt about issues such as quality, products display and production systems; and, innovation through a bilateral

knowledge combination. This was useful in co-creating value such as an enhanced understanding of consumer needs, enhanced understanding of customer needs, enhanced innovation, improved quality, improved meat presentation at the SME's farm shop, creation of awareness of reference points (supplier), enhanced procurement of raw materials, creation of opportunities for participatory pricing, and development of more appealing products.

Interactive learning (Lane and Lubatkin 1998) as a form of bilateral development of knowledge and skills was more evident in the Omega-Chesa relationship. During Omega's busy Christmas season (which it is a low season for Chesa since most of its cheese was already dispatched to customers), some of its staff would go to Omega to help stack the shelves and carry out similar activities. This gave them a feel for what it was like inside the supermarket. At the same time they got a chance to interact with consumers. The internships also gave them a better understanding of what customers needed and enabled them to familiarise themselves with the on-the-job environment that they would not get if they were in the office. Sometimes Omega staff also went to Chesa's premises where they were taken round to learn what went on in the supplier's premises. By developing a clearer understanding of the customers' and consumers' needs, this enhanced the development of new products that satisfied customers and consumers. This development of new products also essentially implies enhanced innovation.

Co-evaluation was another area where larger customers and SME suppliers were found to collaborate. This was characterised by larger customers undertaking audits together with the SME suppliers and deliberating on the appropriate measures guided by the audit outcomes. Both staff and SME supplier's processes were assessed by both the larger

customer and the supplier together. The exercise was beneficial in three main ways: contribution to improved quality; placing the supplier in a preferred status category; and, enhancing food safety and hygiene.

In the collaborative area of marketing and promotion, value was co-created through: product launch whereby the SME supplier sought advice from the larger customer when launching new products; participation and acknowledgment of each other in website, media, newsletters and events such as competitions; product distribution using the larger customer's transport network; display of sample products at each party's premises; and, planning and agreeing on the products to be promoted. The value co-created through collaboration included reputation, reduced cost, enhanced availability of promotional products and increased sales.

Larger customers and SME suppliers were found to collaborate in pricing. The collaboration in pricing was found to lead to co-creation of value in the form of fair and competitive prices, satisfaction and price stability. Collaboration in corporate social responsibility was found in only one relationship, that of Omega-Chesa. This collaboration in CSR generated non-monetary value to both the larger customer and the SME supplier in the form of reputation or public relations.

Collaboration in communication took the form of: feedback on quality, continuous updates on deliveries, frequent visits to each other's premises and almost daily telephone communication. The value co-created included the improved animal welfare and management both at farm and on transport/delivery, quality, reduced waste, enhanced

forecasting, enhanced new product development, favourable pricing, ensured smooth running (everything ok) and improved effectiveness in procurement.

Collaboration in problem-solving comprised: SME supplier responding in case of any call to solve the larger customer's problem (at the same time the larger customer endeavoured to sustain the SME supplier and honoured promises), SME supplier working with the larger customer to produce what they ask for, and sharing experiences for instance on sourcing in connection to common services. The value co-created through these was mutual satisfaction and reduced sourcing cost.

Value was also co-created through a generic relationship and this was manifested as elimination of middlemen, provision of a guaranteed market or business and enhanced customer retention. The co-created values associated with these were customer retention and consistent business, better prices and confidence building.

According to Hakansson (1982) and subsequently the IMP interaction approach, customer-supplier interactions include a series of episodes over time which involve exchanges of product/service, information, finance and sociality. This study argues that there is more than just exchange in the customer-supplier relationships. There is co-creation of value. This is evident from the areas of collaboration, the value co-creation practices and the co-created value that have been identified in this study. The findings reflect all the customer-supplier relationships being involved in value co-creation. At least four out of the five relationships that were investigated were found to be collaborating in innovation, planning, development of knowledge and skills, and marketing and promotion and these were manifested in varied ways of value co-creation and resulted in many types

of co-created value. Both parties (customers and suppliers) were actively involved in realizing the co-created value. In other words, firms in a relationship are not only involved in exchange, but they are also able to co-create something that one party could not manage to do alone. This reveals a weakness in the IMP interaction approach in its current form for it omits the value co-creation dimension and therefore it would be important to improve it so that it not only shows exchange but also co-creation of value.

It is therefore important to expand the interaction points not only to include the exchange points but also co-creation points where parties come together and create what one party would not create alone. Hence, parties interact not only to exchange but also to co-create value. This is indeed buttressed by the understanding that the capabilities of firms in relationships are more than the sum of individual firms' capabilities because of the existence of distinct relationship capabilities, tying together and interacting with the capabilities of individual firms (Foss, 1999). In addition, this is in line with Schumpeter (1934), Moran and Ghosal (1996) and Nahapiet and Ghoshal (1998) who argue that all new resources are created through two generic processes namely, combination and exchange. Likewise Das and Teng (2000) assert that business relationships are relevant in achieving superior resource combinations that single firms cannot. We argue that combination enhances value co-creation. In line with this, Vargo and Lusch (2004a) indicate that value creation is a process of integrating and transforming resources which requires interaction and likewise the notion of co-creation of value is an interactive concept.

## **6.6 Summary of the chapter**

This chapter has presented the findings of this study based on cross-case analysis. The five larger customer-smaller supplier relationships that are investigated in this study are compared. This is largely along the dimensions of areas of collaboration, value co-creation practices and the types of value that are co-created. The Zeta larger customer and the Bete smaller supplier were found to collaborate least. On the other hand, the Delta larger customer and Spibe smaller supplier were marked by the highest number of collaborative areas. The other three relationships fell in between. The Gamma-Laberi relationship was characterised by the highest number of value co-creation practices while the Delta-Spide relationship had the highest number of types of co-created value. A cross-case analysis based on collaborative areas revealed collaboration in marketing and promotion being characterised by the highest number of value co-creation practices while in terms of number of types of co-created value, it was bilateral development of knowledge and skills that registered the highest. The chapter highlights the need to interpret the cross-case analysis results with caution given that the various types of value have not been quantified neither their relative importance established as this is beyond the scope of this study. In addition to exchange, the findings suggest that the relationships of customers and suppliers are characterised by value co-creation and points to the need for expanding the IMP interaction approach to include this value co-creation dimension.

## **Chapter 7. Discussion of findings**

### **7.1 Overview of the chapter**

The previous two chapters have presented the main findings of this study. This chapter proceeds with discussion of the findings. They are critiqued alongside other related studies. In other words, the areas of collaboration, value co-creation and the co-created value that were identified in the organic customer-supplier relationships are reflected upon in the light of the literature. The chapter also describes the implications of the findings on the previously developed conceptual framework and thereby presents a revised conceptual framework.

### **7.2 Innovation and design dependence**

This study's findings show that innovation is enhanced through suppliers working together with their larger customers. In other words, the findings suggest collaboration as enhancing the innovativeness of the collaborating firms especially in terms of increasing the ranges of new successful products. This is consistent with Nieto and Santamaría (2010) who suggest that technological collaboration is a useful mechanism for firms of all sizes to improve innovativeness and a critical factor for the smallest firms. The success of larger customer-SME supplier relationships is particularly essential considering that one of the factors that contribute to low innovative performance of small firms compared to large firms is a lack of external partners (Hewitt-Dundas 2006; Madrid-Guijarro et al. 2009). In this study, collaboration in innovation was characterised by involvement of employees of both firms as well as open communication among them. These (open

communication and high employee involvement) are characteristics of market oriented organisations (Martin et al. 2009) and such orientation is considered vital in achieving superior competitive performance especially by mainstream customers (Zhou et al. 2005).

Business relationships have been suggested as essential in enhancing innovation, especially in the context of SMEs. This is particularly so considering that necessary knowledge and technology may lie outside a firm's traditional core competence (Johnsen and Ford 2006; Xu et al. 2008). In this study, sharing of ideas was essential for enhanced product innovation as demonstrated for instance by Alpha-Sowa and Omega-Chesa relationships. This was evident in planning for new product development by SMEs in consultation with larger customers. Larger customers advised the smaller suppliers on appropriate attributes of a product and were both involved in discussion of concept and design. The issue of concept discussion and joint product design was also noted by Agndal and Nilsson (2009) though in the context of cost management.

Collaborative innovation was found to contribute to increased product ranges and successful launches. In addition to enabling SMEs to sell more products, continuous innovation was beneficial to the larger customer in terms of adding new products for sale and widening the range of products that were interesting to consumers. This mutual gain is indicative of value co-creation through collaboration in product innovation.

It was not only the supplier who came up with new ideas in regard to new products; the larger customers were also found to assume the role of generator of ideas. For instance, Chesa's larger customer recommended the need for developing a very small cheese that could fit children's lunch packs. This finding or example also supports the suggestion by

Xu et al (2008) that business relationships may bring firms superior access to important ideas and opportunities, resulting in stronger innovative capabilities. Also, it is consistent with Prahalad and Ramaswamy (2004 p123) who observed that the explosion of dialogue between firms and consumers, and among consumers themselves, creates the opportunity for customers and consumers to become originators of dialogue, not dependent on the company. In this study the development and sales of the unique cheese implies co-creation of value in terms of increased revenue for both the SME and the larger customer. Trust in customer-supplier relationships plays the key role of stimulating new ideas and innovation among the related parties (Cooper and Slagmulder 2004).

Effective product development routines typically involve the participation of cross-functional teams that bring together different sources of expertise (Eisenhardt and Martin 2000). Through collaborative innovation, a customer–supplier team can produce new product and process solutions that, if very successful, may form new industry standards (Möller and Törrönen 2003). According to Lall (1992), the hallmark of a technologically mature firm is the ability to identify a firm’s scope for efficient specialization in technological activities, to extend and deepen these with experience and effort and to draw selectively on others to complement its own capabilities.

Also related to innovation, the findings suggest the existence of design dependence in some larger customer-SME supplier relationships. Design dependence transpires when the buyer and supplier split responsibilities for the establishment of the outsourced item’s specifications and/or design (Cooper and Slagmulder 2004). For example in this study, Spibe’s larger customer sometimes gave specifications and the SME supplier did the development of the products. Cooper and Slagmulder (2004) classifies design dependence

in three levels and indicate that the highest level of design dependence occurs when the supplier and the buyer establish joint specifications and take joint responsibility for product design. Under these conditions, the two firms must actively integrate their product development processes. The next level of design dependence occurs when the supplier accepts responsibility for design and manufacture, but the buyer retains sole responsibility for establishing high-level specifications. The level of integration at this level of dependence is lower but still demanding since the two firms must ensure that the end product and the outsourced item are compatible. Finally, they indicated that design dependence is low when the buyer both establishes the specifications and takes responsibility for design, and the supplier only accepts responsibility for manufacture. At this lowest level of dependence, the buyer must ensure that the outsourced components are designed in a way that enables the supplier to manufacture them at a reasonable cost. The supplier has few additional responsibilities other than ensuring that the parts are delivered on time and to specification (Cooper and Slagmulder 2004). Based on this categorisation, for the Delta-Spibe relationship, design dependence at times involved the whole process even concept discussion and hence largely at the highest level while for the Alpha-Sowa the design dependence was mainly at the middle level.

For firms to compete effectively, it is important that they adapt their product designs to changing market conditions as well as establish effective linkages with reliable suppliers (Lall 1992). Adaptations by both customers and suppliers in the context of dyad relationships could be classified as adaptations of the product specification, product design, manufacturing processes, planning, delivery procedures, stockholding, administrative procedures or financial procedures (Hakansson 1982). From a co-creation

perspective (Vargo and Lusch 2004a), the adaptations by suppliers requires customer participation as well.

This study underscores the importance of customer-supplier relationships in product development. This is noted for instance in the form of discussion of concept, product name as well as design including packaging. This was also emphasised by Mosey (2005). According to the study, it is important that SMEs identify and satisfy the unmet needs of new customers by building new networks with innovative customers and suppliers if they are to enhance the development of new-to-market products. A firm that is able to identify and exploit new opportunities by continually building partnerships with lead users would be more likely to produce a stream of successful new-to-market products (*ibid*). SMEs that exploited new technologies were found to be active in seeking new technologies to incorporate within new products and this was mainly through development of partnerships with new customers, suppliers or even competitors. In this way, the SMEs experimented with new technologies within new markets and learnt concurrently about the market and technical needs.

This study's findings do not contradict those of Cooper and Slagmulder (2004) who noted that customer-supplier relationships may yield benefits in the form of lower costs and higher functionality of the end products that are likely to be realized through joint design activities by customers and suppliers. The joint activities signify value co-creation. By sustaining a continuous stream of breakthrough designs and products with new and unique features, the customers would benefit by having access to new innovative designs and products never seen before (Bititci et al. 2004).

The identified collaboration in innovation by larger customers and SME suppliers concurs with findings by Schiele (2006) who noted that internal innovation models have been found not to yield a sustained growth of an organisation and consequently innovation is increasingly not happening in the isolated laboratory of a firm anymore, but involves the supply chain including the firm's suppliers. Companies are increasingly striving to connect a hitherto internal approach to research and development to an approach that involves external parties, including users (Donaldson and O'toole 2007). Moreover, the development of products and processes is commonly taking place through joint action between the supplier and the customer in multifunctional teams (Möller and Törrönen 2003). Comparably, firms are increasingly conducting new product activities through new product alliances. This is driven by factors such as rising costs of research and development and increased global competition (Rindfleisch and Moorman 2001).

Although in this study innovation was largely manifested in the form of new product development including packaging, it is important to note that there are many aspects of innovation. These include growing, sourcing, manufacture, packaging, logistics, marketing, selling, promotion, category management, retailing and (of course) product development (FDIN 2010).

Furthermore, the development of a unique new capability (or hereby innovations) which enables a SME to offer its customers the possibility of differentiating themselves in their markets is relevant in reducing the power that large UK retailers have been accused of possessing (Brummer 2006) or might even invert the power and prestige structure thereby making the SME the dominant partner (Blois 2010). Nevertheless, although there is tendency for larger customers to be dominant in terms of power, Hingley (2005) argue that

this asymmetry is not necessarily detrimental to the collaborative relationship with smaller food suppliers.

### **7.3 Collaborative planning**

Planning together by suppliers and customers is becoming an increasing phenomenon and has been observed by a number of studies (Johnsen and Ford 2006; Ngugi et al. 2010). In this study, collaborative planning is seen in the form of development of business plans through several iterations in consultation with both customer's and supplier's staff. Suppliers worked in collaboration with larger customers in drawing up annual business plans e.g. Chesa would convene a meeting and kick-start the process of business plan development. The supplier's team progressed with the development of a draft business plan that went through several iterations in consultation with the larger customer's staff. Input to the process was broad-ranging across multiple layers of the customer's management via larger customer's buyers, merchandisers, quality assurance team and design team. This level of bilateral planning was valuable in enhancing continuous supply in appropriate quantities, boosting sales through promotional products and guaranteeing cash-flows for both supplier and customer firms.

In this study, the bilateral development of a business plan is an indication that managers of SMEs are increasingly involved in the implementation of premeditated activities. This to some extent contrasts with Andersson and Flore'n's (2008) suggestion that managing a small firm involves dealing with ad hoc unpremeditated activities. In addition to co-development of a plan, collaborative planning may also involve joint development of suppliers' and customers' structures, strategies and relationships (Johnsen and Ford 2006). The overall strategic alignment of similar goals and objectives of customers and

suppliers is crucial to develop value from the relationship (Barber 2008) and it significantly influences the achievement of strategically-oriented goals (Ling-Yee and Ogunmokun 2001).

Verwaal et al. (2009) suggest that misalignment of internal and external resource and transaction attributes would be likely to reduce the potential for value co-creation. This study argues that this could be mitigated by implementing collaborative or joint planning by customers and suppliers in business relationships. Likewise, collaborative development of business plans and strategies would be important in setting objectives such as levels of production by the supplier that are appropriate to serve the customer continuously throughout the year. Consistent supply would then be likely to demonstrate reliability on the part of the supplier, thereby reducing the cost of stocking contingencies by the customer. This process would be likely to be enhanced if the joint planning is coupled by inter-linked processes that enable monitoring of flow of stock and hence replenishment. Consequently, value would be likely to be created in the form of reduced levels of slack.

In some situations, effective co-planning required collaborative forecasting, for instance in relation to demand. This was the case with Delta-Spibe and Omega-Chesa relationships. This demand forecasting may also be argued to be essential for inventory control and this is a characteristic of the expanded focus of marketing in supply/value chain management in regard to promotion of environmental sustainability (Sharma et al. 2010). Environmentally-sustainable objectives call for greater emphasis on waste management, and thus, overall inventory control and control over material flows (Ling 1998; Sharma et al. 2010).

#### **7.4 Development and sustenance of technological inter-linkages**

Effective response to particular relationship requirements calls for technological interaction between larger customers and their suppliers. An example of such a requirement in the organic food sector was the need to provide continuous supply, ensuring that there was no shortage of products on the customers' shelves at any time. In this regard, a computer system monitoring flow of stocks was commissioned and installed by the larger customer, Omega, in Chesa's premises. This connected the various branches of Omega to Chesa's computer systems. This enabled the SME to monitor stocks and replenish products accordingly, thereby ensuring that there was continuous supply. This created an opportunity for value co-creation through potential increases in sales turnover in both customer and supplier firms. Technological linkage across customer and supplier firms that are in a relationship has been noted by other authors (Day 2000; Randall 2001). Likewise the importance of IT and the internet in business-to-business marketing has been emphasised by Fill and Fill (2005) Nevertheless, the fact that the computer linkage system was found in only one relationship (Omega-Chesa) shows that this is not a common practice in the relationships of larger customers and their SME suppliers. This finding coincides with that by Zheng et al. (2004) that SMEs tend to be less e-enabled and less integrated with information systems of large firms in the supply chain.

Collaboration in establishment and utilization of interlinked computer system was useful in enhancing continuous supply leading to mutual increase in sales. Such a computerized communication system is also likely to make it easier for consumers to interact with suppliers (Sheth and Parvatiyar 1995) for instance in relation to order status and payment information (Day 2000). The connection of suppliers and customers has therefore been

identified by other works (Day 2000; Randall 2001). Kothandaraman and Wilson (2001) suggest that the linking of computer systems builds structural bonds that are difficult and expensive to break, for instance because an incumbent relationship partner has inertia helping to maintain the relationship and as long as the incumbent continues to deliver value it will be difficult for a new supplier to break the business relationship.

Related to technological inter-linkages, Gordon (1998 p.28) suggests four key roles that are served by technology within a company and between a company and its customers, namely, external communications, internal communications, computing and content. Considering the focus of this study on the customer-supplier dyad rather than within a firm, then the role of technology in external communications becomes of particular interest. In regard to external communications, technology may play the role of facilitating two-way interaction between customer and supplier firm about every aspect of their requirements such as collaboration in product or service design, product co-development, pilot testing, ordering, review of inventory levels in one another's warehouses and account status information. Furthermore, it may provide a more rapid or informed communication than was possible with manual intervention. It may also play the role of opening new approaches to communicate between customer and supplier firms such as EDI and use of the internet to communicate between them.

According to Anderson and Narus (1990 p.43), inter-firm relationship is a process where two firms form strong and extensive social, economic, service and technical ties over time, with the intent of lowering total costs and/or increasing value, thereby achieving mutual benefit. An example of such a technical system is with the electronic data interchange (EDI) (Randall 2001 p.247). EDI allows a customer and a supplier (retailer

and manufacturer) to link their computers directly. This has the advantage of allowing rapid communication and has potential for reducing errors thereby co-creating value. Randall (2001 p.247) remarks that EDI has the co-creation potential in the form of cost savings to both parties and also savings in stock level as well as in generating greater co-operation across the parties involved. The motives and means of suppliers getting closer to customers are enhanced by network technologies that enable addressability, interactivity and demand-chain coordination (Day 2000).

In line with enhanced flow of products from suppliers to customer which implies reduction in surplus supply, technological inter-linkages across the parties would be useful in promoting environmental sustainability along the value chains. This coincides with Sharma et al.'s (2010) suggestion that sustainability could be promoted through the adoption of two strategies, namely; reducing surplus supply and reducing reverse supply. Reducing surplus supply relates to when firms do not manufacture more units than are required (over-produce) and consequently a reduction in over-supply occurs that leads to lower levels of product needing to be disposed of (that may need recycling or remanufacturing), leading to a more sustainable environment. On the other hand, reducing reverse supply relates to where firms reduce the number of products that need recycling and these calls for firms to develop repairable products as well as more complete recycling and remanufacturing strategies.

## **7.5 Bilateral development of knowledge and skills**

The findings also show the SME suppliers collaborating with their larger customers in supporting interactive learning. The customer-supplier relationships were marked by incidences of interactive learning. For example, Chesa's staff would go to the larger customer's premises and help them to stack shelves to give a better understanding of customer needs and enable them to gain knowledge of the 'on-the-job' environment. This sort of internship was also identified by Johnsen and Ford (2006). However theirs took the form of larger customer's staff being hosted by the small supplier while in this study it is the larger customer who is hosting the smaller supplier staff. The internships were beneficial to both parties - to the supplier in terms of enhancing his understanding of consumer and larger customer needs which was essential for successful innovation, and to the larger customer through the supplier's input of new, innovative ideas and products.

Correspondingly, as noted in the Delta-Spibe relationship, the larger customer and the SME supplier had different expertise and they combined this in product development. This is related to Gadde and Hakansson's (2008) work on the role of business relationships in systematic combining of resources. They enumerated key roles of business relationships, that is, in accessing, designing, and using resources. By using other's resources that are not fully exploited in their current settings, such as application of knowledge residing in other companies and facilities that could be used for refinement of the physical features of the product, firms managed to adjust the features of the standardized product at reasonable cost. They noted that, by connecting the resources of two companies, a business relationship can improve operational efficiency, as well as contribute to innovation and development and consequently value co-creation.

The identified learning aspect by this study in the customer-supplier dyad is consistent with other findings (e.g. Johnsen and Ford 2006; Moreira 2009). Johnsen and Ford (2006) identify some interweavement across large customer and smaller supplier personnel in striving for opportunities for joint knowledge development. Related to this, Moreira (2009) note that building relationships with suitable partners is interesting for organisational learning. While reviewing literature, the study explains that learning accelerates capability development, reduces time and risk involved in developing new products and technologies, creates synergistic effects leading to new knowledge that a partner would not access independently and it reduces cost and risks among partners.

Firms are vehicles of sharing and transferring knowledge of individuals and groups within them (Zander 1992). In recognition that it is the pool of personal knowledge, skills and competencies of the firm's staff that provides its development potential, firms have redefined themselves as knowledge-based organisations (Doole 2008 p28). They indicate that the growth potential can only be exploited if the firm becomes a learning organisation in which good practice learned by individual members of staff can be leveraged, transferred and built upon. The ability of firms in a relationship to generate rents through knowledge sharing is dependent on an alignment of incentives that encourages the partners to be transparent, to transfer knowledge, and not to free-ride on the knowledge acquired from the partner (Dyer and Singh 1998).

Learning in business relationships may manifest itself in the form of bilateral development of knowledge by employees of supplier and customer as well as in the form of combined and new areas of knowledge and expertise developed through sharing and intertwining of both firm's knowledge and expertise (Johnsen and Ford 2006). In other

words, bilateral development of knowledge may be indicated by the supplier and customer engaging in joint exchanges or development programmes that facilitate knowledge sharing. Customer-supplier relationships especially those characterised by trust, tend to exhibit greater information sharing (Dyer and Chu 2003) with potential value co-creation for instance through avoidance of costly crash programs that would be likely to arise from lack of early communication, say on availability and delivery changes by suppliers (Cannon and Homburg 2001).

Development of knowledge by suppliers' and customers' employees encompasses skills and knowledge base (Leonard-Barton 1992b) and the skills may be reconfigured and translated into knowledge, assets and technologies (Teece 1998). Lall (1992) suggest that human capital includes not just the skills generated by formal education and training, but also those created by on-the-job training and experience of technological activity, and the legacy of inherited skills, attitudes and abilities that aid industrial development. Bilateral development of knowledge may be indicated by the customer and the supplier engaging in joint exchanges or development programs to facilitate knowledge-sharing (Johnsen and Ford 2006). New intellectual capital is created through a combination and exchange of existing intellectual resources, which may exist in the form of explicit and tacit knowledge and knowing capability (Nahapiet and Ghoshal 1998).

In contrast with horizontal relationships, vertical inter-organisational relationships, as is the case of customer-supplier relationships, are particularly more productive in terms of transmitting knowledge because of their higher level of relational embeddedness and lower level of knowledge redundancy (Rindfleisch and Moorman 2001).

Knowledge gained through interactive learning between two firms is more likely to permit a firm to add unique value to its own capabilities compared to that gained through passive or active learning which provide articulable (observable) knowledge and hence not rare, imperfectly traded or costly to imitate (Lane and Lubatkin 1998). Collaboration in learning among small and larger firms was reported by other studies (Johnsen and Ford 2006; Ngugi et al. 2010). This involves combinations of knowledge and this particularly when combined with input from the larger customer has been found to lead to knowledge creation (Tolstoy 2009). In relation to this, firms have been found to participate in alliances (relationships) so as to learn know-how and capabilities from their partners and at the same time protect themselves from the opportunistic behaviour of their partner to retain their own core proprietary assets (Kale et al. 2000 ). Also, the identified value (e.g. better understanding of needs, innovation and improved quality) that is associated with learning, support Kogut and Zander (1996) who suggest that the sharing and applying of knowledge would yield benefits that either could be used to enhance the firm's capability to produce efficiently or to develop new products or services.

## **7.6 Co-evaluation**

Customers and suppliers in the study were found to be involved in co-evaluation and identification of training needs. It is not only this study that has noted the role of both customers and suppliers being relevant in evaluating the supplier. Co-evaluation is also highlighted by Agndal and Nilsson (2009). Co-evaluation meant that both the supplier's and customer's needs were considered and planned for in advance. For example, in the Alpha-Sowa relationship, the supermarket evaluated the factory and staff in collaboration with the small supplier's directors. The supplier's directors were thus not being evaluated by the larger customer but were included in a process of co-evaluation. During the

process Sowa and its customer together identified gaps that the small company needed to fill or work on to sustain its position as a preferred supplier, such as the need for upgrading and maintaining hygiene and safety skills. Additionally, the organic food production required stringent adherence to traceability aspects and staff training was supported in this aspect through the larger customer's broad knowledge and training inputs to these requirements. The training was also helpful in improving quality.

### **7.7 Marketing and promotion**

Previous studies even on relational aspects (Johnsen and Ford 2006) tended to consider the relevance of business relationships in regard to processes that are geared to developing and delivering products to business customers with little role in participation of the suppliers in marketing the offerings to the end consumer. Surprisingly, this study's findings show that business relationships are relevant even beyond this stage. For example some activities such as promotion at larger customer's premises that were hitherto viewed as solely undertaken by larger customers had input from the suppliers through the relationship. This was clear when Chesa's staff participated in promotional activities at Omega supermarkets. The promotional activities were useful especially in boosting sales remarkably.

In addition to collaboration in promotion, larger customers had extensive logistics and distribution systems and SME suppliers tended to exploit such networks to reduce their own distribution costs. For example, Sowa considered its greatest potential to be the prospect of tapping into networks offered by Alpha to reduce the supplier's costs. This represented a value co-creation opportunity in the relationship.

Collaborative promotion, for instance by acknowledgment of each other in website and newsletter as well as co-participation in media and award-winning competitions, was noted to contribute to cost reduction or savings. The lowering of cost is consistent with Cannon and Homburg (2001) who indicated that collaborative approaches seek to lower acquisition and operating costs through the joint efforts of customer and supplier. Likewise Van Mieghem (1995) showed that value would be created through reduction in total cost including direct product costs, acquisition costs and operational costs when customers and suppliers work closely together.

Business relationships are equally important in creating value or promoting customer and consumer acceptance of an innovation (Hargadon and Yellowlees 2001). This is particularly so in the backdrop of recognizing the interdependent relationship between the technical and social aspects that constitute an innovation. The social “material” and the technical “material” are both relatively malleable and the successful innovation is the one which stabilises an acceptable arrangement between the human actors and the non-human actors at the same time (Akrich et al. 2002b). Considering the involvement of customers in development and implementation of innovations has been noted from the case studies, this study argues that through business relationships there would be interactions between customers and suppliers (both customer and supplier are active participants and would have their input in the process) and therefore both parties would be informed of the innovations and their attributes thereby boosting acceptance by the customer.

## **7.8 Participatory pricing**

In business relationships, Ford et al (2006 p.222) explain that pricing is not about making profit on each transaction but conversely, it is about maximizing the rate of return on each

relationship over its life (lifetime value). In this study, the fact that customers were found to offer relatively higher prices to suppliers in the relationship may probably be a reflection that the larger customer understood that relationship investment takes a long time to recoup. This is also consistent with Ford et al (2006 pp.222-223) who expressed that like any investment in tangible assets, there will be a pay-back period in which to recoup a business relationship investment.

In established relationships, Ford et al (2006 pp.222-223) remark that price management could be achieved through 'open book' agreements whereby the supplier agrees to disclose its costs of supply and to price at an agreed margin on top of this. They also note that although price is an important element of strategy for the business marketer, it is customer problem-solving that must remain at the core of strategy (p.228). In other words, relying too much on low prices to gain business is dangerous since it makes the supplier vulnerable to any other offering at a lower price.

### **7.9 Co-participation in corporate social responsibility**

The co-participation in corporate social responsibility as is demonstrated in the Omega-Chesa relationship indicates the potential of business relationships in promoting SMEs' participation in social responsibility activities. The participation or the increasing interest in such activities is in line with the growth of large companies' reporting on corporate social responsibility (Stern and Ander 2008). The identified larger customer-SME supplier collaboration in corporate social responsibility coincides with Sharma and Ruud's (2003) suggestion that positioning the firm as an environmentally conscious business builds corporate reputation, and this has the impact of strengthening the competitive market position of the firm.

McQuade & Johnson (2003) suggest two types of debates that relate to CSR. First, social-political debate relates to the rights and responsibilities of organisations to society. Second, business economics concern the nature of competitive advantage and business sustainability. In relation to the rights and responsibilities of business to society, organisations may recognise them as requirements for business legitimacy or regard contribution to society beyond core business as voluntary. This seems to be the case in the relationships of Chesa and Omega whereby they support children in visiting farms.

Considering that some of the issues that legitimize the dominance of large retailers in the UK are that they benefit the community as a whole, for instance by providing consumers with a wide choice of products at very competitive prices (Blois 2010), then it is likely that this dominance could be weakened if likewise the SMEs contribute to the community as exemplified by Chesa's participation in corporate social responsibility.

The co-participation in CSR also shows that, in addition to environmental and economic dimensions of sustainability (Walker 2008), firms are recognising the importance of incorporating social dimensions thereby pursuing their objectives in line with triple bottom line – economic, environmental and social.

### **7.10 Collaboration in communication**

The larger customers and their SME suppliers were found to be supporting and actually engaging in two-way communication. Each party felt it was its responsibility to maintain communication on the various aspects in which they were engaged. This was relevant in enhancing understanding between the parties as well as their needs. Enhanced

communication was also found to be important in improving quality as well as animal welfare in livestock-related businesses.

Communication could be enhanced through inter-linked systems across the customer and supplier firms such as EDI (Gordon 1998p.28; Randall 2001 p.247). In any case, firms in relationships can increase partner-specific absorptive capacity by designing inter-firm routines that facilitate information sharing and increase socio-technical interactions (Dyer and Singh 1998). Related to this, Day (1994) suggests that suppliers must be prepared to develop team-based mechanisms for continuously exchanging information about needs, problems, and emerging requirements and then taking action. They must also be prepared to participate in the customer's development processes. In the context of networks, Canavari et al (2010) point out that implementation of good information management procedures within a network may be able to create a competitive advantage for that network.

Relationship intensity, defined as the magnitude of ongoing interactions between venture partners, for example, in the forms of two-way communication and frequent information exchange, has been found to be the most influential factor affecting the attainment of differentiation-based advantages (Ling-Yee and Ogunmokun 2001). Loyalty between supplier and customer is enhanced through shared learning and communication or rather through dialogue and this is essential for value co-creation (Prahalad and Ramaswamy 2004a). In fact some studies have found that loyal customers are far more profitable than the price-sensitive, deal-deal prone switcher who sees little difference among alternatives (Reicheld 1996).

### **7.11 Collaboration in solving each other's problems and being responsive**

This study noted that one of the benefits of the larger customer-SME supplier relationship was the solving of each other's problems. For instance in the Gamma-Laberi relationship, the larger customer and the SME supplier responded to requests from each other and worked together in implementing solutions. The solving of problems in relationships has been noted by other authors. For instance Ford et al. (2006 p.221) and Ford et al. (2003 pp.91-101) suggest that a business relationship can lead to quicker and cheaper problem-solving through familiarity with each other's ways of working and through trust in each other. Likewise, Day (1994) expresses the need for customers and suppliers to develop team-based mechanisms for continuously exchanging information about problems. Also, Mahroum et al (2007) highlight the essence of business relationships in terms of, among others, shared learning around addressing problems. Johnsen and Ford (2006) also highlight the importance of integration of the technical systems of larger customer and SME suppliers in enabling technological problems to be identified and coped with at an early stage.

Helander and Hirvonen (2000) suggest that the basic point of the value creation approach is to make the business processes of the customer more visible and in that way help the supplier organisation to solve the problems of the customer. Accordingly, they argue that the value creation approach offers an effective way to develop customer relationships by making the customer's business activities more visible. This study argues that it is also essential to make the business processes of the supplier more visible and in that way help the customer organisation to solve the problems of the supplier. In other words, both parties need to work in collaboration and to make their respective processes visible to

each other. This is useful in enhancing the potential to solve problems in their firms as well as in the relationships.

### **7.12 Development and sustenance of commensurate culture**

Larger customers and their organic SME suppliers were found to adjust to commensurate culture and this was largely in accordance with consumers' evolving cultural orientations. For instance, the climate change debate led to a cultural change in favour of environmentally friendly products by consumers. In any case, it is now recognised that consumers are energetically seeking green firms to buy from. Accordingly, the SME suppliers and larger customers had to change their procurement culture by giving preference to local sourcing, to minimize carbon footprints and reduce food miles, and also by laying emphasis on recycling. In many cases, the tendency is for larger customers to influence the suppliers to respond to the environmental agenda. This study is in line with the interaction approach support suggestion by Walker et al. (2008) that a collaborative approach by both customers and suppliers is appropriate. Although small companies do not necessarily produce reports on their environmental performance, their increasing interest in this area is in line with the growth of large companies' reporting on environmental performance (Stern and Ander 2008).

In addition to environmental concerns, there was increased sensitivity towards quality. The relevance of collaboration by larger customers and SME suppliers in achieving and sustaining appropriate quality was also noted by Moreira (2009). In this study, larger customers had a high quality orientation culture and accordingly the smaller suppliers tended to follow suit. Sometimes SME suppliers and larger customers even worked together in setting up quality management departments as was noted in the Delta-Spibe

relationship. The bilateral development of customer and supplier's culture was also observed by Johnsen and Ford (2006), though in the textile industry rather than organic food and drink. Dyer and Singh (1998) suggest that relational rents (value) can only be realized if the firms have systems and cultures that are compatible enough to facilitate coordinated action.

The cultural adjustment that was noted in this study such as quality orientation, related to safety and hygiene, seem to be a characteristic of the food industry. This is consistent with other studies that suggest that companies can share cultural values and practices and that this commonality is not random but arises from similar industry demands (Chatman and Karen 1994; Gordon 1991; Hofstede et al. 1990; Phillips 1994; Spender 1989). Along the same line, Christensen and Gordon (1999) indicate that since companies in an industry share a set of common influences, there is likely to be similarities in their cultures. Gordon (1998 p.23) suggests that for a sustained relationship, it is essential that a customer's culture and values are conducive to the formation of an enduring relationship with suppliers.

The elements of organizational culture may be conceptualized as organizational practices and values (Beugelsdijk et al. 2006). Spender (1989) and Barney (1986) indicate that culture provides competitive advantage when it enables an organization to do things differently from others facing the same environmental constraints and privy to the same industry recipes. This hints at the potential of culture in co-creating value in the customer-supplier dyad and thereby attaining competitive advantage especially when things in a particular dyad are done differently from competing dyads.

Mehta et al. (2006) suggest that when cultures are substantively different, particularly between exporters (suppliers) and foreign channel partners (customers), trust, commitment, and cooperation are more difficult to attain and this would be likely to affect the communication process among the collaborating parties. Comparably, Beugelsdijk et al. (2009) while reviewing literature mention that differences in organizational culture may hamper the development of empathy thereby negatively influencing the relationship. Furthermore, according to Jap and Ganesan (2000), large perceived organizational cultural differences may negatively influence the feeling of “we-ness” that is an important aspect of relational norms.

Shared culture and values may be a source of particularity in the relationship and may create opportunities to develop greater intensity that would enhance a good relationship. Dyer and Singh (1998) suggest that relational rents (value) can only be realized if the firms have systems and cultures that are compatible enough to facilitate coordinated action.

Although this study identifies bilateral development of similar cultures (for instance adopting a greening culture by the two collaborating firms), it is worth noting that firms with a dissimilar culture can also create value together (Beugelsdijk et al. 2009; Gordon 1998). Nevertheless, under such circumstances, it is important that the similarities and differences between cultures are understood by the relating firms (Gordon 1998 p.22). A good understanding of a customer’s (supplier’s) culture and values would enable a supplier (customer) to better cope with conflict and inconsistency in the customer-supplier relationship.

### **7.13 Value of generic relationship**

This study noted co-creation of value in business relationships that was not attributable to specific areas of collaboration. These included elimination of middlemen and provision of a guaranteed market including customer retention. As noted earlier, one weakness with most studies in the past has been the tendency to identify benefits of business relationships without necessarily identifying collaborative areas. This identification of value that is associated with respective areas of collaboration is indeed one of the issues that make this study unique.

In relation to customer retention, Doole and Lowe (2008 p.341) express that it is imperative for firms, particularly in business-to-business marketing, to build relationships to retain their most valuable customers in the long term, especially because of the high cost of winning and losing customers. Barber (2008) in addition notes that value is added most successfully with collaborative partnerships that recognize all contributing areas including processes, procedures, information and financial linkages, management of knowledge, innovation, strategies, change and relationships.

### **7.14 Revised conceptual framework**

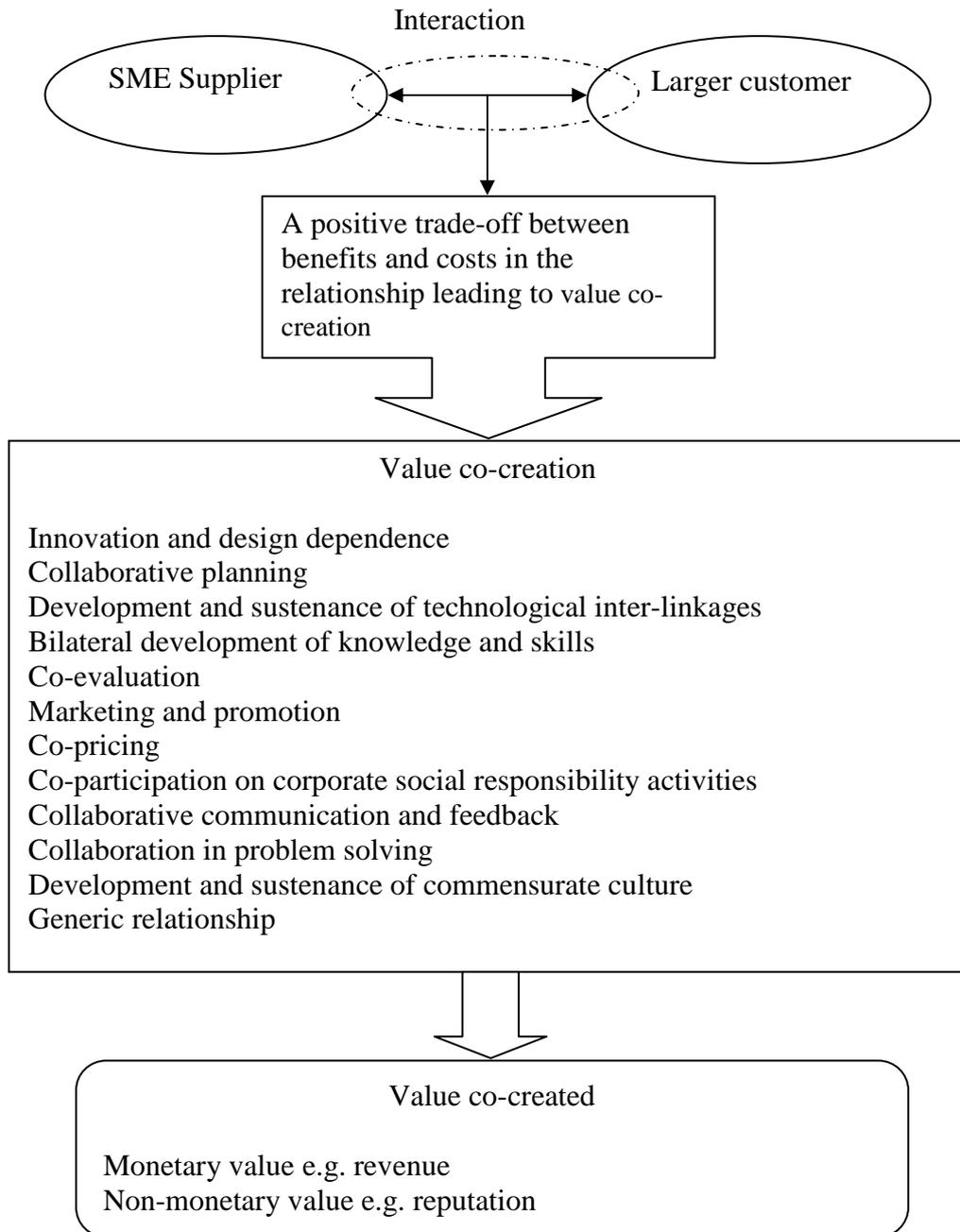
The findings by this study can inform the literature-based conceptual framework that is developed earlier in the thesis in the 'Development of conceptual framework' chapter. The framework presented the collaborative areas as comprising; collaborative planning, joint technical systems, innovation and design dependence, bilateral development of knowledge and skills, joint teams, cross-functional coordination and information sharing, and development of commensurate culture. As has been noted from the findings, some of these areas were found in the larger customer-SME supplier relationships in the organic

food sector. However, there was no evidence of the existence of some of them while at the same time a few additional ones were identified. This also translates to differences in the value co-creation as well as the co-created value.

For instance, previous literature (on which the earlier conceptual framework was built) had not captured promotion and marketing as one of the collaborative areas. Also collaboration in corporate social responsibility had not been recognised. The following areas too had not been highlighted by previous literature: co-evaluation, co-pricing, collaboration in problem solving and generic relationships. Collaborative communication and feedback could perhaps be related to cross-functional coordination and information sharing. The case-studies in the organic sector however reveal these as additional collaborative areas.

On the contrary, aspects such as long-standing formal contracts though suggested by previous literature were not observed in this study. This is probably due to the focus being on relationships with SME suppliers rather than among large firms, usually characterised by formal structures and procedures. In the backdrop of these discrepancies, Figure 12 presents the harmonised or revised conceptual framework. This framework is more suited in representing the value co-creation in the relationships of larger customers and SME suppliers in the organic food and drink sector as evidenced by the findings.

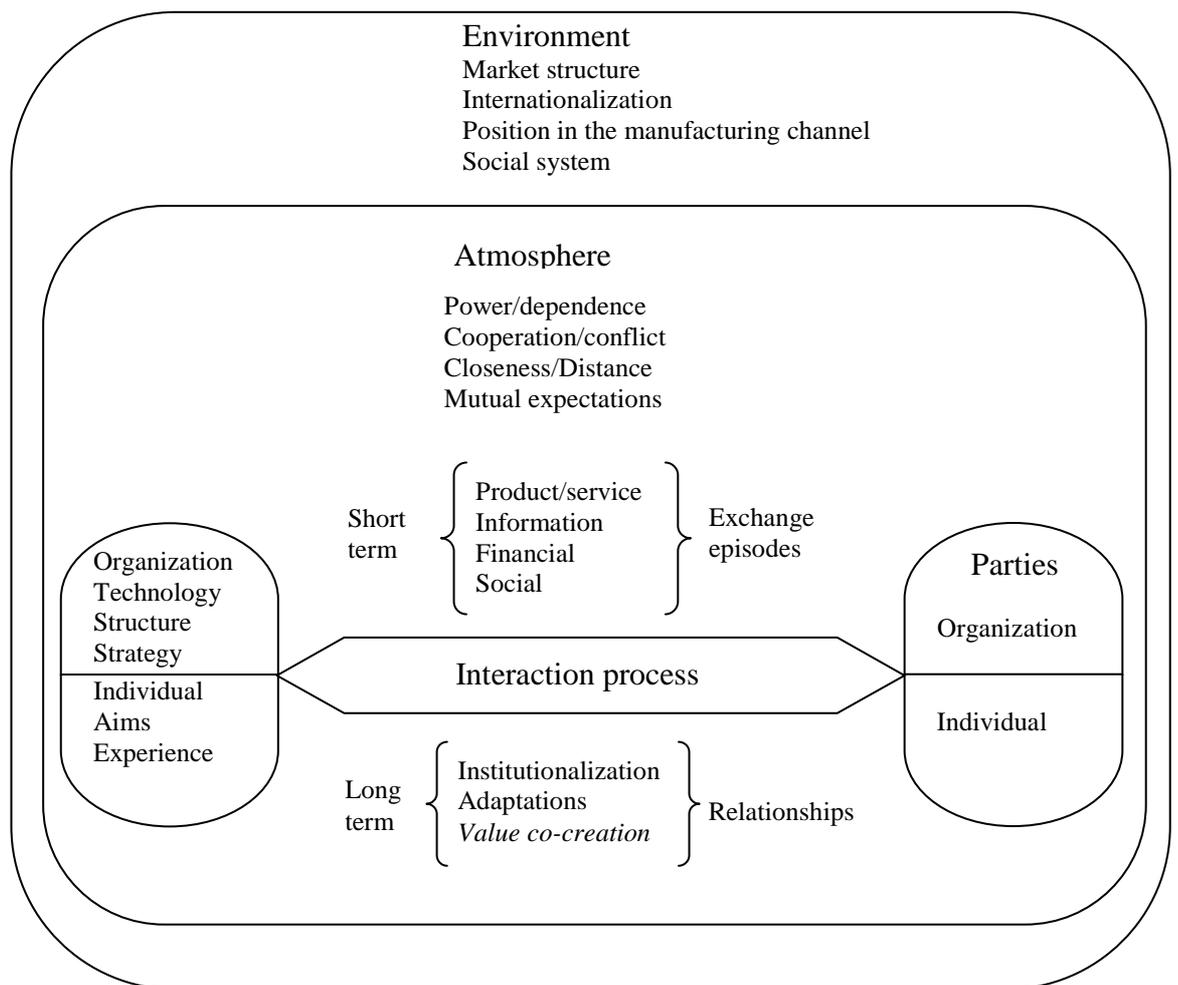
**Figure 12: A conceptual framework to examine value co-creation in the organic larger customers-SME suppliers' dyad**



The areas of collaboration, as identified in this study, suggest that suppliers are not just creating value for the customers but rather, both parties are co-creating value together and hence value co-creation. This indicates the need for extension of the IMP interaction

framework by including the concept of value co-creation. Since the value co-creation is taking place within the customer-supplier relationship, this study argue that the concept of value co-creation fits best within the relationship component of the IMP model alongside the other two concepts, adaptations and institutionalisation (see Figure 13).

**Figure 13: Integration of the concept of value co-creation within the IMP interaction framework**



Note: In italics is the concept of ‘value co-creation’ which is supported by the findings of this research and hence the study’s contribution to the model.

Although this study seems to be the first to propose the entrenchment of the concept of value co-creation in the IMP model, there are two other studies that have added some

concepts into the framework. The first study, Roehrich & Spencer (2001), added the concepts: trust versus opportunism; understanding versus misunderstanding; and commitment versus non-commitment. The second study, Hedaa and Törnroos (2007) argued for a replacement of atmosphere with semiosphere.

### **7.15 Summary of the chapter**

This chapter has discussed the findings of this study. These have been critiqued against other studies. Most of the identified collaborative areas and consequently value co-creation concurs with previous studies. However, a few collaborative areas such as marketing and promotion as well as co-participation in corporate social responsibility had not been highlighted by the previous studies and therefore these form some of the contributions of this study. Based on the generated information from the findings, this chapter has presented a revised conceptual framework. The phenomenon of value co-creation which in this study takes place in the relationships of SME suppliers and larger customers, as reflected by the findings, suggests the need to integrate the concept of value co-creation in the IMP interaction framework.

## **Chapter 8. Conclusions and recommendations**

### **8.1 Overview of the chapter**

Having discussed the main findings in the previous chapter, this chapter proceed by presenting their implications as well as conclusions. This largely involves issues related to areas of inter-organisational collaboration and also value co-creation. The limitations of the study are also discussed. Also presented in the chapter are recommendations including suggestions for further research.

### **8.2 Reflection on how the thesis unfolded**

This thesis starts with the introduction whereby amongst others, the problem of the study is described, objectives presented and the industry (organic food and drink) introduced. The literature review is presented next. This includes a critique of varied issues that form the foundation of this thesis including value, value co-creation and business-to-business relationships. The IMP interaction theory is critiqued especially in relation to its suitability in grounding this work. The conceptual framework is then developed in the following chapter, whereby the themes of collaboration, value co-creation and the co-created value are linked into a parsimonious framework. The conceptual framework is relevant in guiding this study especially in terms of defining the scope of relevant issues while collecting and analysing data as well as reporting.

Following the development of the conceptual framework, the methodology employed in the study is presented. In addition to describing the research philosophy, the choice of

research method, specifically the case-study method, is explained and the procedures of cases and participants selection, data collection and analysis described. Also described are validity and reliability issues in relation to this study. A chapter describing the case-studies that are considered in this study and their context is presented next. This is followed by a chapter on key findings based on within-case analysis. These include the areas of large customers and SME suppliers' collaboration, value co-creation and the respective co-created value. The within-case analysis chapter is followed by a chapter on within-case analysis. Here, the findings are analysed across the participating larger customer-SME supplier relationships as well as across the collaborative areas. The findings are thoroughly discussed in the subsequent chapter, 'Discussion of findings'. Here, the findings are critiqued alongside other related studies. Following the presentation and discussion of the findings in the previous chapter, the thesis presents in this chapter conclusions and recommendations. The implications of the findings especially in practice and theory are discussed and limitations and areas for further research suggested.

### **8.3 Summary and implications of the findings**

This study has contributed to a better understanding of how customers and suppliers in relationships co-create value. It has identified the areas of collaboration, described how value is co-created and identified the co-created value in the larger customer-SME supplier dyadic relationship. This has involved identification of value created or associated with respective collaborative areas. The findings through the identified collaborative areas show that in business relationships, there are multiple points of interaction anywhere in the firm, including the traditional point of exchange with the implication that there are many points of customer-supplier interaction that are critical for value co-creation. This is consistent with other authors' views (e.g. Prahalad and

Ramaswamy 2004b). Likewise, Awaleh (2008 p.36) recognises that firms interact in a number of ways outside the frame of the actual exchange situation. Hence, parties interact not only to exchange but also to co-create. This is particularly so considering that the capabilities of firms in relationships are more than the sum of individual firms' capabilities because of the existence of distinct relationship capabilities, tying together and interacting with the capabilities of individual firms (Foss 1999). It is not only the smaller suppliers that gain from the relationship - larger customers also benefit; there is mutual gain and hence co-creation of value.

The empirical evidence suggests that processes or activities, previously often viewed as solely undertaken by larger customers or by SME suppliers independently, are increasingly getting valuable inputs from both parties through the relationship. Further, similar to Forsström (2005a p.72), these findings indicate that firms with heterogeneous resources benefit by cooperating and utilizing each other's resources meaningfully. Such cooperation or collaboration has been shown in this study to lead to value co-creation with mutual benefits. This is in line with Bititci's (2004) view that value creation in collaborative organisations should be a win-win situation for the collaborating firms. It would be useful for managers to have this motive in mind while developing collaborative strategies.

This study has achieved the objectives set forth at the beginning. The thesis objectives were: a) to identify areas of collaboration in the larger-customer-SME supplier dyad; b) to investigate how value is co-created in the dyad; c) to identify the respective value co-created in the collaborative areas of larger customers and SME supplier relationships; and, d) to identify practical and theoretical implications of the findings. Accordingly, in

this section, a summary in relation to the first three objectives is presented. Issues related to the last objective, that is, the practical and theoretical implications and contributions of the findings, are then discussed in the next two sections.

The findings indicate a number of areas in which organic SME suppliers collaborate with their larger customers. Working in collaboration on activities such as product innovations, co-participation in social responsibility activities, joint technical systems, joint planning, co-evaluation and development of training needs, promotion and communications, are among the key collaborative areas. The collaborative areas have implications on value co-creation in business relationships. Correspondingly, Anand and Khanna (2000) found that firms learn to create more value as they accumulate experience in joint venturing.

The manifestations of the collaborative areas in the larger customer-SME supplier relationships represent how value is co-created. These include: exchanging ideas on product development – core products as well as name and packaging; facilitating and sponsoring visits to farms by school children; setting up and sustaining electronic data interchange; consultations in the development of business plans, co-evaluating processes and staff; and internships.

The findings reflect the value co-created comprising both monetary, such as increased sales and revenue, and non-monetary value, such as reputation, preferred supplier status and improved quality. Other studies have also acknowledged the generation of both monetary and non-monetary value in business relationships (Forsström 2005a; Ngugi et al. 2010; Ulaga and Eggert 2006). This study further identifies the specific monetary or non-monetary value that is co-created in the respective relationships of larger customers

and their SME suppliers. The identification of a wide range of benefits, both tangibles and intangibles that are associated with business relationships also supports the statement by Payne et al. (2009) that the dominant logic in marketing is shifting from the exchange of tangible goods to the exchange of intangibles such as skills, knowledge and processes.

It is interesting to note that some collaborative areas led to the co-creation of more types of value than others. For instance collaboration in interactive learning promoted co-creation of four types of value (enhanced understanding of larger customers' needs, enhanced understanding of consumers' needs, enhanced innovation, improved quality) while collaboration in corporate social responsibility activities was found to lead to co-creation of one type of value – public relations. Also, some different collaborative areas were found to lead to co-creation of the same type of value. For instance, collaboration in business plan development and interlinked systems such as electronic data interchange were both identified as contributing to promotion of continuous supply of products. This has ramifications in resource allocation with respect to collaborative areas.

Some value co-creation aspects (such as EDI which enhanced continuous supply) enhanced efficiency and effectiveness in the exchange process thereby directly contributing largely to monetary benefits such as revenue generation while others (for instance corporate social responsibility) contributed largely to non-monetary benefits such as favourable reputation or publicity.

Considering the wide range of ways in which value co-creation is manifested, this study interprets that, although the collaborative areas may be likely to be common across customer-suppliers' relationships, their manifestations or how value is actually co-created

would be likely to vary across relationships. This is also expected to vary depending on the sector under consideration. For instance, while collaborative innovation may be common in the organic sector as well as others, the specific innovation such as the development of unique cheese is specific to the food industry and would be different in a non-food industry.

#### **8.4 Contribution to theory**

This study has made a number of contributions to theory. First, unlike any other study, through the conceptual framework as well as the findings, this study has linked the themes of customer-supplier interaction, collaboration and hence values co-creation, and the co-created value. To the researcher's knowledge, this is the first study to link these themes at least in the organic industry. Generally, previous studies have tended to investigate value co-creation without necessarily identifying or specifying the value that is co-created (Prahalad and Ramaswamy 2004). Others have identified the collaborative areas without necessarily identifying the value that is generated from the collaboration (Johnsen and Ford 2006) or else identified the value without specifying the specific attributable collaborative area (Table 8). This study has expanded on these issues and attempted to combine all these themes into a parsimonious framework.

Secondly, while the larger customers and the SME suppliers that are considered in this study both appear active particularly in regard to the collaborative activities, and hence consistent with the IMP interaction approach which recognises both customers and suppliers as active participants, on the other hand the findings show that the interaction process involves more than just exchange since it also involves value co-creation. The value co-creation occurs at areas of collaboration and the collaborating parties are able to

come up with or do something that one would not do alone. For instance in the Delta-Spibe relationship, the larger customer and the smaller supplier combined their distinct knowledge and skills and developed products that one party could not develop alone. Also in the Omega-Chesa relationship, through collaboration in development of a business plan, the larger customer and the smaller supplier consulted on various issues including production, demand, new products for development as well as products for promotions. This enhanced continuous supply and in appropriate quantities, guaranteed cash-flows, increased sales for instance through the promotional products that were agreed during co-planning, and enhanced innovation through the deliberations on new products for development during a particular planning year.

These aspects of co-creating in addition to exchange, hints at the need to modify or improve the IMP interaction framework (Hakansson 1982) by entrenching value co-creation into it. The fact that there is more than exchange in relationships was also noted by Sheth and Parvatiyar (1995) where they expressed that cooperative relationships amongst marketing actors are not always for the purpose of exchange because they can also cooperate and share resources in joint research and development (R&D) partnering.

In other words, the co-creation aspect reveals the need to extend the IMP interaction approach so that it not only shows exchange but also value co-creation. As found in this study, firms in a relationship are not only involved in exchange (as implied by the IMP model in its current form – annex 4), but they are also able to create something that one party would not do alone. This is in line with Schumpeter (1934), Moran and Ghosal (1996) and Nahapiet and Ghoshal (1998) who argue that all new resources are created through two generic processes, namely, combination and exchange. This study argues that

combination in essence enhances value co-creation. In line with this, Vargo and Lusch (2004a) indicate that value creation is a process of integrating and transforming resources which requires interaction and likewise the notion of co-creation of value is an interactive concept. The combinations could be incremental (continuous adjustment in small steps or rather through incremental change and development from the existing) or radical (innovation or paradigmatic change and revolution) (Nahapiet and Ghoshal 1998). The building of the IMP interaction approach by entrenching value co-creation into it is consistent with Axelsson (2010) who express the desirability to see more work that builds on the model.

Third, the findings support the increasingly observed phenomenon of collaboration among firms as opposed to the traditional strategies of autonomous competition. This shows that firms are increasingly realizing that there is more to gain by collaborating than operating individually. In this study, such gains are represented by the value co-created, which to achieve requires input from each of the collaborating parties – in this case larger customers and their SME suppliers. Lastly, unlike traditionally where the objective of firms tended to be solely financial, this study has shown that firms are now recognising non-financial aspects as important value that is co-created in business relationships. In any case, the different types of monetary and non-monetary value that are identified by this study are relevant to academia especially those interested in understanding the emerging new ways in which value is co-created and thus a new definition of value.

## **8.5 Contribution to practice**

In practice, the understanding of the dynamics of value co-creation is particularly important for managers considering that they may be likely to miss business opportunities

if they do not understand how value is co-created in business relationships. It is vital that managers in SME suppliers are able to assess those activities that must be done internally or developed in conjunction with larger customers. Thus, it is important to develop the knowledge of how value is co-created in business relationships. In the past, studies of the value or benefits of collaboration have tended to focus mainly on alliances between large organisations, thereby excluding SMEs (Kale et al. 2002; Kale et al. 2000). In contrast, this study is significant as it has the centre of attention on the relationships between larger customers and SMEs. This is relevant in informing the debate on how value is co-created through interactions in business relationships.

The findings underscore the issue of the survival and prosperity of SME suppliers being closely linked to effective collaboration with their larger customers in relationships in addition to their internal success. This is consistent with Håkansson and Ford's view (2002) that the life of a firm is the result of the interplay between internal investments and those that are made in its relationships.

The findings highlight the power of business relationships in enhancing access to skills, resources and technologies of both the collaborating firms and in contributing towards problem-solving for both the customer and the supplier. This potential in relationships has been suggested previously (Ford et al. 2006). Innovation is enhanced through suppliers working together with their larger customers. It is not only the smaller suppliers that gain from the relationship - larger customers also benefit - there is co-creation of value and subsequently mutual gain. The identified interactive learning and collaborative innovation across larger customers and SME suppliers implies that firms may need to work collaboratively for instance through project groups or internships whereby representatives

from both firms in the relationship can interact or meet and communicate their business operations and ideas and consequently co-create value. Considering the value co-created, this study suggests the need for increasing levels of collaboration between small and medium-sized organic food suppliers and their larger customers.

The findings suggest the potential of one collaborative area leading to the co-creation of more than one type of value. Also some different areas were found to contribute to co-creation of the same type of value. Such knowledge (collaborative areas and respective types and amounts of value) would be useful to managers in decision-making particularly in relation to collaborative areas with larger customers. Relationships entail investments and therefore understanding the value co-created through the various collaborative areas would be useful in deciding which areas would be best in which to collaborate and hence invest. Nevertheless, the many types of value that are co-created underscore the potential of collaboration in the larger customer-SME supplier relationships. No wonder it is now recognised that building the capacity to collaborate is in essence building the capacity to compete (Prahalad and Ramaswamy 2004 p.2003).

The findings on areas of collaboration and their associated co-created value are also important to managers in enabling them to understand which activities they undertake, especially in the relationship and are important in creating value. This aspect was also highlighted by Johnson et al (2009 p.74).

## **8.6 Limitations and areas for further research**

This study has investigated value co-creation with respect to larger customers-SME suppliers' relationships. The SME suppliers and larger customers are however linked to

other stakeholders such as larger suppliers, NGOs, Government institutions, competitors and research institutions. Further research would be essential to understand how value is co-created by suppliers as well as customers in relationships with these other stakeholders. In other words, there is scope for future studies to go beyond the dyadic perspective of relationships to include perspectives from the wider network.

The data that were used in the investigation of the phenomenon of value co-creation were collected from suppliers. This means that there is scope for incorporating the larger customers' perspectives. This would perhaps generate new areas of collaboration, value co-creation practices and the co-created value and would as well be relevant in enhancing triangulation in the study. Also, the data were largely cross-sectional and therefore covering a longer span of time and adoption of other approaches such as ethnography would be likely to generate useful information. With respect to collaborative areas, this study focused mainly on the values that were generated through them. It would be useful to investigate the costs that are associated with the collaboration.

The study has identified the areas of collaboration, how value was co-created and the respective types of value that were generated. Although this information as noted earlier has ramifications both to theory and practice, it is limited in that the relative importance or preferences of the collaborative areas from the SMEs suppliers or larger customers' perspective has not been established and also the identified types of value have not been quantified. Information of the relative importance of collaborative areas and probably the willingness to pay for their development, considering both ends of the dyad, would at least be useful to policy makers and other development agents who would be considering

supporting the development and sustenance of large customers'-SME suppliers' relationships.

Likewise, although some collaborative areas were found in this study to generate more types of value than others, it is not clear if this would necessarily translate to a higher total value if these were to be quantified. Therefore, there are opportunities for further research in quantifying the different types of value that are generated in the larger customer-SME supplier relationships as well as in organisational relationships in general. Such information is vital at least in making investment decisions with respect to collaborative areas.

In addition, this study is limited to investigations in the organic food sector. Furthermore, in terms of geographic scope, the research is limited to the Southwest region of the UK. This implies that further research which goes beyond one industry and one country may be essential in enabling extrapolation and generalization into other situations than those investigated in this study. Nonetheless, this study is fundamental in that it is among the first to investigate the co-creation of value in larger customer-SME supplier relationships in the organic food and drink sector.

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## Annex 1: Value co-creation per larger customer-SME supplier relationship

Larger customer-SME supplier relationship	Areas of collaboration	Value co-creation strategies	Value co-created
Alpha-Sowa	1-innovation	1-product development (deliberations) 2-concept evaluation 3-product packaging 4-product name determination	1-increased ranges of products 2-increased success of products 3-preferred supplier status
		5-recommending longer shelf-life products (design dependence)	4-reduced transaction cost 3-preferred supplier status 5-reduced waste
	2-planning	6-co-planning e.g. in relation to new ideas/products prior development & marketing	2-enhanced success of new products
	3-co-evaluation	7-co-evaluation of staff and factory	6-improved quality 3-preferred supplier status
	4-marketing and promotion	8-launching of new products	2-enhanced product success
		9-product distribution using larger customer's extensive networks	4-reduced distribution cost
5-co-pricing	10-larger customer helped smaller supplier in pricing	7-fairness	
Total	5	10	7
Zeta-Bete	1-bilateral knowledge development	1-supplier visits to larger customer and sensitized on quality	1-improved quality 2-enhanced understanding of customer needs
	2-generic relationship	Generic	3-provision of business
Total	2	1	3
Omega-Chesa	1-innovation	1-recommending small cheese (new)	1-increased revenue
	2-CSR	2-sponsoring school trips	2-reputation
	3-technological inter-linkage	3-EDI	1-higher sales 3-continuous supply

<b>Larger customer-SME supplier relationship</b>	<b>Areas of collaboration</b>	<b>Value co-creation strategies</b>	<b>Value co-created</b>
	4-planning	4-business plan development	1-boosting sales through pre-agreed promotional products 4-guaranteed cashflow 5-enhanced innovation
	5-bilateral development of knowledge	5-internship	6-understanding of consumer needs 7-understanding of customer needs 5-enhanced innovation
		6-rounds by larger customer at smaller suppliers premises	8-familiarization with supplier's systems and loyalty building
	6-marketing and promotion	7-product distribution using larger customer's trucks	9-reduced cost 10-improved capacity utilization of larger customers' trucks 11-reduced carbon emissions
		8-co-participation during promotion	1-increased sales 9-reduced costs
	7-communication /feedback	9-two-way communication	7-enhanced understanding of customer's wants
	8-development of commensurate culture	10- quality orientation	12-improved quality 13-enhanced preferred supplier status
		11-greening: closed-loop systems & recycling	14-sustainability
<b>Total</b>	<b>8</b>	<b>11</b>	<b>14</b>
<b>Gamma-Laberi</b>	1-innovation	1-recommending on breeds (raw materials) 2-discussion on best products	1-improved quality
	2-planning	3-agreeing on production and supply quantities	2-reduced waste 3-enhanced continuous supply
	3-bilateral knowledge development	4-customer and supplier visiting each other and learning about product presentation and production systems	4-knowledge e.g. on product display 5-improved meat presentation 6-development of reference point to other suppliers

Larger customer-SME supplier relationship	Areas of collaboration	Value co-creation strategies	Value co-created
	4-marketing and promotion	Acknowledging each and co-promotion through: 5-website 6-media 7-newsletters 8-award winning competitions	7-reputation 8-reduced costs
	5-co-pricing	9-parties agreed and committed to price	9-fair prices 10-satisfaction 11-price stability
	6-communication /feedback	10-feedback on quality e.g. on condition of beef and lamb	1-improved quality 12-improved management of animals while transporting as well as at farm level and subsequently improved animal welfare
		11-continuous communication (e.g. weekly) on quantities to be supplied and other delivery issues	2-reduced waste 13-prompt deliveries
	7-Problem solving	12-smaller supplier working with larger customer in responding to what they (larger customer) want and working with them to produce what they ask for 13-SME responding in case of any call to solve larger customer's problem 14-larger customer endeavoured to sustain the SME and honoured promises	14-mutual satisfaction
	8-development of commensurate culture	15-quality orientation	1-improved quality 15-enhanced preferred supplier status

<b>Larger customer-SME supplier relationship</b>	<b>Areas of collaboration</b>	<b>Value co-creation strategies</b>	<b>Value co-created</b>
		16- greening culture: recycling	16-sustainability
	9-generic relationship	17- co-creation of a guaranteed market through mutual development to commitment of the contract -elimination of middlemen	17- build smaller supplier's confidence -better prices
Total	9	18	18
Delta-Spibe	1-innovation	1-design dependence and collaboration in innovation including assessment of processing capability through trials	1-perceived investment by smaller supplier 2-cost savings by larger customer 3-innovation 4-enhanced success of products 5-enhanced processing capability
	2-technological inter-linkage	2-quality management department	6-improved quality
		3-unique manufacturing system and mix of ingredients	7-continuous provision of business
	3-planning	4-exchange of forecast plan	8-smooth delivery of products
	4-co-evaluation	5-customer & supplier together doing evaluation e.g. on quality processes	9-enhanced food safety and hygiene 6-improved quality
	5-bilateral knowledge development	6-exchange visits	10-participation in pricing 3-enhanced product development 11-enhanced procurement process
		7-bilateral knowledge combination	4-development of more appealing products
	6-marketing and promotion	8-display of sample end products at each other's premises 9-planned website co-promotion 10-agreeing on products to be promoted	12-increased sales 13-enhanced availability of promotional products

<b>Larger customer-SME supplier relationship</b>	<b>Areas of collaboration</b>	<b>Value co-creation strategies</b>	<b>Value co-created</b>
	7-co-pricing	11-larger customer and smaller supplier participated in pricing	14-ensured competitive prices 15-fairness
	8-communication /feedback	6-frequent visits by larger customer and smaller supplier to each other's premises 12-almost daily telephone calls and this could be made by either party to check that everything was ok	16-enhanced forecasting 3- enhanced new product development 15-favourable pricing 17-ensured everything was ok 11-improved procurement 3- enhanced innovation
	9-problem-solving	13-sharing experiences: for instance Spibe solicited larger customer's opinion on contracting alternative delivery services provider	16-reduced costs in sourcing e.g. new delivery services provider recruitment cost 19-knowledge e.g. about the effectiveness of the provider
	10- development of commensurate culture	14- quality orientation	6-improved quality 20-enhanced preferred supplier status
	11- generic relationship	15- enhancing customer retention	21-enhanced customer retention 22-provision of business consistently
<b>Total</b>	<b>11</b>	<b>15</b>	<b>21</b>

## Annex 2: Value co-creation by collaborative areas

No.	Areas of collaboration	Relationship	Value co-creation strategies	Value co-created
1	Innovation	1-Alpha-Sowa	1-product development 2-concept evaluation 3-product packaging 4-product name determination	1-increased ranges of products 2-increased success of products 3-preferred supplier status
		1-Alpha-Sowa	4-recommending longer shelf-life products (design dependence)	4-reduced transaction cost 3-preferred supplier status 5-reduced waste
		2-Omega-Chesa	4-recommending small cheese	1-increased revenue
		3-Gamma-Laberi	5-recommending on breeds (raw materials) 1-discussion on best products	6-improved quality
		4-Delta-Spibe	6-design dependence and collaboration in innovation including processing capability assessment through trials	7-perceived investment by smaller supplier 4-cost savings by larger customer 1-innovation 2-enhanced success of products 8-enhanced processing capability
Total		4	6	8
2	Planning	1-Alpha-Sowa	1-co-planning e.g. in relation to new ideas/products prior to development & marketing	1-enhanced success of new products
		2-Omega-Chesa	2-business plan development	2-boosting sales through pre-agreed promotional products 3-guaranteed cash-flow 4-enhanced innovation

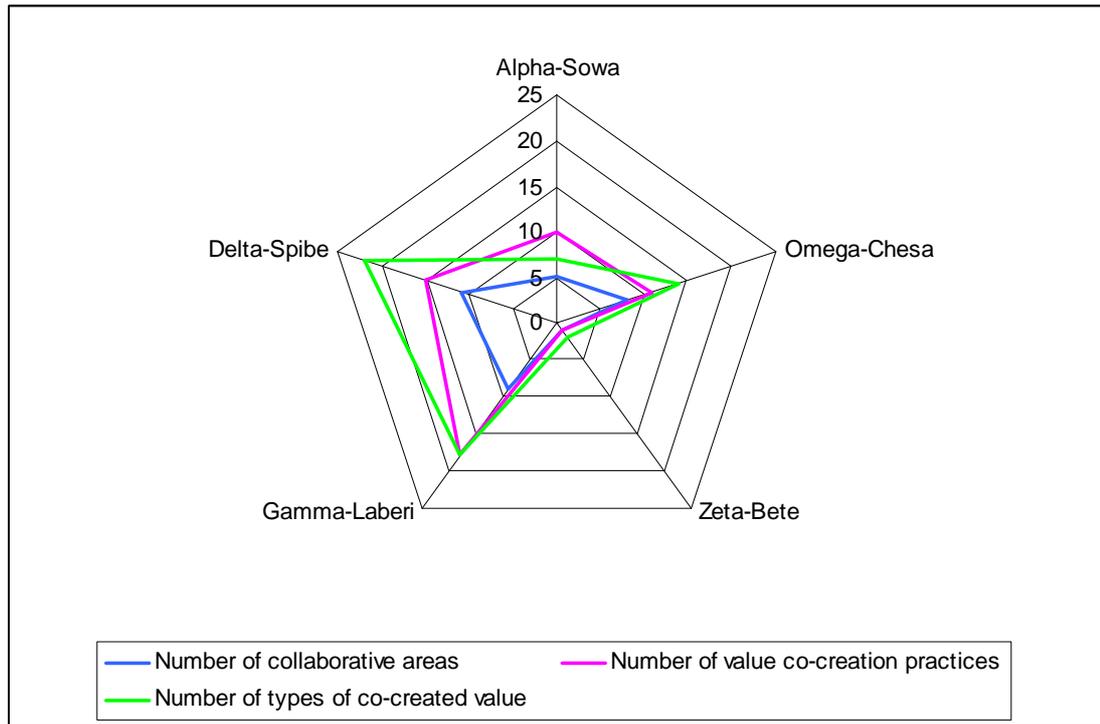
No.	Areas of collaboration	Relationship	Value co-creation strategies	Value co-created
		3-Gamma-Laberi	3-agreeing on production and supply quantities well ahead of time	5-reduced waste 6-enhanced continuous supply
		4-Delta-Spibe	4- exchange of forecast plan	7-smooth delivery of products
Total		4	4	7
3	Co-evaluation	1-Alpha-Sowa	1-co-evaluation of staff and factory	1-improved quality 2-preferred supplier status
		2-Delta-Spibe	2-customer & supplier together doing evaluation e.g. on quality processes	3-enhanced food safety and hygiene 1-improved quality
Total		2	2	3
4	Marketing and promotion	1-Alpha-Sowa	1-launching of new products	1-enhanced product success
		1-Alpha-Sowa	2-product distribution using larger customer's extensive networks	2-reduced distribution cost
		2-Omega-Chesa	3-product distribution using larger customer's lorries	2-reduced cost 3-improved capacity utilization of larger customers' lorries 4-reduced carbon emissions
		2-Omega-Chesa	4-co-participation during promotion	5-increased sales 2-reduced costs
		3-Gamma-Laberi	Acknowledging each other and co-promotion through: 5-website 6-media 7-newsletters 8-award winning competitions	6-reputation 2-reduced costs
		4-Delta-Spibe	9-display of sample end products at each other's premises 5-planned website co-promotion 10-agreeing on products to be promoted	5-increased sales 7-enhanced availability of promotional products
Total		4	10	7
5	Co-pricing	1-Alpha-Sowa	1-larger customer helped smaller supplier	1-fairness

No.	Areas of collaboration	Relationship	Value co-creation strategies	Value co-created
			in pricing	
		2-Gamma-Laberi	2-parties agreed and committed to price	1-fair prices 2-satisfaction 3-price stability
		3-Delta-Spibe	1-larger customer and smaller supplier participated in pricing	4-ensured competitive prices 1-fairness
Total		3	2	4
6	Bilateral development of knowledge and skills	1-Zeta-Bete	1-supplier visits to larger customer and sensitized on quality	1-improved quality 2-enhanced understanding of customer needs
		2-Omega-Chesa	2-internship	3-understanding of consumer needs 2-understanding of customer needs 4-enhanced innovation
		2-Omega-Chesa	3-rounds by larger customer at smaller suppliers premises	5-familiarization with supplier's systems and loyalty building
		3-Gamma-Laberi	3-customer and supplier visiting each other and learning about product presentation and production systems	6-knowledge e.g. on product display 7-improved meat presentation 8-development of reference point to other suppliers
		4-Delta-Spibe	3-exchange visits	9-participation in pricing 4-enhanced product development 10-enhanced procurement process
		4-Delta-Spibe	4-bilateral knowledge combination	11-development of more appealing products
Total		4	4	11
7	CSR	1-Omega-Chesa	1-sponsoring school children farm-trips	1-reputation
Total		1	1	1
8	Technological inter-linkage	1-Omega-Chesa	1-EDI	1-higher sales 2-continuous supply

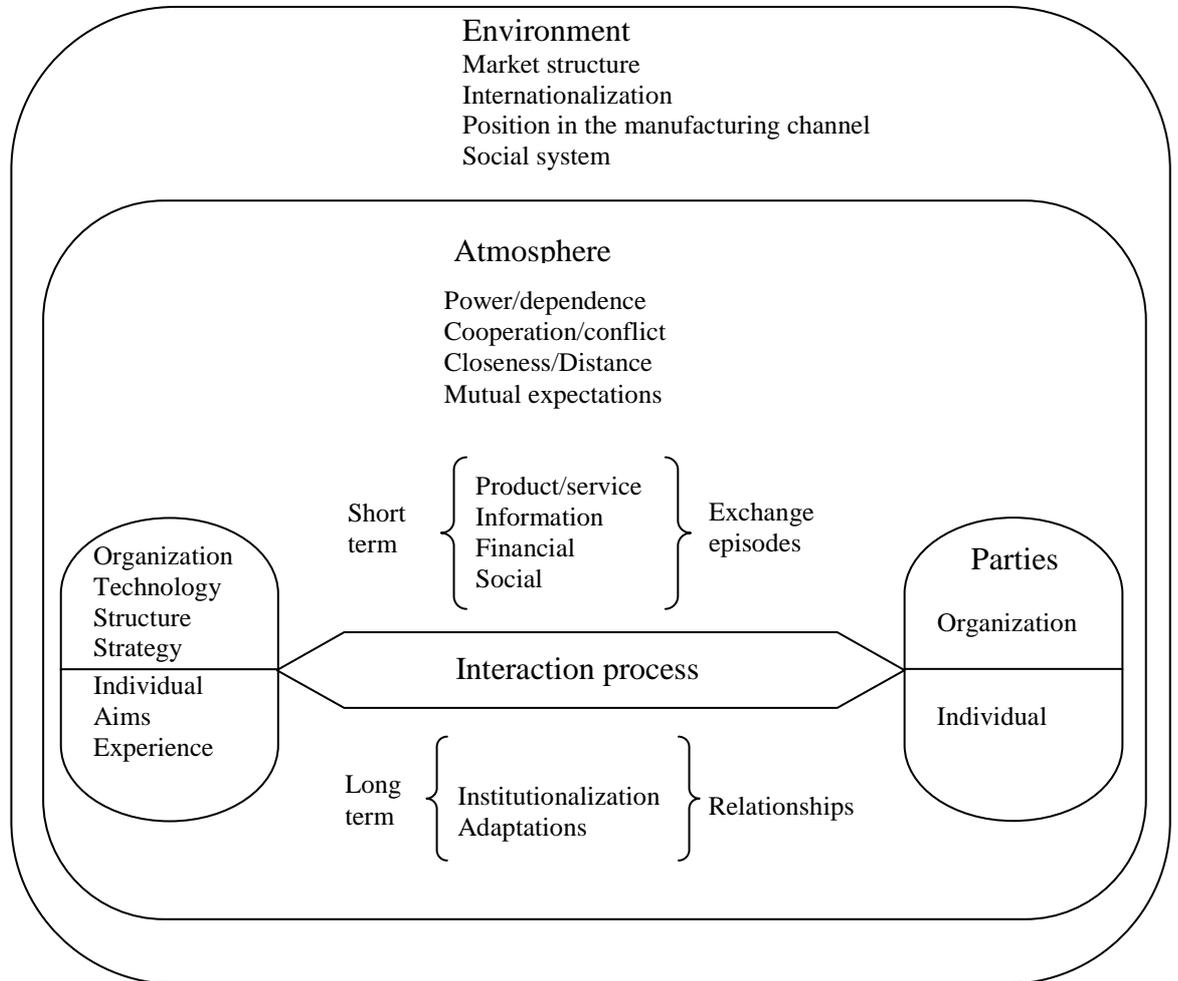
No.	Areas of collaboration	Relationship	Value co-creation strategies	Value co-created
		2-Delta-Spibe	2-quality management department	3-improved quality
		2-Delta-Spibe	3-unique manufacturing system and mix of ingredients	4-continuous provision of business
Total		2	3	4
9	Communication /feedback	1-Omega-Chesa	1-two-way communication	1-enhanced understanding of customer's wants
		2-Gamma-Laberi	2-feedback on quality e.g. on condition of beef and lamb	2-improved quality 3-improved management of animals while transporting as well as at farm level and subsequently improved animal welfare
		2-Gamma-Laberi	3-continuous communication (e.g. weekly) on quantities to be supplied and other delivery issues	4-reduced waste 5-prompt deliveries
		3-Delta-Spibe	4-frequent visits by larger customer and smaller supplier to each other's premises 5-almost daily telephone calls and this could be made by either party to check that everything was ok	6-enhanced forecasting 7-enhanced new product development 8-favourable pricing 9-ensured everything was ok 10-improved procurement 7-enhanced innovation
Total		3	5	10
10	Problem-solving	1-Gamma-Laberi	1-smaller supplier working with larger customer in responding to what they (larger customer) want and working with them to produce what they ask for 2-SME responding in case of any call to solve larger customer's problem 3-larger customer endeavoured to sustain the SME and honoured promises	1-mutual satisfaction
		2-Delta-Spibe	4- sharing experiences: for instance Spibe	2-reduced costs in sourcing e.g. new

No.	Areas of collaboration	Relationship	Value co-creation strategies	Value co-created
			solicited larger customer's opinion on contracting alternative delivery services provider	delivery services provider recruitment cost 3-knowledge e.g. about the effectiveness of the provider
Total		2	4	3
11	Development of commensurate culture	1-Gamma-Laberi	1-quality orientation	1-improved quality 2-enhanced preferred supplier status
		1-Gamma-Laberi	2-greening culture: recycling	3-sustainability
		2-Delta-Spibe	1- quality orientation	1-improved quality 2-enhanced preferred supplier status
		3-Omega-Chesa	1- quality orientation	1-improved quality 2-enhanced preferred supplier status
		3-Omega-Chesa	2-greening: closed-loop systems & recycling	3-sustainability
Total		3	2	3
12	Generic relationship	1-Gamma-Laberi	1-co-creation of a guaranteed market through mutual development to commitment of the contract 2-Elimination of middlemen	1-build smaller supplier's confidence 2-better prices
		2-Zeta-Bete 3-Delta-Spibe	3- enhancing customer retention and general relationship	3-enhanced customer retention 4-provision of business consistently
Total		3	3	4

**Annex 3: Quasi-statistics on value co-creation across the participating relationships of larger customers and their smaller suppliers of organic food**

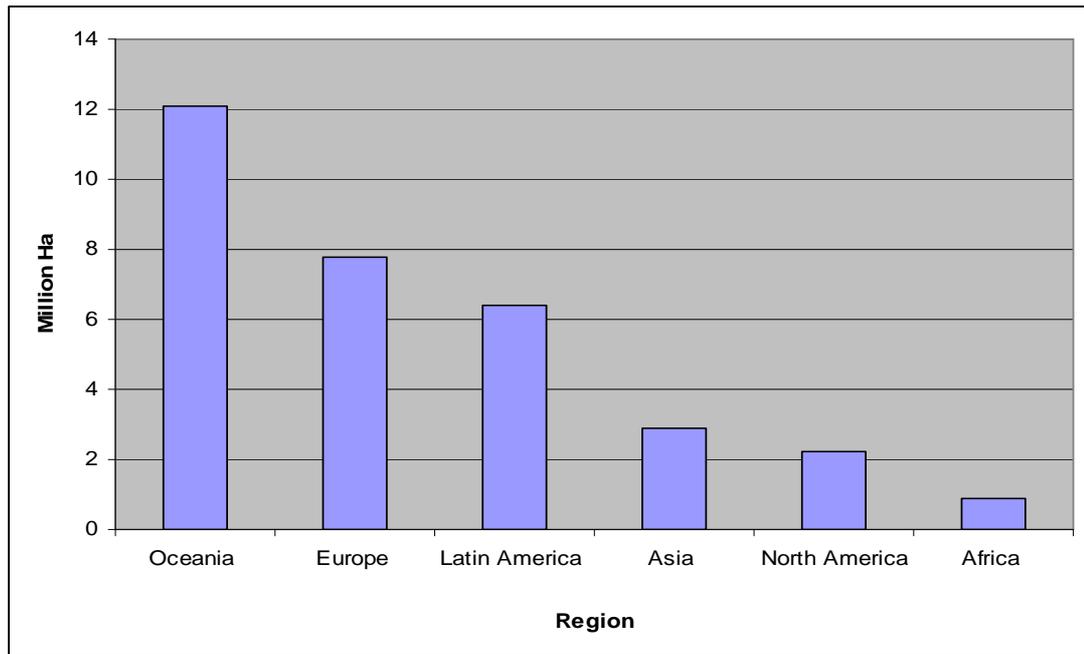


**Annex 4: The IMP interaction model**



Source: Håkansson (1982)

**Annex 5: Statistics on hectarage on organic agriculture in different regions in the world**



Source: IFOAM (2009a)

## **Annex 6: Sample transcript: Gamma-Laberi relationship**

Q: Generally, I think we will just go through these questions.

A: Ok

Q: For instance if you could just give me a brief background of your firm.

A: Ok. I farm here with my husband Y who is away. We have been organic farmers for 22 years and we have been farming this farm for 16 years. It is 234 hectares. It is a rented farm tenancy owned by the National Trust. And we converted it to organic when we first came. It is actually two separate farms but we farm it all as one unit. We produce organic beef and lamb and cereals.

Q: So you have cereals too?

A: Yes.

Q: Organic beef lamb and?

A: Cereals yah

Q: So it's like actually you have answered the second question which is about the main products that you have. Where do you normally sell them?

A: Everything we produce we sell to a big farm shop in Devon called Gamma Farm Foods which is also an established organic business and we have sold to them for 18 years. We have developed our business ah, our business have grown as their business have grown so really we work very closely with them and originally were probably the only supplier of that business. And now we are one of many suppliers because it has grown so much, they are now five shops.

Q: So you were the first farm to sell to them?

A: Yes we were the first livestock farm.

Q: So you sell to them both beef, lamb and even the cereals?

A: Beef and lamb, but the cereals are mostly fed to our own animals and if we have a bit of surplus we would sell them to other organic farms in Cornwall.

Q: How do you consider your farm as having benefited from this Gamma?

A: It is an absolutely essential relationship. Well it is totally important to us and we have always worked with them responding to what they want and very much working with them to produce what they ask for. So the relationship has grown over 18 years. And as they have changed we have made sure that we always produce what they want.

Q: You are saying they are based in?

A: They are based in Totnes in Devon

Q: How are they structured? Do they have branches all over the UK? Or how are they? How big are they?

A: They were originally a farm as well. And they are three brothers. One brother runs a very big vegetable company called Gamma organic vegetables. Very very big, which if you look it up its one of the biggest in the country. And they are all over the country and they do vegetable boxes and deliver and they have got franchises all over the country. Then there is the farm shop who we supply, run by the other brother and they have five shops all in Devon and also do some mail order. And then there is one more brother who runs a dairy farm and pigs and he produces milk. So they are three separate businesses but they all work together.

Q: Under the same name?

A: They are all called Gamma.

Q: Ok. Now in which areas do you collaborate? Because you are saying you have a relationship for about 18 years.

A: We collaborate in that we have worked to produce animals all the year round. So one of the key things is to make sure that we can deliver to them every week a small number

of animals and with both cattle and the sheep we have worked quite hard to do that and we manage it quite carefully. Whereas most farmers want to produce all their lambs and sell them all in large batches we sell about 12 lambs a week and may be 5 cattle every week for of much of the year as we can. So we have adjusted our systems to make sure that we can have continuous output.

Q: Are there times when you say you want to deliver to them but they say that they have enough from other suppliers?

A: Ah, sometimes but very rarely because they plan and we plan ahead with them and say we will have 100 cattle in this next nine months and therefore we need to sell you so many a month. And mostly that works pretty well.

Q: If you may just elaborate a little bit how this plan happens such that they are involved and you are involved. What is the process like in the planning?

A: Basically a lot of conversations between the main butcher who does all the buying.

Q: One of the big brothers now?

A: No is a big company now, an employee. So we would speak every week but also at the beginning of the season we would say we know we will have 500 lambs, we will have 100 cattle, so that we need to know that you will take those, and he may be have, I don't know, 10 suppliers. He will know he will have however have many cattle to buy and he will plan it and make sure that he takes them from people regularly according to what suits their farm.

Q: So those communications are normally by email or telephone or?

A: Ah, email and telephone, very personal, very personal.

Q: Or you go there also.

A: Yes yes. we deliver anyway. We have our own lorry now so we will be taking stock regularly. But mostly by phone and email.

Q: And then do they come here sometimes?

A: Yah. The butcher we would have him come down once in a while for a farm visit to come and show him what is going on. But they are also, to be honest they are friends, we have known them for very long so that it is very personal.

Q: When you say that they will know how many animals you will take per season, per season here is for one year or is how long? Because these are not crops. I think animals are there throughout.

A: Well we have at the moment about 120 cows, so each of those will have one calf every year and we also buy in some other young cattle from another organic farm in Cornwall.

Q: Of the same age?

A: Yes. So we will know how many cows are calving. So we know pretty much. And with our sheep we will know we have about 350 breeding ewes and we will know we will have about 1.5 lambs per year overall so we will know we will have about 600 lambs.

Q: And do you have systems that are interlinked with theirs?

A: Like what?

Q: For instance some people say they may access systems for Gamma.

A: No we don't.

Q: And then can they access yours?

A: No, we don't do that. Probably we are too small for that. It is just by personal means

Q: And you sell them live animals not slaughtered?

A: We sell them slaughtered.

Q: You do the slaughtering?

A: We take them to the abattoir, they are slaughtered and then we invoice them on the weight of the slaughtered animals.

Q: Many companies talk about various products that they take to their customers, I am wondering if you have different products in beef and lamb or because a beef is a beef you consider that to be one product? Or are there different grades?

A: I would say it's just one product and we basically sell whole animals, slaughtered animals and then do lot of butchering and they have a very wide range of products that they then make with that.

Q: Ok

A: It's very simple our business, very simple

Q: So there is not grading system at your level.

A: There is grading, there is grading system

Q: Like in beef, which grades do you normally produce.

A: They have their own grading system. Most of what we would produce would "A" grade.

Q: A grade?

A: A, out of probably A, B, C. I think they just have three grades and then fat classes within that. So we are producing top quality.

Q: And that applies also to lamb?

A: Yes.

Q: Are there times they may tell you to produce a different grade that is not here?

A: Ah, we would talk about the breeds of cattle, and there are some that they prefer to others. So we would try and do that but we cannot always produce exactly what they want because we buy some from another farmer and he has different breeds that are not quite as good because he comes from further west where it is much harder country.

Q: So there are times they propose to you the breeds to keep?

A: Yes we get feedback. Feedback of quality

Q: What I am saying is, there are some customers who find that if their supplier do not have something, they just go to a different supplier. And there are others who find that my supplier does not have this product, let me advise him to produce it for me instead of going to another supplier. So am not sure how they do it.

A: They will do that. They will do that.

Q: They normally advise you?

A: Their commitment is very much to us as a farmer. And so we will then discuss together what the best product is and we would make sure that we are giving them what they want. Yes they would ask us for something and we would do it.

Q: So the relationship is very healthy then.

A: Yes and it is very committed.

Q: And how do you deliver them? How do you package?

A: We deliver to the abattoir. We have a lorry ourselves. And then they collect from the abattoir.

Q: Gamma collects.

A: They collect and they pay the slaughtering charges.

Q: Within your farm, is there anything that you have invested together?

A: Ah, a...m

Q: Any structure that may be you have put up and you had an input from them?

A: No.

Q: Basically you have done all the structures?

A: Yes

Q: Ok. And research. Are you involved in research for instance to know which breeds are better.

A: Ah, we know what we can produce on this farm, it is a mixture really of the type of the farm. With organic, there is a type of animals that are suited with organic system. So over time we have worked out what suits us best in terms of farming and also what is quality for our customers.

Q: I am also wondering if there are times you need to do something or may be you do not have knowledge or information on how to go about it, then may be you consulted Gamma and then they probably advised them on how to go about it. Do you think you have gained in term of knowledge from them?

A: I think we have gained a lot in terms of understanding of butchering and it's the way that meat must be presented to be good quality. And I think we have also learnt from their marketing because they have very high emphasis on quality and local and they have got a particular way and reputation. So we have learnt that and also we have benefited from that because they do a lot of publicity about their suppliers for instance. So on their website they would have stories about their suppliers which is good for both of us.

Q: But where you have said that you have learnt how this beef or lamb is presented, I am not sure if this applies to you because you have said you, you just take live animals to the abattoir then from there they come and collect.

A: Yes, they do

Q: So presentation of the meat, how is that beneficial to you?

A: It is beneficial to us because we also sell a little bit from here. We sell some at home.

Q: From your shop?

A: Yah

Q: Ok. I agree.

A: And also it is useful to get feedback because you know ah it helps you manage animals as well as possible to prevent stress particularly. So if we get feedback that a certain

animal was not good, we might understand why that was. It might have been upset in the lorry, you know there are lot of things that can affect.

Q: Ok.

A: But also we feed different groups of animals slightly differently, so it is also useful to know which ones have been the best because on the two farms they are slightly different.

Q: What about in terms of training. Are there times they recommend the sort of training that may be the people here need to undergo?

A: Ah, no. I don't think so. But I think to be fair, we are very experienced organic farmers so is more likely we will be giving training than eh, because we have eh, we do quite a lot of education here and farmwalks and demonstration ourselves.

Q: But not really to them?

A: No

Q: Have you trained them at all?

A: No I don't think so.

Q: So you train other farms?

A: Yah

Q: Probably if I may take you back where you said you have learnt from them may be the presentation of meat. What about them. Do you think they have learnt anything from you or your company?

A: Yes definitely. I think they have learnt that ah, they have learnt more about farming systems and quality.

Q: But do they also produce? I am wondering how farming systems will benefit them.

A: ah, they would use us as an example of good practice for other newer suppliers. Because we are very established, a lot of organic suppliers are much newer, and they

would use this as an example they could then send other farmers to get some experience or training or advice from us.

Q: Ok. In terms of planning, you said you plan together.

A:Yah

Q: What about in their planning, their objectives and all that? Do you think your company have an input in their planning? Not them now having impact on your planning. But you influencing their planning?

A: Ah, I think we used to, but now they are so big, I am not sure we do any more because they have grown so much. In the early days, yes I think we did, because for instance we used to have certain number of core use or old use, ah old sheep that need to be used and they would then plan to make ready meals like curries and things like that because they knew they had to buy those sheep from us, and they would then. But now they are so big, they can't be quite flexible because they have grown massively.

Q: I am wondering how you have managed to keep them because you have been in a relationship for about 18 years. That means there must be something very special you do.

A: Ah, we work very hard to be very helpful and the owner of the business is also very loyal. So I think he has very committed relationships with suppliers and he likes to have long-term relationships. I think that is partly to do with it is a very ethical business. So I think we are very lucky actually.

Q: But are there contracts that you sign?

A: No.

Q: No formal contracts?

A: No

Q: Ok

A: It's scarely?

Q: Yah. Because I am wondering how you have kept them such they really want to source from you and not any other company. It's like they have always given you preference.

A: Pretty much. May be that is because we have been there from the start. But we never ah, you know we are always concerned about that and we work hard to make sure we are very responsive to their needs.

Q: And that brings me to how you develop your ethos or organisational culture or your values. Do you think they have influenced you along that line?

A: I think both ourselves and Gamma have the same sort of values. One about organic principles, ethical trading, being very fair and honest in our trading and very open. So they always offer a very fair price. And sometimes that means that we get paid a bit more than the average. And sometimes we even get paid a little bit less. But we agree we are going to be paid at certain level and then we stick by that. And that requires a lot of trust, a lot of trust.

Q: It is amazing the way you say that at times you are paid higher than others and this does not necessarily mean the others did not have animals to take to them.

A: No

Q: So they still prefer to source from you even if they are paying you higher?

A: Because they commit.

Q: Because they commit?

A: Yes.

Q: But not necessarily in writing?

A: That is right

Q: Ok

A: It is unusual. It is an unusual situation.

Q: But I think it is also because you are able to supply them throughout the year not like others who may come and go?

A: Yes we are totally reliable. And whenever they ring up and say we have got a problem, we will always sort it out.

Q: I am also tempted to think if they find a new supplier who will deliver to them at a very low price and then take to them and goes. And you deliver to them regularly and you will continue, they would rather buy from you and keep you rather than go to this other one and not buy your own animals and then may be you get another customer?

A: Yah.

Q: Do you think that plays a part.

A: I think long term relationships work well for small businesses and I think particularly in farming you do see more of it than may be in other businesses. But also within the organic sector particularly there is another level I think of sort of ethical behaviour. There are moments when it is tricky you know, but basically that is how we try and trade.

Q: But I think just like the way you are interested in making sure you meet their requirements, they also seem to be very interested or concerned in making sure that they are able to sustain you or to honour whatever they promised?

A: Yes I think they do.

Q: And they would not like to hurt?

A: That is right. I mean things may go horribly wrong because times are very difficult now but I think 'the owner', as a business he has got a whole range of local suppliers around him and he works very hard to create that economy.

Q: Ok. So in terms of promoting the product, one you said there are times they put your information in their website and all that.

A: And newsletter.

Q: Ok. Are there other ways whereby you promote your products together?

A: Yes sometimes we enter competitions, ah food competitions, we have tried various media things ah press things where we might both be involved in an article for something. That is pretty much it really.

Q: Food competitions are like? What do you mean food competitions?

A: They are organic. The Soil Association run organic food awards which you can enter. There would be lot of categories say best lamb, best beef, best cheese or whatever. That is an annual competition so we might do that for instance.

Q: I wonder how you do it together in competition because I would think you can do that alone.

A: Ah, they do the butchery and we would always make sure that we acknowledge the other.

Q: Ok. So the way you distribute yours is just to take to the abattoir then they distribute from there?

A: Yah

Q: You are not involved in distribution of the real product.

A: No. apart from a little bit here, we just sell a little bit of meat from the farm gate.

Q: Do you deliver to those who buy?

A: Ah, we just very very informally deliver a little bit of meat locally to the village but not very much. It is insignificant really.

Q: Ok.

A: And we have a tea room as well and they also sell meat from the tea room in summer to campers and holiday makers.

Q: I think we are now in number seven which is about the various collaborative activities that you have had together and how you think it has benefited your company. You

highlighted several areas that you collaborate together and I was wondering how it has helped your company.

A: Ah ah

Q: May be there are some areas where you find you could have incurred some costs but because of that collaboration you had the cost reduced. Such things.

A: Not really no. I cannot think of anything else apart from what I have already said. Ah, they do our butchering so we get back meat here to sell. They do the butchery for us which is very good for us because they are very good butchers, so we get back packed meat to sell.

Q: Your own animals now?

A: Yes.

Q: It's not that you buy from them?

A: No. They butcher and give us back some of our own to sell here.

Q: At a cost or they do that freely?

A: At a cost, at cost.

Q: Ok.

A: Yah.

Q: That means that is not very beneficial because they are gaining because you are paying them.

A: Well, it's at cost rather than at profit. In fact it's quite annoying for them that do it.

Q: I am wondering if they do it for other suppliers.

A: They don't.

Q: You the only one

A: Yes.

Q: Oh, then that is the benefit.

A: It is a benefit. Yah, definitely a benefit.

Q: And this publicity, if they are not putting for instance your information in their newsletter or in their website, do you think you would be doing this on your own? Or by doing that would they be saving you some costs?

A: Yes I think so. Probably we get some advertising benefits from that. But it is fairly small as I said but yes. It is certainly good for our reputation, I think. They have a very good reputation and so we benefit from that as well.

Q: Exactly

A: Definitely, definitely

Q: And in terms of increased revenue. You gave an example for instance where they give you a higher price than others.

A: Yes they commit to a price for the whole year. And they also pay the cost of slaughtering. So we get a very good price because we don't get very many deductions.

Q: So for other suppliers may be they incur the cost of slaughtering?

A: Yah. Some would. I think they pay slaughtering for everyone who uses the abattoir in Devon. But compared with other businesses, they absorb some of the costs of slaughtering and processing in a way that in other companies you would not find. So I think they are quite generous.

Q: Is that abattoir theirs?

A: No, no, but again that is another kind of thing they collaborate, they collaborate in that abattoir as well.

Q: In terms of gaining some competences, I think you highlighted that whereby you have gained some competences from them.

A: Yah.

Q: And may be they also have gained from you kind of?

A: Yes.

Q: Like presentation and all that?

A: Yah.

Q: In terms of risk, are there some risks that you feel you share because of being in a relationship?

A: Ah

Q: May be if the relationship was not there are some risk you would get but.

A: Aaam (quiet).

Q: May be you are going to come across them as we go along.

A: Yah.

Q: So this collaboration, do you think it has boosted innovation at all? That is in connection with question 8 about innovation.

A: Aam

Q: May be in terms of coming up with new products, may be in terms of changing some processes that you were doing differently before but because of the relationship they advised and you were able to change. May be changing your organisational structure or.

A: Ah, not particularly. We changed our farming pattern, particularly our lambing. We have changed our lambing to ah, we lamb very late, so that we can supply further through the year directly because we wanted to be supplying at slightly different season to most of other farmers. And we also produce ah, we sell them very heavy lambs, bigger older lambs which they do mail order meat boxes. Through the meat boxes that they sell they can sell a bigger range of lamb than normal supermarket specifications for instance. They can sell much bigger animals because they cut them differently. So that has been beneficial as well because obviously if you sell a heavier animal you get more money. So

we are very lucky in that because most farmers would sell a lamb which is 18kilos while we might sell one at 24kilos.

Q: Because it has taken longer in you farm?

A: Yes, because they are bigger. We can grow them bigger because they can sell them whereas on the supermarket shelf you will never see a big lamb like that.

Q: What makes them bigger. Is it because they are taking more time in your farm?

A: Yah. They are older and if you grow them more slowly, they can grow to be a bigger size without being fat.

Q: Ok

A: Do you eat meat?

Q: Yah

A: Ah, I mean its things like ah, in a supermarket because people buy certain sizes of joints for instance most people buy a leg of lamb that is only this big because it has to cost not too much money. But the way they do it is that they might grow some much bigger and then cut it into pieces and sell it in slightly different ways. So, that is innovation for us because we are getting the benefit, we make much more money on our sheep because of that.

Q: Ok. Sure.

A: Yah, so that is a good example.

Q: Ok. In terms of management practices, I think that is also related with that.

A: Yah.

Q: Have you been having your shop for all the 18 years?

A: Our own shop or do you mean Gamma?

Q: Yours. Is it a new one?

A: Ah its just freezers. We just sell frozen meat. But we also have a little tea rooms which we have had since 2001, just a little café.

Q: This other question is about the organic sector in general, not in particular to your farm.

A: Ok

Q: For instance in your own experience or opinion which ones can you say are the changes that have happened over time? Now that you have been in the organic sector for 18 years, how was it those days, how have it changed over time?

A: Well, it's completely transformed. When we started in 1996, 22 years ago we started organic, there was no premium, no premium or anything. There was no market really, there was no market. And so we have been doing it since the very very early days when we used to grow vegetables and just sell them to the local shop, you know we used to take them in our van and there was no ah, there was nothing at all. So I think we have seen the whole organic sector develop.

Q: You were taking to an open market those days?

A: Yah, in the 1980s, and just little stores and shops, you know just tiny. And we were organic then because we believed that is right thing to do, not because we could make more money. Actually we could make less money. So we have seen a premium develop for organic food probably since the late 80s, early 90s that premium began to develop when supermarkets began to take organic food. And even when we came to this farm, we came here in 1992, there still wasn't really any developed market and all out neighbours thought we were very strange and unusual. Well as of now, in Cornwall, there are many many organic farms and people have begun to see it as a way to actually make more money.

Q: What about in regard to Gamma, when you started with them, what were the requirements then and has this changed over time?

A: They were very very small, very basic, ah one small shop, very chaotic, probably about five people worked there. And again people would just deliver things in their own van you know very very simple but it has become a nationally known brand now. Again in pretty much same sort of time scale probably mid 80s, since mid 80s they started.

Q: What about in terms of expectations from you, what they expected those days are they the same things or they have changed or become more stringent in their requirements or?

A: Yes, they have become more professional and more stringent in their requirements but the values have stayed very much the same actually. The values are the same you know the same principles of loyal relationships. I think quite similar. But their sophistication of their packaging and their presentation everything has hiyyuu (gone up)

Q: Those are the things I am interested in, like their packaging their presentation, all those have changed?

A: Everything has changed, yes. From very very basic.

Q: The way they package in their own farm but not the way you people package for them?

A: I mean everything now is ah they brand everything well.

Q: What about in terms of quantities? The quantities they needed those days from you. Do they need more these days than those days?

A: Yes. I have no idea how much the turnover has changed, but yes I mean probably 200 times what it used to be. I don't know, something huge. It has gone from a very small business to a multi-million pound business probably in terms of turnover.

Q: I am saying what they require from this company. The quantity they require you to deliver to them per year. Or it all depends with what you have, that is what they take? For

instance do they propose for instance you try and give us 1000 animals this year or 100 or?

A: They encouraged us to expand. In the early days whatever we had they would have but it was very very small but yes, certainly they gave us the confidence to expand our farm for sure. As they grew, we grew.

Q: They also require you to supply them continuously?

A: Yes, yes.

Q: Just the way you were saying you do it differently because you are able to supply them continuously throughout.

A: Yes, we developed our supply as they grew we grew and sort of synchronised what we did.

Q: And in terms of quality of lamb or beef, did they mind so much about quality those days compared with how they are today?

A: No.

Q: The quality has been the same?

A: The quality has improved.

Q: It has improved?

A: Yes as they have become more professional, they have become more specific about the quality, that is for sure and many organic farmers have had to improve their quality a lot.

Q: So for yourself, how did you improve on quality?

A: To be honest, on this answer I think we have always produced quality. We have always decided from the beginning that we will produce quality but we probably just got the whole farm is much more efficient now than it used to be. We don't work so hard, but is just easier because we have got better ways of doing it and our machinery is better and our farming system is better, but we have always produced very high quality stock.

Q: This continuous supply though you had mentioned about it, you said one way it has happened is by buying from others the young ones?

A: Yes we buy. We have got capacity for a bit more than we produce ourselves. So we have a committed contract with another farmer and every year we buy 20 or 30 of his cattle and we guarantee to buy them. He knows that we will buy them. We have always said to him we want you to produce these sort of cattle because we want to sell to Gamma. So again that is another chain of going backward.

Q: So that is one way of ensuring that there is continuous supply. Is there another strategy you have adopted?

A: That is just for us really, just to make sure that we are producing as much as we can within this farm. Within Gamma itself I think they have a cooperative of vegetable suppliers and things like that but that is outside mine.

Q: I am now being specific to your farm. The way your farm is able to supply Gamma continuously. So one way of achieving this is for instance contracting that particular farmer.

A: Yes.

Q: Such that in addition from producing here, you are getting more from outside.

A: That is right.

Q: Is there any other strategy that you have adopted to make sure you supply continuously to Gamma?

A: No it's just that. It is so simple really. It is not complicated for us.

Q: I am wondering like the breeding system, is there any way you manage so that there are animals expected at any time?

A: Ah, we split our calving a bit, ah we do split our calving. We do have two separate times when we calve. Mostly in the spring but some in the summer, so animals are being

born. And also as I have said with lambing, we changed our lambing system. We used to lamb in February and now we lamb in May because it works better in terms of selling period.

Q: So that means there is one period when you do not sell so much?

A: Yah,

Q: Because you leave that to other suppliers?

A: That is right.

Q: You did not want to compete with them?

A: Yah

Q: Because I would think you could still continue to supply even in that period and you supply also in off-peak period?

A: It's partly because we know that if we lamb very early, it is more hard work. The sheep and lambing when it is very cold and often you get more problems when lamb inside, and what we wanted to do is lamb everything outside with better weather which is a lower cost system. So we are reducing our cost so that we can make more money and also it is a simpler system fitted in so that we didn't have to use our buildings for sheep so then we could have more cows. So we could produce more cows by having all our sheep outside all the time and that therefore improves the output of our farm because we have increased the number of cattle.

Q: So the cows are usually indoors?

A: The cows are indoors now, not all of them but as many as possible.

Q: May be if you have time we will have a view if you don't mind.

A: Sure. It is so cold and we have terrible problems at the moment, everything has been frozen and the water, there has been no water so it has been rather difficult, very murky.

Q: Sorry. It happens when the weather is like this. The next number, what initiatives have your firm undertaken in response to the various market changes or in response to the requirements of the main customer?

A: Ah, I think I have actually said everything that we do. It is really quite simple.

Q: Which have been the sources of support by your farm in developing and implementing the various changes, that is number 11?

A: Ah, what do you mean by that?

Q: Mainly it's for instance to be able to supply Gamma continuously, may be those lambing may be there are some capital that are needed or some facilities that are needed that you had to put in place.

A: Ah we have invested in buildings. We have got more buildings as we expanded the farm, we also took on ah, we started with one farm and we took on another farm.

Q: That was because demand for organic products was becoming high?

A: Yes.

Q: So you wanted to adjust to respond to this demand.

A: Yes, and we just bought some land to expand again. So basically the farm has gone from 300 acres to now 650. So we have more than doubled the farm. Which is a lot of investment.

Q: You mentioned that farm was 234 hectares?

A: Yes 234 hectares, then we just buying some land now another 80 acres.

Q: So you haven't bought?

A: Yes we are just buying right now.

Q: So I was wondering where this support is coming from, that is what the question is asking about.

A: Ah, that is all our own capital. We have just invested.

Q: So that is like ploughing back your profits?

A: Yes. Which shows you that the farm has been very profitable because it has more than doubled.

Q: In terms of buildings, again is your own money?

A: Some is our own money. Most of the buildings are put up by National Trust. But when we took on the new farm, we had to invest money to persuade them to put up the building. So you have to put in capital and yourself and you have to put in all ah, they put on the structure then you have to put in all the internal fittings of the building.

Q: National Trust their main objective is to support?

A: The National Trust as an organisation is about conservation of the land. So they own most of the land particularly because the coast is very important, so they own most of the farms. But they want that farmers who use them to support their objectives of conservation and they also need to make money from the farms. We pay a lot of rent. So we pay commercial rent of the farm.

Q: So they contributed towards putting up some of the buildings?

A: Yah.

Q: Why I am asking this is to be able to know if there is any way that Gamma has contributed towards your infrastructure.

A: Ah, no.

Q: If you have had any support from Gamma, from you main customer.

A: No.

Q: Because here you have mentioned about National Trust, ploughing back your profits but you have not mentioned Gamma.

A: No. we haven't except we have had what you would call risk sharing. The point is we have had commitment of the contract so we always know that they will buy what we can supply. So that has given us some confidence.

Q: Ok.

A: Yah, yah, just thinking about that risk sharing thing.

Q: So you can say that one thing that has enabled you to be able to undertake the various changes is like the profits that you have already made?

A: Yah.

Q: And may be the funding from this National Trust. And they did that because you had your own money, you had also to invest?

A: They did that because they wanted us to take on a second farm, they wanted us to be tenants. So we made quite a hard deal with them that we needed that building put up before we were going to take on the second farm.

Q: So this addition of this particular farm, the development of this building, do you think the various changes you have made has influenced your relationship with Gamma?

A: Ah, it just allowed us to expand so that we can grow the business. Yes it has been good for us because we have become more profitable. So we spread our costs over a bigger area and have become more efficient.

Q: And I think it is also making your company to even be more attractive to them?

A: Yes.

Q: Because you can be able to supply them with more animals and all that?

A: Yes and also am thinking about ah we bought a lorry so that we could be very flexible with our transport. So, we did that specifically ah, we bought our own lorry which is quite unusual again for a farm. So we know that every week we can always take animals, we do not have to rely on a haulier. So that is another investment actually.

Q: Again from your own profits?

A: Yah.

Q: So by buying that lorry I expect that you had to eliminate that haulier.

A: Yes.

Q: He was like a broker?

A: Yes.

Q: You used to pay for those services?

A: Yes.

Q: Now you are not paying?

A: Yes.

Q: And the relationship with Gamma, do you think it has led to elimination of some brokers who could play a part in between?

A: Yes.

Q: For instance?

A: Well, because it is a direct relationship, we don't for instance belong to a cooperative which lots of other producers might belong to a cooperative and have their marketing done through that. But we always have done it directly. That is good for us because we get a better price but is not necessarily so good for some of the other marketing structures in the area possibly. And you are right the haulier, we do our own.

Q: And this cooperative bit, sometimes it sounds tricky because it is said that when people do it together they are able to share the cost but when you do it alone you are likely to incur all these costs. I don't know if this applies in this context.

A: I think at the moment because we have this direct relationship with Gamma its ok, but if this would change, if they went bust which of course they could, life is very very

difficult, then we would join a cooperative and work in a group. We would have to change what we do.

Q: This other question is inter-related. It's number 16, it is asking, what has made your firm more successful than other firms or competitors? Because I think when you started there were other organic farms but after some years they were gone, yours have been in business for all these years. What can you say that has made you more successful compared with other companies?

A: Ah, I think ah it's difficult to say this without sounding overconfident. I think we are very clever of what we do. Well, I think I come from a different ah, Mark who is not here unfortunately, he comes from a farming background, I come from a communications background, I am not a farmer originally. I'm trained as a journalist and I have very good communication skills so I have always been very good at presenting what we do to other people which helps a lot in negotiations and reputation, I have done a lot of media work. So all that is good. The other side of it is that we keep our costs too low on the side of economic side the business is very tight in terms of keeping costs low. So it is a very high performing business. We do this farm business survey with Exeter University and from the results of 2007, our farm is the top performing farm in the survey.

Q: Eh, it terms of cost minimization or generally?

A: Ah generally ah in incomes, in profits. So in the survey we come out very very high. So that is interesting.

Q: Is it possible to get a copy of that report?

A: Ah this has got our figures, possibly from the business school, Durchy college.

Q: Or do you think they can send you a soft copy of this if you request.

A: Ah, I am sure they would give you the results but not with any farms identified. So our performance is very high for a variety of reasons. So that is interesting.

Q: So there is that issue of your background, communication, and farming

A: Yah, I think we analyse our business very carefully all the time, we look at our cost and our performance. Something like this (referring to Exeter report) is very useful because it is very detailed. Then you can think, ok, which bits of the business are doing well and where are the good bits, where are the bad bits and you can actually look at areas that you need to improve on. And many farmers aren't very good at that. So perhaps that is a different business background may be.

Q: Why do you think your farm was selected by Gamma?

A: Ah, we knocked on their door and asked them.

Q: Oh, you had to go and approach them?

A: Yah, yah.

Q: Any idea which criteria they use in selecting their suppliers, which attributes do they look at?

A: I think probably in the early days it was very much about you know the organic market was very small so there were few organic suppliers. So one is if you were organic that was good start but also I think businesses with similar kind of values actually.

Q: What about in terms of future plans, number 19, what are your future plans?

A: Ah, not to change too much. Mark does not want to expand the farm any more than it is. He feels that he wants to have time to do other things as well so we are not going to grow and change radically. I think it is very stable at the moment. And probably have bought this land which is an investment. Probably now we will stay at this size.

Q: What do you mean by he needs to do other things?

A: Ah, well, he has gone away for the first time in 20 years. He has gone to Australia for a few weeks. And this is you know you work very very hard when you start a farm and

we just got to the stage where we can have a bit of time off. And we have got a very good worker. I think he is enjoying that (laughs) I don't know.

Q: But not really moving to Australia from here.

A: No.

Q: And I am wondering your future plans, how is this likely to affect your relationship with Gamma?

A: Well, I hope that we have a long term future and that we continue to work with them, but I think this is going to be a very very difficult year for everyone and even businesses that look very solid, you know, times are tough, aren't they?

Q: Ok

A: So I hope that they are ok, but who knows? Marks and Spencer are shutting down 25 shops this week. Who knows? It's a very very strange time.

Q: They were saying how they are going to lay off 1200 because of the recession.

A: Yah.

Q: Then ah, we are still looking for other organic suppliers. I don't know if you know of some other organic suppliers apart from your farm that I may also approach for interview. Might you have some contacts?

A: Ah, I do. The best thing really is to look at the Soil Association website, I think. Are you concentrating on a particular area?

Q: Its only organic companies in the Southwest.

A: In the Southwest?

Q: Yes, anywhere in the Southwest in all those counties, I think they are more than five.

A: Have you looked on the Southwest food and drink website?

Q: Southwest?

A: Yah, which is the RDA, they have a food and drink website. They have a sort of listing. But also the Soil Association have got a sort of regional listing. And if you are very interested you could talk to Gamma. But I don't know if you can get somebody to talk to because they are running a very busy but very interesting business.

Q: I am actually wondering if you can introduce me to them or?

A: Ah I could certainly ring and tell them but they are so busy, they get a lot, lot of requests. So I think you have got to take your chances because the owner of business is very very busy and slightly a sort of chaotic person and he is not easy to pin talkdown.

Q: I wouldn't mind even if it is in February, even if it is not exactly this month. If they may just assess their programme and probably slot in 3 hours for me any day probably before end of February.

A: What I will do, I can email "X" who runs the farm shop and also the guy who runs the vegetables. I will email them and you, sort of copy to you.

Q: That would be good at least to know which areas they are supporting their suppliers and also how their suppliers are supporting them, which areas are they collaborating with their suppliers, that would be very interesting.

A: Well, I will see if I can help you with that. But no promises, I know they get so many requests.

Q: It's ok. I think it is easier for you because of the relationship you have than like myself. Because I know these companies are very busy. I was talking to Sainsbury the other day and they were saying how they receive thousands and thousands of requests. So sometimes it's very hard to get an opportunity.

A: I know. Well I will see if I can help. And also I'll have a think and email you some ideas because it's better if I think about it, I cannot think of some stuff out of my head so quickly. So I will see if I will have some ideas.

Q: Now because organic is consistent with green systems, how do you go about in managing waste from your farm? For instance you are saying there is lambing which is probably the first stage in the production system. So if we could just go through the various stages that the animals go through in your farm.

A: Ah, what do you mean exactly?

Q: For instance you feed them with water and may be there is manure which is by-products. How do you manage all these? Do you plough back manure or?

A: What I would say is, it is a very closed cycle, the farming system. So basically there is no waste because all the animals are born on the farm, we only buy in, very occasionally we buy a new bull or a lamb, we buy the male animals. Apart from that everything is bred, everything is fed our own corn, we don't buy any feed at all, so we grow everything that we produce for the animals. And all the manure is collected and composted and used to fertilize the land.

Q: Ok

A: So in terms of what we buy, is practically nothing. And that is a lot to do with why our costs are very low because it's trying to be a sustainable system where you buy as little as possible. The only thing that we have to buy is straw for bedding because we do not produce enough. So we buy that from our neighbours. But all that straw and all that manure is then composted and put back into the land. We do not buy any fertilizer.

Q: And do you have excess for selling?

A: Ah, no. we do not have excess manure to sell. But we sell excess ah, we have some corn to sell. We would sell that to other organic farmers very locally, again to try and keep a sort of local system working.

Q: When you refer to corn here you refer to? Ah at what level do you harvest?

A: Mostly oats and some barley we grow. So usually we have some oats to sell.

Q: Still for feeding animals?

A: Yes, we don't grow anything for human consumption.

Q: And do you feed animals with concentrates?

A: We just feed them with the cereals I am talking about. Not very much. So we grow all the grass to feed them, make silage and hay and we feed them a little bit of cereals, and nothing else.

Q: And once you take animals to the abattoir, that is somebody else's work? To take care of like the blood, eh that is somebody else's work?

A: Yes. So the only real waste issue we have on the farm like this is all the black plastic from silage. You have a lot of black plastic. And at the moment we cannot recycle that, it has to go to landfill which is bad. So that is the main waste we have.

Q: So you are still thinking about how to go about it in future?

A: Yah

Q: Now when you deliver products to Gamma and may be some is not sold, who incurs the loss? Because here you are dealing with a perishable commodity.

A: That would be the others because we basically sell carcasses to them and that is up to them how they deal with them.

Q: You don't share the loss?

A: No

Q: Again if we revisit the organic industry in general, you mentioned about the changes before, what about now the challenges? Which ones would you consider are the main challenges?

A: The recession.

Q: The recession is one.

A: Yes, it's beginning to have an impact on quite a lot of the industry, particularly eggs and milk.

Q: Because of? People are not buying them or why?

A: Yah. You begin seeing people going down in their shopping habits, I think. At the moment Gamma seems ok because it is a dedicated shopping area. So if you are in a supermarket you might see three different products: organic, local and value, and you probably might decide to go for the cheaper one if they are side by side. But I think for the shops that sell all organic products, the people who go there have already decided that is what they are going to do. But I think it will be a very difficult time, very difficult, that is the big challenge. Ah to keep a premium, because we have to charge more because our costs compared with conventional farming are higher obviously because of welfare and everything else.

Q: But if people could afford to pay for them, I think the market is there?

A: Absolutely. I think people believe in it and people care. But when people lose their jobs, some will have less money and so people have to make up for that.

Q: Now we are in number 24

A: Well, we have to work very hard to persuade people to spend money on good quality food and I think particularly for meat producers, the thing is you have to persuade people that probably it's better to buy less meat and buy good quality rather than buy cheap meat. And I think that is an education thing that has to go on.

Q: In terms of lowering costs, is there much that people can explore to make sure that the prices you are offering customers is same as this cheap food?

A: You cannot compete on cost with conventional food, I think we always have to look at the technical side of our business. But there is a bottom line beyond which you cannot go and I think that is the trouble at the moment: Supermarkets are trying to push the prices

down to their suppliers and trying to pay less to farmers and after a while there is no further to go.

Q: And again it's like there are not much inputs that people are buying here that they feel that the government can lower taxes so that the prices could come down?

A: No. Not really. The main one to everyone that is the same, is fuel whether you are organic or conventional, fuel is the big cost for all of us.

Q: For cultivation and all that?

A: Yah

Q: Because that is where fuel is needed most?

A: Yes.

Q: Now in terms of SME organic farmers, that is number 25, what do you think should be done for them to do better? Which support do they need to be given.

A: Ah, I think it is a lot to do with alternative markets, you know the small and medium organic supplier can never compete with supermarket suppliers, that is never going to work for them. So I think supporting different local economic structures like more independent shops, more farmers' markets, more sort of delivery mechanisms, all that type of marketing I think is more helpful for small businesses and I think that some support for that or actually ways looking at how to improve that and give it more support would be good.

Q: Are there a lot of costs that are charged for somebody to put such a shop? Or are there barriers to establishing.

A: There are barriers, the main barriers are that people's shopping habits are getting more and more to shop in supermarkets and out of town and so supporting small towns and actually supporting shopping in the town centres in a way that can be done. I think it is

very important for all of us in all food stuffs, not just organic because for most of those that is where their market would be.

Q: I am relating that to the current trend whereby people are concerned very much about carbon footprint or food miles, I think that is naturally favouring the shops because most consumers would prefer to buy from the nearest place possible?

A: Yes. But you know it is not a level playing field because supermarkets have a lot of supporting subsidies really from councils, don't they in terms of access, packing and everything else. Small traders in town struggle to compete with that. So I think that would be helpful.

Q: And taxation, are there heavy taxes on such shops.

A: Yes. Business rates are high.

Q: Very high?

A: Yah

Q: Although I think that one cuts across the board even supermarkets.

A: True.

Q: But lowering that for the shops I think might support them?

A: I think if there was ways to support more sustainable business, you know if you could distinguish the businesses that are operating on a lower carbon footprint that would be really good. How you do that I don't know.

Q: Ok. I get your point. Number 26 is about organisational characteristics. Annual turnover in terms of sales.

A: Total turnover?

Q: Yes

A: Ah is roughly 185 thousand pounds

Q: Per year? That is, annual?

A: Yes

Q: Then we have a balance sheet total?

A: Ah, I have to find that. I will get you later.

Q: Number of employees

A: 4 including ourselves.

Q: And among these, how many are graduates?

A: Two

Q: So the other ones are the ones who takes care of the animals and all that?

A: Ah, there is myself and Mark, and then we have two workers at the moment.

Q: And do you engage temporary ones?

A: We have some contract labourers as well.

Q: So when they come they are about how many?

A: They are half a person every year contract ones. But certainly some things are done on contract. Like making silage that is done by contract, they are not employees.

Q: So you contract some people to come and do that?

A: Yah.

Q: The organisational structure?

A: Well, we are just partnership, private partnership.

Q: Then in terms of your market?

A: 100 per cent local

Q: Without the shop now here?

A: Yah

Q: Amongst your production, how much is sold through this shop? 1 per cent or it could be much more?

A: No, less. half per cent, tiny, tiny

Q: Compared with everything you produce?

A: Yes, half per cent, tiny tiny.

Q: And in terms of where you source your animals?

A: Procurement 100 per cent local

Q: And you said for instance in terms of lamb there is one farmer whom you contract.

A: We buy cattle. We don't buy any sheep except for some rams. So we never buy any sheep. Just rams, new genetic.

Q: Is just cattle?

A: Yes the young cattle, just from one farm.

Q: The one you normally have contract with?

A: Yah.

Q: And that is where

A: Near Penzance in Cornwall.

Q: It's not far?

A: No, very local. Everything is very local

Q: Then number 27, age.

A: I am 50.

Q: And you have been in agribusiness for how long?

A: 24 years.

Q: Position

A: Position in the organisation, partner.

Q: I am wondering, would you have preferred this company to be nearer or far? In other words, what are the advantages and disadvantages of Gamma being where they are?

A: The nearer the better obviously in terms of transport. But being in Devon, they have a slightly better customer base than you would get in Cornwall. People are slightly more

wealthy and a slightly bigger population of potential customers, because Cornwall is obviously very rural so there is an advantage to having access to somewhere slightly more middle-class.

Q: But to you I think the distance may not matter so much. I think what will matter more is customer base?

A: Yes.

Q: Because you are saying your costs are only up to the abattoir. Isn't it?

A: Yah.

Q: I mean it's not far. Is it far, abattoir

A: No, it's 50 miles.

Q: The rest is their cost?

A: Yes, and also important to us in terms of welfare is we want a short journey too for our animals in terms of animal welfare.

Q: So what would be key for you is actually to have an abattoir more closer?

A: Yes. That would be good.

Q: That is a welfare issue.

A: Yah.

Q: So that is it. The other section is about the relationship you have with your suppliers and this is going to be a quick one.

Q: This other section is about mainly the relationship you have with your suppliers now not your customers. Like now where you are saying that you buy some animals. So which areas can you say you collaborate with your suppliers?

A: Well with the farmer I have told you, we collaborate in that we guarantee to buy his cattle every year, and we collaborate in that we try to encourage him to produce the sort of cattle that we want.

Q: Ok

A: Ah, who else are the suppliers? Who else would you call our suppliers? Contractors?

Q: Ah, no, mainly is for beef animals, you may just give for that particular farmer actually.

A: Ok.

Q: And how do you think that relationship has enhanced innovation?

A: Ah, it is very important for him because he knows, it's the same thing, he knows when he says I really need you to have this cattle this week because I have run out of feed then we will say ok, we will have them straight away. So again it is loyalty and we guarantee to respond to him and he guarantees to give us first pick of everything there is. So again we have been doing that for 10 years and it is based on exactly the same sought of feedback, friendship and trust , and commitment to a price.

Q: Are there some skills that he has learnt from you or some competences? For instance you said you sometimes train.

A: Yah, he is a newer organic farmer than we are. So he has come here and looked at our cattle and looked at what we do and that has certainly influenced the way he farms.

Q: And in terms of the changes that has been done here, has he played a role? Any change that you have ever made on your farm?

A: No. I think the main thing from his point of view is it has given him security and confidence in his planning again, but apart from that again it's quite a simple relationship.

Q: So there is planning together so that you are able to tell him these are the quantities you plan to buy from him this year, so there is that planning together?

A: Yes.

Q: What about the change that he has made in his own farm, do you think you have influenced? Probably proposed to do a certain thing in his farm and he did that?

A: No. Because we would like him to make some changes and he has not made.

Q: Is it?

A: Ah, he has made some changes but his business is quite small and he is doing less farming because his wife has developed a new business in the farm, so probably not particularly.

Q: A different business not farming?

A: Yah selling green baby products and peas and that kind of stuff.

Q: So it's like you would like him to make which changes now?

A: We would like him to produce like different cattle and use a different bull but we are not good at persuading him.

Q: Ok. In selecting that supplier, which factors did you consider?

A: Ah, he is a National Trust tenant, same as us. Ah, he came to us actually to ask whether we would, ah the National Trust might have facilitated that, I think. I think they put us together as is the only way we could work together.

Q: So that is the main thing, he contacted you and?

A: Yah, and again he is a friend really, you know.

Q: But I would think there are other suppliers who contacted you but you said no you prefer this particular one.

A: Yes. We have once or twice bought other cattle from other people but we would always choose to buy from him because we are committed to do that.

Q: And you are getting enough you do not need more suppliers?

A: Yah, sometimes we do buy a lot more one year and then we had to buy from another one supplier as well but generally we are having, we are keeping more of our own cows so we don't need that many, we need about 25 to 30.

Q: To buy from him?

A: Yah.

Q: And it is like all the cows you buy from him you take care of them? Are there times that you buy and when they come here you find some are sick, some are not the quality you needed?

A: No. I mean what we buy from him are young, about 8 months old. We look at them, choose the ones we need and they come on a lorry.

Q: So there was no time when you bought and once they came here one of them died immediately?

A: No.

Q: And who incurs that transport cost?

A: We do, we pay it.

Q: You use your lorry?

A: No, because they are too many. We would pay a haulier for that.

Q: And your future plans do you think they are going to affect your relationship with that farmer?

A: Ah, I think if we said we do not want to buy his cattle he might stop producing them.

Q: He is not likely to get another buyer?

A: I think ah, where he farms is a very very hard land, it's not like here there is really more land and I think it is quite marginal for them and might be that he just needs to farm enough to keep the farm going but he might develop the other business which is something completely different, if we did not buy those cattle I think.

Q: Probably one area that I think I need to get an understanding is the National Trust issue. You have said this land is managed by the National Trust,

A: Yah

Q: Is it all land in the UK or just the land along the coast?

A: Ah, no. They own land basically of important conservation value. It is a charity, so they get given land or they buy land that is especially important. You may have to look at their website so see how much land they own. They own bits particularly at the coast but also at the Lake District and also there is a National Trust in Scotland and National Trust in Wales which is separate. And also they have a lot of big houses which are historic property.

Q: And why did you decide to hire and not buy from those other areas that are not owned by the National Trust.

A: Well we could not afford a farm so we could only afford to rent. And we went for the National Trust because they are a conservation type of organisation. So we thought that would fit well with organic farming.

Q: So you hire for how long?

A: Here?

Q: Yes

A: 16 years.

Q: That was a contract you had to sign with them?

A: No no, we have got a life tenancy, so we can stay here so long as we can farm the land.

Q: Ok.

A: Yah, it's called life tenancy.

Q: Provided you are able to pay the rent.

A: Yes. If we get too old that we could not farm, we might have to live. But as long as we are farming you know we are running the business we would continue.

Q: So the main difference here is that those people who own their own land they do not pay rent but you are paying?

A: That is right.

Q: So that is it about the interview unless you have an issue. As I told you, my main objective is to answer two questions. One is to identify the areas that you collaborate with your customers, secondly is to understand the benefits of this collaboration.

A: Eh

Q: So unless you have an area of collaboration that we have not looked at or may be a benefit or a cost that comes through this collaboration that we have not considered yet.

A: I don't think so specifically but for you it might be useful for you to talk to at least one business that works in a cooperative to get some sort of contrast because we don't work in a coop and quite a lot of organic farms do and I think that might be quite good for you as part of your comparison probably to do that.

Q: Yes if I identify one I think I will do that.

A: Gamma has one. There is a whole cooperative of farms who produce vegetables and organic juices and they set up that cooperative because they needed more farmers. So it is a different model that would be quite interesting for you.

Q: I will try that although our interest is actually like you because you sell direct, not really a cooperative. I also think is a farmer could be able to do it direct like you do it, it would be more beneficial for the farmer.

A: It is the idea, ah

Q: Especially when that collaboration is quite firm. That is one reason that makes farmers want to form a cooperative because they are not able to access certain customers. So they

come together to be able to supply the quantity that is required by that customer. But if a single farmer can do that, that would be great.

A: The only thing is I suppose from our point of view is that all our eggs are in one basket so we don't have any other option. So I suppose that is sort of an area of risk, as time gets tougher that could be difficult but we have put away quite a lot of profit so we probably have got some resilience to bad times because it has been quite successful for us. So we have got quite a stable business because we do not have any borrowings. So that is probably why if things get tough, we are ok, we don't owe the bank any money.

Q: Great. That is very good of you. I am so encouraged by what you are doing.

A: Yah.

Q: Ok, thank you very much for that information. I am really grateful.

## **Annex 7: In-depth interviews' guide questions**

Describe briefly the background of your organisation.

Which food and drink do your firm produce?

Who are your main customers?

Describe briefly the background of the relationship with your main customer.

Which areas do you collaborate with customers? (If not mentioned outright, probed for):

Collaborative planning

Joint technical systems

Innovation and design dependence

Bilateral development of knowledge and skills

Joint teams

Cross-functional coordination and information sharing

Development of commensurate culture

How have your firm and your main customer benefited from each of these collaborative areas?

What have been the specific roles of each party (customer and supplier) in the collaboration?

Organisational characteristics

Annual turnover

Balance sheet total

Number of employees and qualifications

Respondent's characteristics: Age

Years of experience in agribusiness

Position in the organisation

## Annex 8: A screen printout showing sample Nvivo nodes

The screenshot displays the Nvivo software interface. The top menu bar includes File, Home, Create, External Data, Analyze, Explore, Layout, and View. Below the menu is a toolbar with various icons for file operations and editing. The main workspace is divided into several panes:

- Nodes Pane (Left):** Shows a hierarchical tree of nodes including Cases, Free Nodes, Tree Nodes, Relationships, and Matrices.
- Tree Nodes Table (Center):** A table listing nodes with columns for Name, Sources, References, Created On, Created By, Modified On, and Modified By. The selected node is "Bilateral knowledge & skills dvmt".
- References Pane (Bottom):** Shows a list of references for the selected node, including their coverage percentages and the text of the references.
- Bottom Bar:** Displays the current user (IK) and the number of items (10 Items).

The following table represents the data from the "Tree Nodes" table in the screenshot:

Name	Sources	References	Created On	Created By	Modified On	Modified By
Areas of collaboration	0	0	19/01/2010 08:06	IK	19/01/2010 08:04	IK
Bilateral knowledge & skills dvmt	1	4	26/01/2010 10:26	IK	05/05/2011 12:41	IK
communication-feedback	1	6	26/01/2010 16:05	IK	05/05/2011 12:32	IK
Co-planning	1	7	26/01/2010 10:12	IK	05/05/2011 12:23	IK
Co-pricing	1	2	26/01/2010 22:56	IK	05/05/2011 12:24	IK
Co-promotion	1	3	26/01/2010 15:50	IK	05/05/2011 12:25	IK
Generic relationship	1	1	27/01/2010 22:53	IK	05/05/2011 12:30	IK
Innovation	1	6	26/01/2010 10:54	IK	05/05/2011 12:23	IK
service provision to suppliers	1	2	26/01/2010 21:18	IK	26/01/2010 22:45	IK

The "References" pane shows the following text for the selected node:

<InternalsWibenz> - § 3 references coded [2.46% Coverage]

Reference 1 - 0.32% Coverage

at. And also we have benefited from that because they do a lot of publicity about their suppliers, for instance on their website they would have stories about their suppliers which is good for both of us

Reference 2 - 1.41% Coverage

in terms of promoting the product, you said there are times they put your information in their website and all that.

A: and newsletter.

Q: ok. Are there other ways whereby you promote your products together?

A: yes sometimes we enter competitions, ah food competitions, we have tried various media things ah press things where we might both be involved in article for something. That is pretty much it really.

Q: food competitions are like? What do you mean food competitions?

A: they are organic. The Soil association run organic food awards which you can enter. There would be lot of categories say best lamb, best beef, best cheese or whatever. That is an annual competition so we might do that for instance.

Q: I wonder how you do it together in competition because I would think you can do that alone.

A: ah, they do the butchery and we would always make sure that we acknowledge the other.

Reference 3 - 0.74% Coverage

Q: and this publicity, if they are not putting for instance your information in their newsletter