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Exploring growth in vertical inter-firm relationships: Small-medium firms supplying multiple food retailers

Richard K. Blundel and Martin K. Hingley

Abstract

This paper presents new insights into the growth of small and medium-sized enterprises (SMEs) engaged in vertical inter-firm relationships. It adopts a processual and resource-based perspective and focuses on the experiences of fresh produce businesses which have achieved high rates of growth while supplying the UK’s large multiple food retailers. The context in which these suppliers operate is shown to be a complex and dynamic supply chain, characterised by increasing structural concentration and close vertical linkages. The primary research investigates how certain SMEs have prospered in an apparently ‘hostile’ environment. It includes a programme of matched-depth interviews, conducted across the retailer-supplier dyad. Content analysis of transcripts reveals six factors which appear to be strongly associated with the formation of ‘successful’ relationships. In subsequent interactions, securing ‘developmental’ supplier status appears to open the way to a self-reinforcing cycle of Penrosian learning and reinvestment. This cycle contributes to growth in the supplier firm. The authors argue that, with certain crucial caveats, growth-oriented SMEs can develop mutually beneficial relationships with much larger ‘customer’ firms. The paper concludes by drawing out wider policy implications and indicating how this contextualised approach might be used in other contexts.

Managerial and policy implications

- The UK’s food industry supply chain is now dominated by multiple food retailers who are developing close vertical linkages with their suppliers. At the same time, traditional channels, such as fresh produce wholesale markets, are in decline.
- These structural changes, together with the inherent characteristics of their product, have restricted the strategic options available to growth-oriented suppliers.
- Some small-medium suppliers are managing to achieve high rates of growth while engaging in supply relationships with much larger ‘customer’ firms.
- Growth in supplier firms is stimulated by a combination of factors. Multiple retailers provide access to progressively larger markets, transfers of knowledge-based resources and strong incentives for cycles of reinvestment and innovation.
• Relationships with large retailers are underpinned by the small-medium suppliers’ ability to provide: traceability, a greater motivation to collaborate, the absence of competitive threat and, critically, access to sources of innovation and difference.
• The supplier’s ability to generate these benefits, together with its ability to resolve sporadic conflict, can foster closer relationships with the larger firm.
• Suppliers securing ‘developmental’ supplier status appear to enter a self-reinforcing cycle of learning and reinvestment that can foster more rapid rates of growth.
• A ‘defensive’ relationship strategy, designed to minimise an SME’s perceived dependence and to guard against asset appropriation, may prove counter-productive by limiting progress towards developmental status.

Key words: Supply chain, relationships, growth, food industry, SMEs, retailers

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Introduction

This paper investigates the growth of small and medium-sized enterprises (SMEs) engaged in vertical inter-firm relationships. The last decade has seen a proliferation of research into localised networks of firms, and their role in fostering collective learning, competitiveness and economic growth (Best, 1990; Keeble, 1998; Porter, 1998). Empirical work has been accompanied by conceptual developments in areas such as ‘clustering’ (Porter, 1998) and the evolution of industrial districts (Piore, 1992). Issues arising from inter-firm relationships have attracted attention from various perspectives, including economic geography, organisation theory and strategic management. Recent reviews of the literature have suggested that there is an emerging common ground between these approaches (Nohria and Eccles, 1992; Ebers, 1999). The erosion of traditional disciplinary boundaries is revealing apparent similarities between spatial networks and other types of inter-organisational relationship:

‘Viewing recent developments in the field of research on inter-organisational networks, it seems that the traditional dissociation of social network analysis, studies of (mainly bilateral) inter-organisational relationships from an organisational and/or strategy perspective, and research on industrial districts is slowly eroding.’ Ebers (1999: ix)

Contemporary supply chains, such as those serving the food industry, comprise a complex series of vertical and, primarily, bilateral inter-firm relationships. There is evidence that many of these relationships have extended beyond the transactional to include forms of cooperation and learning (Hogarth-Scott and Parkinson, 1993; Brown and Hendry, 1997; Harland, 1996; Wilson, 1996; Hughes, 1996; Fearne, 1998). From an SME perspective, it is interesting to consider whether supply chains provide small-medium suppliers with contexts for collective learning and growth approximating to those identified in spatial networks. To date, these vertical relationships have attracted less attention than spatial networks. Their apparent potential as a
setting for growth, however, raises a number of important questions: What are the prerequisites for ‘growth-promoting’ relationships between small-medium suppliers and much larger ‘customer’ firms? How do external forces and internal dynamics shape their evolution over time? More pragmatically, can such relationships be considered as a realistic or attractive strategic option for the managers of a growth-oriented SME?

Small-medium supplier/multiple retailer relationships
In a review of the network literature, Nohria and Eccles (1992) called for a greater application of network theory in empirical research. This paper is based on a study conducted in the fresh produce sector, with small-medium firms supplying the UK’s major food retailers. Over the last three decades, the food supply chain has been characterised by processes of increasing concentration and vertical coordination which have transformed the competitive environment, affecting inter-firm relationships at every level (Hughes, 1994; Traill and Pitts, 1998; Galizzi and Venturini, 1996). Hence, today’s small-medium suppliers are confronted with a food retail sector that is dominated by a few, very large companies. The paper begins by considering the growth options open to the managers of these SMEs: to develop closer ties with a multiple retailer or to pursue other routes to market. In highlighting the former, it neither rejects nor underestimates the potential of the alternatives. However, it does contest the orthodox view of large firms as an unequivocal threat to smaller suppliers (Porter, 1980; Hughes, 1994; Dobson Consulting, 1999; Competition Commission, 2000). The paper is concerned primarily with the growth of supplier firms. In taking the inter-firm relationship as the unit of analysis, however, it recognises the importance of changes occurring on both sides of the dyad. As a consequence, factors affecting large ‘customer’ firms are also considered, where these have a bearing on their interaction with smaller suppliers.

Towards a process theory of growth?
Much of the extensive literature on small firm growth has sought either to isolate discrete and generic factors predisposing firms towards high growth (eg Fuller et al., 1996; Gallagher and Miller, 1991; Hakim, 1989), or to identify and evaluate barriers to growth (eg Advisory Council on Science and Technology, 1990; Adams and Hall, 1993, Bolton Report, 1971). These objectives have been pursued using a variety of methodologies, but the most common has been based upon statistical analysis of aggregated cross-sectional survey data. The important contributions of this literature, as well as its apparent limitations, have been well summarised elsewhere (Storey, 1994). Storey categorises the factors influencing growth under three intersecting ‘components’: the entrepreneur, the firm and strategy, each of which comprises several elements (eg age and motivation of owner-manager, firm size and sector, marketing strategy). He argues that rapid growth rates in firms have proved to be extremely rare and that success is difficult to predict at the outset, resulting in somewhat ineffective policy interventions. One explanation for this unpredictability is that the complex pattern of internal and contextual factors ‘all need to combine appropriately’ for growth to occur (Storey, 1994: 122, emphasis in original). This view is reflected in Perren’s (2000: 381) depiction of firm growth as a ‘complex temporal process of factor interaction’. By conceptualising the growth of firms in this way, researchers have raised a fundamental methodological issue. How can the combination of factors, which appears by definition to be unique to each firm, be studied? For example, it would appear that such complexities are lost in the aggregation required by large-scale surveys.
Although multivariate analysis allows for a comprehensive assessment of the relative importance of different elements (Barkham et al., 1996: 15), the manner in which these elements interact is obscured when they are abstracted from the firm’s unfolding context. The economist Edith Penrose was among the first to argue that, in order to develop an effective theory of the growth of firms, it was essential to replace static ‘black box’ models with a more dynamic and integrated conceptualisation, recognising that the living firm was a unique ‘bundle of resources’ and entrepreneurial capacity, unfolding over time.

‘In all of the discussion the emphasis is on the internal resources of the firm and on the productive services available to a firm from its own resources, particularly the productive services available from management with experience within the firm … As management tries to make the best use of the resources available, a truly ‘dynamic’ interacting process occurs which encourages continuous growth but limits the rate of growth.’ (Penrose, 1959: 5)

Today, renewed interest in the seminal insights of Penrose (1959, 1995), Alchian (1950), and Demsetz (1993) is evident across the convergent fields of evolutionary economics and ‘resource-based’ strategic management (Foss, 1997; Grant, 1991; Loasby, 1991). Dynamic and integrative approaches have enabled researchers to capture firm trajectories, explore critical interactions, and recreate organisational routines (Kogut, 1993; Nelson and Winter, 1982; Whipp and Clark, 1986). These new perspectives open up interesting conceptual and practical challenges for those who wish to develop a process theory of firm growth (Freel, 1997; Penrose, 1995; Perren, 2000). By exploring how growth is occurring in a specific context (ie in vertical inter-firm relationships), this paper aims to make a modest contribution to that task.

Research focus: inter-firm relationships in fresh produce

The UK fresh produce industry, which includes the importing and packing of exotic and out-of-season produce by UK-based firms, was selected as being a dynamic supply chain with a range of relational innovations (eg J. Sainsbury’s ‘Partners in Produce’, launched in 1995). Commentators have interpreted these as demonstrating a change in retailer philosophy, whereby collaborative approaches replace confrontational, transaction-based interaction (CBI, 1994; Fearne and Hughes, 1999). More specifically, the authors’ direct experience in this industry suggested that such relationships were associated with periods of rapid growth by small-medium suppliers, both in scale and range of activity. Evidence remained anecdotal, however, and their underlying dynamics were largely unexplored (Vlosky and Wilson, 1997; Hingley, 1996). The research is designed, therefore, to deepen an understanding of this type of relationship, and its potential contribution to the growth of SMEs. It sets out to probe the following issues:

(1) **Industry context:** How have structural changes in the food industry contributed to the emergence of closer relationships between large retailers and small-medium suppliers?
(2) **Formation process:** What combinations of firm-specific and contextual factors are associated with the creation of such relationships?
(3) **Growth process:** In what ways does participation in these relationships contribute to the subsequent growth of the supplier firm?
The first research question is approached through a review of recent developments in the food industry supply chain. This is followed by a summary of the primary research, which addresses questions two and three. The discussion and conclusions consider the practical implications and generalisability of the findings, and relate them back to the literature.

Industry context: a supply chain in transition
The UK’s agricultural and food industry supply chain is summarised in Figure 1. In the last two decades, major structural changes have been driven by the global liberalisation of agricultural trade, completion of the Single European Market, technological innovation and changing patterns of consumer demand. The scale and pace of restructuring varies between supply chain levels, but increased industry concentration and a higher degree of vertical coordination are evident at every level, from ‘plough’ to ‘plate’ (Gallizi and Venturini, 1996). Farm inputs, for example, seed and fertiliser, were traditionally generated on-farm or traded through local markets. By contrast, today’s inputs industry is dominated by a few highly capitalised transnationals, presenting formidable barriers to entry. For example, more than 65 per cent of the UK’s animal feedstuffs market is accounted for by five companies. The largest of these, Dalgety Agriculture, reported a turnover of £1.24bn in the year preceding its 1998 management buy-out (Baxter, 1999: 26). Similar concentrations can be found among manufacturers of pesticides and fertilisers (Smith, 1993), where the recent cross-border merger of AstraZeneca and Novartis created Syngenta AG, described as, ‘the world’s first global agribusiness company: (Zeneca, 2000). Factors contributing to the dominance of these large firms are likely to vary between product areas. They include, however: global sourcing of raw materials, larger customer businesses (ie increasing farm size), and the level of capital investment required to support research and development, to promote branded products and to ensure compliance with new legislation.

[Figure 1: Overview of the UK agriculture and food supply chain]

The progressive closing of vertical links is mainly the result of pressure from downstream organisations. Multiple retailers, acting as ‘channel captains’, are widely regarded as controlling the overall direction of the chain (Traill and Pitts, 1998). Recent actions by Marks & Spencer illustrate this process. Following an exhaustive review, the company chose to source all of its beef from a single family-run processor, Scotbeef, which in turn coordinates supply from selected, qualityassured farms (Fearne, 1998). During 1999, the company adopted a policy of excluding genetically modified ingredients from all of its food products. This change has been passed up the chain, through the sourcing policies of its suppliers, to commodities traders and seed companies, for example.

Retailer concentration and vertical links
For small-medium food suppliers, including those in the fresh produce sector, the most significant changes in the supply chain have been the increasing domination of the retail market by a few large companies, coupled with their pursuit of upstream links. Unlike food service (ie catering), which is enjoying rapid, lifestyle-related growth, the UK retail market is largely static, with the four largest firms now accounting for 45 per cent of grocery sales (Table 1).
Traditional small retailers, including greengrocers, have declined dramatically as the multiple retailers developed more competitive in-store services. In the five years to 1993, the number of independent food retail outlets fell by 58 per cent (Institute of Grocery Distribution (IGD), 1995). Multiple retailers have identified fresh produce as a key to attracting customers. As a consequence, they have increased sales areas by as much as 50 per cent since 1994, with supermarkets offering more than 300 product lines, including many pre-prepared items and exotic varieties (Howitt, 1998). The expansion of the UK multiples is also set to continue. In early 1999, the £8bn ASDA Group was acquired by £86bn US retailer, Wal-Mart, raising the prospect of more ‘hypermarkets’ (i.e. over 50,000 square-feet stores) and a corresponding increase in product lines.

Small-medium suppliers in fresh produce
The fresh produce industry is complex and diverse, with many small-medium suppliers. The industry has displayed increased concentration, yet even its largest firms are dwarfed by the multiples. A recent industry survey estimated the combined turnover of its five largest firms is £2.6bn, but most are considerably smaller (Howitt, 1998). The same survey identified a total of 6,620 VAT-registered enterprises. The majority of these (i.e. 82 per cent of vegetable growers and 64 per cent of fruit growers) reported annual turnover of less than £250,000; many of them are likely to be long established, with low rates of growth. For historical reasons, most horticultural production is located near urban areas, but there is considerable regional specialisation (e.g. ‘top’ fruit in Kent, East Sussex and Worcestershire, brassicas in Lincolnshire and Nottinghamshire). There is a wide variety of business types, including cooperatives, corporate subsidiaries and independent family firms, coupled with strong, product-related differences in firm size. For example, while most of the UK potato crop originates from large holdings, home-grown strawberries continue to be sourced primarily from small grower networks (Strak and Morgan, 1998). Firm concentration in UK grocery retailing is still lower than in some European countries, notably Sweden, where the three largest firms control 75 per cent of sales (Traill and Pitts, 1998). Grocery totals, however, disguise much higher market shares in certain product categories (Table 2). In the fresh produce sector as a whole, the UK’s multiple retailers account for 79 per cent, more than £7bn, of retail sales (Fearne and Hughes, 1999; Mintel, 1998). This compares with a market share of only 39 per cent one decade earlier.

New and traditional channels
One of the standard strategic prescriptions for SMEs seeking growth is to establish, build and
defend a market niche (Hooley and Saunders, 1998). Furthermore, it might be argued that the niche firm’s point of difference is best protected by retaining maximum control over distribution. Direct marketing techniques, supported by technological innovations, notably e-commerce via the Internet, offer such routes to growth, effectively by-passing large firm intermediaries and selling direct to trade customers or end consumers (Tatum, 1999). Some regional and speciality products (e.g. smoked salmon, wine) have been sold directly, either to consumers or to the food service sector. In both cases, however, the perishability, low value-to-weight ratio and seasonality characteristics of fresh produce are likely to prove problematic (e.g. premium apple varieties have been marketed successfully by mail as packaged ‘gift’ items; this technique cannot, however, be readily extended to potatoes!). There has been increasing interest in localised distribution, via organic ‘box’ schemes or ‘farmers’ markets’.

While many field vegetables are grown widely, however, local markets are unlikely to be a practical option for region-specific products, such as soft fruits, unless a new distribution network emerges. In the meantime, traditional routes to market, via wholesale markets, independent greengrocers and other outlets, are in rapid decline. By the end of 1996, wholesale markets accounted for 30 per cent of fresh produce distribution by value, compared with 66 per cent at the beginning of the 1980s (Howitt, 1998). This decline has been attributed, primarily, to the superior buying power of the multiples, which limits access to consistent quality and regular supplies, contributing to an erosion of wholesalers’ margins (Hughes, 1996; Howitt, 1998).

**Relationships with the multiples**

For the small-medium supplier, forming relationships with a multiple retailer represents an alternative to the pursuit of new and traditional channels. The opportunity to pursue this route can be interpreted as a consequence of the structural changes outlined above. In particular, the increased vertical coordination that is achieved can be interpreted in transaction cost terms, as a strategy to reduce costs throughout the supply chain. Its accelerated introduction in the UK also can be seen as a more specific, and largely retailer-inspired, response to the ‘due diligence’ requirements of the Food Safety Act 1990 (Wilson, 1996; Williamson, 1975). The inherent uncertainties of fresh produce supply (i.e. weather, disease, perishability) and public sensitivities aroused by recent food-related controversies (e.g. BSE, Listeria, genetic modification) have encouraged closer links throughout the chain. For fresh produce suppliers, increased vertical coordination has meant moving from intermittent, market-based contact with primary or secondary wholesalers, to close and continuous contact with retail firm buyers and technical staff. The advantages of these interactions for the small-medium supplier are presented most strongly in the relationship marketing literature, which makes frequent (perhaps overly optimistic) use of the marriage analogy to indicate how close and mutually beneficial partnerships can be achieved between suppliers and customer firms (Hakansson, 1982; Gummerson, 1987; Gronroos, 1990, 1994; Millman, 1993). Critics have questioned the extent to which customer-supplier relationships can ever lead to genuine ‘partnership’, whatever the surface rhetoric (Sinclair et al., 1996). This sceptical view of supply chain relationships is also found among food industry specialists. Hughes (1994: 36), for example, concludes that differences in firm size are bound to distort bargaining activity:

‘[European food] retailers declare that their alliances can benefit manufacturers. . . However, it seems obvious that only larger food companies will be able to negotiate on reasonably
equal terms with such massive concerns.’

A contrasting view emerged from research conducted in manufacturing supply chains, where it appeared that ‘trusting partnerships’ could be built in relationships of unequals (Kumar, 1996). The author acknowledged, however, that the onus is on the powerful party to treat its weaker partner fairly.

The emerging context for small-medium suppliers
In conclusion, this brief review of developments in the food supply chain has highlighted a number of changes which may have implications for the growth of small-medium fresh produce suppliers. The major multiple food retailers have taken a central coordinating role, accounting for a high and increasing proportion of fresh produce sales. Furthermore, they have actively sought closer relationships with certain suppliers. Other routes to market are available, but for various reasons these may not be suitable for the growth-oriented supplier. A conventional interpretation of these developments locates small-medium suppliers in an apparently hostile competitive environment. In the ‘structure-conduct-performance’ model, and its strategy-related modification, the large retailer would appear to be capable of exercising considerable buyer power (Porter, 1980; Scherer and Ross, 1990). The recent UK Competition Commission inquiry into the power exercised by supermarkets noted that, ‘There appeared to us to be a climate of apprehension among many suppliers in their relationship with the main parties’. It also suggests that buyer power is exercised through practices that are harmful to suppliers:

‘These practices, when carried on by any of the major buyers, adversely affect the competitiveness of some of their suppliers with the result that the suppliers are likely to invest less and spend less on new product development and innovation, leading to lower quality and less consumer choice’ (Competition Commission 2000: 4)

The evidence is inconclusive. For example, a recent European Commission study into buyer power in four countries (including the UK) asserts that size-related effects can harm smaller firms, but acknowledges that few instances have been identified:

‘There is a clear difference between buyer power when exercised against small manufacturers as opposed to large multinational manufacturers. In the former case, even when exercised by groups with no retail seller power, buyer power may have adverse effects on the food producers - at worst threatening their survival, and, at least, constraining their capacity for independent decision-making with respect to, for example, product variety and innovation. Having said this, we found little specific evidence of harms to small producers in practice …’ (Dobson Consulting, 1999: 160, emphasis added)

The research which follows is concerned with small-medium suppliers engaging in relationships with large multiple retailers. It does not seek to resolve the question of buyer power. By reporting the experience of businesses which have taken this route, however, it provides some explanation of why the ‘specific evidence of harms to small producers’, referred to in the Dobson Consulting report, is so difficult to find.
Research design

Method adopted
The research method adopted for this study was inductive and qualitative. The approach was based on the research aims, which were to gain a deeper understanding of the processes underlying inter-firm relationships. Its exploratory nature reflects the fact that, to date, there has been a lack of systematic research on specific activities comprising inter-firm relationships (Ebers, 1999), including those that form within supply chains (Vlosky and Wilson, 1997). A multi-case, multi-site approach was employed to allow for increased generalisability within the study’s industrial context and to achieve reasonable assurance of construct validity and reliability (Miles and Huberman, 1994; Dey, 1993; Yin, 1994). In addition, each interview was ‘matched’ across the dyad, so that the responses of each supplier firm could be compared against those of its customer. Following an initial phase of desk research, exploratory interviews were conducted with managers at two supplier firms and one retailer. This enabled the researchers to formulate the main interview schedules and to refine the sampling procedure. The pilot study confirmed the value of a qualitative interview approach in its revealing depth of response. It also highlighted additional issues for the main study, which were incorporated into the interview schedules. Two semi-structured in-depth interview schedules were developed; one for the retailer and one for the supplier firms. These schedules were used to conduct on-site interviews with both strategic and operational level managers in each firm (Appendix 1).

Sample selection
During the main study, a total of 35 semi-structured in-depth interviews were conducted with both strategic and operational level managers at seven of the largest UK multiple retailers, and at ten fresh produce firms (Figure 2). The supplier sample covered a wide range of fresh produce lines, with firms located across England and Wales. The companies taking part in this study were selected through a variation on the conventional ‘snowball’ sampling technique (Patton, 1987) (Figure 3). Seven multiple food retail companies in the UK were contacted, and all agreed to take part in the study. Senior managers from each retail company were interviewed. These managers each provided the names of personal contacts at two of their supplier firms. This list was reviewed and a judgment sample of supplier firms was identified, which reflected the principal variations between suppliers in this industry, in terms of scale of operations, location, ethos, organisational structure and product area. For example, two co-operatives were included, as were three specialist firms, an organic produce importer, a mushroom grower and a glasshouse salads grower. Two of the supplier firms in the matched sample were supplying more than one of the retailers, and in one case a supplier’s strategic and operational roles were combined in one individual. Operational managers on the retail side are taking an increasingly multifunctional role, as ‘category’ managers for particular product areas. At three of the seven retailers, however, interviews were conducted with an additional operational manager (e.g. a buyer and a technical manager), providing a more rounded view. The matching of respondents across the dyad allowed for the cross-referencing of responses from individual suppliers and their respective customers, so that patterning could be explored. This purposive sampling method provided a level of variation and comparability in the source material that is generally considered appropriate to multiple case analysis (Patton, 1987; Miles and Huberman, 1994).
Figure 2: Analysis of matched relational dyads. Explanatory note: Black boxes indicate the 13 supplier-retailer dyads investigated (e.g. Supplier 1=‘S1’ and Retailer 2=‘R2’). Numbers in italics provide a breakdown of the 35 interviews conducted with strategic (=‘st’) and operational (=‘op’) managers in each participating organisation (NB Supplier 1 interviewee combined strategic and operational roles).

[Figure 3: Matched ‘snowball’ sampling procedure]

**Interviews: Recording and analysis**

Each interview schedule comprised 33 questions, most of which were ‘open’. During the interviews, respondents were encouraged to cite examples, supporting their statements, and to express personal opinions as well as ‘corporate’ views. The interviewer was a subject-specialist, with direct experience of the industry but no current commercial involvement. This enabled him to achieve a reasonable level of trust and rapport with both retailers and suppliers. Respondents were asked to express attitudes, perceptions and opinions with regard to the nature of business relationships and with specific reference to their dyadic relationship with named suppliers or retailers. Interview data were collected using an in vivo approach, in which description is expressed by respondents, ‘in their own terms’ (Strauss, 1987). Interviews were tape recorded and subsequently transcribed in full. Content analysis was used to identify important examples, themes and patterns in the data. The themes developed in the paper were developed from etic issues, that is, those emerging ‘from the outside’ in the course of the interviews, rather than being framed by initial research propositions (Dey, 1993; Patton, 1987). Two independent coders were used to interpret the transcribed material. Interpretation was based on a ‘latent coding’ procedure, sometimes termed ‘semantic analysis’, which is concerned with the identification of underlying meanings and patterns in the data. This contrasts with ‘manifest coding’, which involves researchers in counting, for example, the number of times that a particular word has been used by respondents. More than 20 themes were identified and subsequently revised during the course of coding the transcripts. At the end of this process, several prominent themes emerged, some of which form the basis of the present paper. The results section of the paper is structured around these themes. Each is illustrated with verbatim extracts from the programme of supplier and retailer interviews. In each extract, the respondent’s managerial level and business activity is stated, but for reasons of commercial confidentiality, extracts are otherwise anonymous.

**Reliability and validity**

There are widely divergent views on the extent to which validity and reliability can be established in qualitative research. In terms of ‘consistency through repetition’ (Yin, 1994), some degree of inter-coder reliability was introduced at the analysis stage through the use of non-specialist inter-judge ‘assessors’ who were asked to re-code data. Construct validity was achieved, primarily, through attention to detail in the sampling design and analysis. The purposive sampling approach ensured a mixture of firm types and personnel, at multiple sites. The matching of personnel and firms across the retailer-supplier dyad represented a form of triangulation which helped to show that independent measures, ‘agree with, or at least do not contradict’ the analysis (Miles and Huberman, 1994). A further triangulation check involved feedback to respondents and other specialist audiences. This procedure provided some
assurance that the findings make sense and are considered ‘plausible’ by those directly involved. The issue of external validity, or generalisability beyond the confines of these cases, is considered in the remaining sections of the paper.

Results and discussion

All of the retailers interviewed already had, or were moving towards, a well-established relational approach in their dealings with fresh produce suppliers, albeit with varying degrees of enthusiasm on both sides. Retail managers perceived small-medium suppliers as having the potential to deliver certain key benefits that could not be replicated by larger firms. Analysis of retailer and supplier responses indicated a number of factors, relating to the organisations and to the industry context, which were seen as most important in the formation of closer relationships, and subsequently in generating growth in supplier firms.

Formation process: six ‘facilitating’ factors

Content analysis of the transcripts revealed a provisional grouping of six factors related to the formation of relationships over time. These factors represent a pattern which was regarded as of particular importance by the interviewees, and which is reflected in other inter-firm relationship studies (eg Larson and Starr, 1993). These factors are outlined below (NB the prefix ‘F’ refers to ‘formation’; numerical ordering is for presentational purposes and does not imply relative importance). In each case, a brief explanation and interpretation is supported by illustrative extracts from the interview transcripts.

Retailer and supplier responses suggest that each of these factors can have a material effect on the formation process. In some cases, their presence appears to be a sufficient incentive for the retailer to loosen or even to waive the tight operational constraints that are otherwise placed on its supplier base. At the same time, retailers are placing considerable additional demands on those smaller firms that are taken on as suppliers. These demands can be interpreted as either ‘nurturing’ or ‘forcing’ the pace at which growth occurs. As a consequence, large customer firms are offering a challenging learning experience for the SME, tempered by the prospect of accelerated growth and its consequences, both positive and negative. It would seem reasonable to assume that certain factors have special significance for the fresh produce sector, given the seasonality and perishability characteristics discussed previously. A review of the wider literature, however, suggests that most of the factors are, perhaps to varying degrees, applicable across other contemporary supply chains (Harland, 1996; Sinclair et al., 1996; Ebers, 1999).

(F1) Getting closer to source

The logic behind closer supply chain coordination relates to the multiple retailers’ demand for continuous consistent quality (CCQ), bolstered by the legislative pressures enshrined in the Food Safety Act 1990. In addition, successive ‘food scares’ and increased affluence have combined to increase consumer awareness, creating a climate where effective ‘due diligence’ is of paramount importance. As a consequence, retailers attach value to closer relationships as providing enhanced product quality assurance, plus the ability to trace products direct to source.
(F1a) ‘There is certainly a much greater interest on the part of our major customers now in our methods of farming, traceability of our products … beyond the issues that used to be important, like packhouse facilities and the quality of the product.’ (Strategic manager, supplier 6, field vegetables and salads)

In this context, smaller suppliers are perceived by retailers as offering an intimacy and immediacy that is often lacking in large firms. This is indicated by the retailers’ experience of by-passing marketing intermediaries at a strategic level, and the importance attached to direct and personal contact with suppliers at an operational level.

(F1b) ‘You have seen a change in the industry over the last three years, from marketing bodies that used, for the want of better words “middle men”, to a dramatic change where suppliers are selling virtually direct to retailers. They are now communicating direct … planning their programmes and everything else.’ (Senior manager, retailer 7)

(F1c) ‘I think [supplier type] does affect the relationship in the sense that it is how close you get to the people who are making the decisions. I think this is the key thing, with [names small supplier] you know who is making the decisions, it is “John” and [his daughter] “Jane”.’ (Operational manager, retailer 7)

(F2) Greater motivation to collaborate

Smaller suppliers appear to offer retailers a greater ‘appetite’ for collaborative work. Examples given include the development of new products and joint sales promotions. This perception is particularly strong at the operational level, where the buyer or merchandiser is under considerable pressure to ‘deliver’ innovative and profitable new lines:

(F2a) ‘I have some growers that are family-run, and you have greater contact with the managing director or [packhouse] director … but the will and the wish to move forward and strive together is that much greater than with some of the bigger packers who resemble, I suppose, a “plc”.’ (Senior buyer, retailer 5)

(F2b) ‘My business is majority [retailer 3] in this factory, probably into the “90 per cents”. The rest of the business is with [retailer 3] suppliers. If I were to supply [retailer 5] out of this factory, that would be a mega issue. Their [retailer 3’s] investment is keeping this factory going. This factory is dedicated to [retailer 3].’ (Senior manager, supplier 2, prepared vegetables and salads)

(F3) Absence of competitive threat

As the ‘Cola Wars’ of the mid-1990s demonstrated, retailers often perceive large branded goods manufacturers as competitors. Increasing concentration on both sides of the dyad seems to indicate that this ‘battle of the giants’ will continue. The interview evidence suggests that, in contrast, retailers’ relationships with smaller suppliers are rather more supportive, if somewhat paternalistic. Such relationships may also be interpreted as a defensive tactic on the part of the
This defensive response to a perceived competitive threat is illustrated by retailers’ desire for exclusivity of supply. Larger suppliers are likely to have well-developed relationships with other multiple retailers. This raises two major concerns for the retail manager. First, there may be problems in securing the ‘best’ output from the supplier. (This is a particular concern when product quality or continuity of supply is affected, by adverse weather conditions, for example.) Secondly, there may be a leakage of intellectual property, such as novel product concepts or manufacturing technologies, which have been developed in conjunction with the supplier. Hence, exclusive supply by a smaller firm may offer some assurance to retailers, that ‘their’ innovation is shielded from rival firms.

(F3b) ‘There has been a development whereby retailers have actually encouraged small producers that they believe they can have some exclusivity from. Certainly in [retailer 4’s] case, they are nurturing some smaller people who they feel can do a good job, but will give them perhaps the highest priority.’ (Senior manager, supplier 6, field vegetables and salads)

(F3c) ‘There is always this thing in the back of your mind that, if you are not getting a product, are [retailer 2 or 5] getting it?’ (Operational manager, retailer 4)

(F4) Source of innovation and differentiation

(F4a) ‘We have steered ourselves to advising different [vegetable] varieties for [retailer 5] . . . We are recognising [retailer 5’s] interests in providing a wide range of food tastes . . . My view is that we must always be innovative to maintain our position as a senior [retailer 5] supplier, and in the long-term to become a bigger supplier . . . We must be able to go to them and say: “Have you looked at this? . . . I am a bit concerned that one of your competitors is developing such-and-such … we have got an answer to that”. ’ (Managing director, supplier 3, field vegetables and salads)

Of course, the long-term viability of these supplier-generated innovations will vary. Despite test marketing, consumer response remains difficult to predict. Retailer statements and actions, however, demonstrate the perceived importance of such initiatives. For example, the small, family-owned supplier referred to in the following response was able to secure joint-branding with the retailer, a rare concession in this product category:

(F4b) [Supplier 9] will do research, consumer listening groups, they will actually go out to stores and speak to customers and produce managers. So it was on the back of that we developed the [packaging] with the supplier’s ‘phone number on it . . . The packaging changes were driven by [supplier 9].’ (Senior manager, retailer 7)

Product innovations often require novel processes. The next example illustrates the way that technical and merchandising aspects can be dealt with collaboratively, to the benefit of both retailer and supplier. As in all the companies researched, the supplier’s financial commitment was not underwritten by the retailer, the work being undertaken on the basis of mutual trust, developed over a number of years:
(F4c) ‘We were looking at [an innovative vegetable product]. We experimented with it, and it sold reasonably well, but it was from a small piece of “Heath Robinson” type of machinery, which didn’t really work very well if the quality was a bit dubious . . . So we set up a [joint] working party and went off around Europe looking at machinery. We agreed with [supplier 2] what this product line would sell [and] what we thought they could invest . . . They have invested money on the basis that we are launching this range and we have the confidence that it will sell.’ (Senior buyer, retailer 3)

(F5) **Capacity for investment and growth**

(F5a) ‘We try to be objective and it’s “horses for courses”. We judge a company on its merits. This Friday we will be sitting down at . . . with three small cooperatives. The agenda may be smaller but the principle is the same. They, for us, are as important as a big company is.’

(Trading director, retailer 1)

(F5b) ‘The top 20 suppliers to [retailer 3] account for 70% of our turnover. So if you are a top 20 supplier, you will have a relationship with this company which is very special. And therefore we would play a major part in formulating their plans; they would play a pretty major part in formulating ours . . .’ (Senior manager, retailer 3)

As extract (F4c) suggests, innovations often require significant capital investment by the supplier, including the introduction of new processing and information technologies. Following a successful ‘trial’ period, suppliers are expected to take the initiative, increasing throughput and broadening product ranges. Subsequent growth can be explosive, demonstrating a capacity for firms in such relationships to develop beyond previously perceived limits (Penrose, 1959):

(F5c) ‘During the last five years, the business has expanded by 25 per cent a year, from fairly low beginnings â€“ ten times the turnover in ten years, but it has all happened in the last five years . . . you have to recognise that all of the extension and development has to come from existing supermarkets . . . 70 per cent of our business is with [retailers 3 and 5].’ (Senior manager, supplier 7, prepared salads)

There is a counter-argument, however, recognised by both the retailer and supplier interviewees. This suggests that suppliers can become too large, resulting in disadvantages on both sides. On the supplier side, owner-managers’ fear of losing control and independence is a generic obstacle, well established in the literature (Storey, 1994: 146). However, retailers may also represent an obstacle to growth, beyond a certain point. If suppliers themselves grow into large firms, it appears that retailers perceive them as lacking some of the beneficial characteristics outlined under the six ‘facilitating’ factors:

(F5d) ‘People like us will get bigger and bigger. But there is a maximum size; if you go beyond it, you have got problems.’ (Operational manager, supplier 8, glasshouse salads)
(F5e) ‘We don’t have a partnership supplier who is huge. Because we are moving so quickly, it would be frustrating to go through four or five layers of management to get slagged off.’ (Category manager, retailer 7)

(F6) Resolving sporadic conflict

(G1a) ‘[There is sometimes] war at the coalface but all sorts of harmony and great discussions at the pithead . . .’ (Owner-manager, supplier 8, glasshouse salads)

From the retailer perspective, the most common reason for a temporary breakdown in relationships is failure to meet quality, price, availability, exclusivity and service parameters. Suppliers describe similar ‘flashpoints’. The retailer side of the dyad commonly differentiates resolvable from unresolvable conflict on the basis of what is amenable to negotiation. If unchecked, resolvable ‘performance’ issues can quickly escalate into unresolvable crises. Clearly, performance and ‘people’ problems are closely intertwined, with both parties tending to personalise their differences:

(G1b) ‘What we really have problems with are if there are differences of attitude, or if we don’t think they are committed to what we are doing. Those are the bad ones, the others you can patch up and get back on the rails.’ (Buyer, retailer 3)

(G1c) ‘[In 1996] we were on the point of giving up on [retailer 7] completely. Suddenly they understood that we were in that situation. The buyer backed off and we were able to have some very good discussions with them. That is as near as we have come to a crisis.’ (Operational manager, supplier 9, mushrooms)

In terms of Hardy’s (1996) analysis, it appears that both parties are mobilising power in its various forms (ie resources, processes and meaning). For example, the retailer has the ultimate ‘resource’ sanction of being able to ‘hire and fire’ suppliers. The supplier’s valued expertise, however, in terms of consistent product quality, continuous supply and innovation, may generate a form of resource dependency on the part of the retailer of a kind previously identified in fields involving high technology (Blois, 1996: 332). The interview evidence suggests a critical dual role played by the parties’ shared attitudes and substantive commitments of this kind. When present, they contribute directly to conflict resolution. Their absence, however, leads to an escalation of the conflict and the increased likelihood of breakdown or downgrading of the supplier. The interview evidence thus points to an important connection between quality of interaction and relationship type. (The dynamics of this link are considered in more detail in the ‘Growth Process’ section below.)

From formation to growth?

In combination, these six factors (F1: getting closer to source; F2: greater motivation to collaborate; F3: absence of competitive threat; F4: source of innovation and differentiation; F5: capacity for investment and growth; F6: resolving sporadic conflict) are regarded by the interviewees as playing a key role in enabling small–medium firms to form relationships with multiple food retailers. By matching interviews across the retailer–supplier dyad, it is possible to
see how each factor represents both the capabilities required of small-medium suppliers and the logistical and marketing needs of their retailer ‘customers’. Furthermore, these factors seem to have a cumulative effect over time, drawing the parties into a closer relationship. This finding is reflected in the relationship marketing literature (Gronroos, 1994; Gummerson, 1987), and in entrepreneurial network studies (Aldrich, 1999; Ebers, 1999; Larson, 1992). The importance that retailers have attached to this combination of factors can be related back to contextual changes in this supply chain, described previously (ie oligopolistic competition between large retail firms in a fairly static food retail market), where rationalising pressures are, to some extent, offset by the market-driven demand for enhanced product quality, traceability, innovation and range. The paper contends that, in order to provide a contextualised explanation of the growth of supplier firms, it is necessary to embrace the processes which have encouraged the formation of closer vertical relationships, and those which have enabled certain suppliers to respond to this emerging ‘productive opportunity’ (Penrose, 1959). The next section is also based on a content analysis of the matched in-depth interview transcripts. It introduces two additional process factors and discusses how their interaction affects the ongoing relationships, contributing to the growth of the small-medium supplier.

Growth process: transition and learning

The interview evidence suggests that, as vertical relationships evolve, the six ‘facilitating’ factors continue to play an important sustaining role. Of these, the requirement for innovation and reinvestment on the part of the supplier would appear to have the most direct and obvious implications for firm growth. Two additional process issues, emerging from the analysis, however, are regarded as fundamental to the ongoing relationship and its role in encouraging growth in the supplier firm: One, that relationships are subject to customer-determined typologies, which set the pattern for subsequent interaction; two, that transition to an enhanced relationship type leads to the generation of new knowledge and perceptions across the dyad. These issues have been identified in previous studies of supply chains and spatial networks (Gummerson, 1987; Harland, 1996; Keeble, 1998). Less attention has been paid to their implication for the growth of firms, however. Furthermore, this research study asserts that it is in the process of negotiating a way through these issues, that supplier firms generate the capabilities that cause them to experience rapid growth (Penrose, 1959). This Penrosian interpretation directs attention towards the linkages between all of the factors discussed. Hence, although clarity requires that the ‘growth’ factors are identified separately here (ie with a ‘G’ prefix), their contribution to the growth process needs to be viewed in conjunction with the six ‘formation’ factors described in the previous section.

(G1) Transition: Securing ‘developmental’ status

The nature and outcome of a relationship is largely determined by the way that retailers categorise suppliers. Terminology varies between firms, but three distinct supplier categories are described by the respondents, and movement between categories is subject to similar contingencies, outlined below. This categorisation appears to be consistent with research into other supply chains (Fuller et al., 1996; Harland, 1996; Vlosky and Wilson, 1997):
(1) **Transactional or marginalised suppliers**: Firms that either reject, or are rejected from, the relational sourcing schemes of major retailers. As a result they are only used on an ad hoc basis, with little or no long-term commitment from either party. Established suppliers may also become marginalised, following changes on either side of the dyad.3

(2) **Developmental or embryonic suppliers**: Typically, new or smaller firms, often operating in specialised, complex or uniquely attractive markets, in which retailers are prepared to invest additional effort in order to secure a productive long-term relationship.

(3) **Preferred or key suppliers**: Established firms which have traded with a retailer over many years. They may also act as ‘first-tier’ suppliers, coordinating a network of smaller ‘second-tier’ suppliers. Such ‘hub and spoke’ activity may lead to selective acquisition of second-tier firms.

Owing to the nature of this study, most of the suppliers interviewed were identified as having embryonic or developmental status. Retailer and supplier firm managers recognised that such categorisation has a profound impact on subsequent interactions. For example, one buyer reported how the status of certain suppliers can change over time:

(G1a) ‘[These suppliers] start off as “core”, and then move into “developmental”, those that we want to develop relationships with . . . and then into “super suppliers”.’ (Buyer, retailer 7)

Discussions with developmental suppliers were characterised by one retailer as, ‘frank’, ‘very open and honest’, with ‘a greater, more frequent contact’ and a tendency to focus on strategic rather than operational issues. Enhanced status was signified to suppliers through readily identifiable changes in approach. For example, many retailers engaged in less routinised checking; some granted major promotional concessions, such as the joint branding of products (ie rather than the anonymity of the retailer’s ‘own label’). Developmental suppliers were also aware of less tangible, but strategically important, attitudinal differences that followed the change in status:

(G1b) ‘We have been appointed their [Retailer 7’s] developmental supplier; they obviously like us.’ (Senior manager, supplier 9, mushrooms)

The main implication for small-medium food manufacturers and processors is that the initial key to growth in these relationships is to focus attention on securing the status of a ‘developmental’ supplier. It is this category of relationship that appears to provide the knowledge transfer, progressive market access and incentivisation that supports SMEs on a high growth rate trajectory. Developmental status may subsequently be formalised, whereby a firm is designated a ‘preferred’ supplier for a given product or category. In terms of firm growth, however, the critical transition is from transactional to developmental supplier. The route to developmental status varies according to product category and to the respective philosophies of retailer and supplier. Research into network formation, however, has suggested that certain individuals can act as ‘catalysts’ (Ebers, 1999). In the vertical relationships discussed here, retail buyers and technologists are often seen as playing this catalytic role. The personal qualities
of particular buyers can influence relationships profoundly. For suppliers, it is the nature of their interactions with retailers, rather than the current size of their firm, that proves decisive in developing relationships.

**(G2) Learning: Acquiring new knowledge and broader horizons**

The power exercised by larger firms can undoubtedly lead to an inequitable distribution of the returns generated by ‘value added’ (Hardy, 1996). It is also clear, however, that small-medium firms can benefit from exposure to a large and demanding retail customer. These relationships appear to ‘broaden the horizons’ of the supplier, exposing them to new ways of thinking and acting. Writing in a single firm context, Penrose (1959) recognised how both explicit and tacit knowledge in her terms, ‘objective knowledge’ and ‘experience’, develop together over time as new managers are introduced into the organisation, a process she termed the ‘receding managerial limit’:

‘The experience gained is not only of the kind … which enables a collection of individuals to become a working unit, but also of a kind which develops an increasing knowledge of the possibilities for action and the ways in which action can be taken by the group itself, that is, by the firm. This increase in knowledge not only causes the productive opportunity of a firm to change in ways unrelated to changes in the environment, but also contributes to the “uniqueness” of the opportunity of each individual firm.’ (Penrose, 1959: 52–53)

This research suggests that a process consistent with Penrose’s ‘receding managerial limit’, may be occurring in developmental supply relationships. It is clear, for example, that suppliers’ perspectives on the growth of their firms can change dramatically as the new demands of developmental status are experienced and incorporated, echoing Freel’s (1998) finding on attitudinal changes in post-start-up firms:

**(G2a)  ‘When [retailer 7] became a customer here, initially the thing grew at a very rapid rate. We came up here with 36 people and within three months we had 180. They guaranteed us a minimum of 500 pallets a week and last year we averaged 2,800. That is how it grew.’**

(Senior manager, supplier 5, ‘top fruits’)

A strikingly similar collective learning dynamic is also evident in recent work on regional firm clusters (Aldrich, 1999; Keeble, 1998), with geographic proximity substituting for closer vertical linkages (Ebers, 1999). The evidence collected in the fresh produce supply chain suggests that developmental suppliers are, in effect, ‘learning’ from their large retailer customers, both directly, by acquiring knowledge (e.g. market intelligence, technical specifications, improved logistics) and indirectly, as their responses to the challenges of innovation and reinvestment generate new demands and a further cycle of activity and experience. This learning and reinvestment both supports, and is supported by, the supplier status transitions, enlarging what Penrose termed their ‘productive opportunity’. For better or worse, it is this recursive interaction which contributes to the rapid growth of favoured supplier firms.4
Conclusions and recommendations

This paper has explored the growth process through the experiences of SMEs which are engaged in supply relationships with multiple food retailers. It has related the prevalence of these relationships to changes in their industrial context, and has challenged the view that they are necessarily harmful to the small-medium supplier (Dobson Consulting, 1999). The primary research findings highlighted six ‘facilitating’ factors in the formation of relationships. The related discussion has indicated why large retailers need small-medium fresh produce suppliers. It has also considered how suppliers can overcome the challenges posed by these factors. Two additional factors have been identified as contributing to the subsequent growth of supplier firms. The first of these is transition to an enhanced or ‘developmental’ supplier status. The paper supports the view, found elsewhere in the supply chain literature, that this transition is of critical importance in securing a more equitable and mutually beneficial relationship. It has also pointed out, however, that such transitions are the result of a second, closely related process of ‘learning’, where the supplier’s knowledge and business horizons are expanded. Smaller firms that are successfully negotiating the challenges of today’s food retail supply chain appear to deploy their resources and interact in ways that are both distinctive and valued by their retailer customers. At the same time, they undergo a process of change which involves their supplier status (ie transitions from purely transactional to ‘developmental’ and perhaps to ‘preferred’ supplier), but also their knowledge and attitudes. It is these complex interactions between internal and contextual factors that can lead to a self-reinforcing cycle of Penrosian learning and reinvestment.

At the outset, it was noted that previous attempts to predict high rates of growth have proved disappointing (Storey, 1994). One plausible explanation is that, in seeking to isolate generic and immutable characteristics, there has been a tendency for researchers to obscure or underplay the idiosyncratic, changeable and interacting factors which lead to the growth of firms. Process-based approaches to growth can contribute to resolving this problem. There is still considerable work to be done, however, in constructing a workable model that can address multiple levels of analysis (Perren, 2000).

Policy implications and research issues

There are a number of policy implications and issues which merit further research. The processes described in this paper appear to have strong parallels in other supply chains. Hence, there needs to be an increased recognition by the support and advisory community of this form of inter-organisational relationship as a potential route to growth. The six facilitating factors offer a provisional framework for assessing the potential of firms to engage successfully in such relationships. It is evident, however, that developments in the broader industrial context also need careful consideration. More specifically, small-medium suppliers need to evaluate the potential of alternative and emerging routes to market. The managers of these firms should also consider whether they are likely to offer ‘customer’ firms benefits that can be sustained and enhanced through a closer supply relationship, bearing in mind the transformative effects that such a relationship is likely to have on their own ‘bundle of resources’ (Penrose, 1959). The research has indicated that progression beyond the formation stage is underscored by a number
of critical resource, managerial capability and communication issues. These may also offer scope for intervention, in the form of focused training and development, initiated by external agencies or, perhaps more effectively, by large ‘customer’ firms. The UK food industry’s recent ‘Small Food Producers Support Initiative’ provides a useful model which encourages the transfer of expertise between large and small firms. These exchanges, however, are not based on existing supply relationships between the participants. Instead, the large firm is recruited as a temporary ‘mentor’ (IGD, 1999b). While endorsing such initiatives in principle, it is important to caution managers and advisers against an overly mechanistic and ‘biddable’ view of a firm’s resources and capabilities (Scarborough, 1998). The uniqueness and inimitability of certain small-medium suppliers, which contributes to their attractiveness (Barney, 1991) is to a large degree the product of tacit and socially embedded knowledge. These same characteristics place severe limitations on managerial intervention and manipulation. Hence, while it may be relatively straightforward to identify what is needed to achieve ‘developmental’ supplier status, getting there is more problematic.

From a research perspective, the study has investigated the growth of firms in a relatively unexplored context, the vertical inter-firm relationship. It has also indicated the potential of a processual and resource-based approach to growth. This supports the argument, presented in the opening section, that richer explanations can be obtained when discrete and static analysis of the firm, the entrepreneur and strategy are replaced by more integrated and dynamic conceptualisations. Concepts such as the ‘receding managerial limit’ (Penrose, 1959) offer researchers ways of dealing with the complexity that these approaches entail. It is hoped that, in future studies, it will be possible to test the generalisability of the process characteristics outlined in this paper, to SMEs engaged in other contemporary supply chains, and also to extend the scope of the analysis so that it embraces more complex network relationships.

A working, dynamic model of firm growth is still far off, but it is possible to map out a more promising path in that direction.

Notes

1. The paper focuses on relationships between small–medium supplier firms, defined in terms of employee numbers, financial and independence criteria (ie the 1996 European Commission definition, where ‘small’ equates to between 11 and 50 employees and ‘medium’ to between 51 and 250), and the seven largest UK multiple food retailers (ie Tesco, Sainsbury, Asda, Safeway, Somerfield, Marks & Spencer, Waitrose), which satisfy ‘large’ firm criteria and employ many thousands of staff in the UK. The well-rehearsed and largely insoluble problems of defining firm size (eg Penrose, 1959; Storey, 1994) do not detract from the clear size differences between these retailer and supplier firms.

2. The opening section of this paper illustrates recent changes in the structure of the UK agrifood industry using simple concentration ratios, based on market share (eg CR4: value terms share of the four largest firms in the sector). A more formal structural analysis of the industry is given by Ennew and MacDonald (in Strak and Morgan, 1995). The paper contends that the developments in the sourcing activities of large UK food retailers, along with other contextual factors, have contributed to the rapid growth of certain small–medium food suppliers. This does not imply a direct causal relationship between industry concentration and firm growth.
3. The focus of this paper is justified by the socioeconomic impact of ‘successful’ supply relationships, including their implications for employment. The dynamics of failed vertical relationships and the trajectories of firms pursuing alternative strategies are also worthy of further study.

4. One important critique of this argument is that preferred suppliers grow (in effect) ‘automatically’, as large firms rationalise their supply base. Such rationalisation certainly increases the productive opportunity open to the surviving firms, but in order to explain their ability to exploit that opportunity, the authors argue that it is necessary to revert to a process-based analysis of supplier firms’ resource base.

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Appendix 1: Interview Schedules

There are two versions of the interview schedule, for the supplier and retailer firms. The questions are similar, to enable comparison across the dyad, and represent part of a wider study of supply chain relationships. Owing to space limitations, the retailer schedule only is reproduced below. Further details are available from the authors.

(1) Describe, briefly, the responsibilities and reporting structure relating to your position within your organisation and the fresh produce function.
(2) Describe the internal relationships between strategic and operational managers.
(3) Describe the pattern of communications, contact and meetings that you have with: (a) established suppliers, and (b) new or developing supplier relationships. Supplier example(s)?
(4) What is discussed?
(5) How is communication normally initiated with: (a) established suppliers, and (b) new or developing supplier relationships? Supplier example(s)?
(6) Describe the atmosphere of your dealings with your supplier contacts. Supplier examples(s)?
(7) Describe how relationships typically develop with your suppliers. Supplier example(s).
(8) Describe what happens if disagreements arise between you and suppliers. Supplier example(s)?
(9) Describe typical changes (to product or supply) that come about from dealings with your suppliers. Supplier example(s)?
(10) How have relationships with suppliers developed, in say, the last five years? Supplier example(s).
(11) How do you feel that relationships with suppliers will develop in the future?
(12) What do you believe causes relationships with suppliers to break down?
(13) For what reasons would you choose not to embark on a relationship with a supplier?
(14) How important is social interaction or ‘socialising’ between suppliers and retailers?
(15) What do you understand to be meant by a ‘partnership’ or ‘relationship’ approach to dealings with suppliers?
(16) What is your organisation’s view on forming close ‘partnerships’ with suppliers?
(17) How do you feel about forming a ‘partnership’ with a supplier?
(18) Who in your organisation is most involved in industry ‘partnerships’?
(19) Why do you think that multiple retailers want to/don’t want to form ‘partnerships’?
(20) Are there certain areas of your business, or specific incidents where a ‘partnership’ approach has been applied to good effect/or could apply well?
(21) Example of where it has not worked/would not work? Supplier example(s)?
(22) Do you believe that the nature of fresh produce has a bearing on the formation and success of ‘partnerships’ with retailers?
(23) How important do you think that the type of supplier organisation is a factor in dealings with your organisation? Supplier example(s)?
(24) If you have any formalised documentation relating to your organisation’s dealings with suppliers, what is contained in these?
(25) What is your view of such documents?
(26) How did any such formal documentation come about?
(27) Can you cite any improvements, benefits or opportunities from your dealings with suppliers? Supplier example(s)?
(28) In what ways do you think that suppliers benefit from your relationship with them?
(29) Describe how the relationship between your organisation (and fresh produce business) has developed with your customers, over say, the last five years.
(30) With regard to fresh produce, what will be the determining influences upon future customer relationships?
(31) Describe your relationship with depot and store operations staff.
(32) Describe your relationships with outside influential bodies (business analysts, trade associations, press, research organisations, competitors etc).
(33) Describe the influence of any referral business (business leading from or endorsed by joint development with other organisations, or through customer referral).