RETAIL CHAINS:
MARKET POSITION AND EXPLOITATION

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ABSTRACT

Large constellations of multi-national super- and hypermarket chains dispose a significant share of the total volume of seafood products demanded in the European market. These chains have a considerably market position, allowing them to control their suppliers. This paper is based on two research questions; (i) how do the retailers exploit their market position, and (ii) what are the resulting logistical consequences for their suppliers.

An interview survey has been carried out among supermarket chains in Norway, Spain, Portugal and United Kingdom in order to address these questions. The topics covered in the interviews were purchase strategy regarding species and products, quality, logistics, suppliers and type of cooperation, market development and future trends.

This paper presents the results from the survey, and discusses the retailers' supplier strategies and the corresponding consequences. The information has been analyzed in order to address mutual and geographical variations among the chains and their markets.

One of the significant results is that the majority of retailers, independent of nationality, prefer to invest in a close and long term relationship with a limited number of suppliers. However, the agreements are often considered as an authorisation to do business rather than committing contracts. Hence, the retailers prefer to form a relationship based on the security and benefits of a relational contract, but with the flexibility and competitive elements of a discrete market based relationship. This might give high risks for the suppliers.

Key Words: *Retail, supply, purchase strategy, supermarket chains, buyer-supplier relationship*

1. Introduction

Retailer concentration has been massive and has accelerated into the last decades either by integration of retailers through merger and acquisition or by establishing joint ventures or franchises (Ogbonna and Wilkinson 1998). Throughout the same period retail internationalization has been extensive as companies have sought additional growth opportunities outside their home market. These structural changes have lead to fewer but larger and more international retailers as Wal-Mart/Asda, Carrefour, Royal Ahold, Delhaize and Tesco, each with a considerably market position in the European and US retail market (Rugman and Girod 2003).

Concentration on the manufacturing side is another characteristic aspect which has taken place in the fishery sector. Suppliers (breeders, hatcheries, fish farmers and processors) have merged and integrated in larger business units in order to strengthen their position and to deliver what is demanded to competitive prices. The integration on the supply side has been both between competitors, with suppliers of raw materials and sales, and between national and international companies. Today the fish-farming sector in Norway is dominated of five major companies: Nutreco, Panfish, Fjord Seafood, Stolt Sea Farm and Cermaq (Hellebust 2002).

Constellations of multi-national super- and hypermarket chains dispose a significant share of the total volume of seafood products demanded in the European market. The retail business is approaching a central position as purchaser of fish in the European market at the sacrifice of traditional intermediary actors as fishmongers, importers and minor fish selling companies. This gives them a considerable position in the supply chain both towards customers, manufacturers and suppliers, allowing them to influence and conduct the suppliers. International retailers prefer to buy from a set of few and predefined suppliers, who offer a broad product range and security of supply. Also the retailers request a flexible supply system, which is able to deliver 5-7 days a week, is predictable, and have traceability (Olsen and Storøy 1997). This will probably affect how seafood products are replenished, and how logistics will be designed and practiced in a situation when retailers are taking responsibility for many aspects of the supply chain including logistics. According to Fernie and Staines (2001) this has reduced the suppliers' responsibility for the supply chain. The most important logistical elements in this context are the distribution structure, the access and insight into customer information and the development and use of ICT-systems.

This paper addresses the relationship between buyer and supplier of fish products and how this affects the logistical system. The paper presents results from an interview survey among European retail chains. Two research questions are addressed; (i) how do the retailers exploit their market position, and (ii) what are the resulting logistical consequences for their suppliers.

2. Theoretical approach

There is an extensive body of theory and research related to the nature of buyer-supplier relationships, which in turn are based upon an even broader mass of literature from a wide range of disciplines on interorganizational relationships and cooperation, such as marketing, economics, behavioural scientists, etc. (Bloom and Perry 2001). Today, supply chain relationships between companies are seen as an essential competitive factor due to the strength of the cooperation itself, and the need for access to external resources through others who possess complementary skills or assets (Golicic et al. 2003; Child and Faukner 1998; Kitson and Michie 1998; Kanter 1994; Coase 1990; Oliver 1990). Thus the interplay between buyer and supplier, and specially the balance and ability to cultivate and develop the relationship, is seen as a critical element (Jarillo 1995). According to Christopher (2005) competition will to a larger extent occur between supply chains than between companies.

It is argued that as competition has grown harder there has been a shift in the level of intensity among trading partners (Schary and Skjøtt-Larsen 2001; Tyndall et al. 1998). This trend is worldwide and involves nearly every industry and market. It can be seen as a change from transaction-based relationships toward long term relationships. The relationship intensity can be ranged from cooperation, via coordination to collaboration. Cooperation is when companies exchange bits of essential information and engage some suppliers or customers in longer-term contracts. The next level of intensity is coordination whereby specified workflow and information is exchanged in a manner that allows JIT-systems, EDI and so on to make many of the traditional linkages between and among trading partners seamless. The highest level of intensity is collaboration, when companies have a joint planning system, share technology and there is organizational integration between them (Simatupang and Sridharan 2002).

Based on Macneil's (1980) relationship classification Dwyer et al. (1987) has summarized the polar archetypes of exchange on 12 contractual dimensions, presented in Table 2.1.

Table 2.1 A Comparison of discrete transactions and relational exchange (Dwyer et al. 1987)

Contractual elements	**Discrete transactions**	**Relational exchange**
Timing of exchange	Distinct beginning, short duration, and sharp ending by performance	Commencement traces to previous agreements; exchange is longer in duration, reflecting an ongoing process
Obligations	Content comes from offers and simple claims, obligations come from beliefs and customs	Content and sources of obligations are promises made in the relation plus customs and laws; obligations are customized, detailed, and administered within the relation
Expectations for relations	Conflicts of interest and little unity are expected	Anticipated conflicts of interest and future trouble are counterbalanced by trust and efforts at unity
Primary personal relations	Minimal personal relationships; ritual-like communications predominate	Important personal, non-economic satisfactions derived; both formal and informal communication are used
Contractual solidarity	Governed by social norms, rules etiquette, and prospects for self-gain	Increased emphasis on legal and self-regulation; psychological satisfactions cause internal adjustments
Transferability	Complete transferability; it matters not who fulfills contractual obligations	Limited transferability; exchange is heavily dependent on the identity of the parties
Cooperation	No joint efforts	Joint efforts related to both performance and planning over time; adjustment over time is endemic
Planning	Primary focus on the substance of exchange; no future is anticipated	Significant focus on the process of exchange; detailed planning for the future exchange within new environments and to satisfy changing goals; tacit and explicit assumptions abound
Measurement and specificity	Little attention to measurement and specifications; performance is obvious	Significant attention to measuring, specifying, and quantifying all aspects of performance, including physic and future benefits
Power	Power may be exercised when promises are made until promises are executed	Increased interdependence increases the importance of judicious application of power in the exchange
Division of benefits and burdens	Sharp division of benefits and burdens into parcels; exclusive allocation to parties	Likely to include some sharing of benefits and burdens and adjustments to both shared and parcelled benefits and burdens over time

Table 2.1 shows that relational aspects appear when the supplier schedules repetitive deliveries and the exchange transpires over time. In a relational exchange the relationship becomes long-termed, continuous and binding at the same time as the level of conflict and use of force is expected to decline (Simatupang and Sridharan 2002). Expectations and fulfilments will play a significant role, together with trust and personal bonds. Such collaborative relationships are often referred to as being well-balanced, harmonized and representing win-win situations between buyer and supplier.

Within the grocery sector several examples of such logistical relationships appear. Common for all these concepts is the purpose to improve efficiency and reduce uncertainty through the use of information and integrated exchange of goods (Busi and Dreyer 2004). Efficient consumer response (ECR) focuses on fulfilling customer's needs better, faster and at a lower cost through improving product assortment management, product replenishment, and exploitation of information technology. Another similar concept is quick response (QR) where the motive is to continually meet changing requirements of a competitive marketplace which promotes responsiveness to consumer demand, encourage business partnerships, makes effective use of resources and shortens the business cycle through the chain from raw materials to consumers. QR is implemented by monitoring retail sale for specific products and sharing information across the supply chain to guarantee that the right product assortment will be available when and where the supply is required. Other initiatives address a better balance between demand, production and inventory in order to reduce or eliminate excess inventory. Continuously replenishment programs (CRP) are initiated in order to eliminate the need for replenishment orders. The supplier is responsible for the continuously replenishment of the customers inventory. A similar approach for eliminating the need for replenishment orders between suppliers and buyers is to let the vendor manage the customer's inventory – vendor manage inventory (VMI). Besides assuming a collaborative relationship, these concepts imply both the sharing of sensitive information and relational specific investments which underscore a relatively harmonized relationship between the buyer and supplier.

However as the interest for this kind of buyer-supplier relationships increase, an extensive literature debate reflects upon the power balance between the buyer-supplier partners. Especially in grocery and trade related sectors trade press has suggested that retailers are increasing their relative power. Through their access to market information they gain advantages from manufacturers by making demands as price and discounts conditions, distribution and delivery terms, service level, geographical presence, etc. (Fernie and Staines 2001). There are many definitions of power, for instance do El-Ansary and Stern (1972) define the power of a channel member to be its ability to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution. Power can be viewed as a measure for the dependency between the actors in a supply chain, and power possession contributes to reduced risk for the actor who possesses the power (Wahl 1998). This can be explained by the fact that this actor can foresee future decisions due to its ability to influence them by using the control opportunity.

Historically, manufacturers have controlled the production and distribution system and "pushed" goods down the supply chain through relatively small and fragmented retailers. Today, through the consolidation of retailers the retailers have been able to move to a system where they can decide and "pull" goods from the manufacturers. Large retailers have deliberately moved away from direct purchasing and delivery to each local store towards centralised purchasing and distribution systems, often with computerized ordering and invoicing systems. According to Ogbonna and Wilkinson (1998) it is more likely that the retailers, rather than the manufacturers, will determine logistics structure, stock holding and product range on criteria of space maximisation, turnover, quality and profit margin. The manufacturers' threat is to be replaced as a supplier if one cannot compete on the conditions set by the buyer.

In the automotive business Original Equipment Manufacturers (OEM) have a very significant position and a long tradition for making strict conditions and controlling the suppliers. OEMs require closeness in time, which for the suppliers means either a high replenishment frequency or closeness in localization (warehouse or production facility). This determines the suppliers' logistical structure as localization and transport system. Also they require long term contracts (5-7 years), often with a degree of exclusivity and with claims of cost reductions.

3. Method

The two main research questions addressed in this paper are: (i) how do the retailers exploit their market position, and (ii) what are the resulting logistical consequences for their suppliers. The analysis is related to purchasing of fish products in the European market.

In order to address these questions, a number of buyer-supplier relationships have been analyzed based on data collection among actors (both buyers and suppliers) in the European market. Three main aspects in the buyer-supplier relationships have been studied:

1. **Supplier selection**
   Supplier selection includes the criteria for selecting suppliers and the resulting supplier portfolio. These are important issues in order to understand how the retailers behave and how they assess supplier properties.
2. **Supplier agreements**
   Supplier agreements include both the formality of the agreements, content, and the degree of commitment for both buyer and supplier. These are important issues in order to categorize the contracts as discrete transactions or relational exchange (Table 2.1), and thereby to study the retailers' exploitation of their market position.
3. **Logistics**
   Logistics includes ordering systems, physical distribution systems and measuring suppliers' skills and compliance systems. These are important issues in order to analyze the logistical consequences of the nature of the buyer-supplier relationships.

These aspects are presented and analyzed in section 4.

Empirical data for the analysis is gathered from an interview survey among European retail chains and in depth interviews among Norwegian producers/suppliers of fish products.

<u>Retail interview survey</u>

An interview survey is carried out among 11 European retail chains, located in Norway (2 chains), United Kingdom (5 chains), Spain (2 chains), and Portugal (2 chains).

The chains were selected based on the following criteria:

- *Location*: different geographical markets should be represented
- *Profile and image*: variation in quality, price, consumer preferences and product range were emphasized
- *Availability*: positive attitude was an important condition in order to get into contact with the respondents

1 to 3 respondents in each retail chain participated in the interviews. The respondents cover different functions as purchasing of fish products, product quality, product range and development.

The survey aimed at revealing the retailers' supplier strategy and its consequences on logistical systems by covering four main topics; products, suppliers, logistics, and future trends. Table 3.1 presents examples of elements within each topic.

Table 3.1: Topics covered in the interviews

Main topic	**Examples of elements**
Products	Product range Degree of processing Branding
Suppliers	Number and size of suppliers Agreements Decision criteria Requirements Skills
Logistics	Order system Order frequency Order medium Transport preferences
Future trends	Customer demand Changes in supplier strategy Competition factors between retail chains

Information about the topics was collected in open personal interviews, guided by a semi-structured questionnaire. The questionnaire and interview method made possible a flexible interview situation, which invited the respondents to tell their story without too many interruptions. Furthermore, the open interviews allowed us to follow interesting aspects revealed during the conversation.

The interviews' duration was up to two hours. Gathered information was documented in a written report approved by the respondents after the interview.

A total of 11 retail chain interviews are not sufficient for significant conclusions on the various aspects covered on a general level. However, a qualitative study of each retail chain enables us to discuss the elements for the participating chains, and make comparisons. Hence our conclusions must be viewed in this context.

<u>In depth interview of suppliers</u>

Numerous in depth interviews were carried out among respondents from two Norwegian producers/suppliers of fish products. These interviews covered the same topics as the retail interview survey, but at a much more detailed level. In addition the interviews aimed at a detailed mapping of the actors' logistics, market relations, production, etc.

Many respondents from each company participated in the interviews, representing both operative and strategic levels of logistics, economics, sales, purchase, production, etc.

Gathered information from the in depth interviews will not be presented directly in this paper, but represents an important basis for the analysis carried out and presented in the following.

4. Results and analysis

The interviewed retailers have a significant marked share within their segment and they all have numerous sales outlets. Due to variations in customer demands in different geographical markets, the product spectre varies a lot. Customers in Spain and Portugal for instance, demand unprocessed fresh fish to a large extent, while customers in United Kingdom demand ready-to-eat-food.

In spite of these differences retailers place stringent and similar demands on their suppliers:

- They prefer a limited amount of suppliers
- The suppliers should be pre-qualified and approved
- The supplier should offer a broad product range
- Low price and high quality are invariable demands
- Increased demand for security of supply
- Food products should be safe and traceable

Section 4 is structured in three main subsections addressing the topics supplier selection, supplier agreements and logistics. The subsections cover both results from the retail survey and a brief discussion and analysis of these. Section 5 offers an overall analysis of the results.

4.1. Supplier selection

Pre-qualification and authorization

Prior to entering a business relationship with retailers, suppliers have to prove or document their skills by participating in an authorization process. The required skills vary among the retailers. Examples of relevant factors are product range, product development and innovation, production standard and facilities, product quality level, quality management systems, traceability systems, logistics, references and financial situation. The documentation process often consists of a combination of procedures; preliminary interviews, complementation of questionnaires covering relevant aspects, test delivery of selected products, inspections of production facilities, written documentation, etc. The supplier is pre-qualified or authorized if the retailer finds the documentation sufficient and corresponding to his preferences. Having achieved this, the supplier now has to compete with other suppliers in order to get an agreement with the retailer.

Some of the authorization procedures are extremely extensive, forcing the suppliers to put significant efforts and resources in the pre-qualification process.

Selection criteria

Numerous criteria are being used when selecting suppliers. Table 4.1 presents the number of retailers emphasizing the various selection criteria.

Table 4.1: Supplier selection criterion

Supplier selection criterion	Number of retailers emphasizing the criterion
Product quality	7
Price	6
Service/availability	6
Logistics, reliability, delivery	4

frequency and security for supply	
Product range	1
Product development	1

According to Table 4.1 most retailers are emphasizing more than one criterion, and therefore the total numbers in the second column exceed 11.

The 3 most frequent mentioned criteria for selecting suppliers are product quality, price and service/availability. A total of 7 retailers emphasize product quality, while 6 retailers state that price and service/availability are important selection criteria. The demand for low price and high product quality might be conflicting. Thus, when both quality and price are emphasized by the same retailer, the suppliers might have problems meeting this demand.

It is interesting to notice that aspects like logistics, reliability, delivery frequency and security for supply are not mentioned by more than 4 retailers, and even fewer retailers state that product range and product development are important selection criteria. These criteria are however often included in contracts between the parties, but are not stated as selection criteria. Thus, logistics and the ability to deliver according to the retailers' preferences are necessary qualifications even if they are not explicit selection criteria.

Set of suppliers

The retail chains confirm the global trend towards long term cooperation with a limited number of suppliers. The majority of the retailers (9 of 11) state they do not want many competing suppliers, and thus prefer to cooperate with a limited number. Some of these retailers have not managed to implement this practice yet but are trying to reduce the number step-by-step. It is important to notice that the retailers stress that number of suppliers should not be subcritical; this is regarded as a threat against security for sufficient amounts and a competitive price level and will also represent a monopoly situation for the suppliers. Many retailers want to maintain some competition among their suppliers and will therefore avoid monopoly. This means that even though the retailers reduce the numbers of suppliers, they tend to keep a sufficient amount to enable competition between them. Thus, the retailers can use their market position to obtain good business conditions even when dealing with a limited number of suppliers.

Only 6 of the retail chains offered information about preferences towards small or big suppliers. None of them did prefer only small suppliers; 3 of them wanted to make use of both big and small suppliers, while another 3 wanted big suppliers only. One frequently mentioned reason for preference towards big suppliers was security for capacity and supply.

Suppliers can be producers of primary or secondary products, traders or wholesalers. Table 4.2 presents an overview of which kind of suppliers the interviewed retailers are dealing with.

Table 4.2: Kind of supplier

Kind of supplier	**Amount**
Traders/wholesalers only	1
Producers only	4
Wholesalers and producers	6

According to Table 4.2 most retailers (10 of 11) prefer to deal with producers, and 6 of these prefer to deal with wholesalers as well. This indicates that both producers and wholesalers have an important role in European sales of fish products. In the UK market wholesalers were preferred as suppliers due to their broad product range of fresh, processed and ready made meals.

4.2. Supplier agreement

Written agreements

Two retailers do not have any formal written agreement with their suppliers. One of these plans to introduce a written agreement which regulates conditions like finance, quality and logistics. The second retailer states to have unwritten "gentleman agreements" with its suppliers. "Gentleman agreement" means a common and mutual understanding of the business terms and way to handle the transactions, but without any formal and written contract. The supplier knows what to deliver and the corresponding conditions, and whenever a correction is necessary this is being communicated between the partners.

The other 9 retailers have written agreements with their suppliers, stating variations in included contractual conditions, level of details and formalized descriptions. Most agreements regulate general clauses only, for instance payment conditions and product quality. Only a few regulate conditions as logistics and delivery requirements, sanitary registration and food safety. One of the retailers use an extremely detailed contract which regulates all kinds of conditions as price, product development, production facilities and procedures, traceability, payment terms, future expectation, etc.

Contract period

Most retailers prefer one year contract periods. This means that the contract is renegotiated once a year and renewed if they agree on the contractual conditions. The intention from both parties is to have a long-term relationship and therefore renewal of contracts is common. Thus, regarding timing of exchange (Table 2.1) this situation represents relational exchange more than discrete transactions. Repeatedly contract renewals represent lower investments regarding the authorization process and positioning, owing to the fact that the parties already know each other and have done business together for a long time.

Price and volume

Price is a central subject in the agreements, independent of whether the agreement is written or verbal. However, the price is not handled unambiguous in the contracts. The practise seems to be that the marked price act as a reference when price is negotiated. Several of the retailers negotiate prices each week or in front of each transaction. Thus the price conditions in the agreement are only set as an intentional level dependent on the expected volumes. Marked prices are very transparent and could easily be accessed. Two retailers do not include conditions as price and volume in the agreement, while another one includes price and bonus condition but not volume.

It is interesting to notice the contractual price and volume aspects in the contracts. Prices vary from week to week, and each time a transaction take place, discussions or negotiations will follow in order to decide the price. From an economic point of view this means increased transaction costs due to the price settlement activities. From a logistics point of view, the fluctuating price practice is an obstacle for using or exploiting ICT systems. ICT tools for transmitting order and invoice information and thus an automatic execution of this process assumes a structure of fixed prices. It is possible to transmit variable price information but the process could not be done automatically, implying a less effective solution.

Another interesting element is that the retailers are not obliged to buy the specified volume in the contract. Hence, the suppliers should not consider this a committed volume, but rather an incentive and motivation for offering products to a competitive price. According to the contracts the retailers will consider buying if the price offered each time is competitive. This practice is the same as the contractual condition in the spot marked and the incentive stimulates to the same behaviour as we find in the spot marked. If the supplier can sell to other retailers or customers to a higher price, then he does not feel obliged to fulfil the contract and vice versa. The retailer will choose to buy from the supplier with the lowest price.

Regarding the obligation element in the contract (Table 2.1) this situation represents discrete transactions more than relational exchanges.

4.3. Logistics

Ordering

All retailers except one have a centralised computer-based ordering system, which handles and coordinates demands from the various outlets. The systems are mainly internal, meaning that it handles information from and between the outlets within the retail chain. Centralised purchase of fish products represents increased efficiency in the ordering process, and might enable the retailers to obtain better prices due to large order volumes.

Order frequency varies from once a week (mainly frozen products) to every day (fresh products). For some of the retailers, daily ordering would have been very inefficient if the different outlets should have carried out the ordering themselves.

The retailers are placing their orders by using EDI, fax or phone. Table 4.3 presents the number of retailers using the different order media.

Table 4.3: Order medium

Order medium	Number of retailers
EDI	3
Fax	3
EDI and fax	3
Phone and fax	1

Three retailers are using EDI only when placing an order. This is surprising, since most of the retailers have a centralised computer-based internal ordering system. Thus the demand information is available on an electronic form, and should be suitable for EDI-based ordering.

Phone has not a central role as order medium. However, prior to placing orders phone is very important. Price and volume negotiations are to a large extent carried out by using phone.

Distribution

All retailers have established exclusive distribution networks serving the stores and outlets from central and regional warehouses. A common model is to have a warehouse in each region of the country. It varies whether fresh and frozen products are handled in the same or separate warehouses. Thus, retailers have moved away from direct purchasing and delivery to stores towards centralized purchasing and centralized distribution systems.

Warehouses have strict time slots, allowing the supplier to deliver only within predefined time limits. If the products arrive early or late, the delivery has to wait until next free time slot.

Measuring suppliers' skills and compliance systems

9 of the 11 retailers have a system for measuring their suppliers' skills. These systems vary from random inspections, periodic and systematic inspections carried out by auditing bodies, to quality inspections of all product arrived. Most retailers store this information in order to evaluate their suppliers empirically and document nonconformity deviations. According to Table 2.1 (measurement and specificity), significant attention to measuring, specifying and quantifying all aspects of performance are related to relational exchange.

When quality inspections reveal unacceptable nonconformity deviations, retailers also vary in their sanctioning/response behaviour. 5 retailers introduce improvement programs instead of a punishment practice. This is because they have a common interest in solving quality problems and make the agreement work. 2 retailers punish their suppliers by refusing to receive the products or stop buying their products for a limited period. Another retailer informs the supplier about the deviations without taking any further action. The resulting 3 suppliers have not offered information about their compliance system. Willingness to solve problems together indicates relational exchange rather than discrete transactions (expectation for relations in Table 2.1), but the offered information is not sufficient in order to conclude unambiguous on this aspect.

5. Discussion

A relevant element when discussing how grocery retailers exploit their market position is the nature of buyer-supplier relationships. If we compare the distinction between discrete transactions and relational exchanges (Table 2.1) with the studied buyer-supplier relationships, we find that the various relationship elements lead to different conclusions. The following list sums up the main findings for each contractual element in our empirical material;

- Timing of exchange: Repeatedly renewal of one year contracts indicates *relational exchanges*
- Obligations: Price and volume negotiation on each sale indicates *discrete transactions*
- Expectations for relations: Willingness to solve problems together indicates *relational exchanges*, while punishment practice indicates *discrete transactions*
- Primary personal relations: Extensive degree of personal relationships between the purchaser and supplier indicates *relational exchanges*
- Contractual solidarity: Extensive degree of opportunism from both parties and thereby low contractual solidarity indicates *discrete transaction*
- Transferability: Limited need for specific investments both regarding the physical distribution system, information and technology indicates *discrete transactions*, while the extensive pre-qualification process indicates *relational exchange*
- Cooperation: Attempt to cooperation in product development and solving quality problems indicates *relational exchanges*, while the opposite indicates *discrete transactions*
- Planning: Low degree of exchanging planning information and mutual planning indicates *discrete transactions*
- Measurement and specificity: Significant attention to measuring, specifying and quantifying supplier performance indicates *relational exchanges*
- Power: Extensive use of price competition indicates *discrete transactions*
- Division of benefits and burdens: Low degree of volume commitment and placing the highest risk on the suppliers indicates *discrete transactions*

As indicated this list shows that the studied buyer-supplier relationships show characteristics of both discrete and relational exchange. Some elements are obviously of a discrete character like competitive price and volume condition, low exchange of information and transparency, and lack of responsibility for buying the contractual volume. Other elements have a relational character like repetitive annual contracts and an extensive pre-qualification process. Due to strict quality requirements in the food business the retailers expect that the suppliers are able to document their qualifications. For the suppliers, this implies going through an authorization process and doing considerable relationship investments.

However, when describing the buyer-supplier relationships the retailers indicate an intention for building in a predominance of relational elements. The retailers state a preference towards a limited number of suppliers who are carefully evaluated. This results in a supplier portfolio which gives security for capacity and deliverance. Additionally, retailers prefer suppliers who have the resources to develop and expand, and thus have a potential for being a long-term partner. Literature states that security, costs and other economic related elements are some of the most significant motives for establishing relational relationships (Child and Faukner 1998; Oliver 1990). Relational relationships are considered attractive due to their contribution to increased competitive advantage and win-win situations.

The retail interviews however also indicate preferences towards elements of traditional discrete relationships. The retailers prefer to form a relationship based on the security and benefits of a relational contract, but with the flexibility and competitive elements of a discrete market based relationship. Retailers have a significant market position, allowing them to allocate contracts and define the requirements. The arguments supporting our statement are as follows:

Supplier selection

- The prequalification process is extensive and binding due to the resources invested in the process but contract attainment is not guaranteed.
- Low price and high quality are important selection criteria, leaving only the most competitive and affluent suppliers as relevant contractual partners.
- Competition is an important criterion when retailers form their preferred balanced supplier portfolio.

Supplier agreement

- The agreement is traditional and consists of standard and general conditions. It commits the retailer to a much lower degree than the supplier. For instance, the retail chains do not commit themselves for buying a specific volume and offering a specific price. Volumes are optional, and most of the suppliers have to negotiate on volumes and prices on every single sale. Agreements are rarely exclusive, which implies a low degree of security for the suppliers. They have to operate according to traditional market conditions. If the supplier cannot offer the demanded volumes, their position is weakened and the prospect of contract renewal is decreased. Hence, the suppliers feel an obligation for fulfilling the contract.

Thus, the retailers do commit the suppliers without being willing to offer the necessary security for the suppliers. This means that the suppliers have to offer excellent service, being able to deliver large volumes and a broad product spectre with a good quality, and finally offer a low and competitive price on their products. Suppliers consider retailers as an important market segment, and thus choose to play with these rules.

It can be argued that the retailers exploit their market position to control their suppliers. In this aspect it is interesting to notice the ongoing debate in the Norwegian press regarding market power. The Norwegian milk and milk product producer Tine has major market power in Norway. Tine is being accused for trying to buy shelf place at the sacrifice of the competitive producer Synnøve Finden. Another example is Toys 'R' Us, who used its market power illegally to restrict the opportunities of manufacturers to sell to competing retailers in the late 90-ties (Bloom and Perry 2001; Federal Trade Commission 1998). These examples show that also suppliers can possess significant market power and that exploiting channel power is a highly relevant subject today.

Another question of interest is how retailers' exploitation of their market position affects the suppliers' logistical system.

According to the interviews suppliers are responsible for the logistics from the production facility to the retailers' central warehouse. This includes order processing, production planning, transport planning and deliverance. Normally a transport provider undertakes the transport, but the planning and coordination is done in cooperation with the supplier. From the central warehouse the fish products are distributed to each store in an exclusive system operated by the retailers or their local providers. This means that concerning logistics the suppliers' main responsibility is the planning and operation of long distance transport, with time, frequency and optimal route patterns as essential elements.

This observation corresponds with Fernie (1992) who reported that major retailers channel about 90 % of their stock through their own large regional distribution centres, of whom many employ the services of specialist third party distribution firms. The retailers' distribution systems lead to advantages as bulk purchases discounts, improved stock control, and tighter security, all of which are said to significant contribute to the growth of major retailers (Ogbonna and Wilkinson 1998).

Retailers generate orders by accumulating demand from each store in centralized information and ordering systems. This forms a single-point-of-contact system, which gives the retailers a hub position where they can accumulate, coordinate, and control the flow of information between them and the suppliers. This might enable the retailers to obtain better prices due to large order volumes. They accumulate and centralize information through the use of computerized integrated ordering and invoicing systems. The information systems enable the retailers to generate vast amounts of information through point-of-sale (POS) data and related systems on customer buying habits, daily demand variations and geographical variations. The suppliers communicate through this interface but since the ordering system still is very traditional (a minority of orders are placed by EDI) the single contact point has relevance regarding the access to information only.

Retailers' position in the supply chain and the centralized distribution system influence on the suppliers' logistical structure – how it is designed and operated. Retailers' distribution and information systems enable them to "pull" goods through the supply chain from the suppliers, and thus influence and decide the design and framework of the supply system. Observations in our study show that the suppliers' logistical systems were designed and adapted to the retailers' distribution system along factors as:

- Frequency and time of delivery
- Delivery place
- Means of transport
- Distribution pattern and transport time
- Production pattern and capacity
- Terms and price conditions
- Selling/ordering procedures and processes

- ICT and information sharing

6. Concluding remarks

Retailers have a significant market position, and it seems beyond doubt that they tend to exploit this position by controlling and affecting their suppliers' logistical system. At the same time they want to develop long term relationships, indicating that the access to suppliers are either too good or that the control tendency will be de-emphasized in the future.

When entering a close long term buyer-supplier relationship with global retail chains, the suppliers should be aware of the implying consequences. The suppliers' main challenge will be to always offer excellent service and a well performing logistics system, with regards to delivery frequency, lead time, delivery ability, precision, logistics, price, and quality. At the same time they take a major risk due to:

- Lack of volume commitment from the retailers
- High delivery frequency which complicates optimal and efficient utilization of transport materiel
- High costs related to positioning and sale

Even though we can see a trend towards closer and long-term relationships in the retail business, the actors seem to make "business as usual". Contracts do not have the necessary mechanisms or incentives for sharing the risk and benefits between the parties. Suppliers might profit on a retail chain relationship, but at the same time they do not have a secure delivery situation and a predictable situation for optimal planning of their production and logistics.

Thus, entering a retail chain relationship should be considered thoroughly. Only the most efficient and affluent suppliers seem to succeed in this market. Entering alliances or vertical or horizontal integrations might be mechanisms for increasing the suppliers' competitive power and ability to meet the demands.

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