Retailer-supplier relationships and the evolution of marketing: two food industry case studies

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Abstract

Uses two case studies to examine how changing market structures in food supply chains have affected the nature of collaboration between retailer and supplier. Looks at the implications for the nature of marketing as a management function and as an area of study. Concludes with a discussion of the implications of closer supply chain relationships for industry profitability.

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Introduction

Changing patterns of concentration at different levels in the supply chain, particularly in retailing, but also in manufacturing, have led to changes in the balance of power in the supply chain, with high levels of dynamism, efficiency and effectiveness at the retailer end of the value chain, often contrasting with more fragmented structures in primary production. The purpose of this article is to examine, by means of two case studies, the ways in which these changes have affected the relationships or, in other words, the nature of collaboration between retailer and suppliers, whether they are primary producers or processors. Each case study illustrates a different approach to achieving supply chain competitiveness, both for the chain as a whole and for the individual components. From the example of the case studies, the implications of these relationships are drawn for the nature of marketing as a management function and as an area of study.

Background

Generally, in the management literature spanning economics, marketing and organizational behaviour, there is growing interest in the nature of relationships between firms. Williamson[1], following much earlier work by Coase[2], argued that some types of transactions are more likely to occur in hierarchically organized firms. These transactions involve uncertainty about their outcome, recur frequently and require substantial transactions-specific investments. Conversely, it was argued that exchanges which are discrete and one-off and which do not require transactions-specific investments take place in markets. Today, the growing interest in relationships between firms is in the area between the extremes of the internal hierarchy of the firm and the pure market[3]. Changes in the activities of firms, the relative costs of specific investment and changes in production and information technology have changed the balance between the relative strength of internal hierarchies and activities which are carried out in markets.

Increasingly, these changes have led businesses to concentrate on core competences[4] so that internal hierarchies which link vertical functions are becoming less common. At the same time, the importance of linkages between firms in networks of various

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types, both vertical and horizontal has increased[5,6]. There are a number of reasons for this. The rapid expansion of potential markets through easier access to international markets, in particular the growth of the single market within the European Union, has increased the need for more rapid and flexible responses through new types of relationship with both suppliers and even competitors[7-9]. These avoid the dangers of the bureaucracy within internal hierarchies, yet retain the benefits of close working with partners. Developments in information technologies have provided a facilitating mechanism in linking separate businesses in the achievement of related tasks[10]. The increasing costs of research and development have accelerated searches for partners who can share costs[11].

The evidence suggests that when the balance moves against hierarchies and they are partly replaced by networks of firms working together, these relationships are unlikely to take pure market forms. It is suggested that relationships within networks are likely to be closer and longer than expected in pure markets, since this is the most efficient way to produce desired products and services and to achieve the higher levels of inter-firm communication and co-ordination now necessary[12,13]. This reflects a recognition that the boundary between the internal hierarchy of the firm and the market is neither a clear one, nor is it stable. Forms of behaviour emerge which resemble those neither of the pure market nor the vertical integration of activities within the firm[14].

There is disagreement in the academic literature about the nature of the territory between the market and the hierarchy. Some argue that in between the two poles can be found various intermediate forms of behaviour which can be arranged in a continuum[5]. Powell[14] disagrees, arguing that this fails to capture the complex realities of exchange and the role of economic exchange as embedded in a particular social structural context. There is general agreement, however, that if we wish to understand the way in which outcomes are achieved we need to understand the processes of social and organizational exchange which take place within these relationships[14,15].

The case studies

Turning to the case studies considered in this article, they provide an opportunity to examine the way in which two sets of relationships are organized and managed in this area between the internal hierarchy and the pure market. Both case studies have been developed from work carried out by the Strathclyde University food project[16]. This is a research programme which is seeking to find ways of reducing the UK trading deficit in food through action research designed to increase industry competitiveness[17]. The programme involves activities which focus on the management of the food supply chain from farmers and manufacturers through to retailers and other distributors and the case studies come from work carried out by the Beef and Salads Working Parties of the project. The case study approach is used in this article because it provides an opportunity to examine in detail the nature of the relationship between the parties involved. For the first case study, throughout the nine-month period of product development until four months after the initial product launch, the researchers were in frequent and close contact with the retailer and processor and periodically they were in contact with farmers. The retailer and processor have also provided detailed documentation of activities and the complete case study is available[18]. For the second case study, the researchers worked on market intelligence issues with nine tomato growers and five major retailers throughout the 1993 growing season and the case study emerges from that experience.

Heritage beef

The concept

The Heritage beef case study describes a tripartite business relationship between Safeway plc, the Sims Food group and the farmers who supplied them. Safeway is one of the largest retail corporate chains in the UK with sales of £4,868 million and an operating profit of £365 million in 1993. At the end of 1993 Safeway was operating 361 stores of which 200 were over 20,000 sq. ft. The Sims Food Group is a leading British meat processor with a turnover of £306 million in 1993. The Sims Group operates multi-species abattoirs which are used mainly to process beef and lamb. It supplies European retailers with added-value prepacked consumer products and has ranges of prepared meat products. Sims is a major supplier of beef and lamb to Safeway. In turn Sims is supplied by

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more than 135 farmers from different parts of the UK.

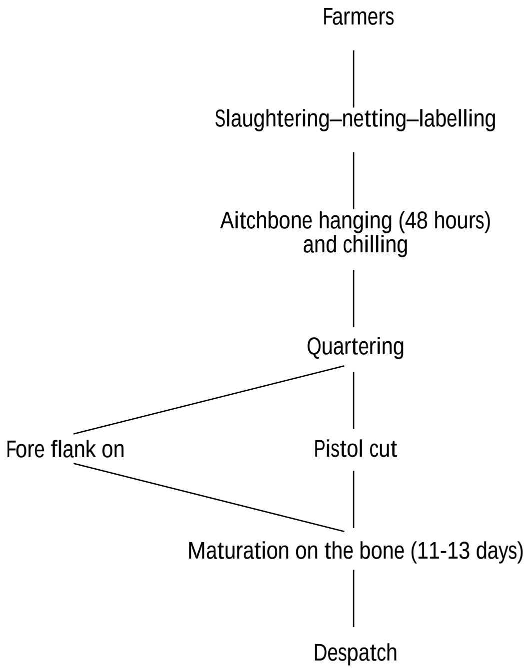
This case study is concerned with one part of the Safeway-Sims business. That is the successful launch of a new product range called "Heritage beef" in Safeway stores in the autumn of 1994 (Table I). The Heritage beef concept is a premium-differentiated beef product which is considered to offer customers better taste and texture than standard beef supplies and for that reason is sold in branded consumer packs at a premium over the standard Safeway beef ranges. The concept comprises a number of elements. These include very tight specifications of the animal in terms of size, conformation and fat cover and a traditional process of product maturation which requires greater care during maturation and a much longer ageing period than is normal (Figure 1). The requirements for success on the supply-side are:

- a commitment by the retailer that, in return for exclusivity, the product is promoted effectively to consumers via attractive point-of-sale activity and other types of promotion;
- a willingness by the processor to extend the period of maturation. This increases storage costs for the processor and reduces flexibility to switch processing capacity between customers;
- an ability to source supplies of consistent quality to relatively tight specifications.

Table I Timetable: product conception to launch

Date	Steps taken
1992	
Summer	Initial idea generation in Safeway
Autumn	First Safeway-Sims discussions
1993	
January-March	Sims' research on availability of native breeds
February	First taste trials
May	Decision to widen scope of Heritage concept
May-November	Build-up of supplier base of farmers for Heritage Beef Farm Assurance Certification of Supplies
July	Second taste trials
	Decision to "re-market" meat in Safeway and decision to extend Heritage concept to other meats
September	Set up processing systems
	MLC taste trials reported
	Preparation of merchandising: labels, point of sale displays, etc.
17 October	Product launch at Safeway stores

Figure 1 The Heritage beef product chain



- Farmers are required to commit supplies for Heritage beef in advance and on a planned basis. Farmers incur additional costs in growing animals to tighter specifications and holding them for longer time periods.

The reward for retailer and processor is enhanced net margin for these lines. If the product can be sufficiently distanced from the main commodity market, and the evidence so far suggests that it can, there is also a possibility of more stable prices which are less affected by day-to-day fluctuations in the main commodity market. This reduces risk and increases stability for both parties. The reward for the farmer is also a better return for the animal and a stable outlet for their product. The interest of this article is in how these benefits were achieved with particular reference to the roles adopted by the different parties in the relationship.

The relationship

Table II indicates the responsibilities for different activities associated with the product launch. The process of innovation was a joint one, a finding similar to other studies of innovation on the retailer-supplier interface[19]. Both parties were dependent on the other so that it is not possible to allocate responsibility for innovation to either processor or retailer separately.

The process of developing the product concept, of devising processing schedules and

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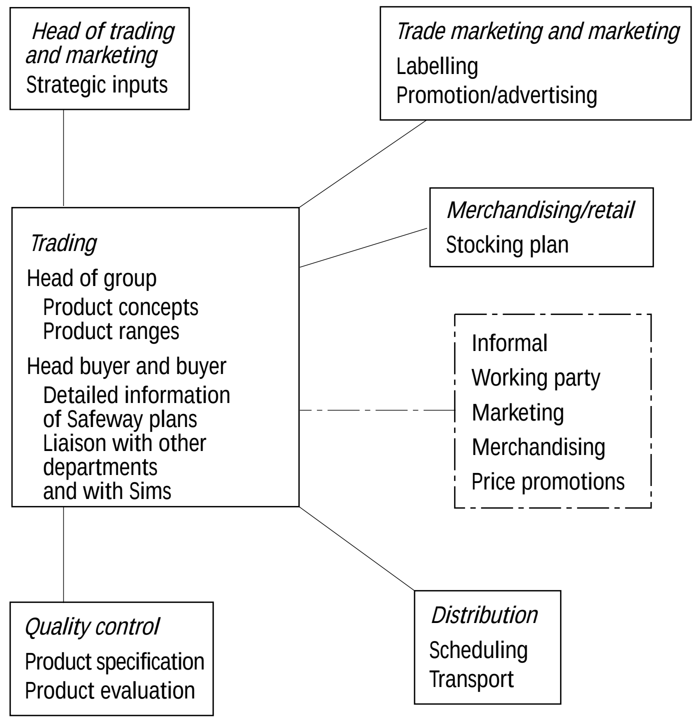
Table II Inter-company links – Safeway and Sims

Item	Safeway	Sims
Product concepts	Head of meat trading	Head of retail division
Forecast volumes and timing	Head of fresh meat	Procurement manager
Taste trials	Head of fresh meat buying	Head of retail division
	Quality controller	Procurement manager
Product specifications	Quality control	Procurement manager
Packaging	Buyer	Procurement manager
	Trade marketing/design	Production manager
Price negotiations	Buyer	Procurement manager
	Trade marketing/design	Sales executive
Promotion	Marketing/trade marketing	Procurement manager

Figure 2 Organization for Heritage beef – Safeway

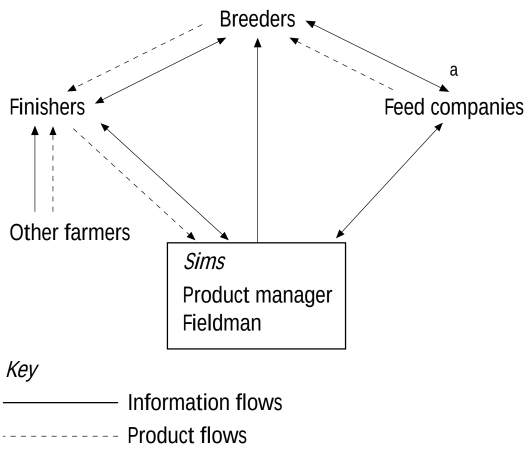


the launch of the product in-store also required the joint involvement of a number of different functions within both companies. Even a relatively small matter such as the design and preparation of product labels required liaison between marketing and trading within Safeway (Figure 2) and in turn liaison with marketing and production in Sims. Product testing and taste trials involved Safeway trading personnel, Safeway quality controllers as well as Sims marketing, production and procurement personnel. There was joint management of the planning process which lasts many weeks from slaughter to retail sales and several years if the relationship with the farmers is also included.

Close liaison on a daily basis is necessary in the management of the preparation and packing of product at Sims for delivery into the central distribution depots of Safeway, followed by distribution in-store, all under strict temperature control and timing requirements. Since demand patterns can vary, not always in a predictable manner, from day to day and week to week as the demand for a new product develops, there is a need also for considerable flexibility and for very short lead times in final packaging and dispatch. As Safeway, like other retailers, have moved more and more towards just-in-time delivery systems[20], the margins of error in this process is small, increasing the need for smooth joint organization of processing and logistics. The boundary-spanning role of the procurement manager in this case study is particularly notable. He acted as the link between Safeway and the farmers by ensuring that product specifications were feasible in production terms and crossed functions within Sims as part of a process of ensuring accurate and frequent communications between all of the varied functions in both companies involved in this exercise. Thus, although formally on the procurement side within Sims, his role required considerable detailed knowledge of the processing function and an ability to work with the customer in a marketing function alongside specialist marketing personnel.

The relationship between the processor and the farmer is also of note (Figure 3). The present Sims procurement policy is to buy as much as possible direct from supplier farmers on a dead-weight and grade basis. The majority of Safeway stock and certainly all the Heritage stock is bought from known and trusted finishing farmers who are regular and approved suppliers to Sims. However, the achievement of a satisfactory and flexible supply of quality animals to Sims is in itself a complex process, requiring sophisticated management and attention to detail. The relatively small size of UK herds with consequent fragmentation of the location of production means that Sims has to deal with a large number of farmers in order to obtain the volume of supplies necessary. Further, farmer-processor relationships have not always been easy in the UK, given the rapid changes which can occur in trading conditions and the remoteness of the farmer from

Figure 3 Organization for Heritage beef: Sims and Farmers



[a] Supply some animals at less than nine weeks

carcass pricing in the dead-weight selling system. Farmers risk being locked into relationships with single processing outlets if prices offered by the processor move lower and out of line with auction market prices. Since the beef industry is characterized by considerable instability of margin distribution between stages[21], many farmers have preferred to behave opportunistically and trade via auction markets rather than on a dead-weight basis direct to processors. Switching costs between outlets for the farmer are also low, discouraging customer loyalty. Thus, building partnerships between farmer and processor is far from easy and if the processor is to build loyalty from farmers, advantages must be offered. Farmers will expect the strength of their relationship with the processor to help them in times of difficulty, such as times of declining prices, when they will expect their customer to delay the impact of downward changes for as long as possible. In times of excess supply, they also expect their customers to continue to take their animals from them. In turn, they may be willing to trade this security for less than maximum prices in times of boom.

Most of the suppliers of Heritage beef animals have come from Sim's existing supply base, although to meet the tighter specifications, some new suppliers were recruited. As volume needs have increased, so Sims has had to build new relationships with additional sources of supply. This has required direct approaches from Sims and use of networking arrangements with existing suppliers. Existing suppliers have played a role in the identification of potential new suppliers to Sims. Sims has also worked via existing suppliers to establish its credibility with new farmers as a reliable and fair company with which to do business. Sims performs other services for farmers to build and retain suppliers. On occasion, the company is involved in the provision of animals to be purchased by finishers. Sims advises farmers on suitable store cattle to purchase and the company is used as a reliable source of information on markets and trading conditions at both finisher and store cattle level. Sims performs other *ad hoc* functions to preserve relationships. For instance, if farmers exceptionally require an animal to be killed on farm, Sims will provide this service.

Animals come from a wide variety of farm sizes. This partly reflects the fragmented nature of the British beef industry but it also reflects certain advantages to Sims in procurement:

- Costs of dealing with small farmers are not high once the system has been set up and experience suggests that they become loyal suppliers.
- A wide cross-section of suppliers helps to spread risk.
- Smaller suppliers tend to be more loyal because they need the security offered by the Sims system more than large farmers. Most larger producers do stay loyal, but their large lot size means that they are more likely to be targeted by other competing processors as well.

In order to ensure that supplies of the required specifications were available, Sims carried out a number of tasks:

- A planning exercise with farmers to identify locations of supplies and number of animals available and timing of availability. This was undertaken by the procurement manager and fieldsmen employed by Sims, largely using personal contact through farm visits as well as ongoing telephone discussions.
- Farm assurance. It is a requirement of the specifications that all farms belong to one of the approved UK farm assurance schemes. A minority of farms had already been approved in this way. For the others, Sims advised individual farmers on how to implement any changes necessary to meet required standards of practice and paid for individual farmers to join the scheme. Twenty-five farmers were helped in this way.

Sims also has an ongoing research programme with BOCM-Pauls, the feed manufacturers, to provide improved feeding regimes for Heritage animals, which will be communicated to member farmers in due course. The results of the first trials are expected shortly.

The nature of commitment
The vertical relationship between Safeway, Sims and the farmers is analogous with the relationships within fully vertically integrated forms, where all these activities are carried out within the same business structure. Switching costs of moving away to different partners are relatively high for Safeway and Sims. There are costs for Safeway that would be incurred by developing a similar relationship with another partner, in terms of replicating work on the development of the concept itself. There are also the costs of replicating work on the development of joint systems to ensure maximum efficiency in the process from slaughter, through processing to in-store delivery in the right quantities in the right stores. With stringent requirements for product safety and wholesomeness for consumers via the Food Safety Act of 1990, the retailer has a major incentive to remain with a supplier who meets all required standards without difficulty. For Sims, the Heritage brand belongs to Safeway, not Sims, and the loss of a major customer, together with the costs of developing new relationships would also be high. Thus both parties, if the other remains competitive and responsive, have an incentive to maintain long-term stability in the relationship. Other research has produced similar conclusions. Most relationships between retail corporate chains and their suppliers tend to be stable[22,23] with switching being unusual rather than normal behaviour across a wide range commodities. As far as the processor and the farmers are concerned, as has already been indicated, farmers tend to be traditionally loyal so that Sims' relationships with many of their suppliers go back several generations.

At the same time, there are limits placed by all parties on the boundaries within which their relationship can operate. If the word "partnership" is used, it is a different type of partnership from, say, horizontal relationships between a legally defined business partnership of lawyers or accountants. First, even within the context of a premium product, price competitiveness is a major element in success. For the retailer, buying price represents a relatively high proportion of total costs. Meat prices as a known value item are ones on which retailers rarely wish to be out of line with their competitors. Equally, for the processor who is operating on relatively narrow margins, small variations in selling price have a major impact on profitability. In the case of Heritage beef, retailer and processor have attempted to create greater price stability by establishing prices fixed for one month, something which is relatively unusual in this sector. This is helped by the relatively high level of product differentiation and premium prices but as Hughes *et al.* observe[8], this is very difficult to maintain when market prices between stages move out of line with those within the relationship. Over the longer term, however, competitive prices are a requirement for all parties for success and are thus the subject of a continuous bargaining process between retailer and processor. Further, while switching costs are high, the possibility of switching does exist. The technical processes involved are replicable by other processors so that there are alternative sources of supply. Equally, for the processor, there are other retailers with interests in the premium beef sector. Switching costs for farmers in terms of finding alternative outlets are relatively low because of the existence of other processors and of auction markets.

Thus the relationship operates in the face of a very competitive external environment where each partner has at least the option of transferring allegiance. This particular relationship, and doubtless other similar relationships between retailers and suppliers, combine elements which on the one hand are similar to pure market situations while on the other there is a need to create a product mix in a way which is quite different from the arms-length relationships between customers and suppliers in pure market transactions.

Co-ordinating British tomato supplies

The industry situation
The British tomato industry comprises a variety of sizes of business from subsidiary companies of large multinationals (the largest grower, Van Heyningen, is a subsidiary of Hazlewood Foods, another major grower is a subsidiary of Geest) to small family-owned private businesses. Each business is responsible for its own marketing which means that there are many selling points in the industry. The flow of supplies from each supplier during the growing season varies in volume and quality because of unavoidable

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fluctuations in harvesting patterns. If a trade customer cannot be supplied with the quantities and qualities of product which are required during a particular week, the customer has to turn to other sources of supply. This means that the retailer needs a portfolio of suppliers[24] and has to search the market to obtain supplies, both a high cost activity. By contrast, the typical producer in The Netherlands markets is small and sells through central auction markets, using standardized systems of grading and quality control[25]. From the point of view of the trade buyer, the Dutch system has certain advantages. Because of the large volumes of product passing through a central point and because prices change daily in the light of changes in demand and supply, this is a very flexible source of supply. It is easy to buy because the product specifications are standardized. Central distribution systems supply customers promptly and efficiently. Trade buyers can use this market to access product on an opportunist basis because the transactions costs of using the market are low. Many British retailers do this because it is easy, even if, through searches, they could find British product in scattered volumes.

However, this does not mean that the solution for British growers is to replicate the Dutch system in the UK. British retailers prefer the British system because they wish to deal directly with growers, provided that they can get the volumes of product which they need. Direct links with growers ensure that there is tight control over product and growing systems. A particular issue is the use of proscribed chemical treatments for crops where closer relationships are more likely to mean that regulations are observed. Close working arrangements also offer opportunities for joint new product development and direct dealing with growers in stable relationships allows the development of efficient systems of logistics between grower and retailer and with retailers' own internal distribution systems.

Marketing hubs

One solution would be for the larger British growers to increase their production capacity but this is difficult, given current low prices and excess capacity throughout Europe. What is needed is a system which reduces the procurement costs of trade buyers in Britain relative to the costs of buying from The Netherlands, but which preserves close contact with growers. In earlier work the Strathclyde University food project concluded that the British market has to be made more transparent and knowledge must flow more freely[26]. Mechanisms are needed which give better information to customers about the availability of British supplies and to suppliers about retail demand. Mechanisms are required which ensure that available supplies of the first-class product demanded by the retail sector do in fact go into that sector, instead of the retailer turning to The Netherlands. Instead, what can happen at present is that the product has to be sold on less profitable markets, perpetuating the cycle of low profitability in the industry, simply because retailers do not know that a suitable product is available and are not prepared to incur the search costs of finding out.

It is here that networks which can use the co-ordinating role of the larger growers as a mechanism for assembling supplies for the retailers from other, smaller, growers can make a contribution. This is already done by some major tomato suppliers for some retailers to reduce the fragmentation of the industry for marketing. In essence, what has been created are a small number of competing confederations of businesses[27], guided from a hub where key functions such as the management of information, the management of strategy, the development of customer relationships, quality control and research and development take place (Figure 4). Logistics are also handled from this central point in order to make the most effective use of transport and thus further reduce costs. The hub in each case is likely to be one of the major producers since they have a large initial pool of supplies, better marketing capabilities and research and development skills. The hub is supplied by smaller producers who concentrate on production, in which they are efficient and they delegate marketing, research etc., in which they have a comparative disadvantage, to the centre. The system also offers advantages to the retailer. By allowing a dominant supplier to organize supplies throughout the growing season, the retailer's sourcing costs are reduced, as are their costs of product inspection. The latter are now largely left to the responsibility of the dominant grower. This system has the advantage over traditional forms of co-operation in that it provides a means of reconciling the different interests of large and small producers, often a problem with a formal co-operative. It also

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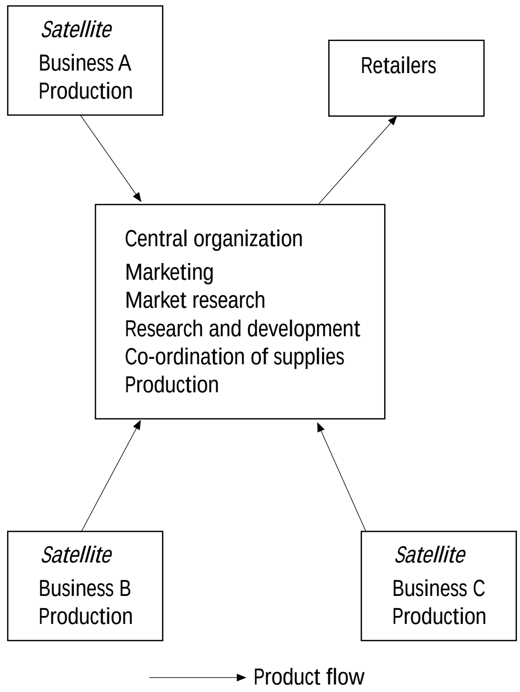
Figure 4 Network management of horticultural supplies



allows collaboration between businesses with very different ownership structures

This practice is not universal and there is considered to be scope for further co-ordinated activity among growers[28]. In many cases retailers still deal with large numbers of suppliers, switching during the season as availability changes from grower to grower or they use, as indicated earlier, the Dutch auction market. It is, however, an alternative form of supply chain collaboration which has received little formal recognition.

The centre of the hub must have some kind of assurance of continuing supplies from the spokes of the hub, particularly if investment is required which is dependent on the hub as a whole for viability. The small producer must see benefits to compensate for the loss of autonomy. In particular the small producer will seek reassurance that it is not treated as a marginal supplier by the centre of the hub, to be used when demand is strong but abandoned in times of weaker demand. It will require assurance that it will be able to participate in innovation by the centre. To reconcile these potential conflicts requires internal marketing cultures within the network which are co-operative rather than competing, and reward systems which are seen to be equitable.

Although in some ways this case study is very different from the Heritage example, there is a recurring theme. The success of this type of relationship requires high levels of commitment and trust on both sides, but at the same time, both the centre and the hub operate within a framework of commodity-type competition. Partners have to work together within an external environment characterized by considerable instability in the demand-supply balance and in prices. The marketing hub cannot afford to offer the smaller suppliers terms which leave it out of line in its price offer to its major customers. Nor can the small suppliers ignore a situation where better terms are offered elsewhere. The marketing hub has to create competitive advantages as a result of its structure which discourage retailers from opening direct supply lines with smaller members of the hub, while encouraging supplier participation in the hub.

Collaboration and the implications for marketing

There are a number of implications which can be drawn from these case studies for the marketing and supply chain management in the food industry. The implications for the practice of marketing as a management function and as an academic discipline are first considered, followed by discussion of the implications of closer supply chain relationships for industry profitability.

The Heritage and tomato case studies illustrate the need for understanding by marketing and procurement managers of the way in which different organizations work together. It is perhaps not appropriate to go as far as Webster[29], who has suggested a general trend to "a real partnership in which each partner approaches total dependence on the other and mutual trust replaces adversarial assumptions". As has been suggested, for good economic reasons relationships must be driven by the need for profitability for both partners and by strategies which are sensible for each separately as well as together. However, at the same time, better results require that businesses work closely together[12,30,31]. Managers must have a clear understanding of the dynamics of the social systems formed by both companies and of the way in which authority and control work within relationships[32]. They need experience in conflict management within relationships and in the skills of team building, relationship development[33] and participation when the team comprises elements both

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external as well as internal to the business. Both marketing and buying are boundary-spanning roles with responsibility for communicating customer or supplier requirements back into their own organizations so that for these functions the acquisition of these new skills is particularly crucial. Boundaries between functions are blurring as a result of the needs for joint problem solving inside and outside the organization – whether it is between vertical stages or between members of a hub.

As an area of academic study, the main implications of closer working relationships, together with increasing concentration in food retailing and food manufacturing, are that there is likely to be increasing emphasis on the type of research approach which has been used here. Given the small numbers case, it becomes difficult to use survey approaches to derive meaningful conclusions about behaviour. Given the interacting nature of activities it becomes difficult to understand the development of strategies and decision processes without detailed investigation of the relationship itself, whether relationships are dyadic or part of a larger network. This implies, as a consequence, a move away from econometric analysis as a tool to examine relationships between variables and a greater willingness to accept qualitative research processes. These have their limitations, particularly with respect to the generalizability of such research but they may perhaps allow us greater understanding of the meaning of the phenomena under investigation[34].

The final question is to ask what, if anything, collaborative relationships can offer as a mechanism for improving profitability in the food sector, many parts of which face continuing problems of low profitability. There are limits in the potential for this. First, it is important to remember that the vertical stages in the Heritage case study and the hub members in the tomato case study are independent of each other in ownership terms and each compete in turbulent and uncontrolled environments. The extent to which each can therefore take an altruistic attitude to the problems of other stages is limited by the costs of that attitude. As long as they continue to operate in environments where there are alternative sources of supply or alternative customers, competitive pressures will limit the extent of margin transfer between stages, as well as the increments to price which can be achieved at final consumer level. It is therefore unrealistic to expect vertical supply chain partnerships or marketing hubs to compensate for lack of market power or for over-supply at primary producer level. They cannot, in other words, be considered as mechanisms for the introduction of imperfections in competition which in some way protect partners from outside competitive pressures. This would not succeed.

There are, however, ways in which greater interdependence is a force for bringing increasing stability to markets in the short and medium term, while protecting competition in the longer term. If there is a general trend to increasing concentration across Europe, higher due diligence requirements and to more use of highly interactive just-in-time production and marketing systems, more and more suppliers and businesses at producer, processor and retail level are likely to become locked into relationships which have high costs of short-term switching between partners. This should lead to greater interest in maximizing the benefit of the relationship over the longer term through preferred supplier and preferred buyer status[35]. In turn, this should give each stage a greater understanding of the needs of other stages, so that more co-ordinated approaches to overall value chain profitability are possible. This may include the possibility of better planning and co-ordination of levels of primary production. The levels of trust, commitment and information sharing, which are required if productivity and other gains are to be maximized, cannot easily be reached within a relationship which is primarily adversarial[36]. This creates short-term barriers to entry and thus some element of short-term protection for partners. It retains long-term competitiveness because if any partner consistently fails to offer as good terms as can be achieved elsewhere, switching behaviour will still occur. Thus it can be argued that the key issues in terms of improving profitability, particularly in primary production, are not the problems created by the development of integrated vertical value chains but the continuing problems created by those outside who still operate models closer to those of pure markets.

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