

COPENHAGEN BUSINESS SCHOOL

Master of Science and Business Administration

Department of Marketing: Course Strategic Market Creation

**An Integrated Buyer and Seller Relationship Model Applied to a Concrete
Business Case: the Relationship Between Retailer and Its Suppliers**

Thesis supervisor:

Prof. Niels Kornum

Carlo Terreni

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A mamma e papà,

*chiunque sostenga che la fortuna non esista
dovrebbe provare a trascorrere una sola giornata
a casa Terreni
per provare a smentire
il mio più grande convincimento
e cioè:
che sono un ragazzo veramente fortunato!*

Abstract

This thesis investigates on the issue of the degree of opposition in buyer and seller's relations and its connection to the supplier's capacity to invest in synergic activities to improve the generation of mutual value in a relational rents.

In a macro context where opposing strategic interests characterise most buyers and sellers relations, which variables should be taken into account to evaluate the continuation expectation of a supplier-retailer in a buyer and seller relation ? How those variables are inter-related? and what makes a supplier a preferred partners in the distributor's supply system?

The method applied to this study is the case study research. This qualitative approach has been proved to be the best modus operandi to tackle this issue and bring to light some important insights from professionals operators trough in-depth interviews.

In this thesis we develop a representative model called "*buyer and seller relationship model*" in order to set our hypothesis an test them on a concrete case study.

This study allows us to highlight the relational best practice which enable a supplier to make synergic investments welcomed from its counterpart and deliver value to its retailer.

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This thesis discuss supplier-retailer relationships in channel marketing approaching the theme firstly from a resource based view perspective. Supplier retailer relations are often characterized by an high degree of interests opposition and that is the cause of frequent and sever cumbersome negotiations (Lugli 2002,Dussart 1998, Hogarth-Scott and Dapiran 1997).

Too often in business negotiations, supplier and distributor focus their attention on value splitting disputes instead of working together to the implementation of value creating activities (Jasper AAstrup, David Grant and Mogerns Bjerre).

Based on relational literature this thesis develops a model and some hypothesis of trade off between: degree of opposition in a relation, fairness perception, synergic investments capability, financial capability, knowhow and relational continuation intension between retailer and manufacturers.

The first step of the project has been an assessment of the current negotiation model between retailer and supplier. This evaluation has been made in order to assess clearly the existing relational paradigm between manufacturer and retailer.

Five most important variables have been individualized and the interconnections between them hypothesized. All in all that has lead to the definition of a an integrated buyer and seller relationship model which incorporates the relational mechanism of most supplier-retailer transactions.

The model has been conceptualised in order to test it on a concrete business case and the aim of this test is to bring to light which synergic investments and activities better improve the performances of a relation, from a supplier point of view.

Too often buyer and supplier relation focus on negotiations based on "*musels power*" while both counterparts tend to forget consumer's focus. This is what mainly emerge from our set of interviews and seems to be one of the most relevant problem associated to supplier and retailer relation.

Despite some very well known category management literature contribution (Joint industry project on efficient consumer response 1995, Kumara 1996, Ecr Group) describing idealistic form of collaboration between benevolent retailers and cooperatives suppliers, the reality of facts emerging from our study seem to prove that most relations incorporate a medium-high degree of opposition between counterparts.

The contribution of this study to literature is the definition of an integrated buyer and supplier model which applied to a concrete case study has allowed the definitions of

some strategies that might be applied from medium-small and larger suppliers in order to become unique to retailer's eyes (Emerson's balancing operation). Those strategies might help suppliers to gain power in buyer-retailer relations and defend marginality in negotiations. Those strategies might also help medium suppliers to avoid the risk of delisting in an environment where private label and private brands are becoming more and more important in retailers' category management (Burt 2000-Lugli 2001)

CHAPTER ONE

1. Theory delimitation

1.1 The resource based view

Coming from a resource based view (RBV) perspective we all know that firms can earn sustainable returns if and only if they have superior resources and those resources are protected by some form of isolating mechanism preventing their diffusion (Barney, 1991 Firm resource and sustained competitive advantage).

The RBV sustains that there can be heterogeneity of firm level differences among firms that allow some of them to sustain competitive advantage (Wiley, E. T. 1959 The Theory of the Growth of the Firm, New York Penrose).

Resources are heterogeneous within and across firms (Barney, J. B. 1991 "The Resource Based View of Strategy: Origins, Implications, and Prospects." Editor of Special Theory Forum in *Journal of Management*, 17, pp. 97-211), similarly resources are allocated and possessed unevenly within and across industries or distribution channels (Pfeffer, J., & Salancik, G. 1978 The external control of organizations: A resource dependence perspective, New York, Harper Row).

For example if we think to an ordinary relation between a supplier and a retailer we immediately understand that both players might own heterogeneous and complementary resources: on one hand a supplier might own a well recognized product and/or a strong brand and on the other a retailer might own large distribution structures.

Distributors are by definition "consumer gate keepers" and that generally elevate them to the rank of more powerful player of the relation. In literature it seems to exist a widespread consensus that retailers are the more powerful partners in relationships compared to suppliers and manufacturers (Akehurst 1983, R.Grant 1987, Dawson and Shaw 1990, Kumara 1996, Howe 1998, Ogbonna and Wilkinson 1998, Burt 2000, Dapiran and Hogarth-Scott 2003, D. Grant 2005, Hingley 2005).

"The main factors of retailers' power advantage are a concentration in retail structures, control of distribution activities, control of information and introduction of own brands" (Astrup, J. Grant D.B. and Bjerre M. 2007 Value creation and category management through R-S relationships, *International review of retail, Distribution and Consumer research*).

The “heterogeneities” and “complementarities” of resources make business relations among firms essentials. Resource dependency theory (RDT) proposes that actors lacking in resources will seek to establish relationships with others in order to obtain needed resources (Ulrich,D; Barney,J.B., 1984 Resource Dependence, Efficiency, and Population, *The Academy of Management Review*)

Complementarities is defined by Milgrom and Roberts as a specific property of two assets: “an asset A is said to be complementary to an asset B when an increase in A positively affects the returns of an increase in B. This definitions will be apply to the rest of my thesis”.

In his article “Power-dependence relation” (1962) Emerson identified four possible balancing operations that might help to make power more equal in unbalanced relations: “Suppose A is more powerful than B that is $P_{ab} > P_{ba}$ and $D_{ba} > D_{ab}$ where P stays for power and D for dependency. To balance this relation: 1) B can reduce the level of motivational investment in goals mediated by A- withdrawal 2) B can come up with alternatives sources e.g. actor C for those goals mediated by A – network extension 3) B can attempt to increase A’s motivational investments in goals B mediated e.g. through status giving and/or 4) B can work to eliminate A’s alternative sources for the goal B mediated e.g. by engaging in coalition formation with other actors in particular suppliers”.

In my model I will focus on Emerson’s idea that unbalanced relations can be balanced through supplier’s activities and referring to Dyer and Singh I will propose a specification of Emerson’s third balancing operation call: “*synergic investments*” (Dyer J.H. & Singh H. 1998 The relational view: Cooperative strategy and sources of inter-organizational competitive advantage, *Academy of management review*).

1.2 Synergic investments: value generation and power balancing operations

A “*synergic investment*” is an investment putted into action by a supplier in order to achieve future gains through the creation of mutual value and relational rents. A supplier is allow to make “synergic investments” if and only if the retailer doesn’t express a direct adversity to that (this will be called disagreement on scenario analysis table).

Synergic investment are totally or at least mainly financed by suppliers and in a short term perspective it could appear that they pay the largest part of the costs and get the least of the benefits in return.

However, synergic investments can be assimilated to short term risks taken by the supplier in order to reach long term future gains and synergies; just like: longer cooperation in business, higher profitability, tide up of the relation and more in general retailer's favouritism in category management activities.

If the supplier's "synergic investment" will show to the retailer that this specific supplier knows how to create, and is willing to deliver mutual value to the retailer, that will benefit the supplier as well because the retailer will perceive the supplier as the owner of a valuable and concentrated resource (the ability to make synergic investments therefore mutual value and relational rents).

Normann and Ramirez have proved that it is through interactions between supplier and distributor that it is actually possible to co-create value through relational rents (Normann, R. and Ramirez, R. 1993 From value chain to value constellation: designing interactive strategy, Harvard Business review).

The development of this specific case, of Emerson's third balancing operation, is based on empirical observation of B-S relations and a practical explanation of the effects of "synergic investments" on distributor-supplier relations is proposed in the model that will follow.

Anyway, the basic assumption in the model is that: through the implementation of "synergic investments" the supplier is able to deliver value to the other party and that increases the dependency of the retailer towards this specific supplier (Emerson, 1981).

In a situation where both players are experiencing relational rents and co-creation of value, "continuity expectation" towards the relation is more likely to exist and reinforce (Dyer J.H. & Singh H. 1998 The relational view: Cooperative strategy and sources of inter-organizational competitive advantage, *Academy of management review*)(Heide J.B. & John George 1990 Alliances in industrial purchasing: The determinants of joint actions in Buyer-Supplier Relations, *Journal of Marketing Research* Vol XXVII)

As we have argued, in many cases resources are allocated and possessed unevenly within and across firms (Axelsson and Hakansson 1984, Pfeffer and Salancik 1978) and that also generate dependency.

1.3 Resource dependency: causes and consequences

Resource dependence develops if a resource is perceived to be important and at the same time concentrated. "For example a resource possessed by A is important if an

exchange partner B perceive it to be important and if the same resource possessed by A is concentrated seen from the perspective of B, than B is dependent on A. Together importance and concentration dimension determine the degree of dependence.” (Extract of “Exploring the interconnectedness between relation-specific assets and resource importance: identifying the combined dependence, bonding or lock-in effects influencing the ability to decide contractual arrangements, Niels Kornum 2003” belonging from main ideas of Pfeffer, J., & Salancik G. The external control of organizations: A resource dependence perspective, New York, Harper Row Pfeffer, J., & Salancik, G. 1978.).

In a dependency situation there are no or just a few alternatives for the dependent firm to the less dependent firm. Therefore it is the less dependent part that decides the development of the relation (slides Sm50 Niels Kornum 2009).

Usually it is due to this state of dependency that most relations in distributions chains are unbalanced as stated by Kumara. (Kumara, N. 1998 Interdependence, punitive capability, and the reciprocation of punitive actions in channels relationships. *Journal of marketing research* Vol xxxv pp 225-235).

It is therefore unsafe to assume that the natural state for exchanging relationship is the one of symmetry and equilibrium (Feldman, E. 1998 Industry view point: Relational independency and punctuated equilibrium, *Journal of Business and Industrial marketing* Vol 13, No3, Pp288).

On the base of this literature studies and on past empirical observation, as a pre-condition of my thesis I will consider B-S relations as unbalanced in favour of the distributor.

In accordance to that many authors and lectures like Hingley M. 2005, Brown and Day 1981, El-Ansari and Stern 1972 believe that the distribution of power in B-S relationship is often unfavourable for producers because the realistic number of supply-alternatives is higher for a distributor than the number of distributor alternatives is for producers.

Cristopher and Jutter claimed that this unbalanced set up between supplier and distributors generates constant tensions between players because such partnership arrangement tend to ultimate offer the most to the more powerful business partner (the distributor) (Cristopher and Jutter Supply chain relationships: Making the transition to closer integration, *Internal journal of logistic: Research and Applications*, Vol. 3 No 1 pp. 6-23).

1.4 Unbalanced relations: fairness and efficiency

El-Ansary and Stern's argued since 1972 that: most distributors " have the ability to control the decision variables in the marketing strategy of many supplier chain's members" (El-Ansary and Stern 1972 Power measurement in the distribution channel, *Journal of Marketing research* vol 9, n 2, pp 9-16).

Thus it is not surprising that benefits seem to be unevenly shared between supplier and distributor. However that doesn't mean that such power unbalance relationship are not workable or efficient, at all. As I will propose through my model, I believe that despite this unbalanced set-up suppliers still have the chance to push the relation to a reasonable fair level of exchanges and payoffs.

In a contest were both players are acting fairly, relationship can still be carried over in an efficient way (Ring, S.P. & Van de Ven, A.H. Developmental process of cooperative inter-organizational relationships, *Academy of management Review*).

From transactional cost theory we define efficiency as the most expeditious and least costly governance structure for undertaking a transaction, given production costs constraints (Ring, S.P. & Van de Ven, A.H. Developmental process of cooperative inter-organizational relationships, *Academy of management Review*).

In addition to that, there are many empirical evidences (Kadiyali e al. 2000, Bowman 1997, Bloom e Perry 2001) that have shown, how such unbalance relation, has also rewarded many suppliers in terms of brand image and profitability. (For example better displays, stock selection and product positioning generate tremendous impact on the total volumes of sales for many suppliers that have well exceed the decreased in profitability due to margins erosion.)

If resources are valuable but not concentrated, alternatives are available on the market. Unfavourably for suppliers his is the constitutive element of many relations among big retailers and medium or small size suppliers. In this case, as argued by Kornum, the less dependent part the retailer, decides the development of the relation.

In most unbalanced situation the relation is based on economic interests, social or personal bonds and fairness (as we will defined shortly).

Even though inputs and outcomes of a relation are very rarely divided equally among the parties, a "fair dealing" attitude should inspire most inter-firms' relationships according to Ring S.P. & Van de Ven A.H. (Ring, S.P. & Van de Ven, A.H.

Developmental process of cooperative inter-organizational relationships, *Academy of management Review*).

By social exchange theorists we know that *fair dealing* and equity of a relation aren't necessary describing a situation of distributive justice. According to this, Gouldener (1959) claimed that in fair dealing, reciprocity is sufficient, and equivalence in the *quid pro quo* is not necessary.

If players are acting fairly the relation will lean on reciprocal trust in the sense of "credibility and benevolence" (Ganesan S. 1994 Determinants of long-term orientation in buyer-seller relationships. *Journal of marketing*, 58 pp1-19). "Credibility is based on the expectancy that partner A and A's expertise can be relied on to fulfil the word or written statement of partner B. Benevolence on the other hand is the extent to which partner A is believed to be genuinely interested in partner B's welfare and is motivated to seek joint gain" (Doney P.M. and Cannon J.P. An examination of the nature of trust in buyer and seller relationships, *Journal of marketing* 61 april, pp35-51).

Blau and Homans, fathers of the exchange theory believe that individuals seek to reconcile their self interests with the need to maintain social relationship.

Most studies related to Buyer-Seller (B-S) relationship (Arndt, J. 1979 Toward a concept of domesticated markets. *Journal of marketing* 43 pp 69-75,) have generally only paid attention to interaction modalities, while they have not really addressed the possible co-existence of different facets within the same relationship.

From everyday life we do know that firm's interactions are not simply one-dimensional but indeed they often occurs on multiple layers (Zerbini F. And Castaldo S. 2007 Stay in or get out the Janus? Themaintenance of multiplex relationship between buyers and seller, *Elsevier Inc*).

1.5 From multidimensionality to opposing strategic interests situation

Multidimensionality allows us to understand the nature of many unbalanced B-S relationship, which despite opposing strategic perceptions (Kornum 2009) still generate mutual profitability for counterparts.

In this multidimensional scenario, assuming that both supplier and retailer are acting fairly (even if operating in an unbalanced situation) we might discover that the parties are carrying over a very long lasting and efficient relation.

This scenario is called in literature: *opposing strategic interest* situation (Kornum 2009). By opposing strategic interties is meant that in supplier – retailer relationships,

although the parties fundamentally perceive resources exchanged as complementary (e.g. Dyer and Singh 1989), they may espouse different interests in and perceptions on which investments and initiatives that create mutual value and relational rents in the relationship” © Niels Kornum CBS.

In my model I will interpret Kornum’s definition as follow: although the parties “may espouse different interest and perception” that doesn’t necessary mean that one party will stop the other in the perpetration of its interest if that doesn’t seem to crash with the other party’s business. This interpretation is necessary because it allows the existence of possible scenarios where the supplier is allow to make “synergic investments” (see Figure 4.2 scenarios A.1.a.-A.2.a-B.2.a.) because the retailer doesn’t express a direct adversity to that. Those scenarios are possible, even if the retailer doesn’t share the same optimistic perception on the returns of the specific supplier’s investment.

Dyer and Singh have shown evidences supporting relational orientation theory, they believe that long-standing relationship between buyer and seller create strategic opportunities for innovation and growth (Dyer J.H. & Singh H. 1998 The relational view: Cooperative strategy and sources of inter-organizational competitive advantage, *Academy of management review*). Even though recent studies (Kamp, B. 2005 Formation and evolution of buyer-supplier relationship: Conceiving dynamism in actor composition of business networks, *Industrial marketing management* 34,) on business markets have suggested that frequent supplier substitution may better suit performance objectives, my model will be based on Dyer J.H. & Singh H. evidences. From empirical observation I have mature the conviction that long-lasting relations are more efficient and generate better rents than short and unstable relations as argued by Dyer J.H. & Singh H.

This is why I will consider long lasting relation as a pre condition of my model and an objective that both counterparts should try to reach.

CHAPTER TWO

2. Approach to the study

Any research is based on assumptions about how the world is perceived and how we can best come to understand it.

All research projects are based on specific scientific approaches and precise methodologies. The validity and reliability of the researched results are highly dependent on the basic assumptions and the direction taken by the researcher concerning these fundamental issues.

This is why it is so important to develop a strong introductory chapter focused on the philosophy of science, scientific approach and methodology. What we are going to do is explain our position and explicit the philosophical assumptions which are lying behind our thesis.

We will look at how most contemporary social scientists approach the questions of “What is in the word?” and “How is it possible to examine the world?” and we will interpret their implications in our research.

We will consider three major philosophical schools of thought: positivism, postmodernism and hermeneutics and we will discuss about the ontology and epistemology of science while examining their and our positions.

In line with the discussion we will explain how all those concepts are interrelated and which impact they have on methodology.

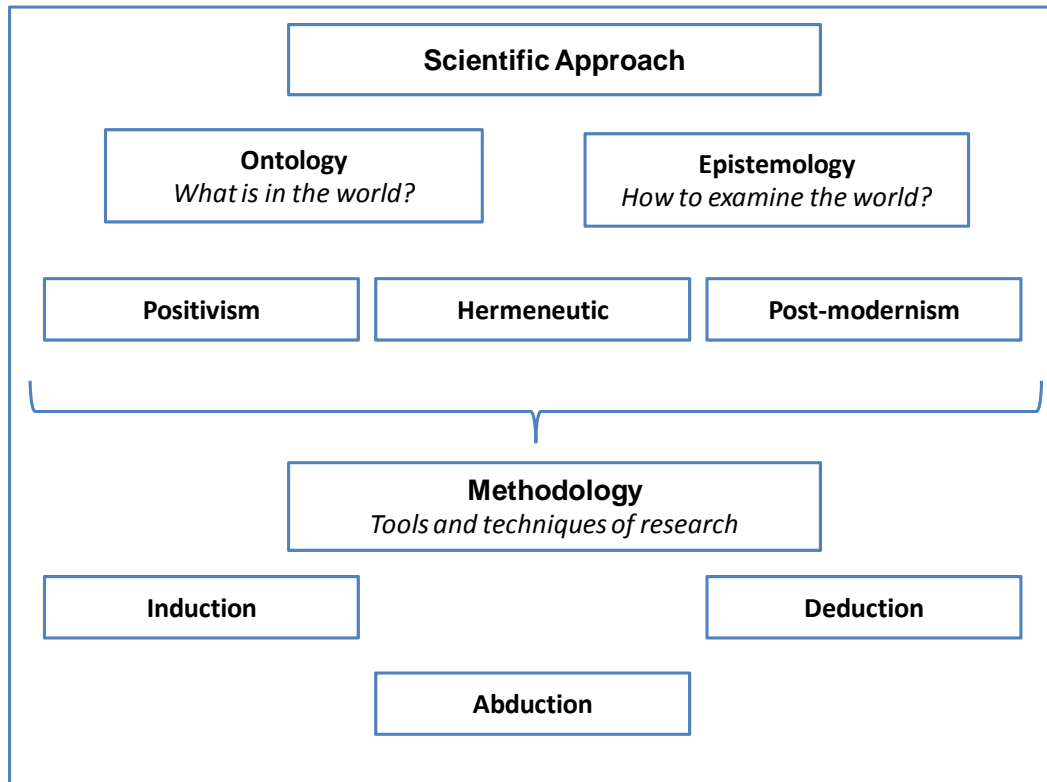
2.1 Scientific approach, ontology-epistemology, philosophy of science and methodology

In this chapter we will discuss the basic assumptions we have taken about the nature of knowledge and the methodology through which this knowledge has been obtained.

In Figure 2.1 we have summarised all the most important elements that we will take into consideration in our analyses. The order in which they are listed in the figure will be followed also in the presentation of the concepts in the following paragraphs in order to keep a clear logic in the dissertation.

We will start from the broadest concepts of scientific approach down to the concept of methodology and methods. We will follow our dissertation while bringing to light the direct and most important implications that all those concepts have on our research process.

Figure 2.1.



Source: Own elaboration

In this chapter I will explain my perception of how the world is and what we can know about it. I will do that by analyzing the ontological and epistemological position, reflecting on the philosophical main line of thought, explaining my own view and position and how that has affected my research.

2.2 Scientific approach

The term *scientific approach* is described in terms of philosophical position that this study places itself within and it could be described as the "science of science" behind my research.

As per the analysis by Burrell and Morgan (Burrell, G.; & Morgan, G. *Sociological paradigms and organizational analysis*,. London: Heinemann Educational Books, 1979) we know that every scientific approach is based on "interrelated sets of assumptions regarding ontology, epistemology and methodology in science".

In order to simplify presentation, and make the chapter manageable, we will present each concept one by one underlining the most important aspects and the effects of those concepts on our study.

2.3 What is in the world? The ontological position

One of the very first concepts we need to introduce and evaluate in our discussion is ontology. The term ontology (from the Greek ὄν , genitive ὄντος : of being neuter participle of εἶναι : to be and -

λογία, -logia: science, study, theory) has to do with our assumptions about how the world is made up and which is the real nature of things (Wand and Weber An ontological analysis of the relationship construct in conceptual modelling 1993 pp 220).

Ontology is concerned with what is said to exist in the world and we will refer to ontology as the branch of philosophy concerned with articulating the nature and the structure of the world.

Ontology refers to the particular philosophical worldviews that form the base of each research. The main and most important ontological question is:

"What is in the world?"

Three main different worldviews can be considered in order to answer this fundamental question:

- a Positivist worldview
- a Post-modernist worldview
- an Hermeneutics worldview (Position of my study)

From a Positivist point of view "the universe is comprised of distinct objects with properties independent of the enquiring observer and the reality has a concrete and objective structure" (Douglas, J.D. 1970, Understanding everyday life. Chicago: Aldine).

"In a positivist worldview, a mountain is a mountain for everyone, a product is a product for everyone". (Rand, Ayn Binswanger, Harry & Peikoff, Leonard. eds. Introduction to Objectivist Epistemology (second ed.) 1990 New York: Meridian)

The only possible answer to the question "What is in the world?" would be: "the observable and measurable". Because everything in the world, is what it is empirically observable and statistically measurable.

From a psychological perspective, positivists would argue that it is not relevant to study inner feelings and sentiments because they are not objectives and observable. It would be desirable to study them, only if those feelings are projected into the real world under the form of observable attitudes and behaviours.

The next ontological paradigm is Hermeneutics. Hermeneutics "seeks to highlight unspoken background of socially shared meanings, to reveal how cultural view points are adapted to a unique life situation" and "to analyze personal meanings". (Ricoeur P. 1981 "Hermeneutics and the social sciences" Cambridge University Press & Yvonne Mak - Glyn Elwyn 2003 "Use of hermeneutic research in understanding the meaning of desire for euthanasia" University of Wales Sage publications).

Also Hermeneutics as positivism, see the world as objective. But what is than the difference between positivists and hermetic? The main difference lies in the *interpretation* of this objective world.

In fact, hermeneutics believes that despite the existence of an objective world, interpretation of this world is *personal and subjective*.

Hermeneutics and positivism are actually analogous in an ontological sense (existence of an objective world) but they are very different in an epistemological perspective (how to interpret the objective world). They have very different ways in understanding and examine this objective world: on one side hermeneutics would focus on the understanding of socially shared meanings, cultural meanings and personal meaning asking to people how they perceive the world as emotional beings, while on the other side positivists would adopt rigorous quantitative methods to register the objective and observable world and to study it statistically (Barnett-Page, E and Thomas, J (2009) "Methods for the synthesis of qualitative research: a critical review." NCRM Working Paper).

In line with hermeneutics view, in my study, I have focused my attention over "socially shared meanings and personal meanings" of business managers and scientist. I have recognised that there is a subjective part of informants' mind that needed to be understood in order to interpret the buyer and seller relationship phenomena.

The third ontological paradigm is post-modernism. They believe that the world is "a collection of beliefs about life where everything is contingent and nothing is fixed" (Kevin Vanhoozer, "Pilgrim's Digress: Christian Thinking on and about the Post/Modern Way" in Penner, Christianity and the Postmodern Turn: Six Views) They argue that "*our situatedness prevents us from directly accessing the real world or having true knowledge about it. This is not to say that the real world is not there, only that we can never shed our perspectives to access it. No one has a god's eye view of reality; therefore no one can claim to have the truth about it*" (Klein, H.K., and Myers, M.D. 1999 "A set of principles for conducting and evaluating interpretive field studies in information systems," MIS Quarterly).

Therefore what they claim is that it is rather unsure whether there is or there is not an objective world out there because each individual has its own perceptions of the world. To claim that there is actually an objective world is unrealistic or at least unsure.

From an ontological view hermeneutics and post-modernism overlap because they both believe that interpretation of the world is subjective and together with that they both recognise that there is a subjective understanding of the world. What is then the difference between post-modernism and hermeneutics? The difference is very clear when reasoning about epistemology, and this is why I refer to the following chapter to explain that.

In next section I will assess how to create knowledge based on my ontology and I will look to how the epistemology behind the post-modernist, positivist and hermeneutic views of knowledge differ and affect my study.

2.4 How to examine the world? The epistemological position

The different assumptions regarding ontology pose interesting problems of epistemology. Epistemology, from the Greek words *episteme* (knowledge) and *logos* (word/speech) is the branch of philosophy that reason on how knowledge can be collected (Bryman A.1984 *The Debate about Quantitative and Qualitative Research: A Question of Method or Epistemology?*,. *The British Journal of Sociology*, 351, 75-92).

Epistemology is the study of

“How is it possible to study the world?”.

From an epistemological perspective the difference among hermeneutic and post-modernism is much more evident in particular if we compare hermeneutics and extreme (or fundamentalist) post-modernist. In fact an extreme post-modernist would argue that it is not possible to compare and generalize individual personal perceptions because individuals are too emended in specific situations that it would be meaningless to compare across different people worldviews. Each person situation is so rooted in a specific context that it is impossible to compare across world interpretations because each person lives a unique and therefore incomparable situation (R. Wesley Hurd 2001 “,*Seekers, Truth, & Fulfillment. Asks whether we can find a vision of life that is true*” McKenzie Study Centre Editions).

In hermeneutics this comparison is possible because hermeneutic believes that if you ask to each individual how he/she perceive the objective world, you can then compare their views in order to interpret and understand the world out there (as far as you are aware of the complexity of this exercise).

In my study I have made hypothesis to be tested, while postmodernist would have never done that. I have followed this pathway because as far as I see it “*socially shared meanings, cultural meanings and personal meanings*” can come into two versions: one is socially shared meanings among scientists (and this is what I have done in my hypothesis based on earlier examinations of the same phenomena from

other researchers view) and the second is the business people's "shared meanings" studied through direct interviews.

As a result of my study I have compared both "shared meanings" together in order to reach my conclusions. I differ from a post-modernist approach to study epistemology because I have also implemented a very structured questionnaire and very precise hypothesis to be tested. And this is something that a post-modernist would have never done (Ryan, G. H. and Bernard, H. R. "Data Management and Analysis Method", in Denzin, N. K. and Lincoln, Y. S. "Handbook of Qualitative Research 2nd edition" Thousand Oaks: Sage, 2000). A post-modernist would have never either structured a pre-understanding of the world as I have done.

From an epistemological perspective a positivist would argue that it is not possible to generalize a theory simply asking to 5 or 6 persons (as most case study do) how they feel and how they perceive the world. This is not possible because researchers don't dispose of a statistical significantly amount of data and it is then not possible to support results with scientific evidences. Positivist assume that "an objective physical and social world exists independent of humans and the main role of researcher is to discover this objective world crafting and modelling precise measurement processes" (Orlikowski, W. J. and Baroudi, J. J. 1991 "Studying IT in Organizations: Research Approaches and Assumptions", Information Systems Research, 2:1 pp. 1-28).

The main difference among positivism and hermeneutics is in the way they do empirical observations: for example while hermeneutics welcomes case study as a methodology of research, positivism denies it as based on a very limited statistical population (Ryan, G. H. and Bernard, H. R. "Data Management and Analysis Method", in Denzin, N. K. and Lincoln, Y. S. "Handbook of Qualitative Research 2nd edition" Thousand Oaks: Sage, 2000). In addition to that, as we have already argued, positivists would focus their attention on behaviours and attitude and not feelings and emotions.

The approach of my study seems very similar to a positivist one when thinking to the structure of my research, in fact I have developed a *a priori* theoretical model and hypothesis to be tested out in the world. However my interpretation of the world is very much hermeneutical because I have adopted *case study* as the methodology of my study in order to interpret the objective world from a subjective perspective. My understand of the objective world has matured through informant's "shared and personal meanings" cross comparisons.

Once we have now review epistemological positions and their implications on my study we can proceed discussing about methodology.

2.4 Methodology

Both ontological and epistemological approaches adopted by a researcher, have direct impacts to the methodological approach.

Methodology is the way by which we gain knowledge about the world, trying to discover how we can go about the task of finding out what we believe to be true.

Leaving the field of philosophy of science to discuss methodology of this study another very important question arises:

Which tools and techniques should we adopt to study the world?

According to Bryman 2001, “if we accept the philosophical assumptions of positivism, we are invariably drawn towards the exclusive utilization of nomothetic methodology” (Bryman. A. 2001 Social Research Methods, Oxford University Press: Oxford).

This successively leads to stressing the *deductive research* which seeks to provide explanation through an analysis of informal relationships and through covering norms. Prominence by the positivists is given to replicability, which adopts a highly structured research methodology based on either physical or statistical controls in order to smooth out the progress of the examinant hypothesis. As a result, the main research methods that are used by positivists are laboratories, surveys and quasi-experiments

In contrast to the positivist approach to methodological matters, the Postmodernists accept ideographic methods which give more importance to the *inductive* side concentrating upon the subjective appreciation of human behaviours.

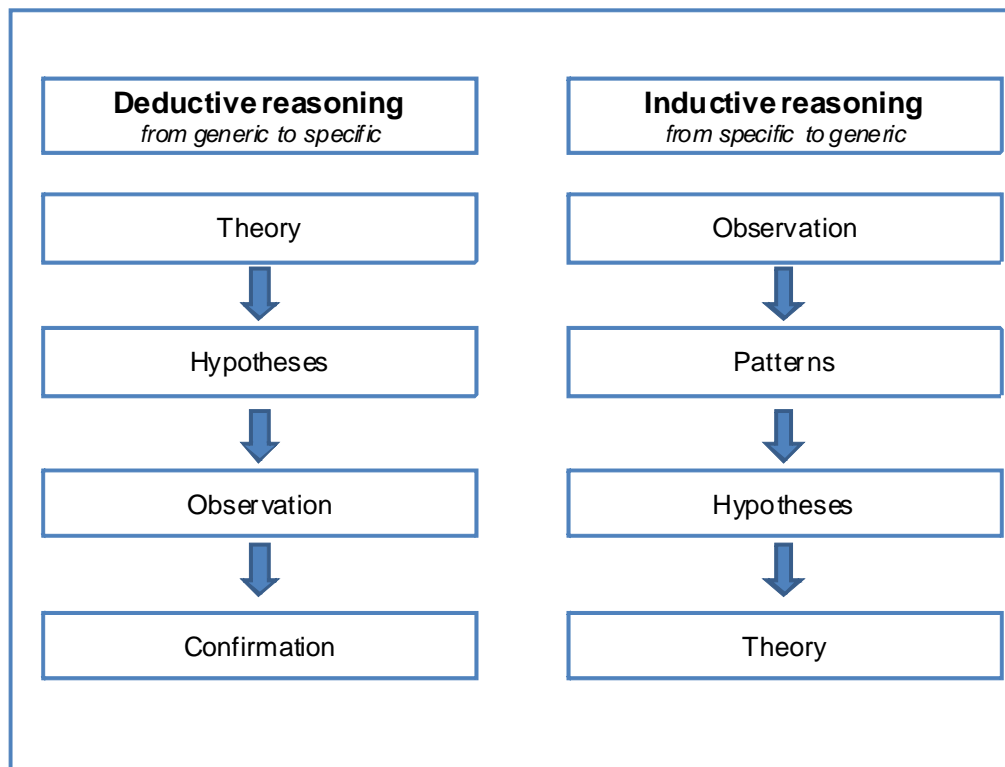
In order for investigators to understand the subjective accounts, they immerse themselves in the research context giving emphasis to the creation and utilization of qualitative data. Therefore postmodernists are more liable to using action research, case studies and ethnography as the main research methods.

My personal orientation in this study has been toward an hermeneutics oriented approach to research: objective world – subjective interpretation.

Through the case study methodology mediated through an *abductive* reasoning approach I have generated knowledge in my study.

In order to understand the means of reasoning applied to my study it is important to explain the two most important methods related to knowledge generation: deductive reasoning and inductive reasoning and explore their implications on research.

Figure 2.2



Source: Own Elaboration

Deductive reasoning “involves moving from generalities to specifics by working through a series of reasoned statements” (Kaplan, A. 1964 *The Conduct of Inquiry*, Chandler, New York) Deductive reasoning starts with the assertion of a general principal and proceeds to test it via empirical studies.

Inductive reasoning instead “takes a series of specific observations and tries to expand them into a more general theory” (Kaplan, A. 1964 *The Conduct of Inquiry*, Chandler, New York)

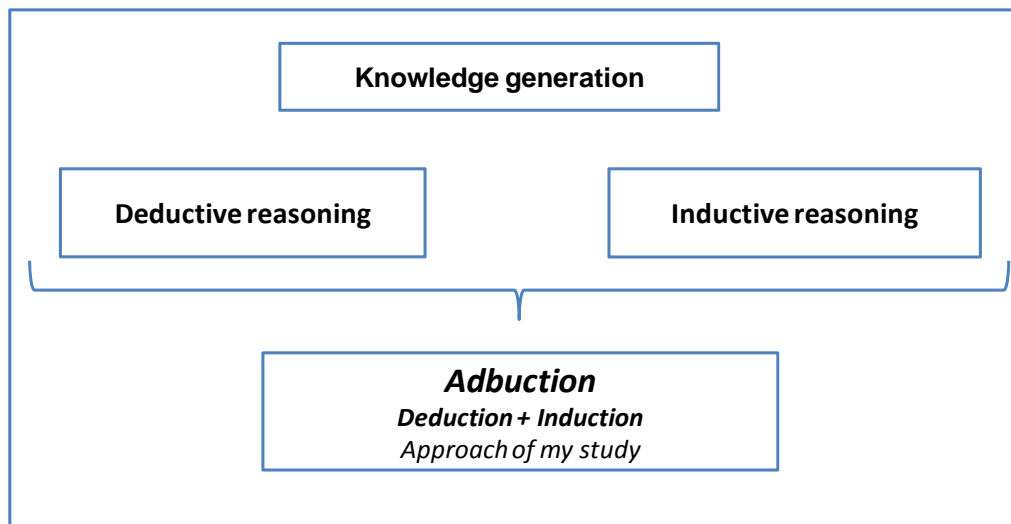
Inductive reasoning, begins with observations that are specific and limited in scope, and proceeds to a generalized conclusion that is likely, but not certain, in the light of accumulated evidence. Inductive reasoning implies making general conclusions or finding a principle from observing a single event.

Deductive reasoning implies a pre-existing understanding of the world based on pre-existing findings and concepts while inductive reasoning generates knowledge through empirical studies and observation.

As it is possible to understand, while reading my thesis, I have followed both approaches: deductive reasoning when from coming from literature review (theory) i

have elaborate hypotheses and test them, inductive reasoning when coming from model testing process I have developed new observation and generate new theories. Actually the chosen means for my dissertation is best described by the concept of *abductive reasoning* – the sum of induction and deduction together.

Figure 2.3.



Source: Own Elaboration

Abduction is a method of logical inference introduced by Charles Sanders Peirce (Edwards, Paul (1967, eds.), "The Encyclopedia of Philosophy," Macmillan Publishing Co, Inc. & The Free Press, New York. Collier Macmillan Publishers, London).

Abductive reasoning starts when an enquirer considers a set of seemingly unrelated facts, armed with an intuition that they are somehow connected. The term abduction is commonly presumed to mean the same thing as hypothesis; however, abduction is actually the process of inference that produces a hypothesis as its end result.

Abduction as I have implemented in my research has allowed me to begin my reasoning with elaboration of pre-existing concepts (the assumptions at the basis of my model based both on empirical observation and literature review- deductive reasoning) while at the same time I have elaborated a research process that has allowed me to be open to generating new knowledge through empirical studies and observation (the test of the hypothesis has been structured as a semi-structured questionnaire which allowed discussion with informants and lead to new knowledge generation through an inductive process of reasoning).

Through formulation and test of hypotheses I have evaluated to what extent those hypotheses are confirmed or disconfirmed. The positive side of doing that through qualitative interviews is that *new knowledge* can be generated through inductive reasoning. For instance that would have not been possible in a quantitative study! Also the perspective section of my thesis is based on both deductive and inductive reasoning.

While the concepts of opposing strategic interest, fairness perceptions and synergic investments were recognised early in the process, it was only via an investigation of the literature that the shortcomings of the concepts were identified. Modifications were made as a consequence of this induction to the analytical framework with the aim of deducting new insights concerning the empirical setting. The implications of this type of abductive reasoning are identifiable also in the perspective section where both inductive and deductive reasoning have allowed me to elaborate new knowledge and present possible new pathways of research.

It is now important to start our presentation over the methods applied in my thesis in order to clarify the concrete implications of scientific approach, ontology and epistemology to my research.

2.4 Method: Case study

“A case study is an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin R. K. 1994 *Case study research Design and Methods*, Sage Publication p. 13).

In my study the phenomenon refers to the buyer and seller relation in the “fruit “ market in the real life context of Italian supplier and retailer relations. In particular the relations between suppliers of the “fruit market” and one of the largest retailers in Italy.

A “case” is “a closed and integrated system of patterns and behaviours” (Sayre S. 2001 “Qualitative methods for marketplace research” Sage Publication) and the purpose of my study is to bring to light those patterns of behaviours among buyer and sellers interactions.

The most important step of case study research is probably defining the research question. Case study mainly focuses on answering “how” and “why” questions and it is very important to spend enough time on formulating the right questions before starting the actual research (Campbell D. T. *What to study: generating and developing research questions* Sage publication).

Yin categorizes case studies as: single case studies and multiple-case studies.

A “multiple case study enables the researcher to explore differences within and between cases. The goal is to replicate findings across cases” (Campbell & Ahrens (1998) Innovative community services for rape victims: An application of multiple case study methodology. *American Journal of Community Psychology*, 26, 537-571.)

A frequent criticism of single case study methodology is that its dependence on a single case renders it incapable of providing a generalizing conclusion. Yin (1993) presented Giddens' view that considered case methodology "microscopic" because it "lacked a sufficient number" of cases. Hamel (Hamel, J., Dufour, S., & Fortin, D. 1993 *Case study methods*. Newbury Park, CA: Sage Publication Hamel et al.,) and Yin (Yin, R. (1994). *Case study research: Design and methods* Beverly Hills, CA: Sage Publishing) forcefully argued that the relative size of the sample whether 2, 10, or 100 cases are used, does not transform a single → multiple case study into a macroscopic study. The goal of the study should establish the parameters, and then should be applied to all research if necessary. In this way, even a single case could be considered acceptable when it meets this objectives.

It is important to remember that “ case studies, like experiments, are generalizable to theoretical propositions and not to populations of universes. In this sense, the case study, like the experiment, does not present a sample and the investigator’s goal is to expand and generalize theories (analytical generalization) and not to ensure frequencies(statistical generalization)” Yin (1989, p21)

The number of cases investigated does not influence the ability to generalize. Yin (1994) suggests that when selecting a case for a single case study, researchers should use information-oriented sampling , as opposed to random sampling.

This is because an average case is often not the richest in information. Selected single case study reveal more information because they activate more basic mechanisms and more actors are involved in the situation studied.

The possibility to generalize from a single case, depends on the information contained in the case: atypical or extreme cases are suggested to present the highest level of information.

“The critical case is the optimal candidate to select for generalization as having a strategic importance in correlation to the problem of interest”(Mads Vangkilde, 2007, Why wait? An exploration of first mover advantages among Danish e-groceries through a resource perspective PH.D thesis)

I have selected my case study through this methodology in fact I have follow Yin’s recommendation to individuate an informed-oriented case study. I have chosen a case where suppliers were extremely heterogeneous, the market in which they operate is considered strategically important for the specific retailer and the retailer itself is one on the largest in Italy. All those elements together have guided me in selecting an informed oriented case study.

“Single case study are recommended if the intention of the research is to describe a phenomenon and the real-life context in which it occurred” (Tolson, Fleming, & Schartau (2002). Coping with menstruation: Understanding the needs of women with Parkinson’s disease. Journal of Advanced Nursing, 40, 513-521.) And since my objective was to study the phenomena of buyer and seller relations in the real life context of buyer’s and seller’s transactions this is why I have followed the single case study methodology.

The benefits of case study are:

“Case studies provide a clear description of a situation faced by a company or a consumer” therefore any reader can easily have a snapshot of a particular situation applying the case to many different analysis and applications.

- “Case studies enhance the application, testing, or generation of theory”

(Shay Sayre contribution to the literature and integrated with Robert Yin reflections on case study. Sayre S. 2001 “Qualitative methods for marketplace research” sage publication pag. 81 and Yin R. K. 1994 Case study research Design and Methods Sage publication pp. 1-21)

Case study does not have a standardised format by itself but most case studies share a common approach on research and follow a clear *protocol*:

1. Defining the research question and set a well scheduled research plan
 - a. In a macro context where opposing strategic interests characterise most buyers and sellers relations, which variables should be taken into account to evaluate the continuation expectation of a supplier-retailer in a buyer and seller relationship ? How are those variables inter-related? And what makes a supplier a preferred partner in the distributor's supply system?
 - b. The research plan I have followed is: case study design→ conduct of case study→ analysis of the case evidences→ writing the case report and research implication
2. Prepare a strong literature review in order to collocate your research and back up your basic assumptions
 - a. Refer to chapter one
3. Collect background information
 - a. That has been done though internet, pre-contact with the retailer and thanks to the personal matured experience of the researcher that has been working for months in the studied market
4. Develop your model or define your specific goals and prepare your guideline for interviews

- a. Please refer to the model definition chapter 4, in particular to figure 4.1
- b. Interview guideline is attached at the end of this thesis in the appendix section
5. Contact the companies
 - a. The contact has been both by mail and by phone
6. Collect data on site
 - a. I have met the company directly to their company site
7. Analyze and reflect on data
 - a. Please refer to the extensive reflections of chapter 5
8. Write up the case study and highlight the major findings
 - a. Please refer to chapter 6

This will be the research pathway that I will follow in my research projects.

A specific word should be spent on the concept of validity and reliability in case study firstly presented by Kidder and Judd in 1986 (Kidder L. and Judd C. *Research methods in social relations* 5th end Ritter and Winston):

It is important to reflect on the validity and reliability of the obtained results and how we have avoided the risk of biases in the research.

In qualitative studies it may happen that individual interpretation of data and interviews may lead to different results.

The construct validity of a case is strong if correct operational measures have been established for the phenomenon being studied.” Construct validity refers to the extent to which operationalizations of a construct -e.g. practical tests developed from a theory- do actually measure what the theory says they do” (Cronbach, L. J. & Meehl, P. E. 1955. Construct validity in psychological tests. *Psychological Bulletin*, 52, 281-302).

In order to increase the construct validity of my case I have followed Yin’s (1994, pp33-34) recommendation that the researcher must specify what is to be studied and then establish measures and indicators for this.

The research question guided my data collection and also made it gradually clear what kind of measures and indicators were most appropriate. I have established a and followed a clear protocol of research as mentioned above.

Along with that if the study is well constructed and implemented, also internal validity is assured (internal validity=no alternative explanations can be considered for the

phenomenon observed.) “Internal validity is an inductive estimate of the degree to which conclusions about causal relationships can be made (e.g. cause and effect),” (Büttner J. (1997) Diagnostic validity as a theoretical concept and as a measurable quantity. Clin Chim Acta. Apr 25;260(2):131-43)

Due to closeness to the data and the unfolding nature of my study I became very familiar with the data and the informants, a fact that strengthens my claim that internal validity is high in my research. The measures used, the research setting, and the whole research design have also been reviewed and validated by my thesis supervisor who is a professional researcher with many here of research experience in his academic history.

External validity deals with the extent to which a study findings are generalizable beyond the case study itself. “External validity concerns the extent to which the (internally valid) results of a study can be held to be true for other cases, for example to different people, places or times. In other words, it is about whether findings can be validly generalized” (Büttner J. (1997) Diagnostic validity as a theoretical concept and as a measurable quantity. Clin Chim Acta. Apr 25;260(2):131-43)

As pointed out by Yin the case study aim is to come up with analytical, not statistical generalizations.

As previously discussed “ case studies, like experiments, are generalizable to theoretical propositions and not to populations of universes. In this sense, the case study, like the experiment, does not present a sample and the investigator’s goal is to expand and generalize theories (analytical generalization) and not to ensure frequencies(statistical generalization)” Yin (1989, p21)

The generalizeability of my findings was strengthened by the use of an extreme case study selected through and informed-oriented approach as recommended by Yin.

Reliability is the final test that should be applied to any case study. “Reliability is the extent to which an experiment, test, or any measuring procedure yields the same result on repeated trials”.(Writing guides for researchers, Colorado State University web site).

Reliability is in fact the measure of accuracy in producing our results: the lower the error rate and the fewer the biases in the study, the higher its reliability.

In my study accuracy has been a very important issue and I have secured accuracy through a very clear and accurate process of collecting data:

- preparing interviews, following the structure of my model. Making sure that each hypothesis is sustained by sufficient specific answers to that
- making and recording interviews with as an *active listener* (Yin's recommendation)
- I have realised a database to store data
- I have transcript interviews
- I have translated them with the help of an English professor
- I have attached them a the end of this thesis

As suggested by Yin (1994) I have developed: a clear case study protocol (outline the purpose of the study, follow clear field procedures, define questions to be addressed, highlight data analysis procedures and make a clear case study report) and triangulation was applied to translate interviews and capture the real meaning of informants answers.

Understanding the method of research and working under a precise pre-fixed scheme of actions and steps, offered me the best possible means to secure currency in my study as I have adopted a Clear research framework (Yin case study research process) .

The validation of the results has been backed up by a clear matching between the basic theoretical assumptions which were overlapping, and their application in real life context. In my study I have elaborated a model that allowed me to study the relation between buyer and seller, and though in-depth interviews I have developed a clear procedure to investigate and observe reality from my specific ontological and epistemological perspective (please refer to the previous discussion).

Relying on previous research has thereby been the means to secure reliability in the research. Reliability has also been sought via extensive work that preceded the data collection. Obtaining knowledge on the industry and its workings from a short stage experience in one of these companies, working on secondary data and prior research, investigating the theoretical components to construct a meaningful framework and lastly by conducting interviews with these insights are mechanism to ensure reliability.

2.5 In-depth interviews

In-depth interview is one of the most popular and applied qualitative techniques in marketing research. This method is highly efficient because it gives the opportunity to several informants to share their opinions and life experiences (in accordance to my hermeneutic perspective) with a researcher that is obviously highly interested in the topic. Many informants find the interview experience very flattering and tend to put a lot of passion in their answer.

“During in-depth interviews, the person being interviewed is considered the expert and the interviewer is considered the student. The researcher’s interviewing techniques are motivated by the desire to learn everything the participant can share about the research topic” (Kvale S. 1996 Interviews: An Introduction to Qualitative Research Interviewing. London: Sage Publications).

This mindset, both of the researcher and the interviewed, positively contribute to the overall quality of the data gathering procedure and consequently helps developing better findings.

By definition: *“an in-depth interview is an open-ended, discovery-oriented method that is well suited for describing both program processes and outcomes from the perspective of the target audience or key stakeholder”* as top managers are, in my case study (Guion L. 2008 *Conducting an In-depth Interview* University of Florida IFAS extension).

The main ambition of the research is to highlight the respondent’s view point taking into account his or her feelings and perspectives (Guion L. 2008 *Conducting an In-depth Interview* University of Florida IFAS extension).

The methodology of in-depth interview has been first applied by American and Japanese firms in order to develop managerial tools such as business handbooks to be spread among company’s members. In-depth interviews were the perfect way to reveal how problem were faced and which were the best practices to follow. Later on also the academic world understood the importance of in-depth interviews in qualitative studies (Wright L. 1996 *Exploring in-depth interviews as a qualitative research technique with American and Japanese firms. University of Birmingham Marketing Intelligence & Planning*)

The advantages related to in-depth interviews are:

- “They are ideal for investigating personal, sensitive, or confidential information which is unsuitable to cover in a group format. They are also the best method for testing, where we are seeking individual interpretations and responses” (Synovate consultant agency web site) this is why in-depth interview are particularly indicated for my study.
- In-depth interviews highlight connections, relations. That helps to find hidden reasons for the happening of certain events. And this is exactly what was the aim of my research. To individuate and explain the connections and the relations among the constitutive variables of my model.
- They are in general face to face interviews, which helps generate discussion and the researcher may find out certain important aspects that were not included in the research and in the structured interview guideline. This has been possible also due to my abductive approach.
- Clear understanding of the informant’s point of view, if you don’t understand with the first answer you can just ask him to reformulate his answer. It is possible to record the interview and that helps the researcher a lot in reporting clearly the interviewed opinion(as I have done).
- The respondents generally contribute bringing in additional contextual information witch enrich the data already gathered and, generally, they contribute to take a snapshot of the environment in which the interview is set.

There are also a few disadvantages.

- The quality of the answer depends highly of the quality of the interviewer. This is why the interviewer should always be a skilled professional (active listening). The tool of active listening has been applied to my research together with the help of a third researcher that was helping me to transcribe the informants’ answers capturing the real meaning of informants’ words.
- As most in-depth interviews are semi structured in order to gain as much as possible from the informant without guiding him too much, you never know if the results would have been the same with another interviewer or a more structured interview. In order to avoid this risk my research has been more structured compared to other in-depth interviews in fact (as you can see from the attached interviews) each hypotheses has been backed up by three or four specific questions. The informant was anyway encouraged to bring in the discussion additional reflections through external concepts, if considered

relevant to explain the reason of specific phenomena. In addition to that, each interview has been completely reviewed by the informant after two weeks from the first interview and he/she was asked to comment their answers and propose additional and relevant issues not discussed in the first interview.

- The length of the interview combined with the high costs generally means that the number of in-depth interviews in a project is quite small. We have carried out five in-depth interviews. As suggested by Yin, five interviews in a single case study research is a coherent number of interviews to support and elaborate relevant results.

All in all the technique in use is highly efficient and fits perfectly with the needs of my case study analysis.

As my informants are all top managers of firms and the theme of discussion is particularly sensible, the in-depth interview method has been particularly indicated in my thesis to keep interviews confidential. As said previously confidentiality is an issue that can be handled easily through in-depth interviews (Synovate consultant agency web site).

The structure of the in-depth interview includes the following characteristics (Rubin H J *Qualitative interviewing: The art of hearing data*. Thousands oak Ca Sage publications)

- Open-ended questions. Not simply yes and no questions but elaborations of concepts
- Semi-structured format because some questions should flow spontaneously during the interview (please refer to the section above to clarify the structure of my interview format).
- Seek understanding and interpretation
- Allows: Recording responses, observations and interviewer reflections.

Now that we have presented our worldview, our scientific position, our process of generating knowledge and the case study method, it is important to present clearly our specific case study.

We will do that by presenting each firm one by one and bringing to light the relations among them. In addition to the firm presentation, we will illustrate the market in which they operate and the role of each firm in this market.

CHAPTER THREE

3. Case delimitation

3.1 "Hippopotamus S.p.a" and its suppliers in the "fruit market"

My thesis will focus on the specific case study of "Hippopotamus S.p.a." in the "Fruit market" in Italy.

All the name of the companies (the retailer and the suppliers) and the market will be kept secret just to preserve the confidentiality of the attached interviews as requested by the informants. Only in occasion of the thesis dissertation the name of the companies will be revealed as agreed with the informants and the thesis supervisors.

Retailer overview:

- Hippopotamus S.p.a. is one of the top five retailers in Italy both in terms of size and revenues and it is part of an international retailing group operating mainly in Europe, China, and south America.
- The company is structured as a multichannel distributor divided into 4 main formats: ipermarket, supermarket, superette and cash and carry.
- "Hippopotamus S.pa" is very well distributed on the whole national territory and its market shares are particularly high in the north and central regions.
- The company is living a deep modernisation of its internal structures right now. Hippopotamus is selling out to competitors most of its non remunerative point of sales (mainly in the south and islands) and is allocating resources to the renovation of the most important stores (in terms of turnovers).
- The company is also massively investing on the development of strong private labels brands in many categories as a strategy to differentiate their offer from competitors to improve customers' fidelity and marginality.

Suppliers overview:

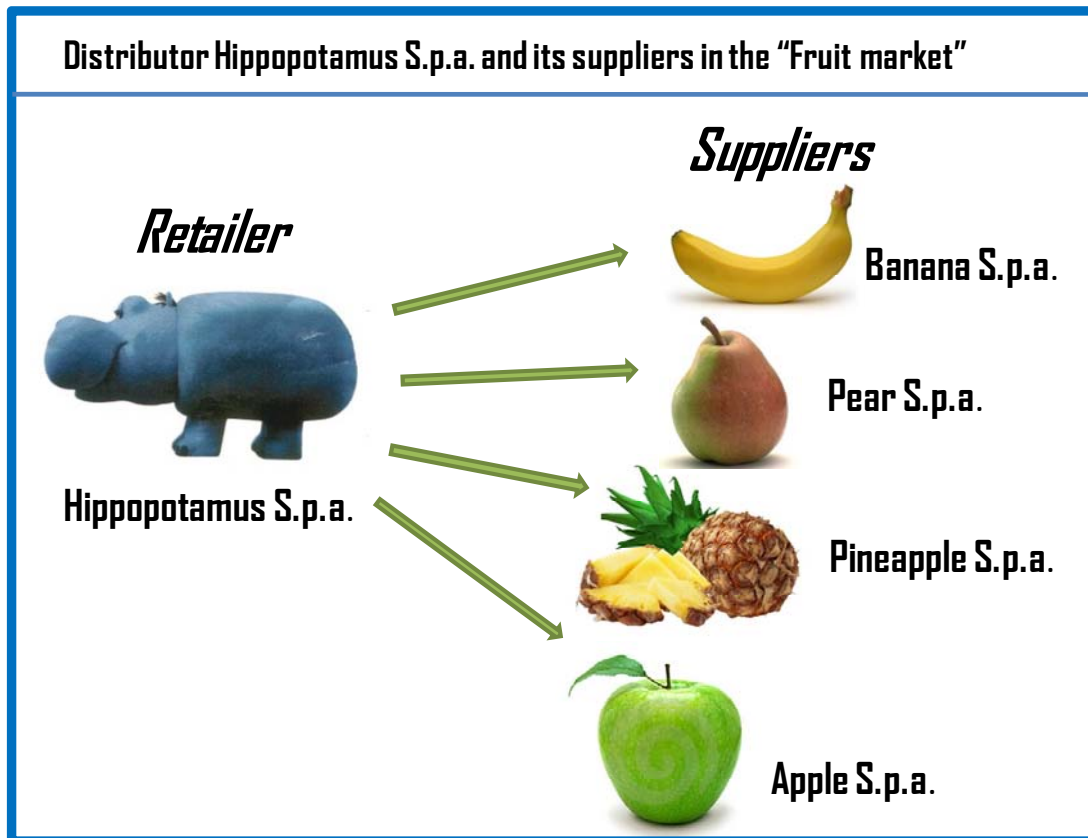
- Banana S.p.a is a large diversified multinational company operating in the food business and it is one of the two main co-leaders operating in the "fruit" market in Italy. Despite that, the fruit market in Italy represents in volumes of sales just the 3% of its total sales world wild. The head quarter of the company is in Italy and more than 50 % of its revenues come from the Italian market. The company operates under numerous brands and all of them have been positioned as top quality. Banana is leader or co-leader in almost all the

category it operates. That gives to the company an high negotiation power when dealing with retailers. This is an element that need to be considerate when the Banana example will be applied to my model (Banana interview and official website).

- *Pear S.p.a.* is a medium Italian company operating mainly in the “fruit market”. They own three really well known brands and many of their references (taken by itself) are among the most sold in Italy. However as a whole the company is number 3 in the market and Pear S.p.a. is struggling to maintain this positioning. One of the biggest problem related to this company is the dimension, they are enough big to be a key player in the market (right now) but not enough big to deal with large retailers as Hippopotamus S.p.a. (negotiation power is too low for them). The quality of their branded products is high, but not always the sell-out price (consumer’s price) reflects this positioning (usually is much lower).That gives to the company a serious problem of marginality because distributors have eroded their margins and retailer keep asking the company for lower sell-in prices.
- *Pineapple S.p.a.* is a family company privately owned and its sales in value have reached this year (2009) around 400 ml Euros. The production of the company was, until 10 years ago, mostly focused on two main products in the food market. Today Pineapple S.p.a is a much more diversified company. In a few years the company has bought a number of historical Italian brands operating in the alimentary FMCG’s markets and has dramatically enlarged his trade in different markets. In particular in the business of the everyday consumption products, as in the case of the “fruit market”. The fruit market is relatively new for the company and they have entered it as second movers 6 years ago. They today are also co-packer of many retailers in Italy and that gives to them a particular collocation in the suppliers’ scenario. The sales director has declared that the “fruit market” is highly strategic for the company and they intend to invest in the launch of new products next years. They expect to grow further in the market enlarging their market shares. Today they are number 3 or 4 in the market according to the different parameters. (Pineapple internal dates, interview and website).
- *Apple S.p.a.* is a small player of the “fruit market”. They have developed a very strong know how on how to produce “dried fruit” and they have focused their

production on it. They basically offer non branded product posing their as value for money products. They are a small firm with a clear mission (high margins to retailer, no marketing costs, fairly good product to a reasonable price) but they are struggling to survive in a segment mainly guarded by private labels

Figure 3.1



3.2 Market and supplier's selection

- I have chosen the "Fruit" market because it is strategically important for "Hippopotamus S.p.a" supermarkets and competition is high among retailers.
- The key importance of this market is easily remarkable from many indicators as: the volume of revenues and profit associated to the market, the number of promotional activities and the specific investments in terms of margins in each promotion and last but not least the declared intension of the company to be the most competitive retailer in this specific category as it is considered a traffic generator category (please refer to Hippopotamus Interview attached).

- Between suppliers there are many different players each one with a specific product positioning. Each segment (that in my thesis will bring the name of a fruit to keep interviews confidential) has more than one possible supplier and that makes competition among suppliers very high.
- It is possible to identify in the market two main co-leaders sharing in 2009 around 30 % each of the market. That means that around 60% of the market is supplied by two main suppliers. The rest of the market is mainly formed by two different typology of players: medium firms operating also in other similar markets manufacturing branded products, and smaller players focused on specific market segments manufacturing unbranded products or private labels. In my thesis I have selected 1 multinational leader, 2 medium firms manufacturing branded products and a smaller player focused on unbranded and private label references.
- Principal Segmentation of the market (Mark-up.it research 2008) and extracts from interviews:
 1. Product typology: “Fresh fruit”, “Exotic fruit” and “Dried fruit”
 2. Moment of consumption: Breakfast (morning) or snack (between main meals)
 3. Consumer: Adult or kid
 4. Positioning: Branded – Unbranded and Private labels
- Main drivers of purchase in this market are (Nielsen report on the market 2008):
 1. Brand
 2. Positioning\Price
 3. Calories

Figure 3.1

- Innovations in this specific category pushes the whole category's sales up for the whole brand and the market (Nielsen report 2008 from www.mark-up.it, Banana and Pineapple interview attached). This is why producers are fighting for "shelves allocation" to introduce innovations every 6-12 months (refer to interview). That also pushes redesign of space allocation and frequent changes in the assortment mix. Also small players benefit of the leader's innovation because advertising on a specific new product lead to re-vitalisation of the whole market (refer to Apple S.p.a. interview attached). This is due to the effects of the "stomach war" (Banana S.p.a interview). The idea is that consumers have a limited "stomach" and during the day the moment of consumptions are limited. Therefore communication and advertising co
- Brief macro data on the overall market in Italy (www.altroconsumo.it)
 - Market value 2009: 641.500.000 €
 - Market volumes: 118.000 tons
 - Delta consumption 08/09 in value: -1.7%
 - Delta consumption 08/09 in volume: +0.8%

4. Constructs identification

4.1 Model generation

On the base of the literature review I see there are 5 most important construct to look at in order to answer my research question:

- Opposing strategic interests
- Fair dealing
- Ability to make Synergic investments
- Willingness to make Synergic investments
- Relationship continuation expectation

I have empirically observed in my analysis of daily exchanges in B-S relations that opposing strategic interest is the general set up of most relations between supermarkets and suppliers. From case to case the degree of “*opposition*” between the parties might vary in accordance to the specific B-S scenario (table1) and the other variables.

Those variables are: fairness, the ability to make synergic investments and the willingness to invest in those activities.

All those variables together have a direct impact on the development of the relation and the relationship continuation expectation of the parties.

The interconnections between all the constitutive variables of the model will be analysed and explained in the following paragraphs.

As pre-conditions of my model I will assume that most B-S relations are unbalanced in favour of the distributor and that the development of long lasting relations between suppliers and retailers is the key element for the generation of sustainable profitability (from a supplier point of view). The reasons and consistence of those pre-conditions have been extensively explained in the introduction.

4.2 Model Graphic representation

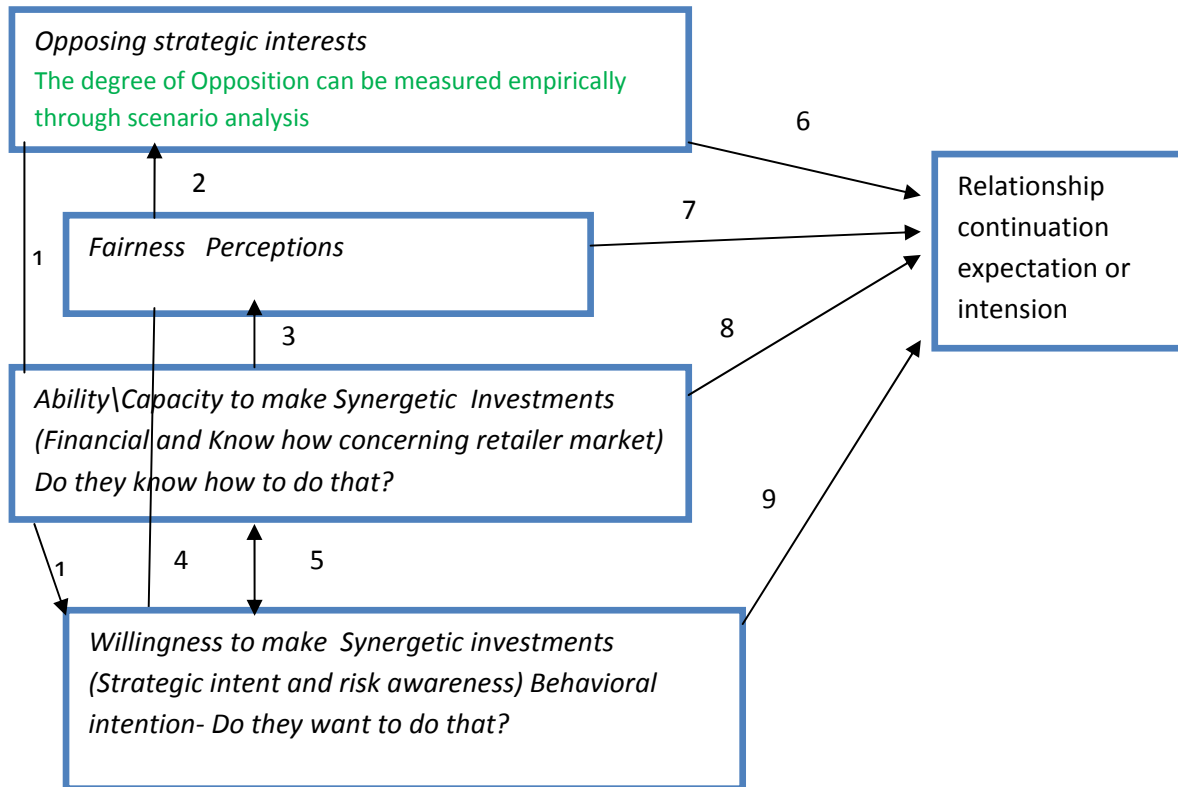
My model is conceptualized as follow:

- The boxes represent the main concepts and constructs.

- The arrows indicate the relation between the constructs, please mind that also the direction of the arrow is relevant.

Figure 4.1

Independent Variables **Dependent Variable**



4.3 Definitions of the constructs:

4.3.1 Opposing strategic interest

By opposing strategic interests (OSI) is meant that in supplier – retailer relations, although the parties fundamentally perceive resources exchanged as complementary (e.g. Dyer and Syngh 1989) they may espouse different interests in perceptions on which investments and initiatives will create mutual value and relational rents into the future in the relationship (N. Kornum, 2009). It is through those investments and initiatives that it is possible to make changes, and influence the “macro development” of the relation. Concerning complementarity, Kornum argues that the resources exchanged are sufficiently unique in order to secure that both parties find that they gain from the relationship and the exchange. Thus whereas resource development is directed towards the future, the complementarity is about the resource constellation the two parties possess when they enter into the relationship or

sign the contract. Consequently, the retailer, who is the “strong” part in the relationships, may find the relationship with a supplier valuable and complementary, but the parties may disagree on the future development of the relationship because of the opposing strategic interest. To the retailer the relationship can continue as it has but they may oppose developments that the supplier suggest, for instance, in the direction of sharing POS data (N. Kornum, 2009).

Kornum’s definition of OSI is formed on the background of resource based view and built up on part of Dyer and Syng’s insights (see literature review).

In my model OPI is considered as an independent variable and it is assumed to be the natural state of most B-S relations.

As empirically observed, not all relations are the same and it is than important to differentiate between 12 most important scenarios, each one incorporating a different degrees of oppositions.

Those scenarios matrix is generated focusing on tree main variables:

- 1. The promoter of the initiative:*
 - The supplier*
 - The retailer*
- 2. The financier of the initiative*
 - The supplier*
 - The retailer*
 - The supplier and the retailer*
- 3. The counterpart reply to the promoter proposal*
 - Yes, proceed*
 - No, stop*

From definition we can call synergic investments only those activities that have been proposed and implemented by the suppliers. Since those activities are the core of our research we will focus only on the first set of scenario alternatives made of 6 alternatives called: option A –supplier as the promoter.

Figure 4.2

4.3.2 Scenario analysis and associated degree of opposition

As it is possible to understand from Figure 4.2, relations might exist to different degree of opposition and that have direct implication on the possibility to make synergic investments.

The existence of those differences, which have been registered through empirical observation, will be explained through the other variables of my model shortly.

By now it is important to understand that the implications of those scenarios are:

- suppliers and seller relations might well be characterised by different degree of strategic interests opposition*
- the degree of opposition have direct implication on the possibility to make synergic investments. Generally high degree of opposition correspond to low chances to make synergic investments (or they will be risky) and vice versa*
- through synergic investments it is possible to make changes in the relation and modify the degree of opposition in B-S relation (from high to low). Therefore that might help to reinforce the relation and promote the development of future mutually financed investments and for instance contribute to balance the relation*

This is why it so important for suppliers to work towards the creation of synergic investments that might help them to improve their future gains.

4.3.3 Relationship continuation expectation

Relationship continuation expectation is a key element in the persistence of any B-S relations. Heide and John define relationship continuation intension as “the perception of the bilateral expectation of future interaction and exchanges”. (Heide J.B. & John G. 1990 Alliances in industrial purchasing: The determinants of joint actions in Buyer-Supplier Relations, Journal of Marketing Research Vol XXVII). While Morgan and Hunt argue that relationship continuation expectation is inspired by “specific relationship benefits opportunities ” and “flows directly from specific relationship commitment” (Morgan R.M. & Hunt S.D. 1994 The commitment-trust theory of relationship marketing, Journal of marketing vol. 58 pp. 20-38) Several researchers as Jackson 1985; Joskow 1987; Spekman 1988 have described continuity as a key aspect of shifts toward closer purchasing relationships and interpersonal ties. On the other hand if relationship continuation expectation is undermined by

other elements (like e.g. lack of fairness, commitment and trust) potential propensity to leave might well lead to the relationship termination (Elgar E. and Castaldo S. 2007 Trust in Market Relationships, , Cheltenham)

From “Theories of Turnovers: Causes, Effects and Meaning” it is possible to believe that Bluedorn recognizes relationship continuation expectation as “ the perceived likelihood of one party that the partner will not terminate the relationship in the (reasonably) near future” (Bluedorn A.C. 1982 Theories of Turnovers: Causes, Effects and Meaning in research in the sociology of organisation Jai press pp 75-128). This view is speculate to Heide and John’s and both definitions are coherent with our interpretation.

Drawing on this literature review we will interpret relationship continuation expectation as “the perception of the bilateral expectation of future interactions and exchanges, inspired by relational benefits and reinforced through relational commitment” .

4.3.4 Fairness perception

From P. S. Ring and A. H. Van de Ven we know that a very important element of every long lasting efficient relation is fairness (Ring, S.P. & Van de Ven, A.H. Developmental process of cooperative inter-organizational relationships, Academy of management Review).

As we have previously defined through the literature a relation characterized by a “fair dealing ” attitude does not necessary require that inputs and outcomes are always divided equally between the parties. In fair dealing reciprocity is sufficient while equivalence in the quid pro quo is not necessary. In my model “fairness” is considered to be an independent variable of every relation (Ring, S.P. & Van de Ven, A.H. Developmental process of cooperative inter-organizational relationships, Academy of management Review).

Coming to my model, players are acting fairly if the relation leans on reciprocal trust in the sense of credibility and benevolence beside reciprocity (Ganesan S. Determinants of long-term orientation in buyer-seller relationships. Journal of marketing, 58 pp1-19 1994).

“Credibility is based on the expectancy that partner A can be relied on to fulfill the word or written statement of partner B. Benevolence on the other hand is the extent to which partner A is believed to be interested in partner B’s welfare and is motivated to seek joint gain (and vice versa)”.

From definition it is evident that the possibility of creating mutual value and relational rents is firmly linked to the existence of fairness and trust between the parties.

In my model as explained by Ring and Van de Vin that doesn't mean equally divided outcomes but simply reciprocity and benevolence (Ganesan).

If fairness is missing between the partners it would never be possible to make synergic investments.

The supplier would never carry over the risk of financing "synergic investments" without safeguards if relationship continuation expectation is very low, due to the perception of a retailer's bargaining behavior and the lack of fairness in the relation.

On the other hand if fairness inspire the relations it is much easier to work together to find solutions to problems and consolidate relationship continuation expectation.

4.3.5 Ability to make synergic investment

The ability to make synergic investment is considered to be an independent variable in my model.

It basically consists on the supplier's capability to drive a synergic investment both in the sense of financing the investment (finance capacity) and in the sense of managing the development of the investment in accordance to the retailer's needs (know how).

The ability to make synergic investment involve the capability to anticipate retailer's needs and problems and markets. A synergic investment provide the distributor a suitable solution to a problem before the problem itself can rise up (Valdani E. 2009 Client e Service Management, Egea) .

This proactive approach is what makes supplier's really unique and the ability to make synergic investment goes hand-in-hand with a rigorous study of retailer's specific business model and market. The ability to make synergic investments requires a supplier to own: risk taking attitude, problem solving capability and the right vision on retailer's future needs (Gray C.F. and Larson E.w.,2008 Project management, Mc Graw hill) and financial persistency (Kornum and Bjerre 2007 – Strategic market creation)

4.3.6 Willingness to make synergic investment

The willingness to make synergic investments is considered to be an independent variable in my model.

A supplier is willing to make a synergic investment if it shows a behavioural intention to take the risk connected to the investment. The supplier is aware that the synergic investment might fail to create mutual value and relational rent but in despite of that it is still willing to try, because it is confident that the probability of success are higher than the ones of failure (Hamburger D.H. 1990 Risk taker and contingency planner, project management journal 21 (4) pp 11-16).

The willingness to make a synergic investment is directly related to the existence of fairness in the relation; the capability to make a synergic investment and the degree of opposition in the relation.

4.4 Relations between variables

As from the graphic representation of the model above, “relationship continuation expectation” is the only dependent variable and it is directly related to all the other independent variables.

All the relations between independent and dependent variables and the inter-relations between independent variable are conceptualised by vectors (arrows) from number 1 to number 9 as it follow:

4.4.1 Opposing strategic interests

Hypothesis:

- i. The higher is the degree of opposition the lower is the relationship continuation expectation (6) due to low experiencing of mutual value and relational rents***
- ii. If fairness doesn't inspire the relation, opposition between the parties is high (2) and the willingness to make synergic investments gets very low (4)***
- iii. If opposition is high the supplier's capability to make synergic investments doesn't develop due to the lack of experience with this specific retailer (1). (it will depend on the specific scenario)(That however doesn't necessary mean that supplier's capability to make***

synergic investment is low because he could have accumulated this knowledge through experiences with other partners)

4.4.2 Fairness perception

Hypothesis:

- iv. If fairness is lacking in the relation, credibility and benevolence will be missing and that causes a high degree of opposition between the parties (2)***
- v. If fairness is totally missing in a relation, relationship continuation expectation can hardly exist (7)***
- vi. The existence of fairness in a relation is an important influencing factor to the existence of willingness to make synergic investments (4). If you are treated unfairly there is obviously less willingness to invest in the relation, take risks and collaborate.***

4.4.3 Ability to make synergic investments

Hypothesis:

- vii. The ability to make synergic investments depends on the dimension of the supplier and its knowhow, the higher are the financial capacity and it is more likely to have the ability to make synergic investments. In accordance to that higher is the ability, higher will be the willingness to make the investment (5)***
- viii. The lower is the opposition between the parties and higher will be the chances to make synergic investments and therefore higher will be the experience (specific - knowhow) built up through those investments (1)***
- ix. Higher is the ability to make synergic investment and higher will be the relationship continuation expectation for both partners (8)***

4.4.4 Willingness to make synergic investments

Hypothesis:

- x. Lower is the opposition between the parties and higher will be the willingness to invest in synergic investments (1)***
- xi. Higher is the experience and knowhow developed though past synergic investments and higher will be the willingness to re-invest in those activities(5)***

- xii. ***Higher is the willingness to make synergic investment and higher will be the perception of fairness in the relation (4) (willingness to investment signifies a trust in the relationship that is expected to reinforce perceived fairness)***
- xiii. ***Higher is the willingness to make synergic investments and higher will be the relationship continuation expectation (9)***

4.4.5 Relationship continuation expectation

- xiv. ***Depends on the degree of strategic interest opposition (6)***
- xv. ***Depends on the fairness perception of the relation (7)***
- xvi. ***Depends on the capability to make synergic investments (8)***
- xvii. ***Depends on the willingness to make those investments (9)***

CHAPTER FIVE

5. Model application and analysis

5.1 Model testing – Hypothesizes verification

The model has been applied to the case study and all the relations between the constructs have been tested. The informants have been asked to reflect on the specific buyer and seller relation developed between them and Hippopotamus.

Here attached come all the evidences related to the hypothesis. In order to make particularly clear the overall reading of the hypothesis testing processes four icons have been adopted:



Hypothesis totally verified



Hypothesis verified and additional finding elaborated



Hypothesis partially wrong



Hypothesis rejected

5.1.1 Opposing strategic interests: definition of the concept and interpretation of its meaning.

The concept of “Opposing strategic interests” is one of the core concepts in our model and part of the questionnaires (submitted to the informants) is formulate to study the relation among this concept and the other variables of the model. Anyway the concept **by itself is not self-explanatory because it is hardly understandable in its real meaning without a clear explanation of it to interviewers.**

We have therefore decided to make sure that all the informants deeply understood what the meaning of the concept was, presenting to them a clear definition of it before starting our interviews.

Opposition in ordinary life and in business vocabulary might be assimilated to concepts like conflict, disharmony, dysfunctional behavior etc, therefore we find necessary to make sure that the managers, we were interviewing, were aligned on the idea that:

- **By opposing strategic interties is meant that in supplier – retailer relationships, although the parties fundamentally perceive resources**

exchanged as complementary (e.g. Dyer and Singh 1989), they may espouse different interests in and perceptions on which investments and initiatives that create mutual value and relational rents in the relationship” © Niels Kornum CBS.

- *Interpretation: Therefore although the parties might share different perceptions on which specific investment should be taken in a specific situation they in the meantime cooperate in the business under a position of overall agreement.*

All the informants agreed on the idea that “opposing strategic interests” is a very concrete principle that has reference to their real life experience.

They all identify their relation characterized by that kind of “cooperative opposition” (called by Banana as “ “physiological positive opposition”) stressing the idea that the most important and peculiar element in that definition is the idea that despite situation of OSI, both counterparts share a common agreement on the overall development of the relation because the relation is deep-seated on strong foundations.

The only skeptical informant regarding this definition and situation was Pear S.p.a..

He has in fact expressed his perplexity in relation to the capacity to distinguish among “opposition” and “conflict” in real life. He argued that in situation of economic crisis like this, where sales have dropped down, and retailers are seeking for costs reductions, it is very hard for its company to share a common agreement on the development of the overall relation. Retailers are simply too demanding. In his opinion what it could be called “opposition” from a retailer point of view it is actually “conflict management” from his perspective.

It is important however to underline that when Pear has been asked: “is that incapacity to distinguish among opposition and conflict replicable to all you buyer and sellers relations?” the answer of Pear has been “no, actually there are many other situations where your definition is much more coherent to my real life experience as for Lion S.p.a and Zebra S.p.a relation, to be honest”.

Therefore what emerges from our first discussion with our informants is that “opposing strategic interest” and its meaning is perfectly sensible and reflects the reality of the majority of the analyzed relations. It is also possible to argue that if the relation is not characterized by an overall agreement on the development of the relation itself it becomes much more difficult to distinguish among “opposition” as we intend it and “conflict”. This further elaboration is perfectly coherent to our first definition because our definition includes the condition of existence of an overall agreement in the relation development and therefore the case of Pear and Hippopotamus can be interpreted as a borderline case where an “high degree of opposition” is converting into “conflict”.

From that first introduction, we can then move on to test the whole model and the relations among the interconnected variables.

Hypothesis:



Higher is the degree of opposition the lower is the relationship continuation expectation (6) due to low experiencing of mutual value and relational rents

“(opposition)...is the main obstacle in our business relation and it could affect its continuation. As a matter of fact the more a relation is characterized by opposition between the parties and more likely the relation will not last that long in the future”

Dom 29, Pear S.p.a

“...higher opposition corresponds to lower relation continuation intention or at least that is the most likely scenario. If you want to go somewhere with your client you need to be very well aligned on common objectives, otherwise you don’t go anywhere”

Dom 32, Pineapple S.p.a

“Opposition level has a direct impact on relationship continuation expectation, so than greater are goals discordances and contrasts, lower is the expectation of growth and relation consolidation”

Dom 29, Banana S.p.a

“Higher opposition correspond to lower future growth prospects”

The informants knew what they were talking about because I explained it to them, but they focused on the question related to the hypothesis here where they were asked to comment on the implications of the different degree of opposition. From that perspective I feel the respondent comments are much more coherent. In addition I must say that I am sure that all the informants perceived themselves in the situation of opposition (as we defined it) because that emerged from the overall discussion. In fact despite any possible opposition on specific investments or activities they all shared a common agreement on the development of the overall relation with their retailer.

It is important to interpret those answers in the whole context and together with the introductory comments made from interviewers concerning the definition of "Opposing strategic interests".

What we then understand is that the hypothesis is verify because higher opposition is actually connected to lower continuation expectation in the relation. However informants are not saying that opposition is by itself the reason of adversarial relations. As they agreed in the first definition of strategic interest opposition, opposition in strategic interests is a completely different concept respect to "conflict".

As we understand from replies "opposition in relations" for what concerns strategic interests is a "physiological constitutive element" of any relation and it goes in parallel with an overall agreement of the development of the relation from both buyer and seller perspective.

What emerge is that opposition in the relation might be characterized by different degrees and opposition and opposition is more likely to turn into conflict if it is particularly high. Despite from that, as we will learn from the following answers, opposition can be smoothed down throughout synergic investments and proactive

suppliers are more that skilled to manage opposing strategic interests and to avoid "high opposition" to degenerate into conflict.



If fairness doesn't inspire the relation, opposition between the parties is high (2) and the willingness to make synergic investments gets very low (4)

Dom 31: Do you think a lack of fairness in the relation would affect the degree of opposition between you and Hippopotamus S.p.a.? Would that imply a lower propensity to invest on specific synergic investments?

"Yes absolutely. The relations are really implicit and straightforward"

Dom 31 Pineapple S.p.a

"Yes, of course. This is the third axis of the matrix I described before."

Dom 31 Banana S.p.a

"Of course. For example, if I take an engagement for an important investment, promising to restore the stock selection in September, and in November nothing has been done, obviously there is a fairness problem.... ...and my will to make new investment decrease dramatically."

Dom 30 Apple S.p.a.

"Yes, very much. No fairness means no money to invest on that partner proposals. Obviously we prefer to invest where we have more return guarantees"

Dom 35 Pear S.p.a.

If opposition is high the supplier's capability to make synergic investments doesn't develop due to the lack of experience with this specific retailer (1). (it will depend on the specific scenario).That however doesn't necessary mean that supplier"s capability to make synergic investment is low because he could have accumulated this knowledge through experiences with other partners In accordance to that, the relation is verify in its foundation because if the supplier doesn't have accumulated a previous set of experience with other retailers its capability to make synergic investments would have never been developed.

In addition to that the implementation of most synergic investments require a customization of the activities to the specific needs of each retailer. Therefore even if the supplier is capable to make synergic investments (due to past experience), the execution and mutual value returns connected to that might be lower due to the non-collaboration of the specific retailer (to which the synergic investments are assigned).



If opposition is high the supplier's capability to make synergic investments doesn't develop due to the lack of experience with this specific retailer (1). (it will depend on the specific scenario)(That however doesn't necessary mean that supplier's capability to make synergic investment is low because he could have accumulated this knowledge through experiences with other partners)

This hypothesis is basically verified but the interview of Banana brings in a further concept. Banana highlights that the capability to make synergic investments with a specific retailer can be developed following two different pathways:

- *buyer and seller interactions or exchanges in the relation (1)*
- *external acquisition of retailer information.*

this second option allows the supplier to be almost constantly aligned to the retailer's needs and general evolution even if the relation is characterised by a phase of high interests oppositions.

"About ability I would say no, because the only ability that we could lack would be an industrial restriction, if they banally ask us to produce more than it is possible. But we should also consider that we buy data and information from external companies, and these companies buy data from our customers. We are always updated about what happens to our customers..."

Dom 32 Banana s.p.a

"The issue is interesting. I kind of agree with that, but in my opinion this is a situation that needs to be avoided..."

Dom 32 Pineapple S.p.a

“Yes, it does. It is the first effect of this situation: no agreements on goals, no investment. As a consequence, if we don’t prove activities effectiveness, it is hard to develop the competence and knowledge necessary to decide what to do and how to invest”

Dom 31 Apple S.p.a

“Yes, of course it does, when situations become tense, the ability to make investments decrease together with the will. When situations grow tenser, we fear an alarming or dramatic turnover decrease, and dialogue becomes a muscular match, leaving no space to anything else.”

Dom 31 Pear S.p.a

5.1.2 Fairness perception

Hypothesis:



If fairness is lacking in the relation, credibility and benevolence will be missing and that causes a high degree of opposition between the **parties (2)**

“Yes, the connection is direct. In addition I think that it’s impossible to set a relation at all without fairness.”

Dom 36 Pineapple S.p.a

“Of course, because this has an impact on readiness and willingness to grant margins. No fairness correspond to high difficulty to trust your counterpart and certainly benevolence in that case doesn’t inspire the relation”

Dom 34 Banana S.p.a

“Of course. Fairness is the premise of a relation, especially in times of financial instability, but also in times of important negotiations. I play the game, but if there is a lack of fairness, it is impossible. Credibility and fairness to me are the same thing. At present, it is not possible to take advantage from a business transaction in the long term if there isn’t a steady and fair relation. Benevolence does not always exist in a B-S relation but certainly when it does exist it is connected to fairness.”

Dom 33 Apple S.p.a

The relation is clearly verify from all respondents. In addition to that Pineapple and Apple argue that fairness is condition sine qua non for the development of any relation. This is a further confirmation of our main assumptions related to fairness in the model constitution section. The following hypothesis focuses

exactly on that, and it is interesting to evaluate how Banana comments on that and to analyze the implications of that.



If fairness is totally missing in a relation, relationship continuation expectation can hardly exist (7)

This is an hypothesis that has been challenged by the leader. It seems that there are some particular suppliers like Banana which are so unique in terms of: product quality, brand recognition and customer's appeal which are basically "irreplaceable". In that case the informant argues that a relation can exist even if fairness is almost totally missing in the relation and this is (in his opinion) due to the fact that both players, the retailer and the suppliers, are forced to make business one to the other. On one side the retailer can't replace Banana's products because consumers consider them really unique and delisting of those products would cause huge drops in sales and on the other side, Banana has to deal with the retailer because Hippopotamus own a huge market share.

"Yes, I do, because we couldn't work effectively without Hippopotamus S.p.a. and they couldn't work effectively without us, but the relation would be tense and this would stop almost totally synergic investments, development and value growth."

Dom 36 Banana s.p.a

At the same time Banana is reflecting on the idea that even if in particular situation, the relation can exist without fairness at the base of it, that would never be a very profitable relation. A lack of fairness causes the stop of "synergic investments, development and growth"

All the other medium and small informants agree on the hypothesis therefore It is reasonable to think that this hypothesis is verified for the majority of the relations but could be falsify only in particular cases.

"No, impossible. It is than a barging short term activity not a relation"

Dom 39 Pineapple S.p.a

“Of course. Fairness is the premise of any relations, especially in times of financial instability, but also in times of important negotiations. I am prepared to play the tug-of-war game, but if there is a lack of fairness, it is impossible. Credibility and fairness to me are the same thing. At present, it is not possible to take advantage from a business transaction in the long term if there isn’t a steady and fair relation. Benevolence does not always exist in a B-S relation but certainly when it does exist it is connected to fairness”

Dom 33 Apple S.p.a.



The existence of fairness in a relation is an important influencing factor to the existence of willingness to make synergic investments (4). If you are treated unfairly there is obviously less willingness to invest in the relation, take risks and collaborate.

“Yes, the positive past experiences are the main elements in nurturing the growth of mutual trust in the relation. On the other hand experiencing failure or unfair behaviours of the counterpart reinforces the idea that the specific counterpart is not the best one to make business with and you tend to avoid making again investments on them. “

Dom37 Pineapple S.p.a

“Fairness is irreplaceable. Fairness is meant as the ability to respect agreements and to develop a partnership. Every time we implement a successful activity and we historicize this good relation of collaboration and valuable consideration, then fairness certainly increases together with my will to invest on the retailer.”

Dom 36 Banana S.p.a.

“Yes, very much.”

Dom 35 Apple S.p.a.

“Yes, very much. No fairness means no money to invest on that partner proposals. Obviously we prefer to invest where we have more return guarantees.”

Dom 35 Pear S.p.a.

5.1.3 Ability to make synergic investments

Hypothesis:



The ability to make synergic investments depends on the dimension of the supplier and its knowhow, ***the higher are the financial capacity and it is more likely to have the ability to make synergic investments. In accordance to that higher is the ability, higher will be the willingness to make the investment (5)***

“Yes, dimension and investment go hand in hand. To be able to make synergic investment it is essential to own the resources and capabilities to study and understand your counterpart. The only possible ways to do that are buying this capabilities or developing them in house. That costs money and only big firms have enough money to invest on them.”

Dom 39 Pineapple S.p.a

“Of course I do agree with that, dimension gives us the possibility to spend more, to have more grip on consumers, so that we can communicate to consumers about investments and make customers and consumers understand that. Resources availability and ability to fulfil needs. We should not forget that exclusive activities need a system enabling to spend time and resources to study, plan and implement customized offer activities. Small companies can propose a standard activity to all customers in the whole country, and that’s it. How can a single person develop 5 projects at the same time? It is not only a money matter, but also the ability to propose logistic activities, shelves set up, etc.”

Dom 37 Banana S.p.a

“Yes, I do. But it is essential to consider this answer in the frame of our category. once determined our role and developed a relation with the partner through all available communication channels, it’s easy to understand and recognize the best investments for both of us. Maybe the positioning is a limit to our possibilities, but the consciousness of our role makes us aware of what we have to do in order to satisfy Hippopotamus S.p.a.. It is obvious that their investment requests have to consider our role and our positioning.”

Dom 36 Apple s.p.a

“Yes, I think that dimensions are strictly related to our ability to make investments; any synergic activity requires time and people and every time we experience this kind of activities, also the simplest ones (co-marketing, promotions with hostesses...), if we don’t plan them in every specific detail and

in the correct way, they become a boomerang, with low yields and not economic”

Dom 36 Pear S.p.a



The lower is the opposition between the parties and higher will be the chances to make synergic investments and therefore higher will be the experience (specific - knowhow) built up through those investments (1)

“Yes. We are very collaborative with Hippopotamus and that helps to set a privileged relation. That helps to reduce the divergence of our objectives. This is mainly due to our ability to make synergic investment on the retailer. Because the retailer is the main fruiter of the paybacks originated from our investments.”

Dom 37 Pineapple S.p.a

“Yes, and at the basis there is our will to make common instruments available. Therefore dimension, mind set and will behind our actions. For example Lion S.p.a. has conflicting relations with leaders as its mind set. Even if all goes well, once in two or three years they find a reason to break and then start again, why? We don’t know, it’s like that. And with small suppliers it’s even worse, they mistreat them from the start. But this kind of game isn’t healthy for anybody, neither for the company, nor for distribution, because they all lose and, in my opinion, also consumers lose. Luckily Hippopotamus S.p.a. has a far more discerning mind set. But in conclusion we need a certain degree of dimensions and abilities, because otherwise mind set can’t be applied in practical activities.”

Dom 37 Banana s.p.a

“Yes, we do, and for this reason we have always been working to develop a steady and collaborative relation, able to bring benefits to both of us. Dialogue and collaboration are our main instruments to adjust our reciprocal goals.”

Dom 37 Pear S.p.a



Higher is the ability to make synergic investment and higher will be the relationship continuation expectation for both partners (8)

“Yes. Even if that is not always necessary to work well with a partner. We already have a good set of knowledge”

Dom 38 Pineapple S.p.a

“Yes, of course it would. At present we have a very good level and maybe it’s difficult to increase it still further, because otherwise we would create some kind of undesirable utopia. With Hippopotamus S.p.a. for example, for what concerns vegetables, we have enormous competence and huge market shares. In that case, our vision corresponds with the management of all levers with category plans and projects. We help distributors to have a global vision of the market, like ours, and if we want we can help them proposing activities in right moments, in some way also for other suppliers. Banana S.p.a. for vegetables is stocked in every point of sale of every retailer all over the national territory. So maybe we could help even more in the maximum sharing of all levers. And it doesn’t mean that we want only our products on shelves. I have to say that this kind of synergic collaboration, with such a strong information and projects exchange, brings to amazing results for Hippopotamus S.p.a., making them conquer wide market shares on vegetables. Therefore our ultimate step should be a total sharing of levers: stock selection, promotional plans, point of purchase levers, shelves levers... but I know that it is almost impossible.”

Dom 38 Banana S.p.a.

“Yes, I do, and I have to say that, about this, Hippopotamus S.p.a. makes me worry more than other distributors. I mean that all Hippopotamus S.p.a.’s branches and its purchases office seem more isolated than in other companies. Every time we shared projects, and we often did it with other retailers’ buyer networks, this lead to positive relation developments. With Hippopotamus S.p.a. I worry about investments pay-back, because their structure tends to spread responsibility, so that if you obtain results with a person, this doesn’t automatically improve your relation with other employees with different roles and responsibilities.”

Dom 38 Pear S.p.a

5.1.4 Willingness to make synergic investments

Hypothesis:



Lower is the opposition between the parties and higher will be the willingness to invest in synergic investments (1)

“A good seller forces himself to understand the counterpart in this moment and works hard to bring the relation back on tracks. If a relation breaks up it is always a failure. Therefore I would say that higher opposition lead to lower willingness to invest but a good seller should drive the relation towards a meeting point with the client.”

Dom 34 Pineapple S.p.a

“Opposition or actually degree of collaboration is one of the element of our investment matrix, and the relation is clear higher opposition lower willingness to invest”

Dom 34 Banana S.p.a

“no agreements on goals, no investment.”

Dom 31 Apple S.p.a

“Yes, I do, if we increase collaboration, also fairness will increase, together with our will to implement synergic investments. Obviously, if there was the will to share goals, we would take in great consideration their needs”

Dom 37 Pear S.p.a



Higher is the experience and knowhow developed though past synergic investments and higher will be the willingness to re-invest in those activities(5)

“Yes, the success help to reiterate previous decisions”

Dom 42 Pineapple S.p.a.

“Yes, because all our projects, from the simplest activities such as promotional activities on double packages to more complex activities such as category management, have lead to truly positive results..”

Dom 42 Banana S.p.a

“Yes, we have, but almost all these investments were transverse requests asked to all suppliers and related to punctual needs, and we always had the feeling that they were “imposed”, that a refusal would have conditioned business development. Honestly, if you ask me to indicate the latest investment asked by them that gave us a sensible return, it would be difficult to answer.”

Dom 43 Pear S.p.a.

The respondent answered the question directly the fact is that this respondent is facing a very strong moment of "opposition" with Hippopotamus, probably this would be what we could call " the highest stadium of opposition – the one just before the transformation into conflict.". They are re-negotiating their contract and Carrefour is threaten them to delist their products therefore its answers might sometimes incorporate some biases as driven by a strong emotional component.



Willingness to investment signifies a trust in the relationship that is expected to reinforce perceived fairness (4)

"Yes, but it is important to think to the future and don't just stick on the past"

Dom 43 Pineapple S.p.a

"Yes, I do. Both willingness and paybacks reinforce your satisfaction and your lean to invest again on the retailer"

Dom 43 Banana S.p.a.

" Yes, I agree with that"

Dom 41 Apple S.p.a

"Generally speaking, I do agree with that. Even if an investment not producing planned profits may act as a "brake" for future projects. Anyway that doesn't necessary affect fairness."

Dom 43 Pear S.p.a.



Higher is the willingness to make synergic investments and higher will be the relationship continuation expectation (9)

The most remarkable objection connected to this Hypothesis is related to the fact that it is not the willingness to invest that pushes up the relation continuation expectation but the result of those investments are is the real key element. Good success generally correspond to higher expectations while

poor results can have a negative impact on the relation. One for all the Pineapple answer to this question really clarify the concept.

“If the investment is successful yes, if it is not successful but we work together to improve our performances yes. If it is not successful and that causes reasons of tensions no. At the base of any investment there is a moment of discussion and that helps to meet each other further and to understand each other better”

Dom 44 Pineapple S.p.a

Despite from that also the informant agree that the will to make a synergic investment is by itself the promoter of a discussion and maybe a face to face meeting and “...any moment of discussion help to understand each other’s better” and that helps improving the relation.

5.1.5 Relationship continuation expectation

Depends on the degree of strategic interest opposition (6)



Depends on the fairness perception of the relation (7)

Depends on the capability to make synergic investments (8)

Depends on the willingness to make those investments (9)

All the informants agree on all the final hypothesis. Please refer to the final question of each interview.

6. Conclusions

This thesis is concerned with the analysis of buyer and seller relations mainly from the perspective of the supplier.

The research question below has guided the structure and the choices of this study to form the dissertation:

In a macro context where opposing strategic interests characterise most buyers and sellers relations, which variables should be taken into account to evaluate the continuation expectation of a supplier-retailer in a buyer and seller relation ? How those variables are inter-related? and what makes a supplier a preferred partners in the distributor's supply system?

First of all the study aims to individuate the most important variables affecting the buyer's and seller's relationship continuation intension. As it has been demonstrated via the model testing it could reasonably be argued that four main variables are at the base of the understanding of each buyer and seller relation:

Those variables are:

- opposing strategic interests***
- fair dealing***
- ability to make synergic investments***
- willingness to make synergic investments***

All the hypothesis related to the relations between those variables have been verified in chapter five and some important additional insights emerged, giving a better representative power to the model.

As it has been verified relationship continuation expectation (dependent variable) is connected to the degree of strategic interests opposition, the

fairness perception in the relation and the supplier's capability and the willingness to make synergic investments.

How those variables are interrelated? Has also been part of the study of this research. What emerges from our study is that most of our hypothesis concerning variable's relations are actually verified.

Here follows a review of the most important findings emerging from our study to what concerns the relation among the variables which affect the development of every relation between supplier and retailer:

- *Higher is the degree of opposition between the parties, the lower is the relationship continuation expectation (6) due to low experiencing of mutual value and relational rents.*

This finding has explained us that there is a direct connection between degree of opposition and relational continuation intention and that lead us back the final research question (as we will see later)

- *If fairness is lacking in the relation, credibility and benevolence will be missing and that causes a high degree of opposition between the parties (2)*

Fairness is therefore a very important element, almost a precondition, in any relation between buyer and seller. Only one informant challenged this relations because he argued that in some particular cases where retailer owns large market shares and supplier own very important brands and irreplaceable products relations might not incorporate fairness in the relation. However even if the two counterparts are forced to make business one to the other without a fairness approach, the result of that would be an inevitable increase in strategic interests opposition and that might lead to losses in profitability of the relation. The informant himself argued that a lack of fairness causes the stop of "synergic investments, development and growth".

- *The ability to make synergic investments depends on the dimension of the supplier and its knowhow, the higher are the financial capacity and it is more likely to have the ability to make synergic investments. In accordance to that higher is the ability, higher will be the willingness to make the investment (5)*

What we have remarked concerning the ability to make synergic investment is that suppliers need to be able to make and manage synergic investment in

order to make synergic investment. This is a very elementary intuition but its implications are not so straightforward. In fact what emerged from our study is that mutual exchanges between buyer and seller are at the base of every process of learning how to make synergic investments. Every retailer has its own peculiarity and the suppliers has to understand and learn them in order to be able to make specific synergic investments for each specific suppliers. This is why even if suppliers might own a pre-existing experience on how to make synergistic investments, customizations of those actives is possible only though direct experiences. All in all it is then very important to obtain the retailer's welcome to supplier's proposal. And in the perspectives chapter we will present a strategy to reach this objective.

- Higher is the willingness to make synergic investments and higher will be the relationship continuation expectation (9)*

For what concerns willingness to invest in synergic investments what we find out is that there is a direct relation between willingness to invest and relationship continuation intension.

One informant highlights that it is not willingness by itself that leads to relation continuation intension. He believes that successful results are the real engine of higher relationship continuation intension. However it is important to notice that successful results are direct consequences of previous synergic investments. Therefore even from this perspective the relation is actually implicitly verified.

Once we have verified all our hypothesis we have then matured a strong understanding of the case studied and we have reached very interesting evidences concerning the actual phenomena of buyers and sellers relations (I refer to the finds we have extensively discussed in the previous chapters and summarised just above in this conclusions) .

From that we have been able to understand that synergic investments are in fact the principal tool in the hand of a supplier in order to be perceived as a preferred partner (refer to Emerson's balancing operation).

Synergic investments have been proved to play a key role in the definition of the relation continuation intension between supplier and retailer.

It is important to make sure that the supplier keep monitored all the constituting independent variables of the model and at the same time it is vital

to ensure that the supplier's mission and market vision is aligned to the retailer's objectives towards supplier's products. This is due to the fact that if the incongruity between supplier's mission and retailer's objectives is too high, than it might be too expensive to invest in synergic investments in order to bring the relation back to the right alignment.

While this research provides new insights into the connections between synergic investments, fairness perception, degree of opposition and know how in the definition of the continuation intension in a retailer supplier relation, the results are not necessarily applicable to all other case studies, players and markets. Future research should then test those results into a different case study (as recommended by Yin) in order to test, once again, the external validity of the results.

A possible limit of this research is related to the methodological approach, the informants of both parties (supplier and retailer) knew that the counterpart was going to read their interview and that might have caused some biases in the informant's answers to the most critical questions. Some informants seem to have adopted a politically correct and safety approach in answering some questions.

This biases have however partially been gapped by the comments made by the interviewer which has been working in this field for many months before starting writing this thesis following an hermeneutic approach.

In chapter 7 some interesting additional findings and perspectives have been presented. Further research should then focus on testing those additional hypothesis and perspectives.

7. Perspectives and additional findings

The application of the model to a concrete case study has been a unique opportunity to bring to light some really interesting additional findings that need to be remarked in order to enhance the effectiveness of the research.

Those additional findings are integrating the evidences emerging from the model application and they are connected to the most relevant constructs of the model itself.

The supplementary elaborated hypothesis that will come along with the additional findings elaborated in next paragraphs, have to be considered as possible answer to the open issues that will follow. Those reflections might be interpreted as starting points for future researches in the perspective of completing the overall picture depicted by the “buyer and seller relationship model”.

As a result of the analysis we will also propose a supplier’s strategy that seems to be the most coherent approach to reduce the degree of opposition between the counterparts, to make synergic investments’ more welcomed from the retailer and all in all to increase supplier’s gains from the relation. We have called that strategy “two brands strategy”

7.1 The relation between retailer’s structure and the supplier’s perception of fairness in the relation.

From model testing we have verified that fairness is actually a very important variable in every buyer and seller relation and in addition to that a lack of fairness might have a really negative impact on the possibility to implement synergic investments.

From interviews another really important relation emerged. The interesting fact is that all the informants have pointed out this element by themselves when asked to reflect on fairness perception in the relation between them and the retailer.

They all agree that there is an important relation between:



the internal structure of the retailer’s commercial department and their perception of fairness towards this specific retailer

“In the relation with Hippopotamus S.p.a. we have no credibility problems. From our point of view, we recognize a problem of complexity in Hippopotamus S.p.a. organization structure, and this often slows down the process of transforming negotiation results in real actions, as told before”

Dom 14 Apple S.p.a

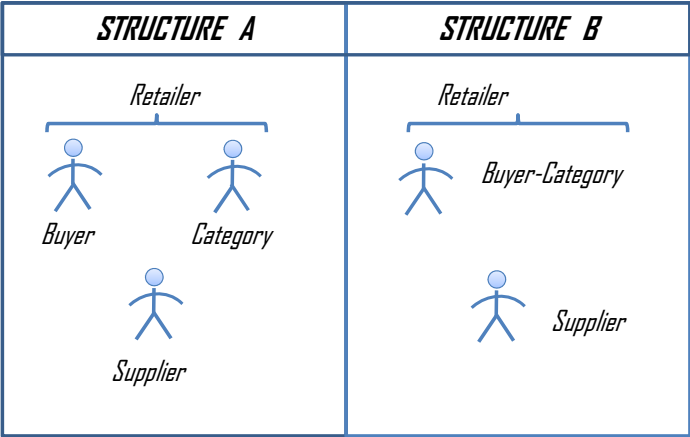
“.....however I have to say that being Hippopotamus S.p.a. structured in many levels (more that other distributors, in which we always deal with the same person), we tend to doubt that the word of a single person could actually be definitive. Our contacts in Hippopotamus S.p.a. have different roles and different goals, therefore sometimes the word of a single contact isn’t enough, and only when many contacts give us the same answer we can trust their word.”

Dom 14 Pear S.p.a

The possible structures are mainly two:

- A. Buyer and Category managers are two different subjects dealing with the same suppliers. However they operate under two different sets of objectives.*
- B. Buyer and Category manager is the same subject and the whole relation between retailer and supplier is carried over by the same person.*

Figure 7.1



The structure adopted by Hippopotamus S.p.a. by now is option A, but it is interesting to say that Hippopotamus is planning to swop to structure B within the next 6 months.

Which are the reported problems related to structure A?

Basically what our informants lament is that buyer and category tend to do not dialog one to the other very much. They operate under different structures and they have different objectives. That stress to much the relation and what really makes them worry about this structure (and the way it seems to work out) is that it is really hard to finalise a negotiation with clear and fixed decision taken. The suppliers never know if the payments that they are negotiating with the buyer will ever correspond to the exact exchange, listed in the contract.

Very often the agreements taken on paper documents don't correspond to the reality of facts, mainly because the Category works under more tightening operational rules. Buyer and category don't share the same objectives and in addition to that the buyer seems to do not know the operational limits of the Category. As a consequence of that the buyer tends to promise to the supplier unrealistic activities just to conclude negotiations.

This structure annoys suppliers because they feel to get pulled their legs. In long distance that might dramatically affect the suppliers' perception of fairness towards the retailer and that (as explained in the model) has to major consequences:

- The degree of opposition in the relation might increase***
- The will of the supplier to invest in synergic activities towards the retailer might decrease***

As explained by the retailer himself this structure was probably implemented to stress, as much as possible, the buyer and seller relation just to obtain the maximum gains from the relation.

Many supplier's lamented a difficulty in dealing with this specific retailer, due to the coexistence of many different interlocutors at the same time.

They all argue that it is very hard to deal with two or three different retailer's representatives at the same time because they belong from different departments and they act under different instructions and objectives.

The retailer require each supplier to deal with a different interlocutor in relation to each different set of specific activity (eg: National contract definition- Buyer and Top managers belonging from the purchasing department ,Promotional activities Buyer and Category, Regional contract definition Category and Store Directors, Display and PoS marketing strategy definitions Category and

sometimes Marketing department, exc..). The problem is that all those activities are interconnected and it is very hard to make sure that all the retailer's representatives commonly agree on the results of the negotiations: it is very common that the agreements taken after a very long and articulated negotiation with a Buyer are totally or partially unattended by the Category Manager and vice versa. This is frequently the cause for the intensification of the degree of opposition in the relation.

This structural setting, inevitably leads to continuous re- negotiation of previous unsatisfied agreements and together with that to new money compensations.

The retailer has been asked to make comments in relation to this particular multi-representatives structure and to discuss the implications that this structure has on the relation

"...we stress the relation in the negotiation phases in order to obtain the greatest advantages. Despite the single vision of a single subject, meeting different sales representatives means opening different tables of negotiations in order to maximize our gaining. This structure helps us to stimulate negotiations also during the year because if buyer promises don't match with category's actions than we need to see the supplier again and to open new tables of negotiation"

Hippopotamus S.p.a

At the same time the retailer is also indicating the limits associated to this structure and system:

"...For example, I can consider a supplier as a very cooperative partner from the commercial point of view, but if this same supplier is stiff at contractual level with the buyer and I don't know about that and vice versa, the buyer will consider this supplier as a pain and maybe he wants to give them an extra point, but the supplier's products have high sales and it is cooperative at category level and we can't share these different perceptions. Therefore, according to me, it would be a great idea to have a single role..."

Highlighted limits:

- *The category manager doesn't have a complete vision on the supplier, because a supplier might have not really strong products (from a market share point of view) but it could be really very collaborative from a commercial point of view. And with this structure it is hard to get a clear vision on the suppliers at 360° and that might lead to wrong operational decisions.*
- *The suppliers might become less cooperative and both retailer and supplier might lose opportunities for growth.*

Key account management authors have studied these themes since the eighties and many of them have reached very interesting insights similar to the ones of my study, coming from a different field of research.

Key accounts are customers that suppliers handle as a market per se, and have decided to invest in, in the same way as the supplier invests in a market (Lawrence A 1983 The Management of Trade Marketing, Gower). This definition is very coherent to our study because it matches really well with the basic assumptions of our model where suppliers are supposed to invest in synergistic investments in order to tighten up the relation with their retailers (in these circumstances called key accounts)

Retailer's buying organization typically includes different functions and dedicated human resources (George M, Freeling A, Court D 1994 Reinventing the Marketing Organizations The McQuinsey Quarterly Vol4):

- *Category Manager, Assistant category managers responsible for category's positioning*
- *Buyers, Assistant buyers responsible for category's profitability*

Cooperation between the two managers belonging from different functions is desirable but not always observable in practice.

As the structure of the retailer and its culture are two of the central elements in supplier-retailer alignment it is important to notice that retailer's internal organizational changes may have a strong impact on the supplier-retailer relation evolution (Mogens Bjerre 1999 Key account management of complex strategic relationship CBS. pp150-160)

In accordance to that Kevin Walker (Kevin Walker,2000 managing key clients,securing the future of professional firms Pace partnership p 27) argues that a complex retailer's structure (as the Hippopotamus one) makes very hard for a supplier to understand and anticipate the customer's expectations. E.g. a retailer's structures which prefigure five representatives to deal with the same supplier to negotiate brand management activities, trade promotion, customer promotion, new product, customer services, space management, logistics simply stresses too much "compatibility" between retailer and supplier. In particular if the managers roles are not very precisely defined and activities' implications frequently overlap.

Further investigation and studies on those remarkable finding should certainly be made in future research.

By now we limit to argue that retailer structure is probably an important element in the supplier's fairness perception and that might have consequences on the degree of opposition between retailer and supplier.

7.2 Synergic investments, dimensional barriers and Virtuous circle.

As it has been evidenced, the supplier's capability to make synergic invested is very much related to the dimension of the supplier (Hypothesis vii) because of its resources availability and knowledge set up.

Actually as a further proof of that, it is possible to match the retailer's report on supplier's synergic investment proposal and the suppliers' dimension (Banana –leader, Pear and Pineapple followers and Apple marginal player).

In relation to each activity the retailer has expressed the perception that he shares on the supplier, to what concerns each specific synergic investments (listed under the column "Activity").

The possible options to the answers were the ones listed in figure 4.2 (From A.1.a to A.3.b, please refer back to paragraph 4.3.2 in order to have an extensive explanation of what the abbreviations stay for and witch consequences that might have in the relation) Here we provide a brief description of what the alphanumeric code stays for: A= The supplier is the promoter of the synergic investment. B= The retailer is the promoter of a mutual investment; 1= Unilateral investment by the supplier, 2 Bilateral investment, 3= The supplier encourage the retailer to make the investment on its own; a= Agreement of the retailer to the supplier realization of the

investment, b= discouragement of the retailer to the supplier’s proposal) Together with that we present a quick review of the implications related to the scenario mentioned in the figure above.

Figure7.2

Ranking	Leader	Follower	Follower	Marginal
Activities	BANANA	PEAR	PINEAPPLE	APPLE
Product- Category innovation	A.2.a & A.1.a	No or A.2.b	No or A.2.b	No
PoS –In-store communication POP material	A.1.b	No	No	No
Product replacement –assortment revision	A.1.a	A.1.a	A.1.a	A.1.a
Box content – N° of Sku and variants contained customized on retailer’s needs	No	No	No	No
Category projects	A.1.a & A.1.b	No	No	No
Listing price	No	No	A.1.a	No
Ad hoc products definition – e.g.: formats	No	No	No	No
Brand or product- permanent exclusivity or first to stock	No	No	No	No
Investments on logistics- e.g. : CRP system	A.1.a	No	No	No
Data sharing	A.1.a & A.1.b	No	No	No
Special promotions definitions: Co-marketing- Hostess- Special discounts	A.1.a & A.1.b	No	No	No
Advertising	A.1.a	A.1.a	A.1.a	A.1.a
Overall.....	Very Proactive & Collaborative	Non proactive	Proactive & Collaborative	Proactive but limited by its dimension

A.1.a means in practice, that the retailer perceive the supplier as a proactive supplier capable to make synergic investments. The supplier is able:

- to propose them (identify opportunities)***
- to drive the activities and manage the processes with-it related (look after implementation)***
- to reach the expected objectives of mutual value gains and relational rents (achieve results).***

A.1.b shows the potential of the supplier in terms of capability to generation synergic investments together with its willingness to sustain the related costs,

and at the same time it shows the retailer's discouragement to put into concrete form the investment.

A.2.a is probably the best possible scenario for a proactive supplier willing to make synergic investments and tide up the relation with its retailer. In this case the supplier is capable to create such a strong commitment to the project, that the retailer itself is willing to invest on it. Sharing part of its resources on that specific activity. In this case the supplier benefits from the relational rents and mutual value connected to the implementation of this specific activity, while sharing the costs of the investments with the retailer.

A.2.b shows the potential of the supplier in terms of capability to generation synergic investments together with its willingness to sustain only part the related costs. At the same time it shows the retailer's discouragement to put into concrete form the investment.

No means that from a retailer point of view the supplier doesn't invest on that type of synergic activity within their relation.

As a result of the matching of those two variables it is possible to see how the synergic investment proposal (A.1.a or b) decreases with the decrease of the company dimension and increase with the growth of the company dimension (Banana 7, Pineapple and Pear 3\4, and Apple 2).

From both interviews, on suppliers and retailer side, another important element seems to come to light:



The retailer's welcome or opposition to a supplier synergic investment proposal goes hand in hand with the suppliers dimension and reputation. (where for reputation we intend the supplier's attested capacity to finance market researches and manage marketing campaigns in relation to new products launches on the market).

What emerge is that: higher the suppliers intended investments on the new launch is and more incline the retailer would be in welcoming the new product.

From retailer interview we understand that:

“...I should say that it is hard to trust a supplier that propose an innovation or a special activity if you know that the supplier doesn't dispose of a sufficiently developed marketing structure and know how. To launch an innovation for example, it is essential that the innovation is highly sustained by a strong marketing and advertising campaign and generally speaking only a company like Banana is able to offer that. Sometimes we have to say no to follower's innovation or investments proposal simply because we don't have enough space or time. We need to make a ranking of innovation and investment proposals. We must focus on those activities that are more likely to succeed and generally speaking, those are the ones backed up by a strong marketing structure. It is not that we don't welcome followers innovations and synergic investment but we need to priorities the list of things to do and the leader always gives us better reassurances of success.”

Hippopotamus S.p.a.

Therefore it seems that the retailer perceives as much more risky an activity proposed by a medium-small player rather than a proposal coming from a strong leader.

The informant Pear S.p.a. further develops this concept bringing into consideration the long term consequences of such a behavior:

“Unfortunately, our innovation proposals and synergic activities investments are not often accepted, because obviously it is difficult to trust non-leaders companies in this market. But following this road, they are creating a perverse trend in which retailers ask more and more to small companies like us (in terms of profitability) and innovation is left just to big companies. As everybody knows innovation is by definition value generator and, acting like that retailers are favoring big players while disadvantaging medium players like us. In the long term they risk to obtain an almost-monopoly situation in the marke because leaders are growing more and more and followers, from which

distributors obtain their greater profits, are disappearing. This will lead, in the future, to lower margins for Hippopotamus S.p.a.”

Pear S.p.a

Further studies should than focus on finding the connection between supplier's dimension and retailer's welcome to synergic investment proposal. From a very first analysis it seems that, for at least some specific synergic activities like product innovation, exists a sort of entry barrier related to supplier's dimension and knowhow.

The hypothesis that should be tested are:

- Retailer's reply, to supplier's synergic investments" proposal, depends on the retailer's perception of supplier's commitment on the new launch in terms of intended invested resources in market researches and marketing campaigns.*
- The leaders are more welcomed to implement their synergic investments proposals because they generally dispose of higher resources and to sustain their launches. In accordance to that, that might generate a virtuous circle witch favorite further investments from leaders and a vicious circle that penalizes medium and small suppliers.*

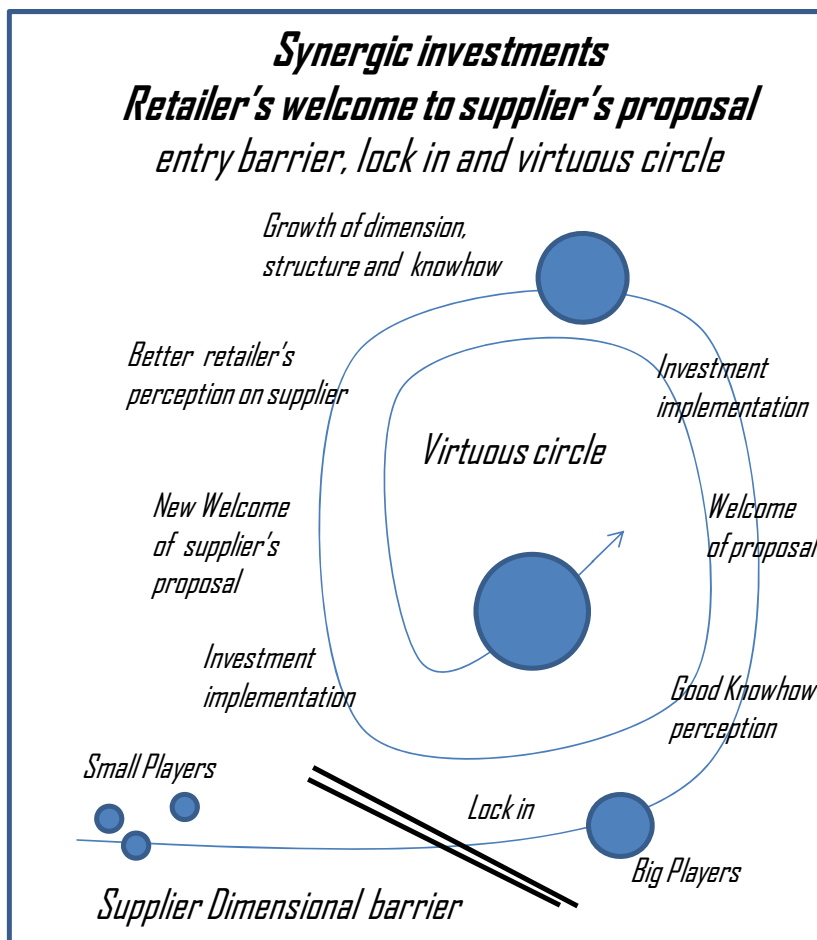
The following figure is a graphic and theoretical representation of the empirical evidences emerged from interviews and previously summarized in hypothesis 1 and 2.

From interviews become known that for what concerns the product innovation's synergic activity, the retailer plays a vital role for the success of the launch. In fact consumers need to dispose of the new product in order to test it, know it and eventually to became ordinary buyers. If the new product is not stocked and displayed at point of sales, any supplier's efforts to launch the new product will be nullify (wasted).

What comes to light, from the application of the model, is that very often retailers tend to facilitate innovations not for their market intrinsic potential. Retailers rather judge the innovations on the base of the company's reputation and the amount of resources the supplier intend to invest on the launch.

As a result of that, big players tend to be favored to smaller ones, due to the large amount of money they invest in new launches of innovative products (virtuous circle). Meanwhile small suppliers are often penalized because they can't invest as many resources as leaders in sustaining new campaigns (vicious circle) and inevitably they can't benefit of the economic advantages belonging from new launches.

Figure 7.3



Due to a dimensional/reputational barrier (for reputation we intend the supplier's attested capacity to finance market researches and manage marketing campaigns in relation to new products) many big players are perceived as the most reliable partners in innovation activities (from retailers) while many medium and small players became locked in their "ordinary product" manufacturing position. Retailer's seem to confine small players to the role of mere ordinary (or mature) product manufacturers despite their attempt of product innovations.

Hypothesis 1 and 2, and the description of the related scenario are trends that emerge from the application of our model. These evidences are interesting starting points for further researches related to innovation processes and further investigations would be needed to trace a complete picture of the phenomenon.

For what concern our study it is interesting to observe that there is a proved connections between the reputation (see definition above) on the supplier and the retailer's welcome to the supplier innovation activity's proposal.

7.3 Degree of interests opposition: reasons behind the degeneration of high degree of opposition into relational continuation failure.

The retailer pointed out another important constructing reasoning associated to the degree of opposition.

In our model we have verified the hypothesis that the degree of opposition (schematized in low – medium – high) between the parties have a direct impact on the relation continuation intension. From the first conceptualization of the buyer and seller relationship model we were aware that opposition between the parties might be different from case to case and also into a long delay the degree of opposition might change for some reasons (hypothesis i).

In our research we have not investigate on the causes of that change and the reasons why similar suppliers (in size operating in the same markets) share different views on the relation with the same retailer.

The retailer pointed out that the degree of opposition is mainly connected to the alignment between the supplier's vision and mission and the retailer's role attributed to the supplier's products and brands in its stock mix.

The hypothesis is therefore the following one:

- *The degree of interests opposition highly depend on the degree of alignment between supplier's mission (market's role, marketing strategy and positioning) and the retailer's objectives towards that specific supplier.*

The point:

In few particular cases,

- *(from informants) those alignments are not possible or not desired from the supplier.*

In what sense? Why?

In the sense that if the role attributed to the supplier from the retailer is totally unaligned to the supplier's mission than in these specific cases the degree of opposition might rise sensibly. Supplier and retailer don't share a common agreement on the overall development of the relation (e.g.: Supplier mission: branded product – high positioning – coherent price Vs Retailer's intension to reposition the brand to a much lower price and positioning because the distributor wants to introduce a new private label top quality brand. ranking it over the supplier's brand positioning, displaying the new product on top).

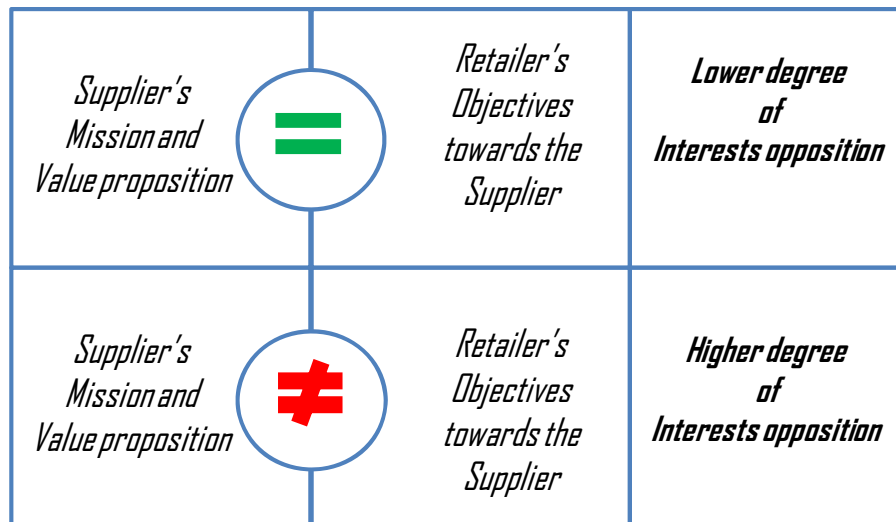
Of course a proactive supplier (as from our model) can invest on synergic investment to reduce or completely gap this high degree of opposition.

→However it is also important to consider the costs associated to those investments and if that is a profitable choice!

What emerge is that sometimes the costs of investing in synergic activities to prevent that opposition degenerates into conflict are too high and the supplier prefer to focus its synergic investments activities

on other retailers from which it can gains better relational value and mutual rent.

I think that from this perspective it is perfectly coherent to the model's definitions and can offer an important explanation to the reason why some relations tend to degenerate and break down despite the capacity and willingness to invest in synergic investments' of some suppliers.



The informant argues that:

“Apple S.p.a. is certainly the company with which I work the best, among the four companies analyzed: we are perfectly aligned, they have a clear role and they are aware of that. We deal with them being conscious of that, in the contest of an excellent and deep-rooted relation. Apple S.p.a. knows exactly what we expect from them and their offer is perfectly aligned to our needs; we and they are perfectly aware of their role and their dimensions and, as a consequence, we take these elements into consideration when we negotiate with them.... ...their mission is aligned to our needs and they have developed an offer that is suitable for their mission.”

Hippopotamus S.p.a talking about Apple

“... there is no conflict between us because our goals are perfectly aligned and their mission perfectly meets the targets we want to reach with them”

Hippopotamus S.p.a talking about Pineapple

This hypothesis that connects degree of opposition to the “alignment of supplier’s mission and retailer’s objectives on the supplier” is reasonable and coherent to the whole model.

Interestingly also Morgens Bjerre in his Key account management of complex strategic relationship study reached the same conclusion when discussing of the “retailer strategy development in relation to the supplier and distributor relational evolution”(Morgens Bjerre in his Key account management of complex strategic relationship CBS 1999).

However further research would be needed:

- 1. to verify if this hypothesis is actually correct**
- 2. to investigate which other variables are related and might influence the degree of opposition in the relation.**
- 3. to individuate a system of return’s evaluations that allows the measurement of the value generated through synergic investments. It is important to elaborate such a tool in order to test synergic investments’ profitability and to understand if the hypothesis of direct relation between too high costs of synergic investments and possible degeneration of opposition into conflict is correct.**

An important element to consider in the analysis is therefore the one related to the consequences of a big gap between the retailer’s role attributed to the supplier’s products and brands (in its stock mix) and the supplier’s mission, marketing strategy and expected positioning of its products that might be the case of the rising opposition into a relation. This is an element that Hippopotamus has stressed many times in his interview and the informant argues that it is possible to keep a long distance relation characterized by low degree of opposition only with those suppliers that are able to change their offer together with the change of its (retailer’s) needs.

“There are two main features: flexibility and a good instinct for changes happening within the retailer company. For example, we as a group have totally changed our strategies many times in the latest ten years, acting on quality, prices and purchasing networks. As a consequence, in years our relation with “static” suppliers, with unchangeable offers and business models, have been broken and started again many times, and they have changed from being collaborative and strategic partners to marginal or broken relations, facing big problems. Only few companies have been able to adapt their offer to our changing needs, but these are, in my opinion, the companies that work the best and I consider them as my most successful partners”

Hippopotamus S.p.a talking about Successful suppliers

“The supplier’s ability is to understand and anticipate the evolution of retailers’ needs and strategies and to customize its offer according to these necessities”
Hippopotamus S.p.a talking about Successful suppliers

It seems from the model testing analysis that synergic investments play actually a real key role in the creation of value for both the supplier and the retailer. Investing on synergic activities is certainly a strategy that allow the supplier to be perceived as more valuable and irreplaceable to the retailer’s eyes (Emerson’s balancing operation). That’s one of the main reason why supplier’s should really work hard to implement synergic investments.

However the retailer suggested us a further consideration which is related to its change in objectives in a medium long timeline.



What we can understand is that synergic investments are actually a powerful tools in the hands of supplier’s to smooth down a relation, to decrease the level of opposition between the parties and increase mutual gains.

However



This relation works well only if external conditions (like retailer’s strategy) keep constant. If for some exogenous reasons (like new trends in the market or reactions to newcomers with different value proposition exc.) the retailer changes its strategy and its objectives towards a

specific supplier, the amount of synergic investments needed to fulfill the gap between retailer's and supplier might be so huge that the supplier may simply decide to interrupt the relation because is not wothy.

Therefore, in conclusion we may argue that:



Synergic investments are a powerful tool to allow the supplier to understand its retailer and anticipate its changes. However a supplier's more radical value proposition change might be needed (to keep relation going on well) if the strategy of the retailer radically changes in a very short delay (that might happen for example: if the retailer is acquired by a new company with a different managerial style, different format or different structure and culture, or if the retailer takes some really drastic decisions in terms of strategy due to new market trends exc..) Because in these particular cases the amount of investments in synergic activities needed to smooth down the high degree of opposition in the relation might be so huge that the investment wouldn't be worthy.

Further research on those particular cases, together with the development of a tool capable to evaluate the returns connected to synergic investments would be needed in order to verify those hypothesis and test the results of the model applied to unusual situations like radical changes in retailer's structure or radical new management styles implementations.

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8. Appendix

8.1 Questionnaire for suppliers:



Pineapple S.p.a.

Personal presentation

- 1. How long have you been working for the company?**
25 years
- 2. What is your current job position?**
Sales director Italy

Company presentation and background:

- 3. How would you describe your company's business model in no more than 3 lines?**
The company manufactures 100% of its products in house. Until march 2009 all the production was internal, but then we bought Motta therefore at present part of the production lines are externalized as it was decided by Nestlè before our takeover. In the next 8 or 12 months we are planning to internalize all the production in the company again because this is the best way to have a strong control over the production platform and keep qualitative production high standards over all phases of production. Our main focus is on Brand products under our family name but we also work pretty well with private label packs. We are the co-packer of almost any retailer in Italy. In volumes almost 20% of our production in the "fruit market" is packed under private labels names. We are positioned as high quality products and for that reason our prices in supermarkets are quite similar to the prices of the two co-leaders. As you well know we are firstly a company that commercialize fish for Christmas and Easter and all the rest of the national holidays. For what concerns "fruits" we are much more cheaper than the leaders for the distributor and that helps up to be considered as a very good supplier in terms of marginality and returns. Exactly for that reason our

returns are quite low and we don't have that many money to spend in special activities and extra activities during the year. The company is medium sized and privately owned by the historical family that funded it around 100 years ago but despite from that it is well run by many top managers that are external to the family. We somehow incorporate the advantages of being privately owned (fast decisions) and managed by professional business man (formal structure, high developed managerial skills)

4. *What is your company core business? And what percentage on the total volumes of sales represent the "fruit" market? Is that segment strategic for your company?*

Right now the core business of our company is in the fish market however our declared objective is to implement the everyday products and invest massively on this business. This is the reason why we have just acquired from Nestlé two of the most famous brands in the food market, that will be easily employed to sell a number of non seasonal products along the whole year. We really want to implement as much as we can the non seasonal businesses like the "fruit market" because we think that the future of our company should follow this direction. We want to be in consumers' houses during the whole year and not only during holidays. The growth of these markets will also benefit us in terms of economies of scale in our traditional business and will allow us to have cash flows all year long. Today the "fruit market" represents in volumes of sales 10% of our production, it is considered strategic for the future development of the business and the percentage will grow fast in the next years.

5. *What is your positioning and which are your direct competitors?*

At the beginning, when we first entered the market, we were looking for a specific segment where it was not present a strong leader. We really wanted to avoid a direct competition with the two main co-leaders because otherwise we would have never been successful as new comers in the market. From this strategic decision we than opted to enter the dried fruit segment that 5 years ago was mainly controlled by only a few small regional and local players. The market was highly fragmented and the quality of the products was really low. Not only the products were

themselves really poor, but also packs were of a very low standard. All the players packed the products all together (from 1 to 12 “fruits”) in a single plastic bag. When the bag reached first the point of sales and later the consumer’s house the products were all packed up and they really looked bad and tasted even worst. At that time our main competitors were mainly the producers of frozen “fruits” for the HORECA market. But today also the two co-leaders have entered our segment and from our side we have diversified our offer entering all the segments of the market. For that reason our direct competitors today are all the largest producers of branded products. In addition to that the private labels are not a very big problem because we manufacture most of them and therefore we are in a very special position that doesn’t press us too much.

6. Are private labels eroding your market share?

We entered in the market when the private labels were already there. The market was and is a mature market and revitalization of the market is directly connected to the innovation that the two co leaders often bring in the market. For what concerns the private label activity, we played a key role as renovator of the segment when we first became co-packer of many retailers. First We have raised up the qualitative standards of the products and all the small players had to submit to the new standards we imposed, otherwise they were out of the market. Most retailers wanted to make business with us because we were the best suppliers for private labels, we offered better products and better packs at lower prices due to the huge numbers that we were able to handle. We have pushed up competition among the players of this segment and we have contributed massively to reduce the number of operators. Just the best survived to our new come. We tend to develop a strong partnership with all retailers that already trade our branded products and we then offer them the opportunity to get supplied also with private labels products. Margins are really very low and volumes need to be really huge.

7. Who are your principal clients? Approximately which is the traffic generated by Hippopotamus S.p.a. on the total volumes of sales on percentage?

For us all the large retailers are possible clients and basically all players in Italy stock our products. We also work very well with the players of the food automatic dispensers where our products tend to be really appreciated by fast consumers. Our “fruits” are very well singled packed and tend to be consumed with a coffee as a fast snack or a nice quick breakfast in the morning. For us Hippopotamus S.p.a. represents around 3% of total sales both branded and private label.

Opposing strategic interest:

8. Why do you make business with Hippopotamus S.p.a.? What do you gain from this relation?

Hippopotamus S.p.a. has a very high market share in the Italian food market and for us it would make no sense to do not make business with them. It is more a must rather than a possible option to deal with Hippopotamus S.p.a if we want to be competitive and reach consumers. Being a supplier of Hippopotamus helps us to be highly visible and to reach a huge number of consumers. Our main target is to reach the maximum number of consumers and Hippopotamus is a great partner for achieving this objective.

9. Why do you think Hippopotamus is making business with you? What do you offer to the distributor?

Let's say that our greatest plus is to offer a very good product at a very competitive price. This is probably what Hippopotamus appreciates most from suppliers because marginality is always a fundamental concern for Hippopotamus. Every year more and more. We allow great returns with our products because our sell in price is much lower compared to the two competitors but our sell out price is quite similar and that gives to Hippopotamus the opportunity to make very good offers and deals to their consumers. Also our rotations are really very good because consumers love our products and perceive the quality incorporated in it. I believe all those reasons together make us a preferred supplier for Hippopotamus. In addition to that we have been in the fish market for years, Hippopotamus knows us very well and knows that we are very reliable partners both in terms of delivery dates, product quality and, more in general, respect of contractual duties. Not least we are planning

to implement our offer in the segment, bringing innovation in as the leaders do and we will invest massively on advertising. Don't forget that our main goal is to leverage on our brands to push further our presence in this market .

10. *How would you describe the relation between you and Hippopotamus?
Very good*

11. *Do you feel to have different interests in the relation? What are those different interest due to? How and why?
As a matter of fact we don't often have different objectives. On all markets we have always worked pretty well, we have never faced really strong conflicts probably because we have a very open mind set and we are always willing to collaborate and listen to Hippopotamus requests and needs. We have matured an historical background knowledge on each counterpart and we somehow already know which are the specific needs of each client before they can actually express them. We always get ready ahead to solve their problems before they appear and we tend to be as much collaborative as possible.*

Fairness perception:

12. *How would you define the word "fairness" in business relationships?
The word fairness in business has a unique meaning in my opinion: respect of the given word. A negotiation could be long and sometimes troublesome but all the final conclusions of a long negotiation need to be respected by all the participants even if nothing has been transcript on a formal document. This is in my opinion the best description of fairness in a relation. Agreement = on one side means investment and on the other side means activity and payback from this investment.*

13. *Do you feel you partner is acting fairly towards you ?
Yes, nothing has never pushed us to think differently*

14. *Can you generally trust his word (credibility)?
Yes, Hippopotamus is a complex machine and as a seller you never deal just with a single person. Hippopotamus has a complex structure and to make business with Hippopotamus you need to make sure that all your counterparts (Buyers, top Managers and Categories) do share the same view on you. That sometimes is very difficult to reach.*

15. *Do you feel is allowing you to gain enough from your relation?*

No, that never happens by definition with any retailer.

16. Do you believe Hippopotamus S.p.a. sufficiently cares about your wellbeing (benevolence) as an economic partner? Why?

To be honest this is really unusual in particular if you refer to our request of new higher selling prices due for example to higher raw materials' costs or to any re-negotiation concerning our marginality. Therefore if your question concerned that, than the answer is no. However if we include in this question also our requests in terms of stock renovation, introduction of innovations and new activities.

Synergic investments:

(investments on interfaces both marketing and logistic)

17. Think for a moment to your offer both in terms of product and services delivered to Hippopotamus. Besides margin shares, which are the specific investments that you make in order to better satisfy Hippopotamus S.p.a.'s needs?

In the past Hippopotamus was much more used to request customization of our products and ad hoc products to fulfill their short terms strategic needs. For example particularly convenient promotional activities or realization of exclusive references with exclusive characteristics and packs. Those activities were the most particular requests of Hippopotamus that really differentiate them from other retailer. Today those requests are much more unusual, I don't know why but we are always open to listen to Hippopotamus and to understand if any specific need is raising. Since Hippopotamus has shifted all the supply system on its CEDI (central stock houses) we no longer supply directly the single point of sales. In this way we don't know which format (supermarket or superette) is performing better and we don't know which are the best point of sales in terms of volumes of sales and why. This new supply system doesn't allow us to understand punctually the performances of our products and that is a big loss of data. Before that we knew which were the best assortments and we were able to help Hippopotamus in defining the best products for each format. This was very efficient for both.

18. Do you ever study your client market? Does that helps you to anticipate and understand its needs?

Not that much. We don't have a specific team dedicated to that. We are not big enough and I don't even think this is absolutely necessary. I really rely a lot on my Trade marketing managers. They really spend a lot of time studying their counterparts, they make analysis and they try to be as much open as possible to communication. I really want them to be client focused and I expect them to spend enough time visiting them and looking after each specific customer's need. This is the way in which, in my company, we are always ready to answer to our clients' needs.

- 19. Which are the specific requests of Hippopotamus S.p.a. in terms of products and services, compared to others distributions chains?
Sometimes they ask us special packs or special products in order to be able to pack them and place them all in the shelves. Hippopotamus doesn't want to keep any stock in the point of sale and all the products in a box need to fit in the correct given space in the point of sales' shelves. This is why sometimes we need to make special boxes for Hippopotamus; this is obviously a huge cost for us and we tend to avoid this particular type of customizations.***
- 20. In your opinion, what makes them thinking that you are a better commercial partner than others competitors?
Good products quality, respect of timings, financial solidity and lower prices. This is the winning mix.***
- 21. Do you ever make any specific investment before you have specifically been asked from them, in order to customize your offer and make better businesses with Hippopotamus S.p.a.?
Usually we invest on customization just when we get asked. We don't anticipate them because it is almost impossible to know in advance the new particular need that Hippopotamus is feeling in a specific moment, but we are very fast in answering this need if it occurs.***

Relationship continuation intension:

- 22. Despite any possible different interest, do you believe your relation with Hippopotamus S.p.a. will last in the future (at least for next 2 years)?
Why?***

Yes, we have been making business for years and we always experience a growing relation. I don't see any reason of possible relation interruption right now.

23. Do you believe Hippopotamus S.p.a. shares the same continuation intension? Why?

Yes, I feel that we both experience reciprocal satisfaction in making business together. This is the best glue for a relation in my opinion.

Ability to make synergic investments:

24. Do you believe to have the competences to make specific synergic investments?

- a. **Financial Capability**
- b. **Know how**

Yes, absolutely. Let's just think for a moment to what we have done when we first entered the market as second movers. The idea itself of entering the market leveraging on our pre existing relations with our clients is a pure example of a synergic investment! We have created new products and re-invented the positioning of most of the pre-existing products. What we have done was the result of huge investments in customer and consumer research. We realized that a market for our new products already existed and none of our biggest competitors realized that. We were also the first that managed to show to retailers that there were very high margins of profits in this operation because we understood that consumers were ready to spend more for better products (that was showed through an ad hoc research carried out by a consultant partner) in the specific segment we were entering. We also managed to allow really high margins to retailers (much bigger than the one offered by small players before) due to our pre-existing production structure (focused on mass production) and the high standards of efficiency we have reached through years of tests in our core business. We know each of our clients very well because we have been making business with them for years and we are leaders in the fish products. Due to that we also know which is the best products and services mix that would suit better the client in the "fruit" market. In particular we have allowed Hippopotamus S.p.a. to offer better products to its customers and to gain more from each pack of fruit sold. I believe this is the best evidence of our financial capability and know how to make synergic investments.

25. How have you developed them?

We have been working in our core business for years and we have matured a really deep understanding of our customers. It is true that

very often people change in those large organizations but in those cases we tend to increase as much as possible the visits to our clients. We really believe that working in partnership with a retailer is the best way to share information and knowledge connected to our personal needs and to be aligned with the consumers' new trends. The retailer is the front line with our consumers and by nature he holds better knowledge than us on consumer's new needs (maybe not always better but usually before us). It is really important to set an efficient relation, based on trust and mutual understanding. For example when Hippopotamus came to us explaining to me that the only weakness of our products was the too short deadline, we were able to listen to that and we managed to invent and introduce a new container-pack that allow the product to expire ten days later. That has benefitted both them and us. It is important to keep ears well open in a business relation and to be open minded.

Willingness to make synergic investments:

26. Do you often take the risk connected to specific investments to satisfy Hippopotamus S.p.a.?

Yes, in the company structure I call my National Key account Trade marketing managers. This is something that contains in the definition itself all my philosophy. I want that my guys come out from here with just one idea in mind: I am like a tailor and my boss wants me to manufacture an ad hoc coat for each of my clients. They must create a preferential track with each customer in order to facilitate selling and, even more important, payments.

Therefore any reasonable request from our clients is generally satisfied. We work at the best in this sense and we behave as a very fair counterpart. This is why we expect our clients to do the same, and to pay us all what we agreed and on time.

27. Are you more or less incline to invest on other distribution chains? Why?

We are incline to invest on Hippopotamus exactly as on the other retailers. However as we have said we are second movers and we adopted a policy of price really favorable for the retailer. This is why we don't have much money to spend in extra activities as promotions,

activities of cut price and CRM. Anyway we tend to make our best to finance as many activities as possible in accordance to our financial capability. At the moment Hippopotamus is living a moment of stasis in terms of growth and that is also an element that is taken into account. We keep investing about the same as in the past.

28. Are you in general willing to make investments on Hippopotamus S.p.a.?
Yes, as we have always done

29. Do you perceive those investments as risky?
All investment might be risky but Hippopotamus is a reliable counterpart and we have never experienced serious problem in relation to that. Therefore the answer is no more than the others.

Relationship continuation expectation:

30. Do you think any of the elements we have analysed affect your relationship continuation expectation?
All of them.

31. If yes how the following elements are connected in your opinion:

Degree of strategic interests opposition?

Fairness perception?

Capability to make synergic investments?

Willingness?

> opposition corresponds to < opportunities for growth in the relation

Fairness is a condition si ne qua non for collaboration

The capability to make synergic investments on specific clients helps to make better relations but it's not always essential to make good business

Willingness and capability are directly connected to the company dimension. We are quite big but obviously we are a familiar company and that impact on the amount of the resources that we can spend on specific investments and the important thing is that the counterpart is well acknowledged of that and knows that we make our best.

Opposing strategic interests hypothesis:

32. **What is in your opinion the connection between the degree of opposition in the relation and your relation continuation intention in the sense of different perceptions on investments**
>opposition corresponds to <relation continuation intention or at least that is the most likely scenario. If you want to go somewhere with your client you need to be very well aligned on common objectives, otherwise you don't go anywhere.
33. **Do you think a lack of fairness in the relation would affect the degree of opposition between you and Hippopotamus S.p.a.? Would that imply a lower propensity to invest on specific synergic investments?**
Yes absolutely. The relations are really implicit and straightforward.
34. **Think to a situation of an high degree of opposition between you and a distribution chain, does that affect your ability to make specific investments for them? Why? What about your willingness to invest?**
The issue is interesting. I kind of agree with that, but in my opinion this is a situation that needs to be avoided because high opposition correspond in general to lower capacity of understanding the client.. It is exactly in the moment of high degree of opposition that a supplier needs to open very well its ears and spend time on dialogues in the relation. A good seller comes out in this moments of tension. A good seller forces himself to understand the counterpart in this moment and works hard to bring the relation back on tracks. If a relation breaks up it is always a failure. Therefore I would say that higher opposition lead to lower willingness to invest but a good seller should drive the relation towards a meeting point with the client.
35. **Which of the following scenarios better represents your relation with Hippopotamus S.p.a. for what concerns synergic investments? (attached paper)**
For what concerns the really big investments the retailer ask contacts us first (option B). It is hard and often almost impossible to anticipate a new big strategic need of a client. Those investments are generally related to internal secret strategic decisions, therefore it is hard to anticipate them. For example a new strategy to supply the point of sales (direct\indirect); new category projects or an higher push on private label brands... Than the request of financing totally or partially the project depends on the specific activity (B.1 or B.2). Generally speaking Hippopotamus always first ask for a total finance but then negotiation comes into the game. For

what concerns day by day activities it is generally us that tend to anticipate Hippopotamus's needs being proactive (A.1), in this case the investment is generally unilateral from our side (A.1.a). The listing price is really a big investment for a company. The good thing is that Hippopotamus generally recognize the good quality of our proposals and if we have enough money to finance them by ourselves they generally let us try(for example lines extensions) (A.1.a). We auspicate a better sharing of data which could benefit both of us in the future. This is an investment that Hippopotamus should make in our opinion to grow our common knowledge of the market.

Fairness hypothesis:

36. Is lack of fairness connected to the counterpart credibility and benevolence? Why?

Yes, the connection is direct. In addition I think that it's impossible to set a relation at all without fairness.

37. Do you think relationship continuation intension can exist without fairness?

No, impossible. It is than a barging short term activity not a relation.

38. Is fairness an influencing factor of your willingness to make synergic investments?

Yes, the positive past experiences are the main elements in nurturing the growth of mutual trust in the relation. On the other hand experiencing failure or unfair behaviours of the counterpart reinforces the idea that the specific counterpart is not the best one to make business with and you tend to avoid making again investments on them.

Ability to make synergic investments hypothesis:

39. Do you think your company dimension is related to your ability to make synergic investments? If yes how? If no why?

Yes, dimension and investment go hand in hand. To be able to make synergic investment is essential to own the resources and capabilities to study and understand your counterpart. the only possible ways to do that are buying this capabilities or developing them in house. That costs money and only big firms have enough money to invest on them.

40. *Do you think the degree of opposition between you and Hippopotamus is connected to your ability to make specific investments on them? How?*
Yes. We are very collaborative with Hippopotamus and that helps to set a privileged relation. That helps to reduce the divergence of our objectives. This is mainly due to our ability to make synergic investment on the retailer. The retailer is the principal receivers of the paybacks originated from our investments.
41. *Do you think an improvement in your ability to make synergic investments would positively affect your relationship with Hippopotamus S.p.a.?*
Yes. Even if that is not always necessary to work well with a partner. We already have a good set of knowledge.

Willingness to make synergic investments hypothesis:

42. *Have you already experienced any positive payback from previous synergic investments? Has that affected your willingness to invest again on Hippopotamus S.p.a.?*
Yes, the success help to reiterate previous decisions
43. *Do you think your willingness to make synergic investments on Hippopotamus S.p.a. has reinforced your perception of fairness in your relation?*
Yes, but it is important to think to the future and don't just stick on the past
44. *Do you think your willingness to invest on Hippopotamus has an impact on your relationship continuation intension?*
If the investment is successful yes, if it is not successful but we work together to improve our performances yes. If it is not successful and that causes reasons of tensions no. At the base of any investment there is a moment of discussion and that helps to meet each other further and to understand each other.

Relationship continuation expectation hypothesis:

45. *Which are in your opinion the elements that affect your relationship continuation intension between: degree of opposing strategic interests, fairness, ability and willingness to make synergic investments? And how?*
All of them, see question before. (n31)



Banana S.p.a

Personal presentation

1. **How long have you been working for the company?**
I've been working for the company for 9 years.
2. **What is your current job position?**
At present I'm a key account developer, my task is to develop customers' categories. Our company is organized in 5 teams dealing with the 5 retailers' buyer networks plus one other team dealing with the remaining market share; in each team there are professionals working in every single category, in order to give as much depth as possible to the category in which Banana S.p.a. is the market leader or co-leader.

Company presentation and background:

3. **How would you describe your company's business model in no more than 3 lines?**
Banana S.p.a. is a brand company, the whole production is carried out in-house, with an integrated production chain, from raw materials to distribution and sale, working with 99.99% of market brands. In the past we used co-packer for a few products, but at present the company has chosen to produce completely in-house, both in Italy and abroad. Banana S.p.a. generates value through products and, above all, through brand development, in Italy and abroad, with local brands. In Italy our main brands are Banana S.p.a., Ban 1 and Ban 2, while abroad we have specific brands for each country, all integrated in Banana S.p.a. brand, like in America.
4. **What is your company core business? And what percentage on the total volumes of sales represent the "fruit" market? Is that segment strategic for your company?**
In Italy Banana S.p.a. creates about 50% of its total world turnover. Our core business in Italy is food, and more specifically vegetables and wheat. Each of these two categories accounts for about 50% of sales, and wheat products include many products. Fruit account for about 7%

of our turnover, that is about 2 billion euro. So, an extremely significant amount. Banana S.p.a. considers fruit market a very important market, that becomes strategic for two reasons: because the company develops its brand through companies and meets children through fruit, and because, having 7% of total sales, we are talking about very important sums, and also related margins are very interesting, if compared to other categories. A part from this, fruit are a particular case, because this is one of the few markets where Banana S.p.a. has a real reference competitor, with which we essentially share the market: Strawberry S.p.a.. All these reasons make fruit market a strategic one for Banana S.p.a., and as a consequence we apply all marketing mix tools: pricing, promotion, value, very important product development, and so on.

5. What is your positioning and which are your direct competitors?

Our positioning is certainly premium in comparison with the rest of the market, and our direct competitor is Strawberry S.p.a.. As a matter of fact, we have passed them in 2004, but market shares were about 30% and 30%.

6. Are private labels eroding your market share?

Luckily, in the fruit market private labels have a relatively little share, also thanks to significant investments and developments in the areas of marketing, communication, packaging and, banally, little toys for children in packages. At present private labels share is about 17% in Hippopotamus S.p.a. and 14% in the general market, so if we compare these data with other markets (where the share is about 30 – 35%), this share is rather low. So it doesn't worry us, but nowadays the crisis on consumption reduces families' resources. But, generally speaking, in this market there are great growth possibilities in terms of fair share, estimated about 25-30%, but actually at present in Italy brands have developed a really impressive marketing mix acting on consumers, so the threat is only relative. Only residual shares of consumers have left Banana S.p.a. to buy private labels. At present private labels are not perceived as a menace, because this specific market, since 2004, has been driven by strong innovations, and brands like Strawberry S.p.a., Banana S.p.a. and Pineapple S.p.a. have promoted and implemented this innovation. Private labels follow the general trend, but as long as there is

innovation, we don't worry for their competition. Well, if innovation will stop, there will be the risk of shares erosion. But quality gap between private labels and brands is still so huge that we have no reason to worry, in my opinion.

7. *Who are your principal clients? Approximately which is the traffic generated by Hippopotamus S.p.a. on the total volumes of sales on percentage?*

Our main customers are essentially 5. In Italy there are 5 big retailers buyer networks, dealing with 70% of business. Hippopotamus S.p.a. for fruit accounts for 5.3%, and it is an important share, from the numeric and weighted point of view.

Opposing strategic interest:

8. *Why do you make business with Hippopotamus S.p.a.? What do you gain from this relation?*

There is a forced reason: Hippopotamus S.p.a. deals with high volumes and has an excellent weighted share. As a matter of fact, the amount of 5.3% is related to Hippopotamus S.p.a.'s weighted share. The main advantage resulting from working with this company is the numeric cover: apart from their important weighted market share, the fact that they work in the whole Italian territory enables us to have a sort of showcase. Hippopotamus S.p.a.'s supermarket and superettes channels enable us to be well and extensively distributed on territory, in particular in the regions of Piedmont, Lazio, Campania and Sicily and Hippopotamus S.p.a.'s presence is firmly rooted. However, our ultimate goal is business development and Hippopotamus S.p.a. enable us to work on big quantities.

9. *Why do you think Hippopotamus S.p.a. is making business with you? What do you offer to the distributor?*

Being a brand company, we generate value in terms of turnover and margin. Customers have a strong branding policy and require our products. Therefore the reasons are basically two: satisfy consumers' needs and increase turnover. We are able to offer a true partnership to customers, not only money and turnover. We are able to offer receptivity to a win win relation, typical of partnerships.

10. *How would you describe the relation between you and Hippopotamus S.p.a.?*

It is of course a partnership relation, rather than a supplier-customer relation, at present more than ever. We don't have any kind of conflict, in fact we are particularly close on some matters. This is also because Hippopotamus S.p.a., at European level, has decided to start a preferential relation at international level, in which it is possible to decide to share goals and then applying them on operational activities in each nation; we are trying to develop easier relations, preferential channels allowing us to reach for example objectives related to market shares: growth of internal shares of Banana S.p.a. in the client supplies and at the same time customers' market shares compared to their competitors. Therefore I can say that this year our company and Hippopotamus S.p.a. have set common goals.

11. *Do you feel to have different interests in the relation? What are those different interest due to? How and why?*

Yes, I do, because even if in fact we are partners, each of us has to think about its economic accounts, and obviously there are different interests. This happens for example with minor negotiations and orders: Hippopotamus S.p.a. cares about its interests and we care about ours, and sometimes, apart from merely economic agreements, there are rigorous conceptual rules imposed by the company, usually for branding reasons, and so they decide to refuse something. For example, shelves dressing doesn't have to be made, and if it does it should fulfil a number of restrictions that don't help business development. It isn't the best way to develop business at category level and not only from our point of view. But this is a branding issue. Both companies have definite branding politics and strategies, and they obviously impose practical restraints.

Fairness perception:

12. *How would you define the word "fairness" in business relationships?*

To be fair means to fulfil agreements. If we decide that a certain amount of money corresponds to a certain supply, except for catastrophic events, this supply have to be provided and I have to pay the amount

agreed, with the agreed delay and modality. Fulfil agreements. And by “cost” I don’t always mean money and space supply, but if we have an agreement about a reciprocal exchange, this should happen according to decisions.

13. *Do you feel your partner is acting fairly towards you?*

Yes, I do.

14. *Can you generally trust its word (credibility)?*

Yes, I do

15. *Do you feel it is allowing you to gain enough from your relation?*

No, by definition.

16. *Do you believe Hippopotamus S.p.a. sufficiently cares about your wellbeing (benevolence) as an economic partner? Why?*

Yes, I do, because our goal is the growth of both of us. At present Hippopotamus S.p.a. has understood that if a big supplier grows, also Hippopotamus S.p.a. grows, not only in turnover and sales volume terms, but also in terms of value remaining in the counter. Obviously, for companies like us, with such important turnovers, unit margins are lower, but this is the main issue: leave this perspective and start to consider margin mass/value, that is to say value and turnover and turnover mass and margin mass, but above all the ultimate margin, that is the contribution margin. Distributors are not taking this quantity into the right consideration, but it shows how much money remains in the counter when you sell a single Banana S.p.a. product.

Synergic investments:

(investments on interfaces both marketing and logistic)

17. *Think for a moment to your offer both in terms of product and services delivered to Hippopotamus S.p.a.. Besides margin shares, which are the specific investments that you make in order to better satisfy Hippopotamus S.p.a.’s needs?*

Here there are a number of different areas: an investment area, realized during many years, with a theme regarding Banana S.p.a.’s structure, customized on customers’ needs: it seems a play on words, but our goal is to create a unique relation with each distributor, Hippopotamus S.p.a. or Tiger S.p.a., it doesn’t matter, each distributor is directly and specifically assisted according to its proceedings and its needs. This is

a plus for customers, because we also create a unique promotional plan for them. The final consumer entering in a point of purchase of one of our customers will not find the same special offers as in the points of purchase of other companies, because we customize also promotional plans in a coordinate way. Products, sizes, store activities, the extended service package that we offer, price cuts, etc, in a given moment are present only at Hippopotamus S.p.a. and not in other stores. Our goal is to give exclusive rights to Hippopotamus S.p.a.. We can do this through many different levers, for example sometimes we implement innovations in advance with Hippopotamus S.p.a. and we test them through store packages and point of purchase activities available only for Hippopotamus S.p.a., special favourable packages, commercial conditions reserved to Hippopotamus S.p.a. such as out-of-date products withdrawal for particular goods. Another important element is that we give Hippopotamus S.p.a. the possibility to manage the logistic activity, and it is a service that we don't grant to all our customers; this is a great logistic efficiency and a significant reduction of logistic storage costs. This possibility allows all advantages related to process simplification and stocks reduction to a minimum. Therefore we are trying to satisfy and customize our offer to the nth degree, according to Hippopotamus S.p.a.'s needs. So the main topics are plan and exclusive rights customization. The complete mix that Banana S.p.a. proposes to Hippopotamus S.p.a. is very different from the mix that we propose to Tiger S.p.a., and this is very, very important for them.

18. Do you ever study your client market? Does that help you to anticipate and understand its needs?

We buy all Hippopotamus S.p.a. sell out data and we analyse extensively their market. We often make proposals both in terms of substitutions and activities to recover margins.

19. Which are the specific requests of Hippopotamus S.p.a. in terms of products and services, compared to others distribution chains?

Hippopotamus S.p.a.'s requests for final consumers are: attention to innovation, attention to promotional planning activities and attention to favourable terms, even if they don't ask us extreme profits. In terms of

services instead they are strongly interested in just-in-time logistic management, in order to reduce stocks to a minimum.

20. *Do you ever make any specific investments before you have specifically been asked from them, in order to customize your offer and make better businesses with Hippopotamus S.p.a.?*

All Banana S.p.a.'s activities aiming at satisfying Hippopotamus S.p.a. are investments for us. They often ask us to anticipate or postpone deliveries according to their necessities and actually this is a big cost for us. Structure definition and delivery postponement are costs that we bear for them. Moreover, all customizing activities listed before often start from our will to anticipate their needs, and for us these are all investments. I can say that in 80% of situations we are the ones who propose these activities to Hippopotamus S.p.a..

Relationship continuation intension:

21. *Despite any possible different interests, do you believe your relation with Hippopotamus S.p.a. will last in the future (at least for next 2 years)? Why?*

Definitely yes, because in the past years we have laid solid foundations that made us plan long term strategies, from 2 to 5 years at least. Moreover, at present there isn't a real alternative to Banana S.p.a. for Hippopotamus S.p.a.. In the short term they would simply lose volumes. And in the long term Hippopotamus S.p.a. would lose out, because consumers have a really strong fidelity to the brand. As happened with other players, in the medium-long term consumers decided to buy from other distributors. In the short term Banana S.p.a. certainly suffered, but in the long term the distributor's shares in our markets dramatically decreased. That company experienced a strong consumers loss and a lot of customers started going to shop to other distributors, increasing their competitive advantage. However it would be an unfavourable situation for both, because it would imply a serious turnover loss.

22. *Do you believe Hippopotamus S.p.a. shares the same continuation intension? Why?*

I would say that they do, because working with us brings them value and money.

Ability to make synergic investments:

23. Do you believe to have the competences to make specific synergic investments?

c. Financial Capability

d. Know how

Yes, of course, Banana S.p.a. has all the resources and competences required to implement customizing activities on offer and to develop win win relations with customers through mutual value creation and synergic investments development.

24. How have you developed them?

We have a marketing branch devoted to the consumers' specific study of each distributor and a greatly developed sales branch in which they identify and analyze Hippopotamus S.p.a.'s needs and these two branches are often interconnected, also through personnel's shifts, and so the creation of these competences is almost automatic.

Our company has invested a lot on the creation of these competences and abilities, investing on the structuring of strong branches, both in terms of human resources, in terms of instruments and in terms of in house competence development. Moreover it is vital to keep an eye on the market and on consumers and to carry on extensive research on buying and consumption behaviours. This helps us to respond in advance and make specific investments on single distributors depending on their customers' specific needs. We shouldn't forget that distributors' needs often reflect the needs of consumers shopping at these distributors' points of purchase. And in addition to that there is Banana S.p.a.'s mind set. We are the ones willing to promote win win activities and strategies with our customers and to avoid the creation of any conflict. Our commercial direction always reminds us that our goal is not to break contracts, but to draw up them, and this leads us to develop this kind of relations. The ability to implement specific synergic investments in my opinion is due to our internal company structure, to the experience with each distributor and, most of all, to people.

Willingness to make synergic investments:

25. **Do you often take the risk connected to specific investments to satisfy Hippopotamus S.p.a.?**

Yes, as I've said before we do.

26. **Are you more or less incline to invest on other distribution chains? Why?**

I can't answer "yes" or "no". The company has customers' economic accounts and so, as said before, we study contribution margins. That means that each euro sold to Hippopotamus S.p.a. brings us in a certain amount. Then each distributor is analysed and ranked and this study lets us know that Hippopotamus S.p.a. is certainly a good contributor, but not the best. Therefore in periods like this, in which resources are really poor, Hippopotamus S.p.a. has a good position, but not the best one, because there are competitors much more profitable and other much less profitable. I can say that Hippopotamus S.p.a. at present is in a medium position. So now I can answer yes to your question, but if you ask me if it is better to invest 1 euro on Hippopotamus S.p.a. I would answer 50% yes and 50% no, because there are distributors granting us a much higher contribution margins. In fact we have a classic matrix in which we put contribution margins and dimensions and we decide where to invest according to this matrix. Normally smaller customers have higher contribution margins and larger customers have lower contribution margins. But there are exceptions, such as Lion S.p.a., that is a large company but that gives us very high contribution margins, so we need to appraise each situation. Moreover there are other factors that have to be taken into consideration, that are related to partnership level, in which Lion S.p.a., for historical reasons, is at zero, while Hippopotamus S.p.a. has an ace up its sleeve, since we have a very good collaboration. If we look at it as a cube relation and not as a matrix, then Hippopotamus S.p.a. has a far better position than Lion S.p.a..

27. **Are you in general willing to make investments on Hippopotamus S.p.a.? Certainly more if compared to the past, because Hippopotamus S.p.a. is showing a significant willingness to take into consideration Banana S.p.a.'s needs.**

28. **Do you perceive those investments as risky?**

We don't, of course, also because of the financial situation.

Relationship continuation expectation:

29. Do you think any of the elements here listed affect your relationship continuation expectation?

- a. Degree of strategic interests opposition***
- b. Fairness perception***
- c. Capability to make synergic investments***
- d. Willingness***

All these elements have an impact, in different measures. Fairness have to exist as a vital basis. Opposition level has a direct relation, so that greater are goals discordances and contrasts, lower is the expectation of growth and relation consolidation. At present we and Hippopotamus S.p.a. perfectly agree on the first two points, because we succeeded to have shared interest and goals. This is a great starting point. Obviously in these conditions we are more than willing to invest on synergic activities. Of course Banana S.p.a. does have the capability and this have a positive and direct impact on growing relation prospects. The more you invest on bridge construction, the easier you communicate.

Opposing strategic interests hypothesis:

30. What is in your opinion the connection between the degree of opposition in the relation and your relation continuation intension?

This is a direct connection: greater is the opposition, lower are growth prospects. In a leadership situation like this, sometimes there are oppositions, but they don't obstruct the possibility to carry on the relation, because Banana S.p.a. at present is almost irreplaceable. But Banana S.p.a. does all it's in its power to avoid tension and our mission is to build win-win relations with customers, working on the definition of common goals. This doesn't mean that we always accept Hippopotamus S.p.a. requests, but that if they ask 1000 for us it's ok, but we ask ourselves: why they want it? Which goal they want to reach? How they spend it? What will be the effect? What we receive in return? ... We propose to work together on it, to find a way to give 1000 obtaining a ROI in return.

31. *Do you think a lack of fairness in the relation would affect the degree of opposition between you and Hippopotamus S.p.a.? Would that imply a lower propensity to invest on specific synergic investments?*

Yes, of course. This is the third axis of the cube I described before.

32. *Think to a situation of an high degree of opposition between you and a distribution chain, does that affect your ability to make specific investments for them? Why?*

About ability I would say no, because the only ability that we could lack would be an industrial restriction, if they banally ask us to produce more than it is possible. But we should also consider that we buy data and information from external companies, and these companies buy data from our customers. We are always updated about what happens to our customers, like in the case of Lion S.p.a..

33. *Which of the following scenarios better represents your relation with Hippopotamus S.p.a. for what concerns synergic investments? (attached paper)*

The scenario in which Banana S.p.a. propose 90% of the activities by itself. Sometimes those activities are totally financed by us like introduction of innovative products (A.1.a) some others we manage to share the investment, in particular when we implement activities focused on growing the total client market shares in certain markets (A.2.a.).

I must admit that is quite unusual that Hippopotamus doesn't allow us to make an investment, if we propose them to sustain all the associated costs (A.1.a) and this is due to our really good relation (a brilliant example is the hostess activities; not all suppliers are allow to make those kind of activities in Hippopotamus' supermarkets). The answer not to our proposal might come just in particular cases like "dressing" the shelves with branded material and that is due to Hippopotamus' internal communication strategies.

Fairness hypothesis:

34. *Is lack of fairness connected to the counterpart credibility and benevolence? Why?*

Of course, because this has an impact on readiness and willingness to grant margins. No fairness correspond to high difficulty to trust your counterpart and certainly benevolence in that case doesn't inspire the relation.

35. Do you think relationship continuation intension can exist without fairness?

Yes, I do, because we couldn't work effectively without Hippopotamus S.p.a. and they couldn't work effectively without us, but the relation would be tense and this would stop almost totally synergic development and value growth.

36. Is fairness an influencing factor of your willingness to make synergic investments?

Fairness is irreplaceable. Fairness is meant as the ability to respect agreements and to develop a partnership. Every time we implement a successful activity and we historicize this good relation of collaboration and valuable consideration, then fairness certainly increases together with my will to invest on the retailer.

Ability to make synergic investments hypothesis:

37. Do you think your company dimension is related to your ability to make synergic investments? If yes how? If no why?

Of course I do, dimension gives us a the possibility to spend more, more grip on consumers, so that we can communicate to consumers about investments and make customers and consumers understand that. Resources availability and ability to fulfil needs. We should not forget that exclusive activities need a system enabling to spend time and resources to study, plan and implement customized offer activities. Small companies can propose a standard activity to all customers in the whole country, and that's it. How can a single person develop 5 projects at the same time? It is not only a money matter, but also the ability to propose logistic activities, shelves set up, etc.

38. Do you think the degree of opposition between you and Hippopotamus S.p.a. is connected to your ability to make specific investments on them? How? What about your willingness to invest?

Yes, and at the basis there is our will to make common instruments available. Therefore dimension, mind set and will behind our actions. For example Lion S.p.a. has conflicting relations with leaders as its mind set. Even if all goes well, once in two or three years they find a reason to break and then start again, why? We don't know, it's like that. And with small suppliers it's even worse, they mistreat them from the start. But

this kind of game isn't healthy for anybody, neither for the company, nor for distribution, because they all lose and, in my opinion, also consumers lose. Luckily Hippopotamus S.p.a. has a far more discerning mind set. But in conclusion we need a certain degree of dimensions and abilities, because otherwise mind set can't be applied in practical activities. Opposition or actually degree of collaboration is one of the element of our investment matrix, and the relation is clear higher opposition lower willingness to invest.

39. Do you think an improvement in your ability to make synergic investments would positively affect your relationship with Hippopotamus S.p.a.?

Yes, of course it would. At present we have a very good level and maybe it's difficult to increase it still further, because otherwise we would create some kind of undesirable utopia. With Hippopotamus S.p.a. for example, for what concerns vegetables, we have enormous competence and huge market shares. In that case, our vision corresponds with the management of all levers with category plans and projects. We help distributors to have a global vision of the market, like ours, and if we want we can help them proposing activities in right moments, in some way also for other suppliers. Banana S.p.a. for vegetables is stocked in every point of sale of every retailer all over the national territory. So maybe we could help even more in the maximum sharing of all levers. And it doesn't mean that we want only our products on shelves. I have to say that this kind of synergic collaboration, with such a strong information and projects exchange, brings to amazing results for Hippopotamus S.p.a., making them conquer wide market shares on vegetables. Therefore our ultimate step should be a total sharing of levers: stock selection, promotional plans, point of purchase levers, shelves levers... but I know that it is almost impossible.

Willingness to make synergic investments hypothesis:

40. Have you already experienced any positive payback from previous synergic investments? Has that affected you willingness to invest again on Hippopotamus S.p.a.?

Yes, because all our projects, from the simplest activities such as promotional activities on double packages to more complex activities

such as category management, have lead to truly positive results, above all in a ruinous year like this 2009. These results allowed us to increase Banana S.p.a. market shares and however, even if Hippopotamus S.p.a. is having a relatively bad performance for external reasons, fruit market held out well thanks to all the projects we have carried out on fruit. We could have done even better, but we have had good results.

Yes, we are more willing to invest and 2010 plan includes a higher number of actions, even more customized in different ways (cut prices, fidelity, promotions, CRM, stock selection); for us this will mean specific economic investments, apart from the purely economic ones scheduled in contracts. We are always referring to specific investments on turnover growth, without connections with contracts, that are a commercial issue.

41. Do you think your willingness to make synergic investments on Hippopotamus S.p.a. has reinforced your perception of fairness in your relation?

Yes, I do. Both willingness and paybacks reinforce your satisfaction and your lean to invest again on the retailer.

42. Do you think your willingness to invest on Hippopotamus S.p.a. has an impact on your relationship continuation intension?

Obviously Banana S.p.a.'s investments are always on the long term. I mean that other companies may work in a different way, but if we invest, it is always in the long term, and so yes, of course this is an inducement to carry on the relation.

Relationship continuation expectation hypothesis:

43. Which are in your opinion the elements that affect your relationship continuation intension between: degree of opposing strategic interests, fairness, ability and willingness to make synergic investments? And how?

All of them see question before for relations



Apple S.p.a

Personal presentation

- 1. How long have you been working for the company?**
I have been working for the company for about three years.
- 2. What is your current job position?**
Italy Sales Director.

Company presentation and background:

- 3. How would you describe your company's business model in no more than 3 lines?**
Our company is focused on the production and marketing of fresh fruit-based products. We apply our competence on all the few extensions available in this market field and since we started the company we have chosen a model based on the best quality-price ratio. This means that we make products with the best quality standards of the market, but at favorable sale prices for consumers. 100% of our production is carried out in our factories according to our mission and vision. In the past (about 10 years ago) we have experienced the sale of external products, but nowadays we have given up this option.
- 4. What is your company core business? And what percentage on the total volumes of sales represent the "fruit" market? Is that segment strategic for your company?**
Our core business is the production and the marketing of fresh fruit-based products. fruit market accounts for about 30% of the total. Yes, this is a strategic segment for our company.
- 5. What is your positioning and which are your direct competitors?**
Our positioning is in the value for money area, so our direct competitor has no name, it is more like a concept. Actually, we are the direct competitor of the distribution brand.
- 6. Are private labels eroding your market share?**

Since we have chosen as a company mission to propose quality products with very competitive prices in comparison to the market leader, our positioning is the typical private label positioning. As a consequence in the past we have often collided with distributors in this area. All big – very big – distribution companies, and also the medium-sized ones, have asked us to produce for their private labels. It's a thematic we are well aware of, but given our structure, the private label is not a taboo, but this kind of production requires entry threshold volumes that are only possible with a significant critical mass, very difficult to find in Italy. We produce private label articles when we estimate that we can obtain that critical mass. In Italy we have decided to work with only 2 retailers, which enable us to reach these quantities abroad. In our company export accounts for 55%.

7. *Who are your principal clients? Approximately which is the traffic generated by Hippopotamus S.p.a. on the total volumes of sales on percentage?*

We work with almost all distribution groups, with only a few exceptions, so it is sufficient to take a list of all Italian distributors of the same ranking and these are our main customers. If we want to name some of the most important ones, they are mainly part of the discount world, the main Italian discounter: Giraffe S.p.a. is our most important customer, and outside Italy all the many Snake S.p.a. configurations. From the quantitative point of view these are our main customers. At present the importance of Hippopotamus S.p.a. is rather low for a number of reasons, I would say around 2%.

Opposing strategic interest:

8. *Why do you make business with Hippopotamus S.p.a.? What do you gain from this relation?*

Hippopotamus S.p.a. is a very important brand, with a significative role in the Italian distribution; moreover, for us all international business is strategic. Also, we think they have a bright future and there isn't any reason for not working with them. For a company like us, not using advertising and communication as a main competitive weapon, the

visibility on shelves, from a quantity and quality point of view, has a vital role.

9. *Why do you think Hippopotamus S.p.a. is making business with you? What do you offer to the distributor?*

Here we deal with a very specific and distinguishing area of the Hippopotamus S.p.a. – Apple S.p.a. relation. Hippopotamus S.p.a. and the other distributors are interested in making business with us because our products give considerable advantages to their category, that is to say that we offer to distributors high percentage margins and good rotations. This is the true reason. We are one of the very few companies in the fresh fruit segment (and not in the related exotic fruit segment, much more fragmented) able to give this kind of advantages.

What makes you different from a private label?

This is the main theme of our relation with Hippopotamus S.p.a., the evolution of which is revealing. Actually, Apple S.p.a. have always been acting as a category killer, playing the role of the private label and becoming its true antagonist. Fresh fruit segment is one of the rare cases in which the private label has not succeeded.

10. *How would you describe the relation between you and Hippopotamus S.p.a.?*

It is a unique constructive relation: we are trying to be prepared for the almost unavoidable evolution of the fresh fruit market, which will know a further concentration of the production offer and so a probable greater reciprocal commitment.

11. *Do you feel to have different interests in the relation? What are those different interest due to? How and why?*

Of course. A few years after we started making business with Hippopotamus S.p.a. (about 10 years ago), they asked us to become private label producers. But production volumes did not reach our critical mass and so we could not accept the proposal. Since Apple S.p.a. occupied the same shelf role of the new Hippopotamus S.p.a. brand, we couldn't stay in their stock selection. Hippopotamus S.p.a. rightly decided that the private label couldn't share the shelf with a competitor. There wasn't any contractual tension to break our relation, but an unavoidable strategic choice. Is there a greater conflict of interests? Then the category evolved and ten years later Apple S.p.a.

found a way to interest Hippopotamus S.p.a. again, proposing products that were not directly antagonist of the private label. We got round previously incompatible interests, creating shared value.

Fairness perception:

- 12. How would you define the word “fairness” in business relationships?
Fairness is the capability to fulfill commitments. Our job is made of words, because negotiation is essentially made by verbal assumptions: at the end of the negotiations, whatever their path had been, there are “statements” remaining, that have to be carved in stone. So fairness means that the stone has to remain like the one carved during negotiations and that final statements have to enact the agreed actions.***
- 13. Do you feel your partner is acting fairly towards you?
Yes.***
- 14. Can you generally trust its word (credibility)?
In the relation with Hippopotamus S.p.a. we have no credibility problems. From our point of view, we recognize a problem of complexity in Hippopotamus S.p.a. organization structure, and this often slows down the process of transforming negotiation results in real actions, as told before.***
- 15. Do you feel it is allowing you to gain enough from your relation?
Considering our market positioning, we think they do.***
- 16. Do you believe Hippopotamus S.p.a. sufficiently cares about your wellbeing (benevolence) as an economic partner? Why?
We think that this is not a matter of lack of interest and attention, but that Hippopotamus S.p.a. organizing model (like it happens in similar companies) is especially complex and changeable (change of interlocutors, multichannel strategy). In time this may dissolve the existing interest. We would like to have relatively stable interlocutors, in order to carry out enterprises agreed with them, reducing “latency” time between the interest manifestation and the implementation of consequent actions. Simpler and more focused distribution structures (but not necessarily smaller) don’t have this kind of problems.***

Synergic investments:

(investments on interfaces both marketing and logistic)

17. Think for a moment to your offer both in terms of product and services delivered to Hippopotamus S.p.a.. Besides margin shares, which are the specific investments that you make in order to better satisfy Hippopotamus S.p.a.'s needs?

In the evolution of Apple S.p.a. – Hippopotamus S.p.a. relation, we are now in a rebuilding phase. At present, our next step is to find not overlapping spaces, possibly with “comb” stock selection, in order to bypass the problem of competition with the private label. As a consequence, now the most useful investment for both of us is the listing, that is to say the first investment. It is a strong investment, but also a priority.

Do you ever study your client market? Does that helps you to anticipate and understand its needs?

Only marginally, according to our possibilities. Our nature and our will make our company very little structured. We can't have large human resources and maybe neither economic resources to use directly for this study, so we delegate the analysis of customers' needs to internal professionals.

Fortunately, in our category, Apple S.p.a.'s role is basic. We don't deal with a niche, but with the heart of the market. Also performances required to Apple S.p.a. are basic: good rotations and high percentage margins.

In the case of Hippopotamus S.p.a., we were asked to satisfy these same needs. In this strategic category, prospecting traffic creation in the point of sale, we can offer the possibility to implement promotional activities of great impact, that, for communication reasons, could not be applied promoting at the same price the commercial brand. So we are a fundamental and winning weapon in particular periods of the year, in which, also depending on seasonality, it is important to push the category. This is the reason why we are going towards a second phase in the life cycle of Hippopotamus S.p.a. – Apple S.p.a. relation, which probably and optimistically will know a very positive evolution.

18. Which are the specific requests of Hippopotamus S.p.a. in terms of products and services, compared to others distribution chains?

One in particular is very specific: the international product with the “n°1” brand, sold and traded at international level with Hippopotamus S.p.a. France. We can not have the critical mass on this product in Italy, but we can have the critical mass in Europe and in the world.

- 19. *Do you ever make any specific investments before you have specifically been asked from them, in order to customize your offer and make better businesses with Hippopotamus S.p.a.?***
According to what we have just said, the evolution of the relation makes it difficult to answer this question.

Relationship continuation intension:

- 20. *Despite any possible different interests, do you believe your relation with Hippopotamus S.p.a. will last in the future (at least for next 2 years)? Why?***
Definitely yes, and in this case logic and inertia in the relation enable me to say more: I can say five years instead of two (that in business is an extremely difficult commitment). I believe every business relation is characterized by a circular life cycle in which there are periods of growth, stability and decrease. Right now we are in a growth phase of our relation with Hippopotamus S.p.a. and this leads us to be optimistic. A part from this, everything could happen, but this is our logic.
- 21. *Do you believe Hippopotamus S.p.a. shares the same continuation intension? Why?***
I am sure that they do.

Ability to make synergic investments:

- 22. *Do you believe to have the competences to make specific synergic investments?***
- e. *Financial Capability***
 - f. *Know how***
- Yes, of course, we perfectly know about specific matters in this market, thanks to our 20 years experience that has improved our knowledge of the consumer and our technical knowhow. We have a very clear idea of our role and our positioning, we know in which area we should invest and which investments are more profitable for us and for Hippopotamus S.p.a.. We are also able to suggest references for the articles with***

highest rotation and profit margins, customizing the offer on the basis of specific stock selection needs, in a category management logic.

23. How have you developed them?

Also in difficult moments, we have kept communication channels open and we have paid attention to all Hippopotamus S.p.a. needs on various channels. This made us able to understand the evolution of their needs and of their new strategies, so that we could be available whenever there was a possibility to restore our relation, and this finally happened.

It was important to understand our customer, to understand the reasons behind the previous break and problems causing it, without grudges and with high receptiveness.

Willingness to make synergic investments:

24. Do you often take the risk connected to specific investments to satisfy Hippopotamus S.p.a.?

Yes, we do. We often invest on promotional activities, leaflets, listings. When Hippopotamus S.p.a. asks us something, it is because of a specific need, and so we respond positively, in so far as our possibilities allow.

25. Are you more or less incline to invest on other distribution chains? Why?

This is an interesting question: in my opinion, to do my work properly, I have to be incline to invest on all the structures or the situations having a strategic relevance and proposing value-creating initiatives. Hippopotamus S.p.a. is one of them, of course.

26. Are you in general willing to make investments on Hippopotamus S.p.a.? At present there are actions demonstrating that we are willing to invest more. In the project related to Hippopotamus S.p.a. and its renewed important role, we have invested much more than our internal parameters.

27. Do you perceive those investments as risky?

We consider these investments on a 5-years prospective. For us an investment becomes risky if it is related to unforeseeable elements (single interlocutors, organization changes, etc.). When instead a distributor makes meticulous analysis and is financially reliable, we are not worried.

Relationship continuation expectation:

28. ***Do you think any of the elements here listed affect your relationship continuation expectation? Yes all of them:***
44. ***Degree of strategic interests opposition***
Yes, in theoretical terms: > opposition < relationship continuation expectation
45. ***Fairness perception***
Yes, no fairness in a relation correspond to no relation at all. At the same time closer relation means higher mutual fairness and therefore growth of opportunities and better relationship continuation expectation
46. ***Capability to make synergic investments***
Yes, > investment capability > better knowledge of the counterpart and therefore of investment areas
47. ***Willingness***
Yes, > willingness to invest > better prospects of a continuing relation

Opposing strategic interests hypothesis:

29. ***What is in your opinion the connection between the degree of opposition in the relation and your relation continuation intension in the sense of different perceptions on investments?***
> Opposition < future growth prospects
30. ***Do you think a lack of fairness in the relation would affect the degree of opposition between you and Hippopotamus S.p.a.? Would that imply a lower propensity to invest on specific synergic investments?***
Of course. For example, if I take an engagement for an important investment, promising to restore the stock selection in September, and in November nothing has been done, obviously there is a fairness problem. Verifying the situation we repeat what said before: it is not a fairness problem, but an internal latency problem of Hippopotamus S.p.a..
31. ***Think to a situation of an high degree of opposition between you and a distribution chain, does that affect your ability to make specific investments for them? Why? What about your willingness to invest?***
Yes, it does. It is the first effect of this situation: no agreements on goals, no investment. As a consequence, if we don't prove activities effectiveness, it is hard to develop the competence and knowledge necessary to decide what to do and how to invest.

32. *Which of the following scenarios better represents your relation with Hippopotamus S.p.a. for what concerns synergic investments? (attached paper)*

Our situation is rather barycentric. Sometimes Hippopotamus S.p.a. recognizes investment possibilities and propose them to us, and then we estimate if it's good for us to make these investments. Other times we recognize growth possibilities and we propose them an investment. Unfortunately not always hippopotamus spend enough time reasoning on our proposals and that translates often in a negative answer to our ideas (A.1.b). Anyway the relation is related to this fact: analyzing recognizing opportunities, we both work for the common benefit, and since our relation is rather balanced, the one who recognize the possibility propose it to the other. However if we think to our biggest investment made to be listed back in Hippopotamus two years ago the most likely representation of this specific case is A.1.a.

Fairness hypothesis:

33. *Is lack of fairness connected to the counterpart credibility and benevolence? Why?*

Of course. Fairness is the premise of a relation, especially in times of financial instability, but also in times of important negotiations. I am prepared to play the tug-of-war game, but if there is a lack of fairness, it is impossible. Credibility and fairness to me are the same thing. At present, it is not possible to take advantage from a business transaction in the long term if there isn't a steady and fair relation. Benevolence does not always exist in a B-S relation but certainly when it does exist it is connected to fairness.

34. *Do you think relationship continuation intension can exist without fairness?*

No, absolutely not.

35. *Is fairness an influencing factor of your willingness to make synergic investments?*

Yes, very much the relation i would say is implicit.

Ability to make synergic investments hypothesis:

36. Do you think your company dimension is related to your ability to make synergic investments? If yes how? If no why?

Yes, I do. But it is essential to consider this answer in the frame of our category. once determined our role and developed a relation with the partner through all available communication channels, it's easy to understand and recognize the best investments for both of us. Maybe the positioning is a limit to our possibilities, but the consciousness of our role makes us aware of what we have to do in order to satisfy Hippopotamus S.p.a.. It is obvious that their investment requests have to consider our role and our positioning.

37. Do you think the degree of opposition between you and Hippopotamus S.p.a. is connected to your ability to make specific investments on them? How?

Yes, we do, and for this reason we have always been working to develop a steady and collaborative relation, able to bring benefits to both of us. Dialogue and collaboration are our main instruments to adjust our reciprocal goals.

38. Do you think an improvement in your ability to make synergic investments would positively affect your relationship with Hippopotamus S.p.a.?

Yes, we do. It is convenient to go on accumulating experience and reciprocal knowledge. And also there is a difference between abilities and possibilities and will to invest. Products must work on their own, and categories are no longer to be defined in a logic of particularly wide stock selection, in terms of references. A particularly high number of references, oriented towards the growth of products offer to consumers, is not necessarily the right choice or the most efficient one. It is useless to add a large number of references to obtain one-off investments, references must be selected, coherent with the offer proposed to consumers, and they must work on their own. The starting investment is important, but the goal is on the long term.

Willingness to make synergic investments hypothesis:

39. Have you already experienced any positive payback from previous synergic investments? Has that affected your willingness to invest again on Hippopotamus S.p.a.?

We are starting now with paybacks, that are arriving with the same latency we experience to have answer from the group. Yes, it has.

40. Do you think your willingness to make synergic investments on Hippopotamus S.p.a. has reinforced your perception of fairness in your relation?

I'd say yes.

41. Do you think your willingness to invest on Hippopotamus S.p.a. has reinforced your relationship continuation intension?

Yes, I perfectly agree with that.

Relationship continuation expectation hypothesis:

42. Which are in your opinion the elements that affect your relationship continuation intension between: degree of opposing strategic interests, fairness, ability and willingness to make synergic investments? And how?

These are all basic premises. But the first one is really fundamental, knowing the evolution of Hippopotamus S.p.a. – Apple S.p.a. relation. If, for example, Hippopotamus S.p.a. would change its basic axiom again, eliminating all products potentially dangerous for the private labels, not considering the positive contribution to the category, Hippopotamus S.p.a. – Apple S.p.a. relation would totter again. Therefore, in this very peculiar situation, I would say 70% to the first and then 10%, 10% and 10% to the others.

43. Why have you decided to invest on advertising?

Let me first say that we are well aware of our market role and that our fame has been built on shelves. Now we are in a very peculiar situation. This year our category sales have incomprehensibly known an important sufferance. The entrepreneur has made a choice that we normally see only on marketing books: to invest in the difficult moment.

Even if at the start any advertising investment was planned, the entrepreneur, at the end of the first semester, decided to invest the gains in communication. Our fear was that, given the market leader's investments, our advertising couldn't be appreciated.

Now instead we can say that it was a good choice. It was like a lighting in the dark: the trade didn't expect it and consumers suddenly rewarded us.

Therefore, it wasn't a strategic choice, and we don't feel the need for a repositioning of Apple S.p.a.. For us the most important indicator is the price delta in comparison with the leader brand, we worry if this delta becomes smaller. We don't want to risk our value for money perception, because it is our strong point.



Pear S.p.a

Personal presentation

1. *How long have you been working for the company?*
25 Years and 3 Years
2. *What is your current job position?*
Sales director channel Off trade– Sales director channel On trade

Company presentation and background:

3. *How would you describe your company's business model in no more than 3 lines?*
Our company deals in food production and commercialization, working with department stores above all, accounting for about 95% of our sales. We are partially introduced in the private labels world and we are developing an important export activity. I can say that our company has the brands and the strategy of large companies, with a very simple structure. That makes decision-making processes quicker and more flexible.
4. *What is your company core business? And what percentage on the total volumes of sales represent the "fruit" market? Is that segment strategic for your company?*
Fruit market accounts for 60% of our turnover and so it is certainly our core business. Yes, for us fruit market is a strategic segment.
5. *What is your positioning and which are your direct competitors?*
At present our company is a leader company in the fruit market. We are the third company in the market, after Strawberry S.p.a. and Banana S.p.a.. Pear S.p.a. brand could be placed in the top five of the market. We take Pineapple S.p.a. more as a model, since they have a market share and a model similar to our owns, and not the market leaders, even if in terms of brand fame, we are closer to them.
6. *Are private labels eroding your market share?*

This is an open issue, because the situation has deeply changed in the past two years. We propose fruit and water characterized by technological barriers (products Pear, Pe 2 and Pe 4); for these products there are private labels, but at present they aren't able to imitate them perfectly. The product Pe 3 has fewer technological barriers. Private labels impact is more significant for products whose imitation involves simpler technological barriers. For example, for the exotic and dried fruit, private labels have important market shares. However, we constantly control this area and the decision to enter in the competition and start to produce private labels is highly delicate, so that we are carefully assessing the situation. I would like to add that the company should pay constant attention to the development of this phenomenon, because the growing presence of private labels on supermarket shelves will definitely erode brands market shares.

Where there isn't any technological barrier, we are willing to produce private labels, according to our production capacity. For example, exotic fruit category doesn't have a real technological barrier, therefore, if a company is interested in the production of exotic fruit as a private label, we are ready to collaborate, if volumes are interesting, of course.

7. *Who are your principal clients? Approximately which is the traffic generated by Hippopotamus S.p.a. on the total volumes of sales on percentage?*

In accordance with Nielsen market share. At present our main customers are department stores, but we are planning to introduce our products in other channels, where now we aren't present.

Opposing strategic interest:

8. *Why do you make business with Hippopotamus S.p.a.? What do you gain from this relation?*

Our company commercializes products and its core goal is to reach final customers. Every contact point with consumers has an interest for us. Our goal is to find a way and the commercial conditions to obtain the right position, a coherent price and the right packaging for a certain point of sale. Therefore, we don't mind if the point of sale is a department

store, a service station, a Hippopotamus S.p.a. point of sale or a coffee bar, but purchase conditions and consumers buying in that point of sale should be coherent with our offer in that format. We have no preclusion to any chain or any other contact point with consumers. Banally, we need to reach all customers with as many perfectly exposed products as possible and to enact the best promotion activities, but if we are able to do this with Hippopotamus S.p.a. our products can be available in many different formats (Hyper-stores, Super-stores, Supertee, C+C...).

9. *Why do you think Hippopotamus S.p.a. is making business with you? What do you offer to the distributor?*

We are among the market leaders, third in the fruit market and first/second in the water market. Therefore the main reason why Hippopotamus S.p.a. makes business with us is that they want to offer a service to their customers. An interesting stock selection can't leave our products aside. Our products' mission in Hippopotamus S.p.a. (marginality, service, traffic) is constantly evolving and we always try to share it.

10. *How would you describe the relation between you and Hippopotamus S.p.a.?*

In this case we could use the metaphor of a half full-half empty glass. The glass could be far fuller, both in terms of quality and quantity.

11. *Do you feel to have different interests in the relation? What are those different interest due to? How and why?*

This should never happen, because the offer should apply the win-win rule, that is to say a favourable offer for customers, for us and for final consumers. If one of these categories doesn't have a favourable offer, there is something wrong. At present there are goals and interests not totally compatible. This problem is related to different interests, often limited to negotiations for cost reduction (for us) and, at the contrary, growing requests from Hippopotamus S.p.a., and we often forget about consumers. Our ultimate goal is to find a compromise. In 2009 most of all we had different interests. Sadly, goals are often the same (volumes and margins), and therefore, paradoxically, they create conflicts. It's

really difficult to sit on a negotiation table and start from shared common bases, different from the common discount and investment logic.

Fairness perception:

12. How would you define the word “fairness” in business relationships?

The meaning of the word “fairness” in the supplier-distributor relationship is related to the example that a company has coherently and seriously showed in years. Fairness grows if a company pursues its goals in a linear and coherent way, through a path shared with commercial partners. Strategy changes or short term decisions, from both parts, lead to the creation of a more troubled atmosphere. According to me, fairness in these relations should be differentiated: there is fairness to the distribution chain or company and fairness to people. In commerce, I believe that fairness is strictly related to honesty and coherence in people’s work.

13. Do you feel your partner is acting fairly towards you?

If “fairly” means that Hippopotamus S.p.a. acts toward us as it acts with other similar competitors, my answer is definitely yes. If “fairly” relates to the power relation between an important distribution chain like Hippopotamus S.p.a. and a medium-size company like us, compared to their softer behaviour towards leader companies, my answer is no. When negotiating power becomes a blackmail instrument, the word “fairly” is no longer the right one.

14. Can you generally trust its word (credibility)?

This is a very personal and subjective question, depending on many different elements (how well you know your partner, past experience, etc.). However I have to say that being Hippopotamus S.p.a. structured in many levels (more than other distributors, in which we always deal with the same person), we tend to doubt that the word of a single person could actually be definitive. Our contacts in Hippopotamus S.p.a. have different roles and different goals, therefore sometimes the word of a single contact isn’t enough, and only when many contacts give us the same answer we can trust their word.

15. Do you feel it is allowing you to gain enough from your relation?

I would say no; power relations often don't allow us to obtain planned margins.

16. Do you believe Hippopotamus S.p.a. sufficiently cares about your wellbeing (benevolence) as an economic partner? Why?

Only according to common sense. I have never appreciated a real care about our interests. But they really listen to us when we have the same interests. In my opinion, personal relations, when based on fairness and trust, increase the possibility to obtain attention and to build constructive relations.

Synergic investments:

(investments on interfaces both marketing and logistic)

17. Think for a moment to your offer both in terms of product and services delivered to Hippopotamus S.p.a.. Besides margin shares, which are the specific investments that you make in order to better satisfy Hippopotamus S.p.a.'s needs?

The main goals of Hippopotamus S.p.a. are: to gain market shares, to offer a quality service to consumers, to obtain customers' fidelity and to increase margins and turnover. Therefore, for them as for us, all is focused on final customers. All our investments on products, planned to increase final consumers' demand, satisfy Hippopotamus S.p.a.'s needs.

18. Do you ever study your client market? Does that helps you to anticipate and understand its needs?

It's desirable to share these information with customers. We have a basic idea of customers entering in cash and carry wholesalers, in hypermarkets, in supermarkets or in discounts. We study customers, trying to understand their paths in the point of sale, which areas they go to, how long they stand looking to a shelf. We have a clear idea of our consumers and how they shop or they plan their purchases. But we don't know specific Hippopotamus S.p.a.'s consumers. At present we study the market through formats adapted to different distributors, without details about consumers. If Hippopotamus S.p.a. is willing to investigate further, we will be happy to share analysis and surveys about consumers. For us these data are very important, since they can help us

developing ad hoc strategies and activities. Of course, according to our experience, this have a cost in terms of time and work. We should assess the will to invest on a goal that is not only monetary, but also focused on consumers fidelity and on specific offers development. This is something that Hippopotamus S.p.a. has done in the past, choosing a pilot leader in each category to develop an analysis on consumers and category offer (Hippopotamus S.p.a.'s mass de marge project). But it is difficult to verify if, in this kind of projects, results cover costs.

19. Which are the specific requests of Hippopotamus S.p.a. in terms of products and services, compared to others distribution chains?

I think that the most frequent request is for exclusive rights. In the specific case of continuative products, sometimes Hippopotamus S.p.a. asks us auto-expositive boxes (shelf ready packs), even if at the moment they haven't asked again for this. Of course, we take care of this matter.

20. Do you ever make any specific investments before you have specifically been asked from them, in order to customize your offer and make better businesses with Hippopotamus S.p.a.?

This year for example we have anticipated some requests, because of the serious economic crisis started in October 2008. We have significantly reacted proposing special offers, with a discount of 1 euro apiece on purchase. I think that Hippopotamus S.p.a. really welcomed this activity.

Relationship continuation intension:

21. Despite any possible different interests, do you believe your relation with Hippopotamus S.p.a. will last in the future (at least for next 2 years)? Why?

More than believing this, we hope so, because we have strong and well-known brands, because we are a company that had always proved to be sensible and careful towards Hippopotamus S.p.a.'s needs and because there isn't any reason to break this relation. At the contrary, we wish to improve this kind of relation.

22. Do you believe Hippopotamus S.p.a. shares the same continuation intension? Why?

Yes, I do, because I think that there is a reciprocal need to develop business, even if power relations are certainly different. We can perceive a risk, above all if our negotiations will be based only on power positions. Medium and small companies have handicaps and are under pressure because of commercial requests. It is not only a matter of offer-demand market rules, but of negotiations based on blackmail. The risk area is that power positions could stimulate the growth of big companies only, of leader companies. We hope that important distributors will assess requests not only according to power relations, but also according to the offer and of consumers' needs. We all know that it's more difficult to obtain something from leaders rather than from followers, but if they exaggerate with this politics, in the long term we risk to obtain an almost-monopoly situation and, in the future, lower margins for Hippopotamus S.p.a.. This risk is even higher in occasions in which you can realize that leaders are growing more and more and followers are disappearing. Appealing to our brands' notoriety, we hope to be able to bear this dangerous trend. My fear is that private labels' and discounts' steady growth could lead the main distributors present on our territory to transform their offer in that direction. The danger for brand companies is that distributors could be willing to propose formats used in other European countries in Italy. Distributors have to consider the important role of brand companies, able to create new markets and new quality products through the continuous pursuit of the satisfaction of our only resource: consumers.

Ability to make synergic investments:

23. Do you believe to have the competences to make specific synergic investments?

g. Financial Capability

h. Know how

We are a very simple company, from the commercial and productive point of view. We can satisfy Hippopotamus S.p.a.'s needs quickly, but we are not structured to follow projects requiring to pay too much attention to retail. We are a perfect partner for projects requiring high

degrees of flexibility, but we are less suitable for projects requiring data processing and analysis sharing. Although, we could decide to rapidly implement new organization models in order to share favourable projects and activities. You're right, even if the possibility to change our structure depends on financial resources, that at present are knowing a significant erosion because of trade's continuous requests. We should remember that many companies are now dealing with wage subsidies and staff cuts, and if in the past companies could afford employees caring about specific business issues, at present it's more complicated.

24. How have you developed them?

The ability to rapidly satisfy customers' needs is related to company's structure. A company like us should have the ability to react rapidly to customers' requests. It should be aggressive and innovative. Our strong points are our rapidity, together with, luckily, strong, important and well positioned brands. We are among the few Italian companies that have such a simple structure and important and well-known brands.

Willingness to make synergic investments:

25. Do you often take the risk connected to specific investments to satisfy Hippopotamus S.p.a.?

In many occasions during this year we have proved to be ready to take that risk, and we have appealed to all levers at our disposition to get over problems and fulfill Hippopotamus S.p.a.'s specific needs.

26. Are you more or less incline to invest on other distribution chains? Why?

Hippopotamus S.p.a. business negotiations are based on power relations, or this the perception we have had lately. This forces us to invest on Hippopotamus S.p.a. in a certain way, and we can't act in other ways. At present I have not noticed a goal sharing, but a relation based on negotiation power. In time, each investment should pay back, otherwise it is not useful. Unfortunately, sometimes investments don't pay back, but they become deep-rooted anyway, and this aspect is a further barrier to new investment development.

27. Are you in general willing to make investments on Hippopotamus S.p.a.?

All depends on investment pay back. Each investment should be evaluated according to single services, promotions or activities, and not according to history. At present we should meet customers and assess single operations keeping an eye on potential returns. It is impossible and wrong to negotiate on general terms about investments. We should be able to sit at a table and discuss about investments and returns, to understand what did work well and what didn't work and to start afresh every year.

28. Do you perceive those investments as risky?

No, we don't consider Hippopotamus S.p.a. more risky than other distributors. Risks are transverse and they are always the same.

Relationship continuation expectation:

29. Do you think any of the elements here listed affect your relationship continuation expectation?

48. Degree of strategic interests opposition

49. Fairness perception

50. Capability to make synergic investments

51. Willingness

All this elements have a direct impact on relationship continuation expectations. Arranging a ranking, I put interests opposition at the first place, because at present this is the most worrying element in our relation with Hippopotamus S.p.a.. Of course this is not the only element, but it's the main obstacle in our business relation and it could affect its continuation. As a matter of fact the more a relation is characterised by opposition between the parties, more likely the relation will not last that long in the future. Fairness in personal relations as reliable partners has a fundamental role in the relationship continuation. The last two elements are both at the third place, because willingness does exist, but at present we have practical and operative problems understanding and sharing common goals, and often these relations based on historicity and power relations lead to avoid investments that could create synergies and to only apply "do ut des" principles: I give so that you may give. Unfortunately, a good innovation degree and the possibility to

invest on new activities and projects able to create synergies seem to be only available to big companies. When resources are limited, it's really hard to bet on novelties and to test new situations.

Opposing strategic interests hypothesis:

30. What is in your opinion the connection between the degree of opposition in the relation and your relation continuation intension in the sense of different perceptions on investments?

Of course this is a direct and fundamental relation. As said before, interests opposition and relation perspectives are connected in direct proportion. Unfortunately, we always spend a lot of time mediating conflicting interests with customers and, in my opinion, too often this makes us move the focus from final consumers, and neglecting them is negative both for us and for distributors. Consumers should be our common interest.

31. Do you think a lack of fairness in the relation would affect the degree of opposition between you and Hippopotamus S.p.a.? Would that imply a lower propensity to invest on specific synergic investments?

Yes, I do, but at present this is not the case of Hippopotamus S.p.a..

32. Think to a situation of an high degree of opposition between you and a distribution chain, does that affect your ability to make specific investments for them? Why?

Yes, of course it does, when situations become tense, the ability to make investments decrease together with the will. When situations grow tenser, we fear an alarming or dramatic turnover decrease, and dialogue becomes a muscular match, leaving no space to anything else.

33. Which of the following scenarios better represents your relation with Hippopotamus S.p.a. for what concerns synergic investments? (attached paper)

In history, we are always the ones proposing novelties to customers (A.1). Not only to Hippopotamus S.p.a., but to almost all distributors. For example, we are the ones that, for many reasons, propose stock selection optimization or promotion customization. Obviously all these

proposals are mediated by our present goals of the retailer, but usually they improve the final offer to consumers. Unfortunately not always our ideas and proposal of new investments find a positive answer (A.1.b). It is harder to trust the ideas and the proposal of a non-leader and that is a key problem for us. Sometimes we manage to collect enough funds to sustain our synergic investment but the retailer doesn't allow us to implement them (A.1.b). Trade is often a filter, an insuperable barrier that doesn't allow us to reach consumers and that makes difficult to put into action our resolutions.

Fairness hypothesis:

34. Is lack of fairness connected to the counterpart credibility and benevolence? Why?

Yes, of course there is a direct connection between these elements.

35. Do you think relationship continuation intension can exist without fairness?

I would say no, but even only sharing goals, the relation could slowly be renewed. It would be certainly difficult, the relation would become a precarious business to handle.

Is fairness an influencing factor of your willingness to make synergic investments?

Yes, very much. No fairness means no money to invest on that partner proposals. Obviously we prefer to invest where we have more return guarantees.

Ability to make synergic investments hypothesis:

36. Do you think your company dimension is related to your ability to make synergic investments? If yes how? If no why?

Yes, I think that dimensions are strictly related to our ability to make investments; any synergic activity requires time and people and every time we experience this kind of activities, also the simplest ones (co-marketing, promotions with hostesses...), if we don't plan them in every specific detail and in the correct way, they become a boomerang, with low yields and not economic.

37. Do you think the degree of opposition between you and Hippopotamus S.p.a. is connected to your ability to make specific investments on them? How? And what about your willingness to invest?

Yes, I do, if we increase collaboration, also fairness will increase, together with our will to implement synergic investments. Obviously, if there was the will to share goals, we would take in great consideration their needs and we would consider a new organization model.

38. Do you think an improvement in your ability to make synergic investments would positively affect your relationship with Hippopotamus S.p.a.?

Yes, I do, and I have to say that, about this, Hippopotamus S.p.a. makes me worry more than other distributors. I mean that all Hippopotamus S.p.a.'s branches and its purchases office seem more isolated than in other companies. Every time we shared projects, and we often did it with other retailers' buyer networks, this led to positive relation developments. With Hippopotamus S.p.a. I worry about investments pay-back, because their structure tends to spread responsibility, so that if you obtain results with a person, this doesn't automatically improve your relation with other employees with different roles and responsibilities.

Willingness to make synergic investments hypothesis:

39. Have you already experienced any positive payback from previous synergic investments? Has that affected your willingness to invest again on Hippopotamus S.p.a.?

Yes, we have, but almost all these investments were transverse requests asked to all suppliers and related to punctual needs, and we always had the feeling that they were "imposed", that a refusal would have conditioned business development. Honestly, if you ask me to indicate the latest investment asked by them that gave us a sensible return, it would be difficult to answer.

40. Do you think your willingness to make synergic investments on Hippopotamus S.p.a. has reinforced your perception of fairness in your relation?

I'd say no, or not always.

41. Do you think your willingness to invest on Hippopotamus S.p.a. has an impact on your relationship continuation intension?

Generally speaking, I do. Even if an investment not producing planned profits may act as a “brake” for future projects anyway that doesn’t necessary affect fairness.

Relationship continuation expectation hypothesis:

46. Which are in your opinion the elements that affect your relationship continuation intension between: degree of opposing strategic interests, fairness, ability and willingness to make synergic investments? And how?

All of them, see question before. (n29)

8.2 Questionnaire for the retailer



Hippopotamus S.p.a

Retailer interview

1. ***Can you give us an overview of Hippopotamus S.p.a. in the supermarket channel?***

We are a very important player in the Italian market, and at present we are among the 5 main players in terms of market shares; we are a general distributor and we work through many different formats, both in the food industry and in the non-food industry.

2. ***Can you name your three main competitors at the moment?***

Lion S.p.a., Tiger S.p.a. and Elephant S.p.a.. Hard discounts are a peculiar phenomenon, because when they first arrived in Italy we all thought that they could obtain impressive market shares, like they did in other countries, such as Germany. At the beginning, the category of consumers testing these formats was not the poorest segment, the so-called lumpenproletariat, but, at the contrary, they were middle-class consumers, more open-minded and willing to test format innovation and to try out these new chains. Today, actually, hard discounts have not obtained the prospected market shares, but they certainly are a retailer category to be constantly kept under control, because, especially in crisis periods like this one, consumers are really careful about prices and they tend to buy products with a very low euro/kl ratio. At present, according to my data, this is a growing format which is knowing a new vitality.

3. ***A little argument about the fruit market:***

- Segmentation
- Strategic significance
- How the offer mix is defined
- Competition level between retailers and suppliers
- Paybacks – results of the introduction of innovative products
- Promotional impact on the market
- Evolution trends / shelf al location

The *fruit market* is a very mature market, in which there are 2 very strong and well-known brands. These two players are *Strawberry S.p.a.* and *Banana S.p.a.*; at the same time, private labels are gaining a position that is more and more significant, like in almost all other categories, but in this category in particular private labels importance is remarkable, and, in my opinion, it is going to grow rapidly in the next years. Since this is a traffic category, price thresholds are really important, and we are going to promote the creation of private labels. Obviously, according to this strategy, followers' shares are going to be limited by private labels and by innovation promoted by market leaders. The market is quite complex; it could be segmented in two main macro-areas: *fruits* and *citrus fruits*. *Fruits* category includes: *fresh fruits* and *exotic fruits*, that could include also *dried fruits* (a really important category), if we don't consider them as an independent type of products. *Citrus fruit* category is a new phenomenon. They were introduced a few years ago and they are new products, usually crunchy (not soft like classic *fruits*). The main player in *citrus fruit* market is *Coconut S.p.a.* and there are only a few followers. From our point of view, this is a category with low margins (deliberately), and we have chosen to implement a lot of promotional activities and to work on the price lever for this kind of products. Our goal is to make final consumers aware of the advantages offered by our supermarkets, to attract consumers to come and shop at our points of sale. According to some surveys, final consumers take into great consideration this category, and they often remember and compare prices in different retailers' points of sale. For these reason we deliberately spur this category, that generates very big volumes and is very important in the food segment. Stock selection mix is very important and we try to distribute shelf spaces and quantities in a coherent way in relation to the market shares of families, subfamilies and products, sometimes keeping products with low rotations but that are service products, such as gluten free fruits of diets fruits Retailers compete almost totally on prices and not on stock selection, because products differentiability is low, since the leaders have an essential market share. It is really difficult to introduce new products in this market; the latest radical innovation has been the introduction of *citrus fruit*, that in some way has changed product standards, giving shape to a new sub-family, even if it has only a limited market share. The introduction of new products is possible, and it is proposed only by a co player, *Banana S.p.a.*: they often launch

product versions with different sizes or flavors, but I can't see a lot of real innovation. I would prefer to see more innovation. Innovation often creates segments, that is to say that it tries to meet more precisely the taste of customers niches or of customers not completely satisfied by existing proposals. But these are usually marginal segments, moving their purchases within the *fruit market* and not from other markets. The promotional impact is remarkable, purchases are encouraged by many promotional activities. Consumers often choose products according to special offers, with a certain level of interchangeability, but they hardly ever buy a large number of products in order to stock them, also because of relatively short expiry dates. This is the reason why it is important to have always promotions on the *fruit market*, both through cut prices and very aggressive leaflets. In this market, consumption and sales have been basically static for years, and maybe partially decreasing, because people think that they are high in calories, I think.

4. Private labels on the *fruit market*: overview and future perspectives.

Private labels are very important in this market and they are going to grow, how I have explained before.

5. Which are, in your opinion, the activities that suppliers can do to make negotiations easier?

It would be banal to answer that they could improve margins and price concessions yearly. This is a vital element, but actually, in my opinion, today companies should try to act in line with tactical objectives that a chain wants to reach in a specific moment. I'll make a practical example: if a chain decides to propose particularly strong leaflets focused on a 30 or 40% price reduction, because they think that, in a specific moment, promotion on price competition is a good strategy, then a supplier, in order to improve its performance, spaces and sales, should try to define a selection stock mix allowing an adequate discount policy. If it doesn't, negotiations may arouse tensions that could lead to a break and to stress that could have negative effects on the business relation. On the contrary, if the retailer relies on innovation or on high quality, also stock selection mix and new proposals should focus on these needs. The supplier's ability is to understand and anticipate the evolution of retailers' needs and strategies and to customize its offer according to these necessities. At present, the market

situation and our internal goals arouse the need to stress negotiations in terms of price reduction, especially as a strategy in promotional activities.

6. How could you improve your role in relationships with suppliers?

In my opinion, our present approach is rather stiff. In some ways, we are often bound to our international directives and policies, that are synergic for our group at international level and not calibrated on single countries' systems. Therefore, to improve commercial actions and negotiations, we should enact medium and long term marketing plans, avoiding unplanned changes, that could penalize suppliers with which we have a good and established collaboration.

7. What is, in your opinion, fairness in a business relation?

In our work, also interpersonal relationships are very important, and not only business issues; individual relations have the same importance as company transactions. Therefore, when a commercial partner actually keeps his promises, it is far easier to manage relations. Having people as contacts, you can't separate things establishing mere business company-to-company relations.

8. Is it possible, in your opinion, to establish a good long-term relations with suppliers? At which conditions?

Yes, of course, and the key conditions are fairness and good human relationships between the commercial partners.

9. Which are the characteristics of companies that are successful on the market and have excellent business collaborations with *Hippopotamus S.p.a.*? (such as *Strawberry S.p.a.*)

There are two main features: flexibility and a good instinct for changes happening within the retailer company. For example, we as a group have totally changed our strategies many times in the latest ten years, acting on quality, prices and purchasing network. As a consequence, in years our relation with "static" suppliers, with unchangeable offers and business models, have been broken and started again many times, and they have changed from being collaborative and strategic partners to marginal or broken relations, facing big problems. Only few companies have been able to adapt their offer to our changing needs, but these are, in my opinion, the companies that work the best and I consider them as my most successful partners. Thinking about a company working well on the market, we should take into consideration many issues, from a multivalent point of view: there are companies perfect for some aspects and not for others, and so on.

Talking in general terms, I can say that the best suppliers are the two market co-leaders, because they are the best answering to my specific requirements. For example, *Strawberry S.p.a.* is really good in defining the best offer mix for our channel and our customers. Together we can make a very good selection of a few of their products that work really well and perfectly meet our overall offer to consumers. *Banana S.p.a.* instead is more able to identify niches and consumers' latent needs, bringing innovation.

10. Among all investments made by suppliers (products-logistics-margin concessions-promo financing-exclusive rights for products), which are the ones you perceive as the best? Why?

Since I work in the commercial branch, I take into great consideration margins and sales above all, so all activities encouraging sales and allowing us to increase margins on a supplier's products are the most positive and important. Probably, if you ask the same question to someone working on logistics at my same level, he or she would answer you something completely different.

11. Please make a description of the 4 suppliers, following the questions in the table above, from your point of view:

(Overview on suppliers according to the retailer , plus comments on suppliers' statements. The questions listed in the following table have been used by the informant as a tool to generate an homogenous discussion on each suppliers)

The table, together with the description of each company made by the category manager (that follows) helps to link the answer of the supplier and the retailer. The number of the question listed in the table (right side of the table) correspond to the same question answered by the supplier in the previous interview. The table has been elaborated to make comparison between retailer and suppliers answers much easier and straightforward.

Parameters	<i>Apple</i>	<i>Pineapple</i>	<i>Pear</i>	<i>Banana</i>
1. Company's point of strengthens?	Quest. 9	Quest. 3		Quest. 4 Quest. 9
2. Company's point of weaknesses?	Quest. 6			
3. Structure of the offer in the fruit market?	Quest. 4	Quest. 3		Quest. 4
4. Capacity to sustain selling's and product positioning?				Quest. 6
5. Capacity to anticipate consumer market – drive innovation?		Quest. 6	Quest. 20	
6. Capacity to be proactive and anticipate retailers needs?	Quest.17	Quest. 26	Quest. 23	
7. Willingness to finance synergic activities and financial capability?		Quest. 24 Quest. 26	Quest. 26	
8. Offer customization on the specific retailer?			Quest. 33	
9. Degree of opposition?	Quest. 11	Quest. 11	Quest. 10 Quest. 22 Quest. 26	
10. How well do you cooperate with the company? Ranking-why?				
11. Reasons to keep supplier's products in stock?	Quest. 11	Quest. 3	Quest. 9	
12. What makes the supplier a good partner?				
13. Where should the supplier work to improve its offer ?				
14. Where would you collocate the supplier in the scenario analysis table?	Quest. 32	Quest. 35	Quest. 33	Quest. 33
15. Make comments on the following ideas elaborated by the supplier for what concerns your B-S relation?	Quest. 9	Quest.10+11	Quest. 10e11	Quest. 16
	Quest. 20	Quest. 14	Quest. 13+22 26	
	Quest. 43	Quest. 26	Quest. 14	
			Quest. 20	

Apple S.p.a.

Apple S.p.a.'s products for us are merely tactical products. Our customers like *Apple*'s products, they have good quality standards and customers are aware of that. At the same time, *Apple* allow us to have very high and continuing margins, with a good annual return and the possibility to encourage promotional activities. In this market, we need a company like *Apple S.p.a.* because during the year we need to propose strong promotions in terms of price competition, and *Apple S.p.A.* allows us to do that. Their weak point is the brand, that is not strong, and if we don't stimulate sales with promotions their products conflict with brands and they risk to have low rotations.

The products we deal with are strategic because they have an excellent price-quality ratio, and this is what we look for with *Apple S.p.A.*. I think that their positioning is the one they need, and so it is perfectly coherent with our goals and with their goals. It is a semi-branded product positioned (in terms of quality and price) mid-way between private labels and followers' branded products.

Apple S.p.a. doesn't need to study the consumer market in detail, because they don't pursue innovation as a driver and they are well aware of their positioning, therefore they propose consistent quality and price. A part from *Pear S.p.a.*, that has increased discounts on promotional activities, no company has particularly adapted its offer as

a consequence of the economic crisis. This is something that a flexible and proactive company should have done, taking advantage of all marketing mix levers. A part from that, *Apple S.p.a.* is a company able to work well and understand commercial partners' necessities. But also the company's dimension is significant, so we should understand their financial limits, since they are a medium-small company. In terms of proactivity, for example about the concession of further margins in crisis periods, they don't do anything. We are always the ones asking more investment or renegotiation. In terms of offer, a part from *Banana S.p.a.*, that is able to propose and to innovate, there are only a few players, or maybe no one, able to propose interesting and particular activities, adapting to present consumers' trends and retailers' needs. Instead, about monitoring proaction, *Apple S.p.a.* is able to understand the situation of their products in the market and to propose better stock selections or activities. To sell and to do it at best conditions is of course one of the shared goals between suppliers and distributors, and all suppliers make their best to achieve this objective. When suppliers sense that a product is going to be delisted or has low rotations, they try to meet our needs, because they are afraid to lose their shelf position, that is difficult to regain. In such a situation, all the companies we are analyzing are able to anticipate and avoid delisting. There is no interest opposition between us and *Apple S.p.a.*, because their offer is perfectly synergic to our present strategies and we are interested in having a tactical supplier and they are interested in implementing strong promotions to gain market shares from big leaders. *Apple S.p.a.* is certainly the company with which I work the best, among the four companies analyzed: we are perfectly aligned, they have a clear role and they are aware of that and we deal with them being conscious of that, in the contest of an excellent and deep-rooted relation with our contact. *Apple S.p.a.* knows exactly what we expect from them and their offer is perfectly aligned to our needs; we are perfectly aware of their role and their dimensions and, as a consequence, we take these elements into consideration when we negotiate with them. Their mission is aligned to our needs and they have developed an offer that is suitable for this mission. I don't think that they adopted this strategy only with Hippopotamus, but rather that they use it with all retailers. But for us it works very well.

They are important for us because we have very strict rules about promotion management of the private labels. The only promotional activity that we can enact on private label is "double and save money", that is to say that we sell two products at a

price about 30% lower, and only in special occasions we include private labels on leaflets. For these reasons we need to have strategic products like *Apple S.p.a.*, allowing us to propose promotional activities during the year also on the lower levels of the market. We use *Apple's* products to counterbalance the limited promotional possibilities of private labels, particularly on leaflets. This is a specific and well-thought choice for us, and we need strategic suppliers like *Apple S.p.a.* in every category. Their price-quality ratio is better than the one of other suppliers on that market. We have considered also other companies and their purchase prices were even far lower than *Apple's*, but their products weren't able to meet our customers' expectations. Like with other companies, there is always space for the improvement of the offer, but with *Apple S.p.a.* supplier-distributor balance is correct. If I have to find a fault, it is the brand, that is not highly recognizable, but I know that they're working about that and we are happy about their work.

Pineapple S.p.a.

The company generally works well on its market. It is one of the main follower and an high-margin supplier. Their good points are that customers recognize their products as high quality products and that they have a rather strong brand. Their weak points are that they don't have large market shares. Their sales are steady and, in my opinion, they can't improve their position because there are entry barriers: customers' fidelity to co-leaders' brands and huge advertisement investments, difficult to implement for companies like *Pineapple S.p.a.*. Moreover we should be aware that if the company asks me to introduce more private labels' products, *Pineapple S.p.a.* would be among the more penalized suppliers, because of products' performance analysis. Entering in the market, they have certainly got the right product positioning, but sometimes I wonder what could happen to sales if we increase or decrease their average positioning... but for us it's ok like that. High positioning on the market, that means high margins, and for us it works well.

Pineapple S.p.a. is quite able to anticipate the market. They don't dispose of the analysis tools that a bigger company able to control the market like *Banana S.p.a.* could have, but they can cope with the situation. They have made the right choices, launching their products at the right positioning, and interpreting the market's needs and wishes. But lately their innovation activity have been scarce, only the market leaders have been working on innovation.

At present, we are perfectly aligned with *Pineapple S.p.a.* in terms of goals and interests, so there isn't any conflict reason in our relation. At the contrary, I can say that we have an excellent collaboration relationship, always renewed, also thanks to their good margins. They do their best to meet our necessities and they have a good financial situation, even if they don't always have the financial resources to invest on extra activities during the year. But this is ok for us, because in case of need, they have always been flexible and they have reacted positively to our requirements. They have rarely been proactive proposing particular discounts, but this is something that happens with all suppliers. As I have said before, there is no conflict between us because our goals are perfectly aligned and their mission perfectly meets the targets we want to reach with them. For this reason, arranging a ranking between analyzed companies, I put *Pineapple S.p.a.* at the second place in terms of relation's quality and easy management. Conflicts are rare because they grant good margins and they manage their offer in a smart way.

It is difficult to identify the reason why their products are in *Hippopotamus'* portfolio: *Pineapple S.p.a.* for us is both a tactical supplier and the kind of supplier with high margins and medium-high quality standards that attracts a category of customers. *Pineapple* could act as a counterbalance for the strength of the two co-leaders, and from this point of view it has a fundamental role. We also stock *Pineapple's* products because we sell them easily at good prices, so if compared with other medium companies, such as *Pear S.p.a.*, margins are larger. With *Pineapple S.p.a.* we never need to undersell products, and I think this is a consequence of their good quality and strong brand. We have to consider that, in my opinion, the brand is one of the main purchase driver in this market. Improving margins are certainly related to activities aiming at supporting sales, even if I know that we can't have everything and, since they grant us good margins, they don't have enough money to invest on advertising, samplings and other activities that could increase their market shares, to leaders' disadvantage. I would welcome an increase of their market shares, because it would compensate for leaders excessive power and it would increase margins further on. But, of course, the money they accord to distributors' margins are taken away from other activities.

***Pineapple S.p.a.* statements:**

“How would you describe the relation between you and *Hippopotamus*? Very good, and I think that this depends on our high marginality and because we are willing to understand our customers. We are able and we have been able to adapt to *Hippopotamus*’ needs”.

Well, this is certainly true, and this is the reason why we work well together.

“*Hippopotamus* is a complex machine and sometimes it is difficult to be aligned”.

This is the same issue as with *Apple S.p.a.*, we stress the relation in the negotiation phases in order to obtain the greatest advantages. Despite the single vision of a single subject, meeting different sales representatives means opening different tables of negotiations in order to maximize our gaining. That structure helps us to stimulate negotiations also during the year because if buyer promises don’t match with category’s actions than we need to see the supplier again to open new tables of negotiation.

Pear S.p.a.

Their strong point is that they have well-known products; customers recognize their products and they are faithful to the brand and the products, so that *Pear S.p.a.* can’t be renounced. I’m talking about *Pear* and *Pe3* in particular. Their weak point is that they are not totally sincere and frank in their relations with distributors. For example, they promised us a particular product for Christmas, with exclusive rights and an interesting spot price. Two weeks later *Lion S.p.a.* launched the same product on a Christmas leaflet, with a 20% lower price. This kind of things makes you wonder and creates tension in a business relationship. These are their limits, they come here and they butter you up, they complain about market conditions and they say that they can’t resist any longer, they whine and they come up with a spot product with a guaranteed price to solve sales problems and then I find out that competitors have exactly the same product at 20% lower price. They are not fair in their relationships. Sad but true. And I also have to say that in latest years their products have not been sustained by advertising and communication, so obviously sales volumes and positioning have been downsized. *Pear S.p.a.* relies a lot on promotional activities, products are often stimulated through the promotional lever and they trust to products’ brand fidelity. They are not projected into future as a company, and their ability to anticipate the market is weak. They have been proposing the same products

for years and they very rarely introduce true innovations able to regenerate the brand.

Sometimes they are able to anticipate our needs, or at least they have adapted more than other suppliers to our new needs. The historic phase makes necessary to work on the price lever, especially through strong promotional activities with great impact, and actually *Pear S.p.a.* was able to reconsider its discounts, granting us further reductions. We can't say that they are like *Banana S.p.a.*, that is to say static and firm on their positions. Therefore, if we ask *Pear S.p.a.* to implement really strong actions, they try to meet us halfway with higher price reductions. But it doesn't happen in the short term, there is always a struggle, but in the end sometimes they do it. Having the dimension of a medium company, their financial possibilities are limited, but at least, unlike other bigger players, they are able to use them if necessary. Their ability to meet our requirements is almost inexistent. For example, suppliers know well that we have particular needs in terms of packing, because our main problem is the limited shelf space available, and the best way to optimize this space is packing reduction. When suppliers objectively have too big packing we always have to call them and ask to reduce it, but sometimes they don't agree and for us this is a problem. One out of ten times we obtain negative answers. When suppliers are aware that their products have exaggerate packing, they never call and say that they are going to reduce it to make shelf management easier. This is because bigger is the packing, higher is shelf facing, and this have an effect on rotations. And so sometimes we have high-rotation products with two facings and low-rotation products with four facings and we risk to sell less of the best product and to end up with a stock rupture. For us this is a very serious problem and suppliers never help us. About this, proaction does not exist. Another example is about exclusive products or formats; *Pear S.p.a.* is not able to offer us this kind of ad hoc products. For us an exclusive product has a strategic relevance, because in a particular moment with strenuous competition, we all have some problems because consumers have less and less money to spend and budgets are always growing according to previsions, but consumers buy less and competition becomes pitiless and on non-differentiable markets, like the fruit market, this makes the situation worst. Exclusive rights on products allow to maintain margins. Ad hoc products and formats enable to sell products with higher margins. For example *Pear's* Christmas product was an excellent idea. It had a good packing, it was a good product with a

good brand, recognizable, with good margins... in short, a set of winning characteristics that could work well, but then they gave it to the whole Italy and it has become the same launch at the same time for all distributors, with a pitiless competition. Therefore, it was a good product and it has become a risk for companies that had positioned it at a higher price as a consequence of exclusive rights promises, never kept.

The level of opposition between our interests and *Pear S.p.a.*'s interests is in the average: as a retailer, we have margin problems because the final sale price has significantly decreased in years and at the same time they also have margin problems. Therefore, there are actually few resources to be shared and this often generates conflicts. There isn't any conflict about products, because they work well, but there are negotiations problems.

In the negotiation process, *Pear S.p.a.* is more flexible if compared to *Banana S.p.a.*, but they are certainly worse than *Apple S.p.a.* and *Pineapple S.p.a.*. For what concerns improvement margins, apart from negotiation issues, we would like a better management of exclusive rights. That is to say that they should improve their ability to implement commercial operations only for us and not for other distributors, in order to avoid market positioning problems for the product. Or at least they should avoid that different retailers, at the same time, launch leaflets with exactly the same product. It happened. Our business relation is tense and exhausting, it is never relaxed. This is a relation that continually needs to be watered like a plant, because if you disregard it for a day it risk to wither, it is like a machine that can't work automatically.

Pear S.p.a. has a problem with us that is almost exclusively relational. As a company, they are difficult to deal with, because they have constant lamentation as a policy, even when there is no reason to complain.

***Pear S.p.a.* statements:**

“To describe our relation with Hippopotamus S.p.a. we could use the metaphor of a half full-half empty glass”.

Well, they were very political.

“At present there is not much of a goal sharing, because our objectives are often incompatible. This is a consequence of their will to build a relation based only or mainly on margins negotiation, exploiting their negotiation power, and

of their lack of interest in setting long term objectives focused on consumers”;
“obviously, as you know, it is easier to make these requirements to a small-medium company, rather than to a large company”

Well, actually this is true, I can't deny it. But I have to say that it is not by chance that large companies are so, they studied a strategy and they have abilities and resources to drive their growth and become large, obtaining a position that, as *Pear S.p.a.* says, aid them in negotiations. With 30 euro you can't have dinner in a posh restaurant, but if you have 100 euro, maybe you can have dinner in a good restaurant. As a retailer, I can't apply the same conditions to two brands having different power levels. Otherwise, I would not be a good retailer.

Many companies have developed an interesting concept about fairness perception in their relation with *Hippopotamus S.p.a.*: **“We can trust single persons, but being *Hippopotamus S.p.a.* structured in many levels, we have too many contacts and the word of a single person is not always definitive. Our contacts in *Hippopotamus S.p.a.* have different roles and different goals, therefore sometimes the word of a single contact isn't enough, and only when many contacts give us the same answer we can trust their word.”**

Well, this is interesting and I think the company is aware of that. It is a kind of strategy to share the opinions of different people on a supplier company, to develop team work, share ideas and maximize results. Actually, our structure is really complex. I'll make an example: exposition activity not on the counter or floor stand. The buyer draws up a contract including exposition activities not on the counter, the buyer pass the contract to the channel, but it notice that there is not enough space, but there is a contract. When the supplier calls to urge the activity, I have to explain that unfortunately we have no room for that activity, and the supplier goes back to the buyer and there is a re-negotiation. It generates a complex negotiation and re-negotiation process that makes the whole relation complex, but that stimulates buyers and category managers to be focused on all suppliers and to make relationships evolve, keeping them always under control and updating terms. Well, I know that it is difficult for suppliers to manage all negotiation tables, an in my personal opinion the idea of a single buyer-category manager makes sense, because he could manage all the aspects of relations with suppliers. This helps understanding the whole situation. For example, I can consider a supplier as a very cooperative partner from the commercial point of view, but if this same supplier is stiff at

contractual level with the buyer and I don't know about that and vice versa, the buyer will consider this supplier as a pain and maybe he wants to give them an extra point, but the supplier's products have high sales and it is cooperative at category level and we can't share these different perceptions. Therefore, according to me, it would be a great idea to have a single role, but I think that Hippopotamus is going to get there.

Why is it easier to work with *Pineapple S.p.a.* rather than with *Pear S.p.a.*? Because Pineapple is far more flexible and they grant us larger margins. So, when there are more resources and more money to manage it is easier. We are also more willing to be flexible and receptive with a company granting us large margins. *Pear S.p.a.* doesn't have the resource or doesn't want to contribute to these investments, while *Pineapple* does. For us Pineapple is a great company, because they grant us large margins and the whole commercial relation becomes more relaxed. They have a rather high euro/kl positioning and a strong brand perception that allows their positioning, and so I think that they have better economic accounts if compared to other companies and this give them the possibility to use this savings to invest on distribution. This make them interesting as suppliers and we have good profits.

“Unfortunately, our innovation proposals and synergic activities proposals are not often accepted, because obviously it is difficult to trust non-leaders companies in this market. But in this way, they are creating a perverse trend in which retailers ask more and more to small companies in terms of marginality and innovation is left just to big companies. As everybody knows innovation is by definition value generator and, acting like that retailers are favoring big players while disadvantaging medium players like us. In the long term they risk to obtain an almost-monopoly situation: leaders are growing more and more and followers, from which distributors obtain their greater profits, are disappearing. This will lead, in the future, to lower margins for Hippopotamus S.p.a.”.

In general terms, this argument is correct, but they don't consider new distribution policies about private labels. I mean, it is true that followers are going to be crushed and that leaders are going to increase their negotiating power, but the follower's place will not be taken by leaders, but by private labels. We can suppose that there are going to be shelves with leaders and private labels, without medium companies. This trend is developing in many other categories and discounts apply this approach. And we should also consider that private labels are not only distributors' brands, but

that they include a range of products: first price, organic products, healthy products, traditional and regional high-quality products... their argument is a little extremist, but the market of medium and small company is certainly going to decrease. The trend is: leaders – branded products – specific ranges – first prices and tactical products. We are eliminating many followers this year and replacing them with branded products. If we sell 6 private label fruits at 1.49 euro, obviously we don't eliminate leaders' fruits sold at 2.45 euro, but when I have to replace something I will eliminate followers' fruits, sold at 1.40 euro. *Apple S.p.a.* for us is an essential tactical supplier, but they have only 2 products in our stocking selection, while *Banana S.p.a.* has more than 20 products, so one could think: let's eliminate 2 *Banana's* products and replace them with 2 private label's products, but analyzing products' performances you can see that *Banana's* products selling less are always sold better than *Apple's* products. Yes, in the long term their margins could be lower than *Apple's* margins, but if we decide to keep that 2 *Banana's* products it is probably because they have service functions or high innovation potential not yet completely expressed, such as healthy products, that are interesting for a particular consumers' category and we have to keep them in our stock selection if we don't want to lose those customers. Therefore, also for this matter, it is difficult to choose and we have to reason in many different directions.

Banana S.p.a.

Notorious company, market leader in many food categories, high quality products, very strong brands, impressive advertising investments, excellent marketing structure; their weak point is their commercial rigidity. The structure of their offer is wide and reasoned in terms of Hippopotamus' shelf space and customers' taste (in fact *Banana S.p.a.* buys our fidelity card data and studies them to identify our customers); their promotional activities are not focused on sensational prices, but being leaders they act according to their role. For what concerns products, they rely on innovation and they are the best company of the market from this point of view; for us innovation is really important, because it increases sales in the whole market, enable a best market segmentation offering a best service to consumers and it has, by definition, larger margins if compared to mature products, so innovation is a good quality and I would welcome it even from other suppliers. Obviously innovation is not only putting new products on shelf, and so the risk is related also to suppliers'

resources and innovation. But *Banana* has a complex structure enabling them to enter in the market with new products knowing that they will be supported by right marketing plans. Not all innovation activities are the same: if *Pineapple S.p.a.* proposes a product that is like a bet for us it is difficult to accept it, but if *Banana* makes the same proposal we know that it is not a complete bet, because we are well aware of the effectiveness of their advertising and marketing systems. Therefore, “innovation” for me it is not only related to single products, but also to the system enabling innovation to have an impact on the market. It doesn't happen often that followers propose innovation, leaders are innovators by nature. They are the only company really able to anticipate the market and propose innovation. From the stock selection point of view, they are able to define the right offer mix, customizing it for different distributors, and they are in the lead, but from the negotiation point of view they are the most rigid company with which we deal. Also *Strawberry S.p.a.* is more flexible in some ways, and it is significant. Banana's wish and will to meet us half-way is low, almost inexistent. Their structure enables them to manage important category projects that leads to positive returns both for them and for us, but they rarely react without delay to our requirements and they never help us in terms of discounts and margins. They are the only company with the structure and the competence to propose particular activities such as category projects or hostess promotions or market surveys , and so they are proactive, but they are problematic in negotiations. And we know that category projects are a way to increase one's visibility and shelf shares, but they are proactive, nothing to say about that.

The opposition level is high, as market leaders they have straightforward policies and we also have our policies, so we often collide.

Banana S.p.a.'s statements

“We are perfectly aligned and we work perfectly together”

Well, I would say that we perceive the situation in a different way, I really can't agree with them. Obviously they are happy about their performance, because they have been growing fast in the latest years in Hippopotamus, but from our point of view we really wish an higher flexibility level from them in this moment. It is not fair that when a distributor says to a supplier that it has serious margin problems, the supplier answers: “you have to do your best with your margin levers, because we can't do anything about that”. Their luck is that they were able to stipulate international

agreements with Hippopotamus S.p.a. and these agreements protect them and we can't do anything. These are also political and hierarchical relationships, and we have to observe them. We have to keep their products, it would be totally crazy to eliminate them from shelves. According to me, there are some actions, also limited and low-cost, that could improve a lot our relation – they could chose a pair of articles from their portfolio and improve conditions for these products, and we could use them for leaflets, highlighting products' competitiveness. I'm not talking about the whole contract, but only two or three products that we could choose together. They could reduce the packing of some products, that are really too big and with short sell-by dates, but, above all, they could propose more exclusive products, they've got the right structure to do this, they need more will. *Banana S.p.a.* have never experienced selling problems and I can say that their positioning is correct.

As a leader, *Banana S.p.a.* have an intrinsic rigidity. For example, if we change our space and shelves strategies in the short term, we have to rationalize the offer and the stock selection, and even if they have a product that don't perfectly fit our stock selection, if we eliminate this product we create contract problems that are more significant than expected, also because it would be a very little reduction if compared to the total number of their products we deal with, and for us instead it would be a great occasion to gain marginality quickly introducing a non-leader product. Or if there is a fixed promotional discount and we want to propose an impressing operation, *Banana S.p.a.* doesn't help us, they don't participate at the operation. They are really not flexible. They are a good company because they have a well-known brand, they invest on advertising, products are excellent, but they are not flexible in the offer customization, particularly for specific needs in the short term. Despite this rigidity, *Banana* risks less than other companies to be excluded by *Hippopotamus*, because there are commercial situations, national and international relations with big suppliers, that are characterized by agreements at high levels and lower flexibility at lower levels. This depends on suppliers market shares and on Hippopotamus will to build preferential relations with big international suppliers.

12. Please referring to the scenario analysis table could you please indicate where in your opinion each supplier could be collocated?

In my opinion it is important first to define well witch synergic investment we are talking about because that would differentiate a lot my answer. As I have

said before in the discussion I would suggest around 12 activities or investments that from my side are really important. Those investments are the base of everyday negotiations with my suppliers and those are the activities that deliver to me much value.

Activities	Banana	Pear	Apple	Pineapple
Product Innovation – Category innovation	A.2.a	A.2.b	no	A.2.b
Shelf dressing at point of sales	A.1.b	no	no	no
Product replacement (better rotations)	A.1.a	A.1.a	A.1.a	A.1.a
N° of items in each box- substitution	no	no	no	no
Category projects	A.1.b	no	no	no
Listing price	no	no	no	no
Ad hoc products - exclusivity	no	no	no	no
Special promotional activities	no	A.1.a	no	no
Investments on logistics	A.1.a	no	no	no
Data sharing	A.1.a	no	no	no
Floor stand	A.1.a-b	A.1.a-b	A.1.a-b	A.1.a-b
Concession of product or special offer before all the other retailers	no	no	no	no
Advertising	A.1.a	A.1.a	no	no

In addition to that I should say that it is hard to trust a supplier that propose an innovation or a special activity if you know that the supplier doesn't dispose of a sufficiently developed marketing structure and know how. To launch an innovation for example, it is essential that the innovation is highly sustained by a strong marketing and advertising campaign and generally speaking only a company like Banana is able to offer that. Sometimes we have to say no to follower's innovation or investments proposal simply because we don't have enough space and time. We need to make a ranking of innovation and investment proposals. We must focus on those activities that are more likely to succeed and generally speaking, those are the ones backed up by a strong marketing structure. It is not that we don't welcome followers innovations and synergic investment but we need to priorities the list of things to do and the leader always gives us better reassurances of success.

For what concerns ad hoc products it is true that Pear just before Christmas came to us offering a new good SPOT product that we actually start distributed. The problem is that they promised us to be the only retailer stocking it and at the end we find out that also Lion S.p.a was stocking it. That is something really annoying me because Lion came out with a selling price on a leaflet of 20% less of our selling price and that

has dramatically negatively affected our image. The operation that on the table was expected to be a successes turned out to be counter-productive and all that is due to their lack of transparency

Ringraziamenti

Non sarebbe stato possibile realizzare questa tesi senza l'aiuto e la collaborazione di numerosi managers operanti in Italia nel mondo industriale e del retail.

Per ragioni di riservatezza non mi è possibile nominare i nomi dei professionisti che hanno partecipato attivamente a questo mio progetto, ma desidero comunque ringraziarli per il tempo che mi hanno voluto dedicare.

In una società come la nostra in cui il tempo è di certo il bene più scarso e prezioso sono infinitamente riconoscente a tutti coloro i quali hanno trascorso alcune ore con me, sottraendosi ad altre attività più importanti, dimostrandomi grande fiducia nel confidarmi informazioni riservate relativamente ad un argomento particolarmente delicato.

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