INTRODUCTION

The strategic importance of the supply side in companies has been increasing considerably since the last two decades of the 20th century. According to Davis (1993), there was a shift from purchasing to supply management. Consequently, it has been said that the competitive advantage of companies will be achieved through the relationships and linkages established with external organisations (Lewis, 1995).

The purchasing activity of companies has been assuming more and more relevance as a strategic function. All companies seek to reduce the costs of their purchases, since these account for a significant part of a company’s total costs, usually more than half (Ford et al., 2001). The more efficient the buying, the higher the turnover, therefore there is a growing awareness of the role suppliers can play in a company’s strategies. Supplier relationships are seen as one of the most valuable assets of a company, because a large proportion of its activities is channelled through them (Hakansson and Gadde, 1992). Making good use of suppliers is not the same thing as buying well, so their potential should be exploited and it is argued they should have the same treatment as other types of investments (Gadde and Snehota, 2000).

The development of customer-supplier relationships is seen as a process that evolves through time, during which both parties make adaptations and investments on those relationships (Ford, 1980). On the other hand, there can be several types of customer-supplier relationships: a customer can choose between having a few or many suppliers, the relationship between them can be close or distant, one party may be more dependent on the other, whereas the other can be more powerful.

Throughout this dissertation, we intend to explore customer-supplier relationships in the context of international sourcing, as this is a common practice for most companies nowadays. Moreover, since in international business there is usually an intermediary between the customer and the supplier, who has the knowledge about the different offers available around the world, our study will focus on a triad composed by a customer, an intermediary and suppliers (Havila et al., 2004). However, we will follow
the perspective of the customer (a retailer) who uses an intermediary (an agent) to deal with various suppliers, rather than following the traditional marketing approach, which takes the perspective of the supplier who seeks to place his products on the market. In fact, only a few studies (e.g. Hagberg-Andersson et al., 2000), have specifically assumed the buyer’s perspective when studying customer-supplier relationships.

Our principal aim is to analyse how the actors – customers, suppliers and intermediaries - behave and interact in a triad, in the context of international sourcing. To do so, we will use a case study of a triad composed by a British retailer as the customer, a multinational trading company as the intermediary and three Portuguese suppliers.

This dissertation is divided into two main parts. The first part basically consists of the literature review about themes such as interactions and networks, types and features of customer-supplier relationships, triads, intermediaries and international sourcing. This gives us the conceptual background that allows us to understand the exchange dynamics, as well as the methodological base from where the methods and instruments used in this study were taken. The second part is centred on the case study itself. Firstly, we make an overview of the research method and present the research steps to be taken. Secondly, we move on to describing and analysing the case, using the network pictures tool (Ford et al., 2002; Ramos et al. 2005), in order to try to understand the specificities of behaviour and interaction within this type of triad. Finally, we present the conclusions and limitations of the study, as well as indications for further research.
PART I.
CUSTOMER-SUPPLIER RELATIONSHIPS IN BUSINESS NETWORKS

In the first part of this dissertation, we make a review of the literature about the main themes related to our investigation. The topics of interaction, relationships and networks, always following the International Marketing and Purchasing Group’s perspective (IMP), will be the base for all subsequent work and analysis of the practical case studied in this dissertation. Emphasis will also be given to international sourcing, since the companies described in our case study operate internationally.
1. THE NETWORK APPROACH TO INDUSTRIAL MARKETS

Since we are going to study the relationships between a retailer and its intermediary and suppliers, which, in turn, belong to wider networks, this dissertation deals with business marketing issues, more particularly with the network approach to industrial markets developed by the IMP Group. We will start by looking at the three basic concepts that compose this approach: interaction, business relationships and networks.

1.1. THE INTERACTION APPROACH

In 1982, Hakan Hakansson with his book “International Marketing and Purchasing of Industrial Goods: An Interaction Approach” marked the rupture between the traditional research tradition in business markets, which focused on single purchases and on the processes by which these individual purchase decisions were taken. Hakansson affirmed that the great majority of business purchases were not individual events and thus could not be analysed in isolation. He also believed that business purchases could not be characterised as a process of action by the supplier and reaction (or not) by the customer. Instead, Hakansson considered business markets as arenas in which buying and selling companies interacted with each other through relationships. In sum, interaction between actors is a series of acts and counteracts that creates interdependencies and affects their behaviours (Hakansson and Snehota, 1995).

Indeed, the interaction approach takes the relationship as the unit of analysis, rather than the individual transaction. It involves analysing the attitudes and actions of both buyer and seller simultaneously, emphasizing the similarity between the purchasing and marketing tasks in relationships. Hakansson (1982) also sees relationships both as important in themselves and as predictors of individual transaction behaviour.

An organization engages in continuous interactions that constitute a framework for exchange processes. Relationships make it possible to access and exploit the resources of other parties and to link the parties’ activities together. Moreover, the distinctive
capabilities of an organisation are developed through its interactions, that is, the relationships it maintains with other organisations. Thus, the identity of the organisation is created through relationships with others (Hakansson and Snehota, 1990).

1.2. Business Relationships

Hakansson and Snehota (1995) have defined a relationship as “a mutually oriented interaction between two reciprocally committed parties” and also as “a sequence of acts and counteracts”, since it develops over time as a chain of interaction episodes.

One reason why these authors chose the notion of relationship for the analysis of interaction between companies is that it brings to mind the concepts of mutual orientation and commitment over time. In fact, as a relationship entails commitment over time, it creates interdependence, which can be both positive and negative for the parties involved. Mutual commitment and interdependence constrain the actors’ behaviour, but also create opportunities, as relationships produce something that the companies cannot produce in isolation and something that cannot easily be duplicated.

Hakansson and Snehota (1995) describe business relationships in two dimensions: substance and function.

Substance has to do with what the relationship affects on both sides and has three layers:

a) Activities – a relationship is built up of activities that connect various internal activities of the two parties; a relationship links activities.

b) Resources - means used by actors when they perform activities; a relationship can connect various resources controlled and wanted by the parties.

c) Actors – those who perform activities and/or control resources; as a business relationship develops, actors become connected by bonds, which influence the way they perceive, evaluate and treat each other.
A relationship between two companies therefore has a profile in terms of activity links, resource ties and actor bonds. These three elements are used to characterize the nature of a relationship:

a) *Activity links* regard technical, administrative, commercial and other activities of a company that can be connected to those of another company as a relationship develops.

b) *Resource ties* connect various resource elements (technological, material, knowledge resources and other intangibles) of two companies. They result from the way the relationship has developed and represent in itself a resource for a company.

c) *Actor bonds* connect actors and influence how two actors perceive and form their respective identities in relation to each other. They are established through interaction and reflect the interaction process.

The function regards the effects a relationship has for different actors. A relationship between two companies has different functions because it affects and is affected by different other parties and relationships. The authors have identified three functions:

a) Function for the dyad – A relationship has effects on the dyad itself. Activity links, resource ties and actor bonds in a relationship integrate various elements and therefore some unique outcomes and effects are produced.

b) Function for the individual company – A relationship has effects on both of the companies, on what it can do internally and in other relationships. These effects depend on how what is produced in the dyad can be connected to other internal elements of the company and its other relationships.

c) Function for third parties – What is produced in a relationship can affect and is affected by other relationships that involve other parties. The effects on third parties and from third parties and their relationships on the relationship, in any of the three layers of substance, depend on how tight the connectedness of relationships is in the overall network.
This discussion about substance and function of relationships between companies exposes the complexity of effects that a relationship can produce and be subject to as it develops. All these effects can influence the possibilities of a company to develop a relationship and may also explain why certain relationships are weakened or finished.

In fact, any change in a relationship can have three types of effects, according to Hakansson and Snehota (1995):

a) direct effect changing the potential of the relationship;
b) effect on the companies involved and their cost-revenue parameters;
c) indirect effect, as the change might lead to different reactions, causing a kind of “explosion” in the whole network.

These authors have also affirmed there are three areas where effects of relationships are important and need to be coped with:

a) Marketing and purchasing – these are about relationship development;
b) Capability development – it is about coping with the effect of relationships on the development potential of a company;
c) Strategy development – it is about positioning the company in the network through the development of its relationships.

Anderson et al. (1994) have defined functions that relationships can perform from a network point of view. These functions can be characterised in respect to the three essential components of relationships: activities, actors and resources. Thus we have:

a) Primary functions – the positive and negative effects that interaction in a dyadic relationship provokes on the two companies. For example, activities performed by two actors, through their relationship, can be adapted to each other so that their combined efficiency is improved.
b) Secondary or network functions – these capture the indirect positive and negative effects of a relationship, because it is directly or indirectly connected to other relationships. They are caused by the existence of connections between relationships. For example, resources developed in a relationship are important,
not only for those actors engaged in the relationship, but also for other actors engaged in connected relationships.

Therefore we can say the effects of a relationship between two companies are not limited to the two companies directly involved in that relationship; other parties and relationships will likely be affected too. An activity link is part of a broader activity pattern across several companies, a resource tie is part of a greater resource constellation that companies can mobilise and an actor bond is just one in a web of various actors. Thus, the development of a relationship between two companies has an organising effect on the global network and every relationship has a role in it.

Business relationships are created voluntarily by companies, but, as they develop, they can become a constraint for them. All actors in a network will have freedom in certain areas, but their actions will be constrained in others. Relationships are likely to be complex and long-term and their current form is the result of previous interaction between companies. Through relationships, companies have access to new technologies and are able to tailor their offerings to specific requirements. The relationships that companies have with others also influence what happens inside companies themselves.

Business relationships are connected to each other. Supposing there are three companies in a network, an interaction between any two companies will be influenced by what happens with the relation with the third company, and should also have effects on it. What happens in one relationship will always have effects on all connected relationships, sometimes slightly, but often considerably. No interaction can be understood without reference to the relationship of which it is a part of. Likewise, no relationship can be understood if not linked to the wider network (Hakansson and Ford, 2002).
1.3. NETWORKS

A network can be generally described as “a collection of actors (persons, departments, firms, countries, and so on) and their structural connections (familial, social, communicative, financial, strategic, business alliances, and so on)” (Iacobucci, 1996).

A simple and abstract definition of network was given by Hakansson (1997): “a network is a structure where a number of nodes are related to each other by specific threads. A business market can be seen as a network where the nodes are companies and the threads are the relationships between companies. The business units or nodes consist of physical, technical and human resources bound together in many different ways through its relationships.”

Emerson (1981, in Anderson et al., 1994) defined a business network as a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors. Connected means the extent to which “exchange in one relation is contingent upon exchange (or non-exchange) in the other relation” (Cook and Emerson, 1978, in Anderson et al. 1994).

According to the models proposed by Hakansson and Johanson (1992) and Hakansson and Snehota (1995), business networks are viewed as structures formed by three basic elements and connections between them: actors, activities and resources. Actor bonds, activity links and resource ties bind the companies together, creating interdependence between them and stability in the market. Networks are sets of connected relationships between actors. Resources and activities form the production system. The network of exchange relationships is viewed as a structure governing the production system.

Overall, the basic idea of the industrial network model is that companies are engaged in networks of business relationships. The network structure, that is the ways in which the companies are linked to each other, develops as a consequence of the companies having business with each other. At the same time, the network structure constitutes the framework within which business is carried out (Johanson and Mattsson, 1992).
The other parties with whom the company interacts operate under similar circumstances, therefore an organisation’s performance is conditioned by the totality of the network, even by interdependencies among third parties (Hakansson and Snehota, 1990). In fact, it can be argued that a company’s behaviour may be primarily controlled by its relationships with other companies, rather than by internal factors or external factors, such as markets for supply and demand (Campbell and Wilson, 1996).

1.3.1. NETWORK CONTEXT

Business organisations often operate in a context in which their behaviour is conditioned by a limited number of counterparts, each of which is unique and engaged in pursuing its own goals (Hakansson and Snehota, 1990). These authors refer to the concept of the environment of the organisation, which they think is not sufficiently meaningful. Given that the interdependence of an organisation on other entities makes it difficult to disconnect the organisation from its network, these authors believe it is more useful to use the concept of context of an organisation, rather than its environment. The actors’ network context will be the part of the network within the horizon that the actor considers relevant.

A network setting extends without limits through connected relationships, thus network boundaries are arbitrary. However, Anderson et al. (1994) say it is possible to define network horizons, which indicate how extended an actor’s view of the network is. Consequently, this horizon will likely be influenced by the actor’s experience and it will change over time as a consequence of doing business.

So, the actors’ network context will be the part of the network within the horizon that the actor considers relevant (Hakansson and Snehota, 1989). The authors defend that the network context of an actor is structured in the three dimensions identified in the discussion of primary and secondary functions: actors, who they are and how they are related to each other; the activities performed in the network and the ways in which they are linked to each other; and the resources used in the network and the patterns of adaptation between them.
In this complex structure of networks, companies develop network identities (Hakansson and Johanson, 1988), which refer to the perceived attractiveness (or repulsiveness) of a company as an exchange partner, due to its unique set of connected relationships with other companies, links to their activities and ties with their resources. Basically, a company’s network identity refers to how it sees itself in the network and how it is seen by the other actors in the network. Because network identity depends at least partly on the network context of the viewer, a company has a distinct identity in relation to other companies in the network. Similarly, a company’s perception of its own network identity is based on its own network context – this is the company’s strategic network identity.

Identities and context are related, as they are described using the same dimensions: actors, activities and resources. Indeed, each identity denotes a certain orientation towards other actors; it conveys a certain competence, since it is based on each actor’s perceived capability to perform certain activities; finally, it has a certain power content, as it is based on the particular resources that each actor possesses (Anderson et al. 1994).

Anderson et al. (1994) also believe the company is embedded within a business network context that is itself enveloped by an environment, which is not completely given by external forces, but can be influenced and manipulated by the company. Moreover, there will also be other external actors that may influence some of the company’s internal functions. The network approach does not suggest only that it does not make sense to draw a clear boundary between the company and its environment, but also that much of the uniqueness of a company lies in how and with whom it has relationships (Hakansson and Snehota, 1990).

1.3.2. THE NETWORK PARADOXES

The authors Hakansson and Ford (2002) have come up with the definition of three network paradoxes, related to the nature of business networks or relationships. Each paradox has a number of managerial implications, which will also be detailed below.
a) First network paradox: opportunities and limitations in networks

“Strong relationships are at the heart of a company’s survival and the basis of its growth and development. However, a well-developed network of relationships also ties a company into its current ways of operating and restrict its ability to change. Thus, managers face the paradox that a network is both the source of life for a company and the cage that imprisons it.”

This means that a company who aims at some kind of change is always dependent on the actions of the other companies within the network. In fact, change by companies and change within companies occurs through changes to the structure of the network. The only way that a company can achieve change is through the network, so managers need to convince others of the benefits of that change and manage their expectations. The more difficult it is to achieve change, the more important are the individual actions of the company. Change is initially dependent on the existing structure and resources, so it is more difficult for a company to achieve change by seeking new counterparts. Therefore, change must often be accomplished within existing relationships, where investments have already been made and costs and benefits are more apparent.

The costs and time involved in building relationships and in adjusting to a different way of behaving may mean that it makes sense for a company to develop new relationships where the need for new knowledge is minimised, or where some commonality exists. A company may also reduce its costs and enhance its benefits by seeking similar relationships and standardising them by content, level of commitment or requirements.

Finally, the authors note that change in a network is not the result of just a single technology, and that neither the development nor the application of new technologies occurs in a single company. It is the network that provides new and existing technologies necessary for an innovation (Ford and Saren, 1996, in
Hakansson and Ford, 2002), but the existing structure can be a barrier to innovations, because of investments made in current ways of working.

b) Second network paradox: influencing and being influenced in a network

“A company’s relationships are the outcomes of its strategy and its actions. But the paradox is that the company is itself the outcome of those relationships and of what has happened in them. Thus a network is both a way to influence and to be influenced. Both situations exist simultaneously and both premises are equally valid.”

Going back to the definition of network as a structure of nodes related to each other by threads (Hakansson, 1997), the authors state that nodes and threads are completely interdependent and it is meaningless to try to find out which of them comes first. No company has sufficient resources itself to satisfy the requirements of a customer, being dependent on the skills, resources, actions and intentions of suppliers, distributors, other customers and sometimes competitors to satisfy those requirements. Likewise, a company cannot develop or exploit its own resources except in conjunction with those of others.

The company that is least committed to a relationship is likely to control it negatively by restricting its development. On the other hand, the company that is most committed to the relationship is likely to be responsible for its positive development. The development of a relationship is never determined unilaterally, even if one of the parties seems more powerful or committed than the other. The close connection between a company and a relationship means that all actions in the two are interdependent. A manager needs to look at both companies and relationships to have a full picture of the network. Regarding individual managers, the authors believe that the more important are a company’s relationships, the more important will be the actors who interact in them, thus the importance of managing relationships careful and self-consciously.
c) Third network paradox: controlling and being out of control in networks

“Companies try to control the network that surrounds them and to manage their relationships to achieve their own aims. This ambition is one of the key forces in developing networks. But the more a company achieves control, the less effective and innovative will be the network.”

This paradox emphasises the need for a manager to analyse his company’s position in terms of its specific relationships and its own and other’s resources, rather than in terms of a set of products, markets and competitors. A manager should not see just his perspective of the network, but rather try to see the other companies’ perspectives. Moreover, it is dangerous for a company to try and achieve overall control of the network, because if this happened, then the only source of wisdom and innovation in the network would be the company itself. Conflict is inevitable, but it is an important source of change, as it may favour competition and creativity.

The strategy process in complex networks is not a sequence through which companies analyse the environment, develop the strategy and implement it in isolation from the other companies. The companies need to take into account their limitations and opportunities. Strategy consists of attempting to influence others when possible and to benefit from their resources, initiatives and creativity.

1.3.3. Network Position

The position of an actor in a network is defined by the relationships it engages with other actors (Johanson and Mattson, 1992). The use of the concept of position is a way to move from the dyadic to the network analysis and also helps to understand how the actor is embedded in the environment.
Johanson and Mattson (1992) propose a limited and an extended definition of network. The limited definition refers solely to the network level and it states that the position of an actor is a matter of its exchange relationships and the identities of the counterparts (these are a matter of their relationships to others) in those relationships. The extended definition refers also to the role the actors have in the production system. So, according to this extended definition, the position of an actor also includes the productive processes (in a broad sense) in which it is involved and its direct and indirect network interdependencies.

In sum, we can say that the position of an actor is described by the characteristics of its exchange relationships. And since networks are sets of connected exchange relationships, the position of the actors in a network are more or less interrelated. The position of an actor is always changing, because new exchange relationships are developed, old ones are finished, the counterparts’ positions are changing and the positions of third parties, with whom the focal actor has no direct relationships, are also changing.

The concept of position is the means and end of strategic action. Strategic actions can be defined as efforts by actors to influence their relationship with their environment, since the individual actor’s opportunities and constraints depend on the network and on the results of earlier strategic action. In the network approach, we can say that strategic actions are efforts by actors to influence - change or preserve - their positions in networks. Within the framework of the limited definition of network position, strategic action aims at influencing actors, relationships and network structures. Within the framework of the extended definition, strategic action may also aim at restructuring the web of dependencies in the production system (Johanson and Mattsson, 1992).

1.3.4. Network Pictures

In 2002, Ford et al. proposed a model of managing in networks. This model comprises three main elements: network pictures, networking and network outcomes.
Network pictures are “the views of the network held by the participant”. All of the actors involved in a particular issue of the network will have their own different “picture” of the network, which is the basis for their perceptions of what is happening around them and of their actions and reactions in the network. There is no single, objective network and different individuals will each have a different picture of the extent, content and characteristics of the network. This is so because each actor’s network picture will depend on its own experience, relationships and position in the network and will be affected by its problems, uncertainties and abilities, and also by the limits to their knowledge and understanding (Ford et al. 2002).

Networking includes all the interactions of a company or individual in the network. It is an interactive process, since every actor affects and is affected by the actions of others. All companies are networking by suggesting, requesting, requiring, performing and adapting activities simultaneously. Therefore, companies have to adapt their goals continuously, which means networking is based on restricted freedom. Networking also involves combined cooperation and competition, since the “classical roles” of the actors (customers, suppliers, competitors, etc.) may not be clear sometimes.

Network outcomes are the results of networking. Every network is constantly producing network outcomes for each actor, who is subject to multiple and simultaneous network outcomes. Moreover, networking always affects more than one company. However, each actor will only observe, assess and respond to a subset of the total network outcomes that affect it, based on its particular network picture.

Network pictures, networking and network outcomes are all interconnected. One of them automatically precedes the others and each one affects and is affected by the others. Network pictures are affected by networking. But network pictures also affect the networking process, as they are the basis for actors’ analysis and actions. All companies have a unique network picture, so each company will network differently. Network pictures are also affected by network outcomes, because the pictures will be reinforced or modified according to the perception of the obtained outcomes. Conversely, network pictures affect the network outcomes, since the former are used by
the company to “observe, assess and respond to only a subset of networking outcomes that affect it, based on its particular network picture” (Ford et al. 2002).

Prior to Ford et al. (2002), several authors had used other expressions to refer to a similar idea to network pictures. For instance, Johansson and Mattson (1992) referred to “network theories”, Anderson et al. (1994) mentioned “network horizon” and Borders et al. (2001) spoke about “network maps.

More recently, Henneberg et al. (2006) described network pictures as “the different understanding that players have of the network, based on their subjective idiosyncratic sense-making with regard to the main constituting characteristics of the network in which their company is operating.” These perceived network pictures form the backbone of managers’ understanding of relationships, interactions and interdependencies, and therefore constitute an important component of their individual decision-making processes.”

There are multiple network pictures inside one company, since each individual has his own network picture, and they can sometimes be contradictory. It is not possible to infer one network picture for the whole company by simply combining the distinct network pictures held by each of its key individuals in relationship management. So, in order to understand a company’s apparent network picture, it is necessary to analyse individual network pictures and their extent of commonality (Ramos et al. 2005).

After reviewing the main concepts and ideas regarding interaction, relationships and networks, we shall proceed to the topic of customer-supplier relationships.
2. CUSTOMER-SUPPLIER RELATIONSHIPS

Purchasing has a major strategic importance for most companies, since it uses a substantial part of a company’s total amount of resources (Ford et al. 2001). And there has been a growing awareness of the role suppliers can play in a company’s strategies, especially since the last two decades of the 20\textsuperscript{th} century. As Ford et al. (2003) said, it is as important for a company to think about means of improvement of the rate of return on investment in its customer and supplier relationships, as it is to analyse the rate of return on investment in a product or equipment, even though that rate of return might be more difficult to measure.

At the same time, we see that, in many industries, the balance of power between manufacturers and retailers is shifting - manufacturers that had dominated their retailers are now finding that mega retailers hold the upper hand (Kumar, 1996).

Therefore, it is essential to analyse the various features of the relationships between customers and suppliers, which is what will be done in this chapter.

2.1. UNCERTAINTIES AND ABILITIES

Ford et al. (2006) have stated that the starting point for business marketing is the customers’ problems. A company can easily solve a problem by making a purchase when it is sure of the exact solution that will meet its needs; when the suppliers with whom the company has relationships with have the right offering to match its needs; and when it is sure that it will get exactly was promised by the suppliers, at the right time and at the price it thinks is right. However, this ideal situation hardly ever happens and companies often face several uncertainties in their purchases, which affect the requirements that customers have of their suppliers (Ford et al. 2001).

Firstly, there can be the need uncertainty, that is, when a customer does not know exactly how to solve its problem. Customers in this situation are likely to favour
suppliers they already know and trust, expecting them to advise how to solve their problem. These customers are also likely to concentrate a large share of their purchases in a single supplier. Secondly, a company can face market uncertainty, when there is a wide variety of potential solutions to a certain problem. In this case, customers are more likely to evaluate the various available suppliers and then do business with more than one, in order not to be locked into a single supplier. Thirdly, there is transaction uncertainty when a company is not sure if the supplier will actually fulfil the promise of its offering in terms of the expected time, place, performance and price. Customers facing transaction uncertainty are likely to investigate the suppliers thoroughly and monitor its deliveries, or they can try to develop the suppliers’ abilities needed to satisfy their requirements. Alternatively, customers can try to minimise their dependence on certain suppliers and buy from various suppliers on a short-term basis, with the most advantageous conditions.

Now looking at the suppliers’ side, we can say that suppliers can try to manipulate the customers’ uncertainties, in order to make them match their own abilities. One of the main abilities of suppliers is solving the problems of customers, by designing and developing offerings that will provide the solution to the customers’ problems. This problem solving ability is likely to be costly for suppliers, due to the investments made in product development, service or logistics necessary to fulfilling the offering to customers. Consequently, suppliers must reflect these costs in the prices charged for the offerings, so it is likely that only customers that have very complex or unique problems are interested and willing to pay for suppliers’ problem solving ability. Suppliers also have transfer ability, which is the ability to actually deliver their offering to the customer and thus fulfil their promise in terms of time, cost and the other specifications of the offering. It is important to note that a supplier may have a strong problem-solving ability, but then its transfer ability may not be so good, and vice-versa. In face of scarce resources, suppliers must choose in which of these two abilities to invest the most. Obviously, their choice will influence their offerings and thus the customers that they attract.
Overall, we can say that business marketers should understand their customers’ operations and the problems they face. Ideally, they should see themselves and their companies through the eyes of their customers (Ford et al., 2006).

We have spoken about customer uncertainties and supplier abilities, but we must also refer to supplier uncertainties and customer abilities.

Suppliers’ uncertainties are very similar to those of the customers. They face capacity uncertainty when they are not sure about how much of an offering they will be able to sell in a certain time period. This capacity uncertainty is likely to be higher in suppliers with high fixed costs of production or development, or those that have a small number of major customers. Suppliers often face application uncertainty, which relates to how their offering can be most effectively used by customers and for which problems it is more suitable. This uncertainty is higher when the offering is based on recent technological developments, when it needs to be integrated in customers’ operations or when customers’ problems are changing very fast. Then we also have transaction uncertainty, that happens when suppliers doubt that customers actually know what they should be buying and when they do not trust that the customers will indeed buy the quantities they have ordered on time and at the previously agreed price. Transaction uncertainty is likely to be higher when the supplier has invested considerably in the development of the offering or when he has just a few customers. In this case, a supplier may try to establish closer relationships with its customers, or it can try to broaden its portfolio of customers, in order not to be so dependent on just a few.

Similarly, customers also have two main types of abilities. The first one is demand ability, which enables the customer to advise the supplier of the type of offering it should produce, as well as to offer the supplier the volume and type of demand it requires. This customer ability is particularly important for suppliers who face high capacity and application uncertainty. The second one is transfer ability so, similarly to the suppliers’ transfer ability, this one refers to the customers’ reliability in providing the promised type and volume of orders, as well as information to the supplier. By using its own transfer ability, a customer will require less of the suppliers’ transfer abilities.
In sum, we have just seen that both customers and suppliers have uncertainties and abilities, so they both should look for and evaluate the right counterparts, based on the abilities, problems and uncertainties of both parties.

2.2. TYPOLOGIES OF CUSTOMER-SUPPLIER RELATIONSHIPS

Now we shall present some of the main types of customer-supplier relationships, according to various authors.

2.2.1. HIGH VS. LOW INVOLVEMENT

According to Gadde and Snehota (2000), the degree of involvement of the companies in a relationship is described by the strength of the activity links, resource ties and actor bonds between them, so high involvement relationships are the ones in which there are extensive activity links, resource ties and actor bonds.

High involvement relationships are usually costly because of the costs of coordination, adaptation and interaction. A higher involvement usually demands a substantial increase in relationship and supply handling costs, but may, under certain circumstances, cause lower direct procurement and transaction costs. However, the main motivation for high involvement is either to achieve cost benefits (reduced costs in production and material flow, better flexibility and service levels) or revenue benefits (through taking advantage of supplier skills and capability to improve the customer’s final product). Gadde and Hakansson (1994) say that suppliers often hesitate to enter in deeper relationships with customers, mainly because of the costs involved, as they have to invest in specific resources in order to be attractive partners, which can sometimes create a very strong dependence. Therefore, it only makes sense to proceed to higher involvement relationships, when the costs are more than offset by the relationship’s benefits.
But there are reasons to choose low involvement relationships as well, namely when the context is stable and the content of the relationship can be standardised. For example, this is the case when the requirements of the customer can be satisfied with existing solutions. Since resource ties, activity links and actor bonds are limited, these low involvement relationships are potentially cost effective and require lower relationship handling costs. Nevertheless, in practice, these relationships can lead to higher direct procurement and transaction costs. The buying company may need to adapt internal resources to fit with what suppliers have to offer and since there is not much coordination, it may have to build up inventories to buffer against possible risks. Besides, in order to prevent shortage of supplies, the buyer may use several suppliers which results in higher supply handling costs.

It has been argued that high involvement is appropriate when the volume of business is high, the relationship is stable and long-term, and the supplier is a single source (Gadde and Snehota, 2000). The opposite would be true for low involvement relationships, but the authors try to show that these assumptions do not lead to the best use of supplier relationships. They argue that high involvement with minor business volume and low involvement with major volume can also be a viable alternative. A company can only deal with a number of high involvement relationships, because they are resource intensive and therefore it must make choices. Low involvement with a major supplier may be appropriate when the potential gains from further involvement are limited, which is the case when the product is standardised and there is not much motivation from the supplier. On the other hand, high involvement in a relationship with minor volume may be effective when the supplier has skills and capabilities that are important for the customer.

Various studies have shown that many high-involvement relationships are of a long-term nature (e.g. Gadde and Mattsson, 1987). Indeed it takes time to develop resource ties, activity links and actor bonds, and after all the investment of achieving this, it seems worth to continue the relationships. On the other extreme, the advantage of having short term relationships with low involvement is that the customer can easily switch from one supplier to another. However, the association of high involvement with
long term and vice-versa is not always the best. Bensaou (1999) has stated that many companies had long-term, but low involvement relationships, characterised by few specific investments and frequent price benchmarking. Similarly, high involvement in short-term relationships can be a good option in the case of procurement of equipment and investment goods.

High involvement is also commonly associated with single sourcing and vice-versa, but Gadde and Snehota (2000) claim this is not always the best strategy. On the one hand, single sourcing has the advantage of reducing supply handling costs. But, on the other hand, using various suppliers can avoid dependency on a single supplier, reduce the risk of discontinuity of supply and can also foster competition among suppliers. However, multiple sourcing can increase relationship handling costs and prevent the buying company to benefit from suppliers’ economies of scale. Therefore, the other combinations are possible and may be desirable in some situations. For instance, a company may have a high involvement relationship with various suppliers of the same product/service, because the customer tells which supplier(s) to use. And low involvement and single sourcing may be a good option when direct procurement costs account for most of the total costs (bargaining power of customer increases).

High-involvement relationships tend to be more conflictuous than arm’s length relationships, since the greater the interdependence, the greater the potential for conflicting interests. In low involvement relationships there is not much to be discussed other than prices, quality levels and delivery terms. But then conflict is not necessarily negative, as it usually encourages innovation and creative development.

In sum, as Gadde and Snehota (2000) argue, close relationships are not always the solution to make the most of supplier relationships. In fact, the most critical element of supply strategy is the company’s capacity to handle various types of supplier relationships.
2.2.2. SYMMETRICAL VS. ASYMMETRICAL RELATIONSHIPS

Asymmetrical relationships are generally associated with an imbalance in size of the companies, commitment, distribution of power and dependence, among other characteristics (Johnsen and Ford, 2002). Consequently, we can say that symmetrical relationships are those in which all companies involved are in equal position with regard to the characteristics mentioned above.

Most companies have a variety of relationships at any one time, each with various degrees of conflict and cooperation. However, in certain industries it has been common for a certain type of relationship to prevail, with a tendency towards conflict rather than cooperation. For instance, the retail industry has tended to be characterised by large intermediaries, who are able to exert considerable power and control over their more dependent small suppliers. Customers can make suppliers work according to their plans and in pursuit of their objectives (Johnsen and Ford, 2001). In fact, a culture of customer control and supplier dependence may have developed over time, with growing pressures on the supplier to cut costs and reduce lead times as the customer’s markets become increasingly internationally competitive (Hakansson and Snehota, 1998).

Johnsen and Ford (2001) have presented a typology of three types of customer-supplier relationships:

a) Customer-dominated relationships

Small suppliers often face imposed adaptations by customers, who are more powerful and make suppliers work according to their plans and in pursuit of their objectives. The capacity of the supplier to extend its offer (in terms of activities and capabilities) to the customer is reduced, since it operates as a controlled manufacturing function of the customer. Suppliers may be increasingly “locked in” current relationships and thus organisational choice and strategic direction of the company are controlled by individuals from outside the company. The importance of the relationship is often one-sided on the part of the supplier, i.e.
the importance of customers to small and medium sized suppliers is far greater than their importance to their customers. This is particularly true in low-technology industries, where there’s a myriad of suppliers available to customers. Long term customer-dominated relationships tend to exist in a special set of circumstances – lasted for decades, cultural norms and behaviours revolving around organisational culture and expectations of customer, as well as a considerable investment in the relationship of the supplier.

b) Supplier-dominated relationships

These are exactly the opposite of the first type. In this case, suppliers may exert their power and control over customers and may influence their strategic direction, when many small-medium-sized customers require access to the technologies or resources of a limited range of large global suppliers.

c) More collaborative relationships

In recent years there has been increasing emphasis on the pursuit of both formal, structured forms of collaboration (e.g. partnerships) and in looser, informal network approaches to relationships. Increasingly complex business networks and the need for companies to develop and maintain a global network of relationships, together with improvements in manufacturing, logistics and information technology, may have contributed to the growing unacceptability of asymmetrical relationships. Customers are increasingly demanding “value” from suppliers (Gadde and Ford, 2000) but suppliers are also looking for more value from their relationships with customers. Moreover, suppliers are also looking for more liberated customer relationships.

2.2.3. Independent vs. Dependent vs. Interdependent Relationships

Campbell (1985) has classified customer-supplier relationships as:
a) Independent – when the customer plays the market and the supplier has several potential customers; or in a buyer’s market in which there are many sellers and, conversely, in a seller’s market with many buyers;

b) Dependent - when one of the parties dominates the other;

c) Interdependent - when both parties are in a relationship with a strategy of cooperation, willing to establish a long-term relationship, to openly exchange information and to trust each other.

2.3. STAGES OF CUSTOMER-SUPPLIER RELATIONSHIPS

Ford (1980) has examined the nature of buyer-seller relationships in industrial markets by considering their development as a process of through time.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Pre-Relationship Stage</td>
<td>The Early Stage</td>
<td>The Development Stage</td>
<td>The Long-Term Stage</td>
<td>The Final Stage</td>
</tr>
<tr>
<td>Evaluation of new potential supplier</td>
<td>Negotiation of sample delivery</td>
<td>Contract signed or delivery build-up scale deliveries</td>
<td>After several major purchases or large</td>
<td>In long established stable markets</td>
</tr>
<tr>
<td>Evaluation initiated by:</td>
<td>Experience</td>
<td>– Low</td>
<td>– Increased</td>
<td>– High</td>
</tr>
<tr>
<td>– particular episode in existing relationship</td>
<td>Uncertainty</td>
<td>– High</td>
<td>– Reduced</td>
<td>– Minimum development of institutionalisation</td>
</tr>
<tr>
<td>– general evaluation of existing supplier performance</td>
<td>– efforts of non-supplier</td>
<td>– other information sources</td>
<td>– overall policy decision</td>
<td></td>
</tr>
<tr>
<td>Evaluation conditioned by:</td>
<td>Distance</td>
<td>Extensive Institutionalisation</td>
<td>Business based on Industry Codes of Practice</td>
<td></td>
</tr>
<tr>
<td>– experience with previous supplier</td>
<td>Commitment</td>
<td>– High</td>
<td>– Reduced</td>
<td>– Minimum</td>
</tr>
<tr>
<td>uncertainty about potential relationship</td>
<td>– Actual - Low</td>
<td>Actual - Increased Perceived - Demonstrated by informal adaptations</td>
<td>Actual - Maximum Perceived - Reduced</td>
<td></td>
</tr>
<tr>
<td>– “distance” from potential supplier</td>
<td>Actual - Perceived - Low</td>
<td>Increasing formal and informal adaptations. Cost savings increase.</td>
<td>Extensive adaptations. Costs savings reduced by institutionalisation</td>
<td></td>
</tr>
<tr>
<td>Commitment</td>
<td>Adaptation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Zero</td>
<td>High investment of management time. Few cost-savings</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1. The five stages of buyer-seller relationships

Source: Ford (1980)
1. The Pre-Relationship Stage

The author starts by admitting the inertia of buying companies as far as the search for new suppliers is concerned. Indeed, it seems that companies are used to rely on their usual suppliers and will only consider looking at other alternatives when something negative happens in an existing relationship (e.g. a price increase or a failure of service), when a non-supplying company tries to obtain business, or when the buying company faces some change in the requirements or market conditions.

At this stage, there is no commitment from the buyer to the supplier. The buyer’s evaluation will be conditioned by experience with previous suppliers, uncertainty about potential costs and benefits of the eventual new relationship, and distance from potential supplier. This distance has several aspects:

a) Social distance – the extent to which both the individuals and the companies in a relationship are unfamiliar with each other and their ways of working;
b) Cultural distance – the degree to which the norms, values or working methods between two companies differ, because of their different national characteristics;
c) Technological distance – the differences between the companies’ product and process technologies;
d) Geographical distance – the physical distance between the companies’ locations;
e) Time distance – between negotiation and delivery.

Technological distance will be very important in evaluations for the purchase of innovative products. Social distance will be more relevant in new relationships, since companies know little about each other. This will be combined with cultural and geographical distance when companies are of different nationalities.

2. The Early Stage

This is the stage when potential suppliers are in contact with the buyers to negotiate a sample delivery or develop a specification for a goods purchase. At this early stage of the relationship, experience of each other is obviously little and uncertainty is high.
Distance is also high, in all of its forms: social distance is evident, since there is still a great lack of knowledge between both companies, as well as an absence of personal relationships between the individuals involved; geographical distance can only be reduced if the supplier establishes a local sales office in the customer’s country; cultural distance can be reduced by the employment of local nationals; in terms of technology there is inexperience of the supplier’s product; finally, time distance is also high, since companies are likely to be negotiating about transactions that may only happen at some point in the future.

Commitment is still low at this stage, thus perceptions of the likely commitment of the companies are very much influenced by factors outside the relationship, such as the number and importance of its other customers and suppliers.

3. The Development Stage

At the development stage of a relationship, deliveries of continuously purchased products increase and both buyer and seller will be dealing with such aspects as integration of the purchased product into the customer’s operations or pre-delivery training, etc.

Experience increases between the companies in terms of operations, norms and values. Conversely, uncertainty is reduced by experience and adaptations required to meet the wishes of the customer become more visible.

Regarding distance, it is undoubtedly reduced. Social distance is reduced by the social exchange that takes place between the companies, since personal relationships foster trust between individuals and increase companies’ knowledge about each other. However, trust cannot be based in personal relationships alone, but also on the company’s performance in exchange of product or services and finance. The reduction of social distance contributes to the reduction of the effects of geographical and cultural distances. It is also possible that the seller company establishes a local office in the buying company’s country, as business expands. The adaptations companies make to
suit each other (production and administrative processes) reduce the technological distance between them, thus allowing savings for one or both parties. The experience of transactions between companies will make the time distance between negotiation and delivery shorter or even eliminated, in the case of continually delivered products. The importance of time distance decreases as the companies’ mutual experience and trust on each other increases.

Much of the companies’ evaluation of each other during the development stage will depend on the perceptions of their commitment. One of the ways for the suppliers to show commitment is by making efforts to reduce social distance, by establishing an office in the customers’ countries and also by the way they organise the contacts with the customers.

4. The Long-Term Stage

It is not possible to define exactly when a relationship achieves the long-term stage, which is characterised by the companies’ mutual importance to each other. It is achieved after large-scale deliveries of continuously purchased products have occurred or after several purchases of major unit products. The vast experience both companies have of working with each other leads to the establishment of standard cooperating procedures, trust and norms of conduct.

Uncertainty is now considerably reduced, but this can cause problems, such as continuing to use routines that no longer fit both companies’ requirements – institutionalisation. Indeed, institutionalisation can provoke overdependence or excessive costs, and also affect the development of other relationships.

Distance is now minimum, in particular, social distance. The close relationship that exists at this stage has three particular features. First, an extensive contact pattern developed between the companies, involving several functional areas, whose aim is to achieve an effective matching and adaptation of the systems and procedures. Second, strong personal relationships develop between individuals in the two companies.
However, it may be difficult for individuals to separate personal from business relationships and difficulties may arise when the interests of the company are subordinated to those of the personal relationships. Third, companies may become personified in an individual representative (and thus the problem mentioned earlier may occur). Technological distance is also reduced, because successive contracts and agreements between the companies lead to formal adaptations, which integrate many aspects of the operations of the two companies. This close integration is motivated by cost reduction objectives, as well as an increased control over their supply or buyer markets.

At this stage, both buyer and seller have demonstrated their commitment to each other through extensive formal and informal adaptations. Nevertheless, the seller still faces two problems. First, it is likely to be difficult for a company to balance the need to demonstrate commitment to the customer and the danger of becoming overly dependent on that customer. Second, a customer’s perception of a supplier’s commitment to a relationship may differ from the actual level. This may happen because the required investment of resources may have happened before the long-term was achieved (e.g. when a supplier is most committed to a relationship, the customer may think he is not as committed as in the development stage).

5. The Final Stage

This stage is characterised by an extension of the institutionalisation process to a point where the conduct of business is based on industry codes of practice (Ford, 1980). It is achieved in stable markets over long periods of time.

In sum, Ford has described how the development of buyer-seller relationships can be seen as a process in terms of:
- the increasing experience of the two companies;
- the reduction of their uncertainty and the distance between them;
- the growth of both actual and perceived commitment;
- their formal and informal adaptations to each other and the investments and savings involved.

The most obvious implication is that a company cannot treat the whole market in the same way. A company must segment its markets according to the different needs of companies and must see its potential market as a network of relationships. Each of these markets must then be assessed according to the opportunity they represent and how the relationship can be developed. Also, the way that a company manages its relationships must take into account its skills and the costs involved, not forgetting the allocation of resources between different relationships according to the likely return.

2.4. PURCHASING STRATEGIES OF CUSTOMERS AND MARKETING STRATEGIES OF SUPPLIERS

Over the last 30 years, the purchasing activity has been progressively being viewed differently. Indeed, it has evolved from a simple clerical function, with the simple purpose of buying as cheaply as possible, to an important strategic function (Gadde and Hakansson, 1994).

Gadde and Hakansson (1994) have identified three dimensions of purchasing strategy: 1) make or buy; 2) supply-base structure and 3) nature of customer-supplier relationship.

With regard to the first, a decreasing rate of vertical integration has been observed, that is, buying more from external suppliers. In a study of 123 Swedish companies, the authors have concluded that purchasing accounted for more than 40% of the turnover of over 70% of the companies.

In terms of supply-base structure, the number of suppliers has always been an important aspect of the purchasing strategy. In the traditional view of the purchasing activity, the suppliers are supposed to be competing with each other, mainly in terms of price, so the
more suppliers the better. However, as it has been mentioned earlier, one of the reasons for the changing view over the years is the insight into the advantages that customers can obtain through closer and more cooperative relationships with fewer suppliers. For example, Newman (1988) has identified a clear trend towards single sourcing, more visible in the automotive industry. Having fewer or, ultimately, a single supplier, can lead to an increase of the reliability of supply, since reducing the number of suppliers and strengthening the relationships with them, may enable customers to establish more efficient logistical systems with their suppliers. On the other hand, it can be argued that when the number of suppliers is reduced, the customer becomes more dependent on individual suppliers, and this dependency may not be good for efficiency. Nevertheless, according to Gadde and Hakansson (1994) reducing the supplier base is a prerequisite for deeper supplier relationships.

Regarding the nature of customer-supplier relationships, the main reason for reducing the number of suppliers has been to provide opportunities for closer cooperation with fewer suppliers (Gadde and Hakansson, 1994; Hagberg-Andersson, 2000). The two main driving forces are the reduction of costs (e.g. administrative and material flow) and the possible exploitation of supplier resources in order to improve technical development and reduce lead time.

Gadde and Hakansson’s (1994) analysis of the changing role of purchasing indicates the following tendencies regarding the three strategic issues identified:

a) The increasing importance of “buy” when compared with “make”;

b) Reduction of supply base and improvement of coordination among suppliers;

c) Deeper cooperation with individual suppliers aiming at technological development and cost rationalisation.

These changes have naturally brought with them related changes in purchasing and marketing activities. The first implication is that the purchasing strategy has become an issue for the top management, who aims to find efficient supplier structures, to create alliances with key suppliers, to develop training programmes together with suppliers and to activate suppliers in technical development projects. Second, purchasing
activities have been decentralised, since the purchasing decisions should be made by the people who are close to the problems that need to be solved. Nevertheless, while decentralisation usually favours the development of closer relationships, it also makes it more difficult to coordinate the relationships of the whole company. A third implication is a reduction of functional specialisation in favour of more integrated problem-solving. Highly specialised purchasers will be replaced by more general problem-solvers. The purchaser must be integrated in a team, working together with and coordinating specialists from other functions.

It is obvious that the changes in purchasing will affect the supplying companies. Some suppliers can be actively involved in the change, while others may have been reluctant to change. Gadde and Hakansson (1994) point out that the first marketing implication of these changes is that reaction is recognised to be as important as action, i.e. strategic marketing decisions should be based on adaptations to the changing purchasing strategies of customers. A second implication is that other departments besides sales and marketing must be more involved in developing relationships. Sometimes even the purchasing department of the supplying company needs to be involved, since the customer may have special requirements regarding which sub suppliers to use. To sum up, the internal activities of the supplier must be coordinated with those of the customer.

On an aggregate level, the authors believe that this new purchasing philosophy will increase the potential for companies to become more specialised production units within a network structure. Moreover, innovations will be increasingly developed in interactions between users and suppliers, favouring the reduction of lead times in product development. Finally, innovations are likely to be more in accordance with the needs of the established network structure.

Starting with the classification of buyer-seller relationships presented in a previous section, Campbell (1985) identified three common strategies which buyers and sellers use in their interactions – competitive, command and cooperative.
Independence arises when the buyer plays the market and the seller has several potential customers. Marketing and purchasing strategies in these commodity-type markets are competitive. There is also independence in a buyer’s market in which there are many sellers and, conversely, in a seller’s market with many buyers. On the contrary, dependence exists when one of the parties dominates the other. Marketing and purchasing strategies, which result when one of the parties has a dominant position over the other, are called command strategies. Interdependence happens when both parties are in a relationship with a strategy of cooperation, willing to establish a long-term relationship, to openly exchange information and to trust each other.

In sum, independent, dependent and interdependent relationships result from the interplay of interaction strategies, which can be competitive, cooperative and command. This model develops the IMP Group’s interaction further, by introducing the interaction strategies of the buyer and the seller. It identifies the main variables which determine the choice of strategy of the buyer or seller. Then three groups of variables are discussed: the product and, for the buyer and seller, the characteristics of their industry, their company and the individuals involved in the interaction.
The following table presents the conditions favouring the different buying strategies:

<table>
<thead>
<tr>
<th></th>
<th>Competitive buying</th>
<th>Cooperative buying</th>
<th>Command buying</th>
</tr>
</thead>
<tbody>
<tr>
<td>**Product</td>
<td>Low or high frequency of purchase</td>
<td>High frequency of purchase</td>
<td>High frequency of purchase</td>
</tr>
<tr>
<td>characteristics</td>
<td>Low switching costs (standardized product)</td>
<td>High switching costs (customized product)</td>
<td>High switching costs</td>
</tr>
<tr>
<td></td>
<td>Product performance can be precisely specified</td>
<td>Product performance difficult to specified</td>
<td>Products can be specified but is customized</td>
</tr>
<tr>
<td>**Industry</td>
<td>Supplier's industry fragmented</td>
<td>Both industries are concentrated</td>
<td>Buyer's industry concentrated but</td>
</tr>
<tr>
<td>characteristics</td>
<td>Intense price competition among suppliers</td>
<td>Stable competitive situation in each industry</td>
<td>supplier's industry fragmented</td>
</tr>
<tr>
<td></td>
<td>High rate of technical change</td>
<td>Low rate of technical change</td>
<td>Average level of competition</td>
</tr>
<tr>
<td></td>
<td>Tradition of competitive buying</td>
<td>Tradition of cooperative buying</td>
<td>Tradition of command buying</td>
</tr>
<tr>
<td>**Company</td>
<td>Buying company is larger than supplier</td>
<td>Both companies are similar in size</td>
<td>Buying company much larger than supplier</td>
</tr>
<tr>
<td>characteristics</td>
<td>Buying company prefers competitive buying</td>
<td>Both companies seek a cooperative relationship</td>
<td>Buying company prefers to dominate</td>
</tr>
<tr>
<td></td>
<td>Buying company lacks familiarity with the product</td>
<td>Both companies are familiar with each other and respect</td>
<td>supplier's costs and technology</td>
</tr>
<tr>
<td></td>
<td>(new buy)</td>
<td>each other's technical knowledge</td>
<td>Buying company is familiar with suppliers</td>
</tr>
<tr>
<td></td>
<td>Centralized buying organisation</td>
<td>Organisational structures are similar</td>
<td>Buyer has more professional organisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>than supplier</td>
</tr>
<tr>
<td>**Individual</td>
<td>Product perceived as important by buyer</td>
<td>Product is perceived as important by both parties</td>
<td>Product is important to buyer</td>
</tr>
<tr>
<td>characteristics</td>
<td>Buyer is not risk averse for this purchase</td>
<td>Buyer is risk averse for this purchase</td>
<td>Buyer is risk averse for this purchase</td>
</tr>
<tr>
<td></td>
<td>Individuals who interact do not know each other well</td>
<td>Individuals who interact know each other</td>
<td>Individuals know each other personally</td>
</tr>
<tr>
<td></td>
<td>Buyer prefers competitive buying approach</td>
<td>Both buyer and seller prefer a cooperative relationship</td>
<td>Buyer prefers a command strategy and supplier accepts cooperative role</td>
</tr>
</tbody>
</table>

Table 3. Conditions favouring different buying strategies
Source: Campbell (1985)

In Table 4, we have the typical strategies and responses used in the six types of relationships identified in Table 2.

For example, in a buyer’s market, there are many suppliers and just a few powerful buyers. They request quotations or put out competitive tenders, whereas suppliers must submit their quotes and try to gain a competitive advantage through cost leadership or differentiation. In a seller’s market, there are few large suppliers and many small buyers. The sellers many form a cartel to maintain prices and the buyers may cooperate with each other, in order to try to break the cartel, or at least exchange information to improve their bargaining position.
Typical strategies and responses

<table>
<thead>
<tr>
<th>Type of Market</th>
<th>Marketing</th>
<th>Purchasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perfect Market</td>
<td>Take it or leave it</td>
<td>Play the market</td>
</tr>
<tr>
<td></td>
<td>Try to obtain lower cost</td>
<td>Standardise requirements</td>
</tr>
<tr>
<td></td>
<td>Try to differentiate</td>
<td></td>
</tr>
<tr>
<td>Seller's market</td>
<td>Take it or leave it</td>
<td>Accept gracefully</td>
</tr>
<tr>
<td></td>
<td>Form a cartel</td>
<td>Buy jointly</td>
</tr>
<tr>
<td></td>
<td>Legitimise, placate</td>
<td>Exchange information with other buyers</td>
</tr>
<tr>
<td></td>
<td>Standardise the product</td>
<td>Complain, agitate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Encourage competitors</td>
</tr>
<tr>
<td>Buyer's market</td>
<td>Competitive bidding</td>
<td>Put the tenders</td>
</tr>
<tr>
<td></td>
<td>Try to obtain lowest cost</td>
<td>Play the market</td>
</tr>
<tr>
<td>Domesticated market</td>
<td>Customise, specialise, differentiate,</td>
<td>Adapt, cooperate, work together</td>
</tr>
<tr>
<td></td>
<td>innovate</td>
<td></td>
</tr>
<tr>
<td>Captive market</td>
<td>Educate the buyer</td>
<td>Learn from the supplier</td>
</tr>
<tr>
<td>Subcontract market</td>
<td>Learn from the buyer</td>
<td>Educate the supplier</td>
</tr>
</tbody>
</table>

Table 4. Marketing and purchasing strategies and responses in different types of markets
Source: Campbell (1985)

The buyers usually use more than one approach in a given supply market, but one approach tends to predominate. The supplier’s sales force can help to collect some data such as those in Table 5, which will help them to distinguish between competitive and cooperative buying strategies.

<table>
<thead>
<tr>
<th>Buying characteristic</th>
<th>Competitive</th>
<th>Cooperative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of suppliers</td>
<td>Many</td>
<td>Few</td>
</tr>
<tr>
<td>Proportion of purchases held by main suppliers</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Number of new suppliers taken on recently</td>
<td>Several</td>
<td>Few</td>
</tr>
<tr>
<td>Proportion of business given to new suppliers</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td>Willingness to accept special adaptations</td>
<td>Unwilling</td>
<td>Willing</td>
</tr>
<tr>
<td>Desire for standardisation of the product</td>
<td>High</td>
<td>Average</td>
</tr>
<tr>
<td>Technical dependence on suppliers</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Emphasis in buying</td>
<td>Price</td>
<td>Service, quality</td>
</tr>
</tbody>
</table>

Table 5. Buying characteristics and buying strategies
Source: Campbell (1985)
After identifying the buying strategy, guidelines for marketing strategies can be followed, as presented in Table 6.

<table>
<thead>
<tr>
<th>Existing customers</th>
<th>Cooperative</th>
<th>Competitive</th>
<th>Command</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing</td>
<td>Don't overcharge</td>
<td>Match market price</td>
<td>Negotiate prices</td>
</tr>
<tr>
<td>Customer service</td>
<td>Nothing is too much trouble</td>
<td>Competitive but no frills</td>
<td>At your service</td>
</tr>
<tr>
<td>Personal Contacts</td>
<td>Frequent, including courtesy visits from senior managers</td>
<td>Regular visits</td>
<td>Ensure that personal relationships are maintained</td>
</tr>
<tr>
<td>Product development</td>
<td>Grasp all opportunities to work with the customer</td>
<td>Do what is required</td>
<td>Work as required by the customer</td>
</tr>
<tr>
<td>Stay ahead technically</td>
<td>Beware of stealing of ideas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New customers</td>
<td>Where competition is established, offer a major advantage, e.g. by innovation, or wait until there is a lapse by current competitors</td>
<td>Offer comparable price, service, and quality, and stress benefits of multiple sourcing</td>
<td>Offer facilities to make whatever is required; propose trial order</td>
</tr>
<tr>
<td>Beware of being exploited by a customer who has no intention of changing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6. Marketing strategies to match different buying approaches
Source: Campbell (1985)

After identifying the buying strategies, marketers can follow the most appropriate marketing strategies, as follows:

- **Marketing strategies for cooperative customers**

  Cooperative customers require a lot of attention and reassurance that their decision of concentrating their purchases in just a couple of suppliers is correct. The customers should be regularly visited by the senior management, who should take every opportunity to develop social changes. The service provided to the customers must be excellent and the supplier should stay ahead technically, but should not overcharge the customer, or else the relationship can be ruined. Suppliers should use the customers’ cooperation to find ways of meeting their needs, preferably over time. Suppliers can achieve cost reduction and be able to supply at a competitive price, making a good margin.
In mature markets, customers with cooperative purchasing strategies usually develop long-term relationships. These are normally difficult to penetrate, unless the competitors can offer a significant price reduction or innovation that the current supplier cannot match.

Suppliers should be cautious when trying to make business with this type of customers, since they tend to favour existing suppliers and are likely to give them an opportunity to match any new offers they receive.

- **Marketing strategies for competitive customers**

  Marketing costs and contracts with competitive customers must be kept to a minimum, since their main concern is price. Therefore, a careful balance has to be made between the advantages of differentiating a product by providing additional services and the disadvantage of a higher price. The supplier may better employ its resources in searching for product economies, which will lower the product price. These competitive companies may be the easiest to obtain as new customers, by offering a comparable or lower price, better quality and service.

- **Marketing strategies for companies with command purchasing**

  The supplier subject to a command purchasing strategy should also keep its marketing costs to a minimum. Its role is to do the buyer’s bidding, so he should be flexible, give personal attention to the customer’s needs and have efficient production facilities.

In conclusion, we can say that the buying decision process is modelled as resulting from the interplay of the three strategies (competitive, command and cooperative), which in turn are influenced by the characteristics of the product, the buyer and the supplier.
2.5. CUSTOMER-SUPPLIER INTERACTION IN THE CONTEXT OF TRIADIC RELATIONSHIPS

Business-to-business relationships are usually studied as if they were dyads: between a manufacturer and a distributor (Ford and Rosson, 1982) or between a manufacturer and a customer (Hakansson and Snehota, 1995). Other studies deal with relationships between a mother company and a foreign subsidiary, or between a principal and an agent (e.g. Bergen et al., 1992). However, in international business relationships, the exporting supplier is often represented in the foreign market by an intermediary, such as sales subsidiaries and agents. Or a certain customer, a retail company for instance, can make its sourcing operations through an agent. Therefore, Havila et al. (2004) believe there is reason to consider the tri-partite interaction between the supplier, the intermediary and the customer in international business relationships.

The business relationship triad, which is seen to exist at a company level, is defined in a similar way of a sociological triad. According to Thibaut and Kelley (1959, p.191, in Havila et al., 2004), a triad exists “when three individuals are observed to interact on successive occasions. These three are seen to come together repeatedly or to be in communication often, conversing, exchanging products and so on”. The three parties are seen to form a group based on a specific reason for the repeated interaction of the three “members of the group”. In this type of triad, each party has direct contact with the other two parties.

One way of viewing a phenomenon that includes three parties is to see it as consisting of dyadic relationships, which are connected to each other and where one dyadic relationship influences the other (Easton and Henriques, 1992). Another view focuses on the parties instead of on the relationships, and studies how parties are connected and influence each other (Anderson et al. 1994).

In literature about social-exchange networks we can also find studies about three parties. For example, Cook and Emerson (1984, p.3, in Havila et al., 2004) say that a connection exists when two “exchange relations are connected to the extent that
exchange in one relation is contingent, positively or negatively, upon exchange in the other relation.” Yamagishi et al. (1998) discuss the connections between three actors and say that “…the mere fact that two exchange relations, A-B and B-C, share the same actor, B, is not sufficient evidence that the two relations constitute a network, A-B-C. Rather, two exchange relations, A-B and B-C, are defined as connected at B to form a larger network structure, A-B-C, only when exchange between A and B to some extent affects exchange between B and C, and vice-versa.”

Prior to Havila et al. (2004), there are only a few studies that specifically focus on business relationships with three parties, namely Havila’s doctoral dissertation (1996) and Trimarchi’s doctoral dissertation (2001). Therefore, when studying relationships that include three parties, the focus is usually not the triad, but often the specific connections between the three parties.

Going back to the sociological definition of triad (Thibaut and Kelley, 1959, in Havila et al. 2004), it is evident that the role of social interaction is central, since each party has direct contact with every other party.

The analysis made by Havila et al. (2004) aimed to test how the intensity of social contacts in the interaction between the intermediary and the customer, and in the interaction between the supplier and the customer affects trust and commitment in the business relationship.

These authors have pointed out that triads have specific characteristics that cannot be found in dyads:

a) Each of the three parties functions as an intermediary between the other two. Consequently, the relationship between A and B is influenced by the relationship between A and C and that between B and C;

b) All three parties do not need to interact with each other at the same time;

c) The total amount of interaction is limited in a “true” triad. If A is interacting with B, it cannot interact with C at the same time, unless they are in the same place or use three-party phone call or e-mail.
In their study, Havila et al. (2004) found support for the hypothesis that stated that in a business-relationship triad, the social interaction among the involved actors is interlinked, i.e. the higher the interaction between A and B, the lower between B and C. There is a significant negative relation between intermediary-customer social interaction and supplier-customer social interaction. An increase in the social interaction between intermediary and customer cause a decrease in the social interaction between supplier and customer and vice-versa. The interpretation of this is that the triads function as one business relationship where the social interaction in the relationship is one entity. Thus, it is evident that the social interaction in the model indicates that the studied business relationships really are triadic as far as social interaction is considered.

According to Havila (1996, in Havila et al., 2004), the roles of the supplier and the intermediary in a business relationship triad may differ depending on the type of the triad. In some triads the main role of the intermediary is to mediate the relations between the supplier and the customer, e.g., the intermediary may negotiate the contract with the customer together with the supplier. In other types of triads, the supplier and the intermediary may take care of after sales services. So, there are triads where every party interacts with every other party (more group-like), and there are others where there are parties who do not interact with every other party (more series-like).

According to Stern et al. (1996), the intermediary in international business is expected to mediate contacts between the supplier and the customer that are located in two different countries.

**Trust and Commitment in the Triad**

According to the social exchange framework, relationships are developed through a sequential and interactive social exchange process. When one of the parties takes the initiative to do business with the other party, investing in the relationship, and that other party responds, then the interaction evolves sequentially and the parties may become more committed to doing business with each other.
Trust is seen as very important during this process, since it increases the parties’ propensity to invest in the relationship. On the other hand, trust is affected by the counterpart’s relationship investments. Consequently, if one of the parties is weaker and dependent on the other, through this social exchange process, a growing mutual interdependence will emerge (Kelley and Thibaut, 1978, in Havila et al., 2004). The dominating view is that trust causes relationship commitment, but the social exchange process implies a circular causality between commitment and trust (Havila et al., 2004).

With regard to social interaction and trust, Havila et al. (2004), have found evidence to support the belief that the more intensive the social interaction between the intermediary and the customer, the stronger the trust in the international business relationship triad. Before them, Young and Wilkinson (1989) found indications that in business relationships trust seems to “be based on the overall relationship rather than on particular episodes of behaviour”, or on particular people involved in the relationship. According to Lewis and Weigert (1985, in Havila et al., 2004), although trust exists between the parties, there is always a potential risk that one of them may behave in a way that is not desirable from the relationship point of view. These authors also point out that trust is indispensable in social relationships, because it “allows social interactions to proceed on a simple and confident basis”.

Anderson and Narus (1990) think that the critical aspects of trust in a relationship concern the company’s belief that the counterpart’s actions will result in positive outcomes for the company. They found a positive direct or indirect link from communication to trust. Other authors, such as Young and Wilkinson (1989) have also identified a strong relational element in trust and, therefore, there seems to be reason to believe that social interaction between two parties will have a strong impact on trust within the business relationship triad.

Regarding social interaction and commitment, Havila et al. (2004) have concluded that the more intensive the social interaction between the supplier and the customer, the stronger the commitment in the international business-relationship triad. Commitment in a relationship can be demonstrated in many ways (Ford, 1984), for example, through
different kinds of investments in the relationship (Wilson and Mummalaneni, 1986). Moorman et al., (1992, p. 316) have defined relationship commitment as “an enduring desire to maintain a valued relationship”. Wilson and Mummalaneni (1986) have added that this commitment leads to further investments, and thus, to a continued relationship.

Several studies have shown that communication is one antecedent to commitment. Anderson and Weitz (1992) have shown that relationship commitment is affected by past communication between the parties. Halinen (1997) found that strong personal relationships and intensive contacts between companies are important antecedents for commitment. Ford (1984) made a distinction between commitment at the customer level and at the market level, and found out that the buyers stress the importance of suppliers demonstrating commitment.

In sum, Havila et al. (2004) have concluded that in the business relationship triad, trust rather than commitment might be seen as the final outcome of the atmosphere of the relationship. In some way, the mere fact that an intermediary exists in the relationship can be seen as an act of commitment.

In previous studies about dyads, the conclusion was that high commitment in the relationship was promoted by high levels of trust, i.e. trust precedes commitment. On the contrary, in this study it is shown that commitment precedes trust, thus higher trust is driven by increased commitment.

Having explored the concepts of triad and triadic relationships, in the next chapter we shall focus on that third element: the intermediary.
3. INTERMEDIARIES IN INTERNATIONAL SOURCING

The very concept of an intermediary or middleman implies an actor between two other actors and, in many cases, the intermediary is analysed primarily in terms of its relation to these other two actors (Gadde and Snehota, 2001). In the literature taking the marketing management perspective of the manufacturer, intermediaries are usually considered important counterparts and are perceived to be part of distribution channels. However, according to Gadde and Snehota (2001), this perspective becomes problematic when we want to interpret the recent trends in distribution.

Over the past years we have seen that, in some industries, intermediaries have been reduced in order to cut on costs. Nevertheless, authors such as Gadde and Snehota (2001) and Ronström (2004), believe that intermediaries still survive and play important roles, which complement those of other market actors. Intermediaries who simply add costs will undoubtedly disappear, but those who add value that customers are willing to pay for will remain.

Indeed, there are situations when the existence of an intermediary may be a cost saver and contribute to a higher efficiency of distribution. In fact, Stern et al. (1996) believe that intermediaries arise in the process of exchange because they can improve the efficiency of the process, since they reduce the complexity of the system. Hagberg-Andersson et al. (2000) also studied buyer-supplier relationships in a supply network, and concluded that one of buyers’ main strategic goals is to try to reduce the number of suppliers they deal directly with. This can be achieved by organising the suppliers into various tiers, depending on their activities and resources. Joining the concept of intermediary and the concept of tiers, we believe that an intermediary can, in many situations, be considered a first tier supplier.
3.1. Types of Intermediaries

Gadde and Snehota (2001) provided a classification of intermediaries focusing on three roles in which intermediaries perform different functions:

- **The Intermediary as Trader**

  The intermediary offers to its customers an assortment of products acquired from various sources. It offers an “own” product or service, in which the various suppliers’ products are just components. Its business depends on developing and maintaining exchange relationships with customers and suppliers. It operates in two markets: it helps customers to access the resources needed and also helps the holders of resources to reach the users. This intermediary has the important function of gap bridging activities in the market network, lowering the costs of transactions.

- **The Intermediary as Distributor**

  The intermediary as distributor represents the dominating view of intermediaries in the marketing literature, which takes a manufacturer’s perspective. These intermediaries are viewed as “business firms that help the company find customers or close sales with them” (Kotler, 1998). They hold inventories and “push” the products. The distributor role maintains the basic characteristic of the trader, but the emphasis shifts. The inputs are now, to a large extent, given, identified and provided through the manufacturer (large-scale production). Most distributors represent more than one manufacturer, however, in each manufacturer’s perspective, they are part of its channel.

  The intermediary as distributor has been the dominant view of the role of an intermediary for a long time. However, as users become more acquainted with the products/services offered, they tend to require customised solutions rather than standardised. This development has been reinforced by suppliers’ ambition
to differentiate from competitors. This requires more closeness and proximity to users. The intermediary distributor who interacts directly with users often stands in a better position than the manufacturer to conceive a “superior offering” to the customer.

- The Intermediary as Provider

The focus of these intermediaries’ business becomes the identification of exchange opportunities based on the user’s conception of suitable resource bundles and then searching for appropriate sources of these resources. In this case, the intermediary is viewed as part of the customer’s supply network, rather than a part of the manufacturer’s channel. The current concern with supply chain management indicates that the emergence of the intermediary as provider is not a marginal phenomenon and concerns numerous intermediary businesses. McVey in 1960 (in Gadde and Snehota, 2001) had already argued that “the intermediary is not a hired link in a chain forged by a manufacturer, but rather an independent market, the focus of a large group of customers for whom he buys.”

Gadde and Snehota (2001) stress that not all intermediary-traders have become intermediary-distributors, who in turn, will become intermediary-providers. The different roles of intermediaries coexist. Intermediaries’ businesses fall into different categories, depending on how they identify the best business opportunities, which in turn is contingent on the network of actors they interact with. Which role is more appropriate depends on the context. Mass production required mass distribution and opened the way for distributors. User initiated need for customisation and differentiation of supply opened the way for providers. Moreover, an intermediary company may have different roles in relation to different business partners. The main analytical implication of these authors’ analysis is that the generic notion of an intermediary loses much of its meaning. Making an extreme interpretation, we can say that any business can be seen as an intermediary business, since most companies are in-between other companies.
Balabanis (2005) has provided another classification of export intermediaries, based on their service offering and also proposed three types:

- **Transaction creator**

  Transaction-creators perform activities related to the stimulation and generation of foreign demand. Transaction creating services include: international market research; product research and design; development of marketing strategies and plans; advertising and promotion; selection of foreign distributors; training of distributors’ staff; after sales service and negotiation of collaborative agreements of behalf of suppliers. The author has concluded that transaction-creator export intermediaries tend to act mainly as agents.

- **Physical fulfills**

  Physical-fulfillers perform the necessary activities to process foreign orders and supply foreign customers. Services provided are basically: taking care of export documentation; provision of cost, insurance and freight quotes; export packaging and marking; warehousing; freight forwarding; quality control of exported goods and financing and credit of export transactions.

- **Full-service provider**

  As the name implies, full-service providers are export intermediaries with a balanced mix of both of the above mentioned services. Balabanis’s study’s results have shown that these intermediaries tend to be physically present in foreign markets, in order to serve more countries and to have the most geographically distant markets of all types of export intermediaries.
3.1.1. The Particular Case of Agents

We will now take a closer look into a specific type of intermediary – the agent – since in our case study we deal specifically with one. But first we should start by defining an agent.

Root (1994) has presented two main alternatives for direct export: 1) the use of a foreign agent/distributor; 2) the use of a foreign branch/subsidiary (owned and controlled by the manufacturer). Both agents and distributors are independent actors but they differ in terms of taking title to goods. According to Root (1994), an agent does not take title to goods and usually works on commission, whereas a distributor takes title to goods (and thus the risk of goods not being sold) and works on a profit margin as a reseller. Other actors have also distinguished between agents and distributors: Bello and Williamson (1985), Cateora and Graham (2002) and Webster (1991).

There are other characteristics of agents, besides the core characteristic of not taking title of goods, such as type of duties and whether they are domestic or foreign based. Cateora and Graham (2002) present nine different types of agents, five domestic and four foreign based.

   a) Domestic: export management companies, manufacturer’s export agents, brokers, buying offices and selling groups.

   b) Foreign: brokers, manufacturer’s representatives, managing agents and compradors (a type of managing agents).

According to Webster (1991), classical marketing theory presents ten functions performed by middlemen in the distribution channel and the channel itself is designed to get these functions executed as efficient and as effectively as possible: buying, selling, assorting, financing, storage, sorting, grading (e.g. quality assessment), transportation, providing market information and risk-taking.

These ten functions can be compared to the flows proposed by Stern et al. (1996): physical possession, ownership, promotion, negotiation, financing, risking, ordering and
payment. These flows seem to be more useful for the study of agents, because they separate the physical possession from the ownership.

The functions attributed by Webster (1991) to the agent are mainly related to the selling function, but agents may also provide marketing information, keep small supplies on consignment basis and at times finance the transaction (especially if the agent is a manufacturer’s representative). The only flow that cannot be handled by agents is the ownership.

As we have seen earlier, the existence of intermediaries in more frequent in international business, as the intermediary is expected to mediate contacts between the supplier and the customer that are located in two different countries (Havila et al., 2004; Stern et al., 1996), Therefore, the next section will be dedicated to international sourcing, focusing on customers’ motivations to pursue this strategy and on suppliers’ characteristics.

3.2. INTERNATIONAL SOURCING

The fast development of technology and e-communication, as well as the growing need for competitive cost structures, have made international sourcing one of the major trends in purchasing nowadays (Matthyssens et al., 2003). Since the 1980s, international sourcing has been widely talked about and in the 1990s has been seen as critical to the success of manufacturing companies (Liu and McGoldrick, 1996). Over the last twenty years or so, there has also been a substantial increase in the number of retail companies engaged in international sourcing. The major difference between manufacturing and retail sourcing is that “manufacturers source raw materials or intermediate products to produce a final product, while retailers source finished products for consumption” (Liu and McGoldrick, 1996). In fact, most major retailers worldwide have been increasingly setting up buying offices in developing countries or using intermediaries abroad to deal with foreign suppliers. This trend is related to the declining competitiveness of many
Western companies and the belief that international sourcing could help reverse this decline (Trent and Monczka, 2003).

Liu and McGoldrick (1996) compare international sourcing with traditional importing, saying that international sourcing implies that companies tend to be more proactive in the search for sources of supply and their strategies dominate in the decision making, whereas in traditional importing companies tend to be more passive throughout the process. They say international sourcing involves the following activities: developing corporate objectives and buying policy; determining market wants; defining the needs for international sourcing; identifying, evaluating and selecting overseas suppliers; negotiating prices and terms of sale, and managing the contract and transferring the title of merchandise.

These authors have developed a model of international retail sourcing, presented in Figure 1, which incorporates research findings from previous studies made.

They start by identifying the driving forces of international sourcing: “push” and “pull” factors, as well as facilitators. “Push” factors include the pressure on the retention of margins and cost reduction, the existence of few suppliers available in the domestic market and the lack of product innovation. Among the “pull” factors is the existence of foreign products with competitive prices, greater diversity of suppliers, better quality of products and favourable exchange rates. Other authors, such as Alguire et al. (1994) also affirm that companies follow an international sourcing strategy on a search for the lowest price sources of supply. Petersen et al. (2000) have also concluded that the primary outcome of international purchasing is unit price reduction, although not necessarily total cost reduction.

The facilitators, as the name implies, are factors that help the process of international sourcing, such as good transportation and communication infrastructures or the presence of international retailing in the source country. On the other hand, there are the constraints to international sourcing, which can be “soft” and “hard”. The so called “soft” constraints are, for instance, transit time, political risks, trade barriers, language,
culture and exchange rate fluctuation. As for “hard” constraints, we have the tariffs, export taxes, exchange costs and insurance, among others.

The sourcing strategy itself involves deciding about the number of suppliers, their nationalities, quantities and delivery dates. Selecting the countries implies analysing the economic, commercial and political environment, as well as the legal system.

Figure 1. A model of international retail sourcing
Liu and McGoldrick (1996) affirm that supplier selection is one of the most important decisions the company pursuing an international sourcing strategy has to make. Indeed, more than the simple supply of goods or services, customers expect suppliers to solve their problems, as we have seen in the first chapter.

3.2.1. Supplier Selection Criteria

In order to succeed, exporters must be able to attract and then satisfy potential customers. They must actively develop export capability and then market their capabilities to prospective buyers. Vernon-Wortzel et al. (1988) say that would-be exporters must understand two phenomena: buyers’ supplier-selection criteria and the sources used by buyers to find information about potential suppliers.

The authors have made an empirical study to identify and analyse the supply selection criteria and information sources USA importers used, then comparing them with the perceptions of suppliers from China. They have identified four main categories of supplier-selection criteria and three information source categories. Of course we cannot assume that these findings are still valid nowadays and applicable to our own case study, to be presented further ahead. Nevertheless, we believe the authors’ conclusions can be useful to provide some information about this subject.

a) Supplier selection criteria

- Price
  Exporters downgraded the importance of price, because of their inexperience and belief that their merchandise is unique and therefore not subject to price competition. They did not understand the pressure their customers faced to price competitively and still make a profit.

- Quality
  Exporters and importers gave equal importance to the technical quality of a product. But exporters attached significantly less importance to each dimension
of its appearance (workmanship, style and packaging); as long as the product performed its utilitarian functions, its appearance was secondary.
Regarding brands, exporters thought their brands were important to customers, but this was not true, because they were either inappropriate when translated into English, or were unknown to customers (thus had little or no value at all).

- Production capability
  Importers valued experience and expertise to a greater extent than was perceived by exporters. The exporters’ perception was that delivering a part of the order when promised fulfilled the spirit of the contract. When domestic retailers ran out of stock because suppliers could not meet demand, retailers did not penalise suppliers. Therefore, exporters believed foreign importers would behave in the same way, accepting smaller quantities than ordered, if the factory was doing its best to produce all it can.

- Delivery capability
  Exporters placed much lower importance on reorders than do importers. Exporters seemed to perceive exporting as a series of distinct transactions, while importers perceived importing as a twofold process of building a relationship. But in personal interviews exporters referred the desirability of long-term arrangements and relations with importers. However, the obligations and privileges of a long-term relationship appeared to have different meanings to the exporter and the importer. The exporter believed it was not his fault if delivery promises were not kept and that reordered goods would be forthcoming as soon as the exporter was able to produce and ship them. The importer obviously wanted every order to be fully delivered and on time.

In conclusion, both parties wanted long-term relationships. However, importers wanted each transaction to meet specific criteria of price, product quality and delivery. As long as these criteria were met, they preferred to keep a known supplier. But if the criteria were not met, then they would look for another supplier. On the other hand, exporters did not fully realise the importance of either meeting product quality standards or order
quantities and deadlines. They assumed that importers would understand if problems over which they had no control interfered with quality or delivery. Chinese exporters seemed to perceive a contract as what they hoped to do, rather than a literal statement of terms and obligations.

b) Information Sources

- **Buyer-dominated sources**
  US importers primarily relied on buyer-dominated sources. The Chinese exporters gave more importance to marketing research consultants than the American importers, because the exporters perceived the marketing researcher’s role as providing advice rather than just information. Exporters gave great importance to plant site visits, as they believed that potential buyers would be influenced by a well-set-up factory with modern machinery, expert workforce and good packaging facilities. However, US buyers thought the factory was just an indicator of the company’s capabilities, not necessarily of the supplier’s performance. The actual output of the factory was a better indicator.

- **Supplier-dominated sources**
  Neither importers nor exporters trusted much in supplier-dominated sources. But personal interviews established that exporters did believe that substantial promotion of goods was critical to export success. They also seemed convinced that potential buyers would be attracted by lists of suppliers published by what they considered a generally reliable source.

- **Third-party sources**
  Chinese exporters placed considerably more importance on these sources than did the US importers. In the Chinese domestic market, formal channels and procedures for finding suppliers were familiar and had been more important than the informal channels and procedures normally used by Western companies to find suppliers. Importers did not give them much credit, because, particularly in developing countries, financial statements and assessments, credit reports and
recommendations from banks tended to reflect government policy to support certain industries more often than they reflected financial realities.

3.2.2. Export Stages

Wortzel & Wortzel in 1981 have identified five stages of exporting through which a company could pass. The reason behind this investigation was the huge increase in exports of manufacturers from the developing countries (LDCs) and the newly industrialised countries (NICs) during the 1970s. The three largest exporters were Hong Kong, South Korea and Taiwan and their most important markets were the industrialised countries, especially the USA.

During the early growth years, the bulk of these exports were generated by subsidiaries of multinational companies (MNCs), who maintained offshore production facilities in the NICs. However, local companies from the three largest NICs have also become significant exporters, mainly of consumer products (clothing, footwear and consumer electronics).

The success of these companies has been due to their own efforts as much as to their customers’. Their customers have been large retailers or importers/wholesalers for whom the companies have produced to orders as contracts manufacturers. At the beginning, customers took the major responsibility for product design and specifications, as well as for marketing the products. However, by the late 1970s, a few companies had begun to take over some of these functions themselves and many other started considering whether they should shift to strategies involving taking on additional responsibility themselves for production and marketing decisions and functions.

The five stages defined by Wortzel & Wortzel (1981) are the following:
• **Stage I**

Companies have not made an explicit decision to seek exports. The export business has begun because an importer was searching for a low cost facility. The company may not have the specific required internal design skills, and almost certainly does not have the required external design skills. So the importer usually makes all external design decisions (appearance and packaging) and may also determine the internal design of the product. The importer takes the responsibility for quality control and also arranges shipping. The local company is simply a seller of production capacity, whose success depends on its prices.

• **Stage II**

It is the beginning of the “export push”. A Stage II exporter may either evolve from Stage I or start already as a Stage II exporter. The company has developed some internal design capabilities and also has some understanding of external design and packaging, but still needs help from customers for setting specifications. These design skills may have been learnt during the Stage I phase. If the company starts at Stage II, its knowledge comes from imitating more developed companies or from the experience of producing similar goods for their home market.

This company has begun to develop a rudimentary sales and marketing organisation. Its marketing efforts take place mainly in its home country: listing the company in catalogues of exporters, trying to obtain display space in the country’s export promotion facility, calling on importers who have buying offices in its country or importers who visit its country.

The Stage II company will seek customers who value strict quality standards and on time deliveries, being willing to pay a higher price for this. But this company is still a seller of production capacity rather than a product. Its main competitive advantage is still low price, but it has started to find ways of lessening its vulnerability to price
competition, by selecting customers to whom other factors (not just price) are important.

- **Stage III**

The Stage III company still produces for its customers’ orders, but has developed enough internal design capability to produce export quality goods with little or no assistance from its customers in setting internal and external design specifications.

The company may try to specialise in long production runs of a limited number of items to a few large steady customers; alternatively, it may try to broaden its range of products or increase the number of customers. The company starts to gain more control over its production, its sales lines, its customers and its prices. It will participate in trade shows, will advertise more in directories of exporters and may also use direct mail advertising. The company’s marketing activities take place within and outside its home country and it can even open offices in some countries to where it exports.

This type of company remains a seller of production capacity, but has changed its position from that of a passive supplier to a participant in the process of determining at least some of the specifications of the products it manufactures. However, although the company is more active in marketing its production capabilities, marketing of goods is still left to its customers. Price is still important, but know-how distinguishes the company from the Stage II exporters.

- **Stage IV**

Stepping into Stage IV involves a significant change in the company’s operations and a considerable investment in financial and human resources. The company may still allocate a part of its production capacity to contract manufacture, but has begun to produce and market its own products, producing for its own inventory rather than
to customer’s orders. The company has evolved from a marketer of production capacity to a marketer of products.

Now the company, not the customer, decides what to produce. It takes full responsibility for internal and external design, packaging, quality control and shipping. Although there may be a staff of designers and researchers to create new products, quite often just copying existing products is enough. The manufacturer begins to use its own brand name and performs other marketing functions, such as promotion to the trade (in Stage III this was made by importers/wholesalers).

Price is still the most important competitive advantage, especially if the company competes in product categories such as consumer electronics or athletic shoes. The NICs manufacturers’ exports will most often be employed as promotional items (e.g. retailers will use TV sets from NICs as the lowest price items in their assortment).

The specific mix of marketing and physical distribution activities depends in part on the products offered by the manufacturer (e.g. TV set producer performs more marketing activities than the shirts’ producer). The marketing activities are directed mainly towards the retailer and are designed to obtain retailer “push” (e.g. offering display material to retailers, training retailers’ sales people to sell the products, trade advertising, and encouraging retailers to sell the company’s products).

The marketing organisation is also more elaborate and may include a sales management function, a sales force and an after-sales service. The company will have access to many of the technological advances that are offered to its competitors in the developed countries. But sometimes the products are not so well equipped because the company did not manage to obtain a higher price for it.
• Stage V

The product and marketing strategies of the Stage V company will be virtually indistinguishable from those of companies in advanced countries. In fact, the only distinguishable feature is the country of manufacture.

The company’s strategy is to differentiate its offering, as appropriate to the product, either through branding or through distinctive fashion and style. Its marketing efforts shift from “channel push” towards “consumer pull”. It will actively engage in trade promotion, in advertising to consumers and in product design. Moreover, its marketing and sales organisation is similar to that of a developed country’s company (e.g. uses advertising agencies).
PART II. THE CASE STUDY

The second part of this dissertation will be entirely dedicated to the case study. First we will speak about the methodology and research methods involved. Then the practical case will be described and analysed. Finally, we shall present the conclusions of the study, as well as its limitations and indications for further research.
4. THE RESEARCH METHOD

In this chapter we will start with an overview of the methodology and research method used. We shall define it, put forward the reasons that justify its use and we will also present the research steps to be taken.

4.1. METHODOLOGICAL CONSIDERATIONS

First of all, it is necessary to stress the difference that exists between methodology and methods. Methodology is “concerned with the process of doing research, and as such it has both ontological and epistemological dimensions” (Ryan et al, 2002). Methods are the techniques used in the research, such as statistical techniques or case studies. Ryan et al. (2002) point out that the selection of the most appropriate research methodology is dependent on the nature of the phenomenon being studied. These authors say the researcher’s assumptions about the nature of a certain phenomenon’s reality (ontology) will affect the way in which knowledge can be produced about that phenomenon (epistemology), which in turn will affect the way that research will be conducted (methodology). Therefore, the choice of the appropriate methodology for a research work must not be done without a consideration of the ontological and epistemological assumptions which support that research.

Morgan and Smircich (1980) have developed a six fold classification of the social world, which provides six fundamental ontological assumptions:
1. Reality as a concrete structure (Naïve Realism)
2. Reality as a concrete process (Transcendental Realism)
3. Reality as a contextual field of information (Contextual Relativism)
4. Reality as a symbolic discourse (Transcendental Idealism)
5. Reality as a social construction (Social Constructionism)
6. Reality as a projection of human imagination (Idealism)
These ontological assumptions can be regarded as six different ways of viewing the world, with reality as a concrete structure being the most objective and reality as a projection of human imagination being the most subjective (Ryan et al. 2002).

Ryan et al. (2002) argue that when reality is concrete and objective, and human behaviour is deterministic, knowledge is gained through observations, thus the scientific method will be appropriate. Nevertheless, when reality is based in subjective experiences and individuals have free will, knowledge is gained through interpretation and hermeneutical (i.e. social research) methods are more appropriate. Our study clearly corresponds to the latter option, as we follow the IMP Group’s interaction approach.

Hopper and Powell (1995, in Ryan et al., 2002) have proposed a taxonomy of research, which resulted from the combination of two continua: subjective-objective and regulation-radical change. The resulting four sections are labelled: Functionalism, Interpretive, Radical Humanism and Radical Structuralism.

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**Figure 2. A taxonomy of research**

Source: Hopper and Powell (1995)
Applying this taxonomy, we can say that we will proceed with interpretive research, which is concerned with understanding the social world. Theory is used to provide explanations of human intentions and its adequacy is assessed through logical consistency, subjective interpretation and agreement with the actors’ common sense interpretations. Reality is socially created and objectified through human interaction. Human action is intentional and has meaning grounded in the social and historical context (Ryan et al., 2002).

Qualitative research is usually associated with schools which fall broadly within the so-called interpretive sociological tradition (Mason, 2002). And indeed we are proceeding with qualitative research, applying the case study method.

### 4.2. The Case Study Method

The case study was the chosen method for this study of a triad composed by a customer, an intermediary and suppliers. According to Yin (1994), the determinants for choosing the method are: the type of research question, the control the researcher has over actual behavioural events and the focus on contemporary or historical phenomena. Generally, case studies are chosen when the research questions start by “why” or “how”, when the researcher has little or no control over events and when the focus is on a contemporary phenomenon within some real-life context.

#### 4.2.1. Presentation of the Case Study Method

“A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 1994). This means that the case study shall be used when the researcher deliberately wants to cover contextual conditions, when these are relevant for the phenomenon being studied.
The case study is an intensive research strategy, since it aims to make a wide and in-depth analysis of a certain phenomenon, from various points of view (Almeida, 1994). Its wideness is achieved through the observation of as many aspects of the phenomenon as possible. It is an in-depth analysis, since not only the present but also the past are studied (Greenwood, 1965). Its main feature is indeed the depth of and focus on the research object, whether it is an individual, a group, an organisation, a culture, an incident or a certain situation (Ghauri, 2004). Case studies are designed to bring out the details from the viewpoint of the participants by using multiple sources of data (Tellis, 1997b).

Ghauri (2004) argues that a case study “should not be regarded as a methodological choice, but as a choice of object to be studied instead.” In business studies, case studies are normally used to provide insight into an issue, a management situation or a new theory. This author believes the case study method is particularly well suited for research in the field of international business, where data is collected from cross-border and cross-cultural settings. It provides opportunities for respondents and researchers to check their understanding and keep on asking questions until they obtain sufficient answers and interpretations.

Eisenhardt (1989) says that case studies can be used to achieve three main objectives: to provide a description, to test a theory or to generate a new theory. Actually, this author states that this research method is especially appropriate for new topic areas or when the researcher intends to build a theory.

Comparing the case study with other methods, according to Yin (1994), the case study should be the preferred research method when “how” or “why” questions need to be answered, when analysing contemporary events and when the behaviours cannot be controlled. When the research question is “what”, the objective of the study is to develop hypothesis or propositions for later testing, so for this exploratory study various other research methods can be used. If the question is “how many” or how much”, then a survey or archival analysis should be used.
| Strategy       | Form of research question | Requires control over behaviour events? | Focuses on contemporary events? |
|---------------|---------------------------|----------------------------------------|---------------------------------
| Experiment    | how, why                  | yes                                    | yes                              |
| Survey        | who, what, where, how many, who much | no                                     | yes                              |
| Archival analysis | who, what, where, how many, how much | no                                     | yes/no                           |
| History       | how, why                  | no                                     | no                               |
| Case study    | how, why                  | no                                     | yes                              |

Table 7. Relevant situations for different research strategies
Source: Yin (1994)

One of the main features of the case study method is its methodological flexibility. Whereas with experiments there is a defined sequence for applying data collection techniques, in the case study the researcher can use any technique in any sequence (Greenwood, 1965). It is similar to making a historical review, but besides reviewing historical material and records, plus interviews, there is also the possibility of direct observation and interaction.

Another strength is the contextuality of case studies (Yin, 1994), namely in international business, because the phenomenon being studied may be difficult to study outside its natural setting. Worth mentioning is also the level of depth with which each case is investigated, which allows for theory building, not just theory testing. Case studies are holistic and therefore the investigation of a phenomenon can be made from various points of view, covering a period of time and crossing the boundaries between different factors. Variables involved are normally too complex and too many, so survey or experiment methods would be hard to use (Ghauri, 2004).
In the present investigation we analyse how the actors interact in the triad and we have little control over events. This is also a contemporary phenomenon, so the three requisites proposed by Yin (1994) for choosing the case study are fulfilled. We take a holistic perspective and the variables are quite complex, which also support the use of this method. Moreover, this work is in the field of international business, so as advised by Ghauri (2004) the case study should also be the most appropriate method.

4.2.2. Prejudices against the Case Study

In his 1994 book, Yin points out some of the traditional prejudices against the case study strategy, which we will summarise below.

Many people think the case study lacks rigour, because many times the researcher has been sloppy and has allowed equivocal evidence or biased views to influence the direction of the findings and conclusions. There is also the possibility that many people might have confused case study teaching with case study research. In teaching, case study materials may be intentionally manipulated do demonstrate a particular point more effectively.

Another concern about case studies is that they provide little base for scientific generalisation. People may ask how generalisation can be made from a single case. Yin (1994) argues that scientific facts are rarely based on single experiments, but usually on a multiple set of experiments. We can make multiple case studies, but, like experiments, case studies are generalisable to theoretical propositions and not to populations or universes.

Mason (2002) makes a distinction between empirical generalisation and theoretical generalisation. The first basically consists of making generalisations from an analysis of an empirical population (i.e. a sample) to a wider population, claiming that the studied sample was statistically representative of the wider population. According to this author, this is the least used method in qualitative research, so “most qualitative researchers are unable or unwilling to attempt to generalise their explanations in this way.” Theoretical
generalisation is usually seen as more productive; nevertheless, it does not represent one uniform method of generalising, but can include a varied range of strategies based on different logics. Therefore, the researcher should work out what kind of theoretical generalisations can be made, and on what basis, taking into account the context of the specific research project. Mason gives some examples of possibilities of theoretical generalisations, one of them being the argument of “taking lessons for other settings”. In fact, a researcher may produce an analysis of processes in a particular setting, detailing how and why those processes worked on that setting. Based on the idea that “if this happened, therefore it can happen”, the researcher can try to widen the resonance of his/her argument by asking questions about the lessons for other settings.

Due to the array of data collection techniques that can be used and to the intensive nature of the study, it is likely that a huge amount of data is collected, since there is no predetermined limit for the research, as in other methods. Another criticism frequently made to case studies is that they take too long and result in very large and unreadable documents. In fact, many case studies have been like that in the past, but there are alternative ways of writing the case study (e.g. question and answer format), as Ghauri (2004) points out. Case studies do not depend just on ethnographic or participant observer data. One can make good a case study with just a few data collection techniques, depending on the phenomenon being studied.

Our aim is not generalisation, but rather to study this particular customer-supplier relationship in depth. With regard to the danger of biased views, even though participant observation is one of the data collection techniques used, the researcher has tried to separate the study from the professional activity, which was facilitated by the fact that she does not have a top management role. We have also tried to be as concise as possible, synthesising information in tables and figures whenever possible.
4.2.3. Typology

“There may be exploratory, descriptive or explanatory case studies” (Yin, 1994 citing Yin 1981, p4). Case studies are appropriate for every phase of an investigation: for the exploratory, phase for the descriptive phase and for the explanatory phase.

According to Tellis (1997a), in exploratory case studies, fieldwork and data collection may be undertaken prior to the definition of the research questions and hypotheses. This type of study has been considered as a prelude to some social research. However, the framework of the study must be created ahead of time. Explanatory cases are suitable for doing causal studies. In very complex and multivariate cases, the analysis can make use of pattern-matching techniques. Descriptive cases require that the investigator begins with a descriptive theory, or problems are likely to occur during the project. The formation of hypotheses of cause-effect relationships is implied in this type of study, therefore the descriptive theory must cover the depth and scope of the case under study. The selection of cases and the unit of analysis are developed in the same manner as the other types of case studies.

Stake (1995) included three other types of case studies: intrinsic - when the researcher has an interest in the case; instrumental - when the case is used to understand more than what is obvious to the observer; and collective - when a group of cases is studied.

Other authors, such as Becker et al. (2005), proposed other typologies of case studies, as follows:

- Illustrative case studies
  These are primarily descriptive studies. They typically use one or two instances of an event to show what a situation is like. Illustrative case studies serve primarily to make the unfamiliar familiar and to give readers a common language about the topic in question.
• Exploratory (or pilot) case studies
  These are condensed case studies performed before implementing a large scale investigation. Their basic function is to help identify questions and select types of measurement prior to the main investigation. The primary pitfall of this type of study is that initial findings may seem convincing enough to be released prematurely as conclusions.

• Cumulative case studies
  These serve to aggregate information from several sites collected at different times. The idea behind these studies is that collection of past studies will allow greater generalisation without additional cost or time being expended on new and possibly repetitive studies.

• Critical instance case studies
  These examine one or more sites for either the purpose of examining a situation of unique interest with little to no interest in generalisability, or to call into question or challenge a highly generalised or universal assertion. This method is useful for answering cause and effect questions.

According to Yin’s (1994) typology, we intend to make a descriptive case study, since our aim is to describe how the actors interact in a triad formed by a customer, an intermediary and the suppliers, showing the rationale behind the actors’ behaviour. Alternatively, according to Becker et al. (2005), this will be an illustrative case study.

4.3. Research Stages

We want to study a particular triadic relationship, involving a customer, its agent and its suppliers. Our aim is to see what image each actor has of that triad and assess how these network pictures affect the actor’s networking, i.e. how they behave in the network. In doing this, we will be providing a description of how business relationships among these actors take place, how business develops. Ultimately, we shall put some
propositions forward, in the attempt to explain some particular features of the studied triad.

Based on the reviewed literature by Yin (1994), and Quivy et al. (1998) we have structured the various research stages as follows:

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<table>
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<tbody>
<tr>
<td>1. <strong>Defining the research’s objectives</strong></td>
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<td></td>
<td>1.1. Literature review</td>
</tr>
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<td></td>
<td>1.2. Definition of the research topics (elements which will compose the matrix)</td>
</tr>
<tr>
<td>2. <strong>Conducting the case study</strong></td>
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<td></td>
<td>2.1. Selection of the unit of analysis</td>
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<td></td>
<td>2.2. Selection of the data collection techniques</td>
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<td></td>
<td>2.3. Data collection</td>
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<td>3. <strong>Data analysis</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.1. Identification of the analysis criteria and their application</td>
</tr>
<tr>
<td></td>
<td>3.2. Definition of propositions</td>
</tr>
<tr>
<td>4. <strong>Writing the report</strong></td>
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</table>

First of all, we need to **define the research’s objectives**. This step is divided into literature review and definition of the research topics. The definition of the research question will be clarified in the exploratory stage, which consists of gathering the first information about the generic subject of investigation. This information may be obtained through literature review and contacts with people connected to the phenomenon being investigated (Almeida, 1994). The first review of the existing literature about the subject is essential, as the researcher needs to know more information about the subject, and also needs to know what has already been said and researched about it.

After the exploratory phase, we can move on to defining the problem more precisely, clarify what is going to be studied, which relations will be established between the concepts. Yin (1994) states that the starting question does not automatically direct the researcher to what he/she should study. Propositions have to be pointed out, so that the
researcher then looks for evidence to support them. In this study, the definition of propositions will be our aim, therefore these will be only put forward at a later stage. At this stage, we shall choose the research topics according to the reviewed literature.

After defining the research’s objectives, the researcher can start **elaborating the actual case study**. We start by selecting the unit(s) of analysis, the selection of the data collection techniques and, finally, data collection itself.

The selection of the unit(s) of analysis is intimately connected to the case itself. In the classical case study, the “case” may be an individual, but it can also be an event or entity, which is not as well defined as a single individual. Yin (1994) gives some examples of this latter case - decisions, programmes and organisational change. This author says that “the definition of the unit of analysis (and therefore of the case) is related to the way the initial research questions have been defined” (Yin, 1994). These cases should correspond to the theoretical framework or the variables one is studying. Indeed, just like in any other research method, it is important to decide the target population that is going to be used for the investigation – the companies, individuals, groups or elements that will be represented in the study. Then it is necessary to assess the accessible population and select one or a few cases, objects or companies for study.

In order to avoid confusion and a wrong definition of the unit of analysis, Yin (1994) suggests that the researcher discusses the potential case with a colleague. This author also advises researchers to set specific time boundaries for the beginning and end of the case. He also points out that the time available for the study, the financial resources for travelling, personal contacts and other practical issues are of utmost importance, since they will condition the chosen elements.

There is usually no upper or lower limit to the number of cases to be included in a study. It is the research problem and the research objectives that influence the number and choice of cases to be studied. According to Yin (1994), a single case is appropriate when it represents a critical case in testing a well formulated theory. A case is critical when it meets all the necessary conditions to confirm, confront or extend the theory. A
single case is also appropriate when a case is revelatory, i.e. when a researcher can study a phenomenon which was not accessible previously and which can provide useful insights. Finally, a single case study can be used as a pilot or exploratory study, which will serve as a first step to a later, more comprehensive study. In comparative or multiple case studies, the same questions are asked among various organisations, and then will be compared to each other, in order to draw conclusions. The purpose of data collection in the comparative case method is to compare a certain phenomenon in a systematic way, to explore different dimensions of the research issues or to examine different levels of research variables. The researcher must justify the selection of each case, i.e. each case must serve a particular purpose in the study.

The use of a particular case study method depends also upon the type of study being conducted, whether it is inductive or deductive. It also depends upon whether the researcher is looking for specific or general explanations. If it is an inductive approach and one is looking for specific explanations, the single case can be used. But if one is looking for general explanations, a multiple-case design should be used. On the other hand, if the study being done has a deductive approach, the case study method can be used at an early stage to develop hypothesis and propositions. But Yin (1994) advises that the case study method is less recommended if the researcher is aiming at generalisations.

In our investigation, the unit of analysis is the triad composed by the customer, the intermediary and the suppliers. This case can be considered revelatory, as it describes a situation in which we can see a change in the relationships between the intervenient actors, corresponding to the current trend in international sourcing. In fact, this case can be a starting point for a later, more comprehensive study.

Yin (1994) argues that data collection techniques should be used appropriate and systematically in the search for evidence, in order to guarantee that the study has been well constructed in what concerns the validity of construction itself, the internal and external validity, and reliability. Four tests have been generally used to ascertain the quality of any empirical social research:
<table>
<thead>
<tr>
<th>Tests</th>
<th>Case study tactic</th>
<th>Phase of research in which tactic occurs</th>
</tr>
</thead>
</table>
| Construct validity | - use multiple sources of evidence  
- establish chain of evidence  
- have key informants review draft case study report | data collection  
data collection  
composition |
| Internal validity    | - do pattern-matching  
- do explanation-building  
- do time-series analysis | data analysis  
data analysis  
data analysis |
| External validity    | - use replication logic in multiple-case studies | research design |
| Reliability         | - use case study protocol  
- develop case study data base | data collection  
data collection |

Table 8. Case study tactics for four design tests  
Source: Yin (1994)

Construct validity deals with establishing correct operational measures for the concepts being studied and, in our case, we have used multiple sources of evidence. Internal validity (for explanatory studies only) means establishing a causal relationship, whereby certain conditions are shown to lead to other conditions. External validity refers to establishing the domain to which a study’s findings can be generalised. Finally, the reliability refers to the stability, accuracy and precision of measurement; its aim is to demonstrate that the operations of a study can be repeated, with the same results.

After these considerations, the researcher can proceed with the actual data collection. The evidence for case studies may be qualitative, quantitative, or both (Eisenhardt, 1989). The most cited sources of evidence are: documents, archival records, interviews, direct observation, participant-observation and physical artifacts (Yin, 1994). Each source of evidence has its strengths and weaknesses, as detailed in Table 9:
<table>
<thead>
<tr>
<th>Source of Evidence</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documentation</td>
<td>• stable – can be reviewed repeatedly</td>
<td>• retrievability – can be low</td>
</tr>
<tr>
<td></td>
<td>• unobtrusive – not created as a result of the case study</td>
<td>• biased selectivity, if collection is incomplete</td>
</tr>
<tr>
<td></td>
<td>• exact – contains exact names, references and details of an event</td>
<td>• reporting bias – reflects (unknown) bias of author</td>
</tr>
<tr>
<td></td>
<td>• broad coverage – long span of time, many events and many settings</td>
<td>• access – may be deliberately blocked</td>
</tr>
<tr>
<td>Archival Records</td>
<td>• (same as above for documentation)</td>
<td>• (same as above for documentation)</td>
</tr>
<tr>
<td></td>
<td>• precise and quantitative</td>
<td>• accessibility due to privacy reasons</td>
</tr>
<tr>
<td>Interviews</td>
<td>• targeted – focuses directly on case study topic</td>
<td>• bias due to poorly constructed questions</td>
</tr>
<tr>
<td></td>
<td>• insightful – provides perceived causal inferences</td>
<td>• response bias</td>
</tr>
<tr>
<td></td>
<td>• response bias</td>
<td>• inaccuracies due to poor recall</td>
</tr>
<tr>
<td></td>
<td>• reflexivity – interviewee gives what interviewer wants to hear</td>
<td>• reflexivity – event may proceed differently because it is being observed</td>
</tr>
<tr>
<td>Direct Observations</td>
<td>• reality – covers events in real time</td>
<td>• time-consuming</td>
</tr>
<tr>
<td></td>
<td>• contextual – covers context of event</td>
<td>• selectivity – unless broad coverage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• reflexivity – event may proceed differently because it is being observed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• cost – hours needed by human observers</td>
</tr>
<tr>
<td>Participant-Observation</td>
<td>• (same as above for direct observations)</td>
<td>• (same as above for direct observations)</td>
</tr>
<tr>
<td></td>
<td>• insightful into interpersonal behaviour and motives</td>
<td>• bias due to investigator's manipulation of events</td>
</tr>
<tr>
<td>Physical Artifacts</td>
<td>• insightful into cultural features</td>
<td>• selectivity</td>
</tr>
<tr>
<td></td>
<td>• insightful into technical operations</td>
<td>• availability</td>
</tr>
</tbody>
</table>

Table 9. Six sources of evidence: strengths and weaknesses
Source: Yin (1994)
Generally, interviews are a fundamental source of evidence in a case study, because most cases are about human affairs and these should be reported and interpreted through the specific interviewees who can provide important insights and information about them. Interviewees can also provide shortcuts to the prior history of the situation, thus helping to identify other relevant sources of evidence (Yin, 1994).

Daniels et al. (2004) present three situations when interview-based studies are appropriate for International Business research:

- In exploratory and theory building studies, when researchers study an issue with little or no pre-existing theoretical bias or when there is too much to learn for a survey questionnaire to do justice. In these cases, interviews allow the researcher to discover new relationships or situations not previously conceived. Then these may lead to theories, which researchers will test later.
- When there is a small population of possible respondents.
- Interviews may allow researchers to develop a deeper bond with informants than is possible through written questionnaires. Besides, an interviewer can foster a trusting relationship to gain cooperation when needing information or undertaking follow-up studies. The access to other informants within the company should also be facilitated.

Nevertheless, the data collected from interviews should always be corroborated with information collected through other sources, due to the interviewees’ bias or poor recall (Yin, 1994).

There are three types of interviews:

- Open ended – the respondents freely answer the posed questions and give their opinions about the facts; the researcher can ask the respondent to propose his/her own insights into certain occurrences and may use such propositions as the basis for further enquiry. The more that a respondent assists in this latter manner, the more his/her role can be more of an informant, rather than a respondent.
• Focused – the respondent is interviewed for a short period of time; the interviews may still remain open-ended and assume a conversational manner, but a set/script of questions is being followed. A major purpose of this type of interview may be to corroborate certain facts, so in this case the interviewer needs to be careful not to lead the answers, so that the answers are not biased.

• More structured questions, similar to a survey – the difference would be the survey’s role in relation to other sources of evidence, it would be just one component.

Through direct observation, which is a field study to the case study “site”, some relevant behaviours or environmental conditions can be observed, such as meetings, factory work, classrooms, etc. Nevertheless, this data collection technique may be costly and time consuming. There may also be the problem of reflexivity, that is, the actors may behave differently if they know they are being observed.

In participant observation the researcher is not a passive observer, but may assume several roles within a case study situation and may even participate in the events being studied. This technique for collecting data obviously presents many advantages: the ability to perceive reality from the viewpoint of someone “inside” the case study or the ability to manipulate minor events (e.g. arranging a meeting). However, it also has problems related to the potential biases produced: the investigator may have to assume positions contrary to the interests of good scientific practices, the participant role may require too much attention relative to the observer role, so that he/she may not have enough time to take notes about events.

In our study, the main data collection technique was the interview, specifically the focused interview, since interviewees have answered a set of questions in a particular order. Other sources of data were documents and participant observation, but we shall speak about this with more detail further ahead, in section 5.2.
Yin (1994) argues that the benefits from the six sources of evidence can be maximised if three principles are followed. They can help the researcher to deal with the problems of establishing the construct validity and reliability of a case study. The first principle is to use multiple sources of evidence, also known as triangulation. This is one of the defining features of a case study and its main advantage is that it can produce a more complete portrait of the object of study. It is particularly important in a case study, since it is necessary to check and validate the information received form various sources and examine it from different angles. In sum, triangulation is used to reduce the likelihood of misinterpretation (Ghauri, 2004). Yin (1994) adds that with triangulation the potential problems of construct validity can be addressed, since the multiple sources of evidence provide multiple measures of the same phenomenon. The second principle is to create a case study database, so the database and the investigator’s report should be separate. The third principle is to maintain a chain of evidence, so that an external observer is able to follow the derivation of any evidence from initial research questions to ultimate case study conclusions, and is also able to trace the steps in either direction (i.e. from conclusions back to initial research questions and vice-versa).

Case study research generates a large amount of data from multiple sources, so Soy (1997) advises that systematic organisation of the data is important to prevent the researcher from becoming overwhelmed by the amount of data and from losing sight of the original research purpose and questions.

In our case, it was possible to make triangulation and confront the information gathered through the interviews with the information collected from documents and participant observation.

The third research stage is data analysis. Eisenhardt (1989) considers that this stage is the heart of building theory from case-studies, but also the most difficult and least codified part of the process. Ghauri (2004) advises that the researcher must present an “authentic” understanding of people’s experience. This implies not just understanding the point of view of the individuals and groups being studied, but also interpreting data against the background of the context in which they are produced (Hammersley and Atkinson, 1983, in Ghauri, 2004). Researchers have to ensure and demonstrate that they
have produced and authentic interpretation of the collected data. One way to do this is by making sure that data analysis and collection are closely interconnected during the life cycle of the case study research. According to Miles and Huberman (1994), the best policy is to interweave data collection and data analysis right from the first case/interview. This allows theory to develop alongside the growing volume of data, so that the research problem can be formulated or even reformulated at the same time. This often leads to new questions and new data collection, and there is no definite phase of data analysis (Ghauri, 2004). A second case study should not start until the data collected through the first one has been analysed, so that the researcher can learn from the mistakes made in the first data collection and improve the techniques in subsequent cases. Furthermore, early analysis reduces the risk that the researcher might drown in a large amount of data, as it is often quite difficult for researchers to filter the irrelevant data before analysis actually commences (Ghauri, 2004).

Ghauri (2004) summarises the various techniques for case study analysis in the following table:

<table>
<thead>
<tr>
<th>Techniques for case study analysis</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coding</td>
<td>Sorting data according to concepts and themes</td>
</tr>
<tr>
<td>Clustering</td>
<td>Categorising cases according to common characteristics</td>
</tr>
<tr>
<td>Matrices</td>
<td>Explaining the interrelationship between identified factors</td>
</tr>
<tr>
<td>Decision tree modelling</td>
<td>Grounding a description of real world decisions and actions coherently by using multiple cases</td>
</tr>
<tr>
<td>Pattern matching</td>
<td>Comparison between a predicted and an empirically based pattern</td>
</tr>
</tbody>
</table>

Table 10. Techniques for case study analysis
Source: Ghauri (2004)

The first step of analysis should be to construct a case description and explanation, because it will help the researcher to understand how things are developing and why things occur the way they do. The researcher should start with a simple “story telling” about a certain situation and progress in chronological order. The second step should be
rearranging the collected data into conceptual categories. This coding and categorisation will help to interpret the data and help to relate the information to the research’s questions and frameworks. In a multiple case study it is essential to make a good case comparison, because one way to draw conclusions from data collected through case study methods is to look for commonalities and differences between cases. However, this task is not simple, as different cases may tell different stories and lead to different variables. Then the author suggests the use of matrices to analyse each case in depth and explore the relationship between different factors. Decision tree modelling should be used as a starting point for describing the factors in individual decision-making (Gladwin, 1989, in Ghauri, 2004). Finally, pattern matching can lead to accepting or rejecting research propositions, depending on how the information from one or several cases is related to a priori assumptions (Campbell, 1975, in Yin 1994).

Soy (1997) also refers to categorisation, tabulation and recombination of data, in order to address the initial propositions or purpose of the study and conduct cross-checks of facts. It may be necessary to make short and focused repeat interviews to gather additional data to verify key observations or check a fact. This author also states that, in this phase, quantitative data may be used to corroborate and support qualitative data, which is very useful for understanding the rationale or theory underlying relationships. It may also be useful to use multiple investigators to gain advantages in terms of variety of perspectives and insights when examining the data and the patterns. When the multiple observations converge, confidence in the findings increases, whereas conflicting perceptions, on the other hand, cause the researchers to investigate further.

Indeed, if there is a considerable discrepancy between the observed and the expected results, one can conclude that the research hypotheses are not confirmed and thus it will be necessary to find the reason why that happened. The researcher must then go back to the definition of the research questions stage, formulate new hypotheses and repeat the whole process again (Quivy et al., 1998)

Regarding the comparison with literature, Yin (1994, p.25) argues that “the key definitions should not be idiosyncratic”, since most researchers will want to compare
their findings with existing literature. In fact, this author suggests that “each case study and unit of analysis either should be similar to those previously studied by others or should deviate in clear, operationally defined ways.

In our case, we have started by sorting data according to concepts and themes taken from the reviewed literature. These concepts and themes were then used to build a matrix, in order to better compare and analyse the collected data.

Finally, the last research stage is the **writing of the report**, whose aim should be “to portray a complex problem in a way that conveys a vicarious experience to the reader” (Soy, 1997). This author refers to some of the techniques for composing the report, such as handling each case as a separate chapter or treating the case as a chronological recounting. In every case, the researcher should use representative audience groups to review and comment on the draft document, so that he/she can review and rewrite the report. Some other researchers suggest that the document review is made by an audience which includes a journalist, while others suggest the documents should be reviewed by participants in the study.

Yin (1994, p.127) refers to the reporting phase as “one of the most difficult to carry out in doing case studies” and advises the researcher not to wait until after data analysis to start writing the report. The author also recommends that the compositional process of a report follows these steps:

- **Identifying the possible audiences** – Since case studies have usually a more diversified range of possible audiences than other types of research (colleagues, policymakers, practitioners, etc.) and each audience has different needs, no single report will serve all audiences simultaneously. Therefore, the researcher might need to make more than one version of the case study report.
- **Developing the compositional structure** – Case studies’ reports can take written or oral forms, or even a set of pictures or videos. The choice has to do with the audience. The advantages of written reports relate to the greater precision of information being conveyed, which is often complex, and thus would not be conveniently portrayed in a pictorial form. Written reports are also more
familiar for both the reader and the writer, who have usually practised writing and reviewing written reports.

- Following certain procedures, such as the revision of the report by an informed person.

Yin (1994) suggests the six structures for case study compositions presented on the table below:

<table>
<thead>
<tr>
<th>Type of Structure</th>
<th>Purpose of Case Study (single or multiple case)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Explanatory</td>
</tr>
<tr>
<td>1. Linear-analytic</td>
<td>X</td>
</tr>
<tr>
<td>2. Comparative</td>
<td>X</td>
</tr>
<tr>
<td>3. Chronological</td>
<td>X</td>
</tr>
<tr>
<td>4. Theory-building</td>
<td>X</td>
</tr>
<tr>
<td>5. “Suspense”</td>
<td>X</td>
</tr>
<tr>
<td>6. Unsequenced</td>
<td>X</td>
</tr>
</tbody>
</table>

Table 11. Application of six structures to different purposes of case studies
Source: Yin (1994, p.138)

The linear analytic structure is the standard approach for composing research reports of all types (explanatory, exploratory and descriptive). It includes the issue being studied, a literature review, the methods used, the findings from the data collected and analysed, plus the conclusions and implications from those findings. Yin (1994) considers this structure as the most appropriate for an audience of research colleagues or a thesis or dissertation committee.

The comparative structure repeats the same case study two or more times, comparing alternative descriptions or explanations of the same case.
In chronological structures, the case study evidence is presented in chronological order. This approach may be particularly useful for explanatory case studies, where causal sequences must occur linearly over time.

In theory-building structures the sequence of chapters should follow some theory-building logic, which will depend on the particular topic and theory. Each chapter should untie a new part of the theoretical argument being presented.

The suspense structure inverts the analytic approach, since the outcome of the case study is presented at the beginning of the report, instead of at the end. Then the explanation of the outcome is described in the following sections. This approach is relevant for explanatory case studies only, as descriptive cases studies have no especially important outcome.

Finally, in an unsequenced structure, the sequence of chapters has no particular importance, so it is suitable for descriptive case studies only.

In the present dissertation, we are adopting the linear analytic-structure. For all that has been said about the case study method, namely Yin’s (1994) theoretical contributions, we believe this is the most suitable to our study of buyer-supplier relationships in the context of international sourcing.

Having made all the relevant methodological considerations, it is time now to proceed to the description and analysis of the case study itself.
5. THE CASE

This chapter aims to study the triad formed by Li & Fung, Next and its suppliers. Firstly, we will describe in detail each of the actors involved: the customer (British retailer Next), the agent (Chinese multinational Li & Fung) and the Suppliers (three Portuguese ceramics factories). Secondly, following the previously presented research stages, we shall analyse the case in the light of the perspectives of each of the three actors involved.

5.1. CASE DESCRIPTION

In this subchapter we will present the three actors who constitute the triad, which is our unit of analysis: Next, Li & Fung and the Suppliers (three companies which will be considered as single entity).

5.1.1. THE CUSTOMER: NEXT

NEXT is a British department store founded in 1982, selling women’s clothes, shoes and accessories. Shortly after, followed men’s and children’s wear. Next target public is 20-45 year-olds, who look for classic and contemporary style at affordable prices. In 1985 Next Interiors was launched to sell a range of soft furnishings for the Home.

Mail order sales were the next big step for the company, by launching Next Directory in 1988. The range of home products was extended and originated Next Home in 1995, selling a range of contemporary furniture and furnishings as well as wall coverings, rugs, lighting and accessories. On-line shopping became possible in 1999 and, two years later, www.nextflowers.co.uk was launched for sales of fresh flowers.

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1 The description of Next was based on information provided by the website www.next.co.uk and Next’s internal documents.
At the end of 2006, Next had 439 stores all over the UK and Ireland, half of which also had a Home department. There are also about 100 franchised stores in Europe, Asia and the Near East.

Another company of the Next group is Next Sourcing Ltd., which is responsible for design, sourcing, buying, merchandising and quality control of products, mainly garments. It has offices in Hong Kong, China, Thailand, India, Eastern Europe, Turkey, Sri Lanka and the UK. Ventura is the third company of the group, whose business is providing call-centre and customer services to other companies.

Next’s turnover in 2006 was £3.1bn, 75% of which have been originated by retail sales and 25% through directory sales.

5.1.1.1. Next Home

Next Home is the relevant department for study in this network, since it’s the one working with Li & Fung for sourcing of products. It is one of the leading home retailers in the UK, with 210 stores all over the country and Ireland.

This department is divided into several areas/types of products:

- Furniture (indoor and outdoor)
- Bedding
- Bathroom
- Upholstery
- Curtains
- Rugs
- Kitchen
- Accessories
- Lighting
- Stationery
- Flowers
The structure of Next Home is as follows:

![Next Home Structure Diagram]

Figure 3. Next Home structure  
Source: Next

Buyers are responsible for:
- Product and range development;
- Researching competitors’ ranges and identifying product trends;
- Ensuring a balanced range in terms of customer profile, fashion direction, lead-time, selling price and margin;
- Range presentation to Product Directors and Managers;
- Price negotiations with suppliers;
- Supplier sourcing and management.

Merchandisers are responsible for:
- Pre-season range building and planning;
- Reviewing sales figures and monitoring stocks to maximise sales;
- Managing delivery schedules and placing repeat orders to meet potential demand;
- Securing the best possible delivery dates from suppliers in line with quick response;
- Minimising the risk of loss-making surplus stocks.

Technologists are responsible for:
- Ensuring all products comply with Next’s agreed technical requirements and quality standards;
- Monitoring and evaluating suppliers’ performance;
- Analysing customer returns and implementing corrective actions;
- Evaluating and developing suppliers to ensure they are able to meet Next’s requirements.

In 2006 Next Home’s turnover reached over £450 million, which was 14% of Next’s total turnover. Retail and directory sales have contributed for these results equally.

Figure 4. Next Home Total Sales
Source: Next

- **Product Development and Purchase Process**

 Most of Next’s product range is designed almost entirely in house and is exclusive to the Next brand. Each collection for fashion or home is the result of nearly twelve
months planning by the product teams. There are two seasons a year: Spring/Summer and Autumn/Winter. Hence, the purchasing activities are scheduled accordingly.

Designers begin by travelling to the fashion capitals of the world to identify the key international trends for the new season. They use mood boards with fabric swatches and magazine cuttings to create a feel for the themes in the range which are presented to the buyers. Using the latest trend and sales information, the product teams produce a plan for the season – this “range direction” is the key strategy which the designers and buyers must work to. So, when they visit trade fairs and factories, they have to look for products according to those themes.

Let us take the Autumn/Winter season as an example. In September, Next hands out briefs to suppliers, in order to start preparing the range for Autumn/Winter of the following year. These briefs include the trends for that season, in terms of colours, shapes, designs, textures, etc. Within these briefs there may be specific designs (under Next copyright) for a factory to make a vase for instance, with a certain shape and colour; and, more frequently, there are only guidelines for factories to create pieces by themselves. Three or four weeks later, usually a buyer and a designer go to the factories to see what has been developed based on the briefs and make a first selection. Of course, quite often they choose items that are exhibited in the factories’ showrooms that had not been specially designed for Next. Normally, the buyer/designer asks for amendments to be made to the pieces (e.g. change of colour or shape), according to what they think is best for their customers. Prices and samples should be sent to Next within 2-3 weeks.

Then there is the first formal pre-selection meeting, attended by buyers, designers, technologists, merchandisers and managers. A short-list of items is selected and further amendments and samples are usually requested, as well as revision of prices. In early/mid-December there is the final selection meeting, where the whole range is showed to Next’s product directors and managers for approval and then the range is completed.
Next wants factories in general to be creative and when buyers/designers come to visit them, they always look for new techniques and new glazes. Thus, although Next gives factories directions in terms of trends and desired looks for their products, the company also wants their suppliers to be creative and is always looking for new products and sources of inspiration.

- **Placement of Orders and Production**

Some weeks after final selection the first orders for the new season are placed. Merchandisers send the orders by e-mail to the agents and then they are passed to the respective factories. These must then confirm dates and quantities requested by Next.

As production begins, technologists ensure that the range is produced to the right quality. To do so, they request pre-productions to suppliers, that is, suppliers should produce just a small quantity of the order. The objective is to assess the product in order to find possible defects that may occur and also to define tolerances and guidelines for the final quality control to be made to the goods. For example, in the case of a glass vase, the technologist defines the amount of bubbles that are acceptable in the piece and the maximum and minimum thickness of glass.

Merchandisers have to ensure that the range is delivered to the warehouses in time for the new season’s launch. And this is done with the help of local agents, who regularly visit factories to monitor production.

Meanwhile, the buyers and designers can focus their attention on the next season, as well as ensuring that the current range reflects all the latest trends.

Prior to receipt of stock into the warehouse, the branch merchandisers create stock allocation targets for each style and store based on historical sales information and predicted sales for the season. Once the stock has been distributed, actual sales are closely monitored, so that allocations can be revised and stock adjustments made to maximise potential sales. Therefore, repeat orders of a certain product are frequent
throughout the season and it can even carry over onto the next season if it is really a best-seller.

Goods from overseas must be efficiently received, loaded, shipped, customs cleared and delivered to the relevant warehouse in the United Kingdom. Next’s Import/Export Department is also responsible for ensuring that all goods are moved in the appropriate way – i.e. by air or sea - to meet the required delivery deadlines.

All merchandise, irrespective of its final destination, has to be checked and passed by the Quality Control Department before it can be logged onto the warehouse computer system and released as available for distribution to the final customer.

• Next’s Current Strategy

Competition among retailers is growing, therefore selling prices are not increasing, much on the contrary. Besides, some of Next’s competitors are copying its products faster than ever. Consequently, Next’s current strategy is focused on newness. Newness is the key to attract customers to the stores and increase sales, and also to minimise the effects of copying by competitors. The idea is to launch new products more often (not just once each season, but twice or three times per season) and progressively reduce the so-called carryover items (i.e. products that keep on sale from one season to another), unless they are really best-sellers. The development of new product areas is another objective.

Naturally, the speed of introduction of new products will be higher in certain categories than in others. For example, in Accessories change should be operated at a faster pace than in Furniture. Namely in Accessories (decorative ceramics and glass, candles, frames, etc.), change is often operated through colours – for instance, a certain vase is first launched in blue and two months later it is presented in brown.

The management of costs will continue to be an important issue, as well as the improvement of the gross margin.
To pursue this strategy, Next needs suppliers who can offer:
- design / product development;
- quick response;
- shorter lead times;
- less quantity of each product;
- competitive prices.

Next is also looking for new quick lead time routes, the so called “infill” routes, which basically will be used for sourcing when stocks of best selling products, initially bought in the Far East, are low. Besides Portugal, the countries Next is looking at are Spain, Hungary, Poland and North African countries.

- **Next’s Competitors**

Next’s main competitors for home goods at present are the supermarket chains Asda, Tesco, Sainbury’s and Matalan. Then there are the established high street retailers, such as Marks & Spencer, Debenhams, John Lewis, Bhs, etc. Worth mentioning is also Ikea, a reference worldwide for this product area.

Next’s products should be exclusive, that is why its own design team is important. And also when buyers are choosing new products from suppliers, they have to make sure no other British retailer has bought it before.

**5.1.2. THE INTERMEDIARY: Li & Fung**

The Li & Fung Group is a multinational group of companies operating in three distinct core businesses - export sourcing through Li & Fung Limited, distribution through IDS and retailing through CRA and other non-listed entities. The Li & Fung Group has a total staff of over 25,000 across 41 countries worldwide, with a total revenue of over US$10.4 billion in 2006.

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2 The description of Li & Fung is based on information provided by the website www.lifunggroup.com, Gupta and Radhika (2005) and Li & Fung’s internal documents.
It was founded in Canton (now Guangzhou) in 1906 by Fung Pak-Liu and Li To-Ming. The company started to export porcelain and silk from China, mainly to the USA, but later diversified into bamboo and rattan ware, jade, ivory, handicrafts and fireworks. It was one of the first Chinese-owned export companies in a time when trade in China was controlled by foreign commercial houses.

Since American customers did not speak Chinese and Chinese sellers did not speak English, traders who could speak both languages became valuable and prosperous mediators - Li & Fung was one of them. Because of the sea port facilities, Li & Fung was formally established in Hong Kong as a limited company in 1937.

Soon came WWII and trade was disrupted for some years. In 1943 Li To-ming sold his stake to the Fung family, who became sole owners of Li & Fung. After the war, Hong Kong developed as a manufacturing economy, exporting labour intensive consumer products. Li & Fung began to export garments, toys, electronics and plastic flowers on top of its original product lines, becoming Hong Kong’s biggest exporter.

In the early 1970s Hong Kong started to face competition from other newly industrialised countries, such as Taiwan and Singapore. Moreover, buyers and sellers were becoming more able to deal directly, causing intermediaries to lose importance and revenues. With the opening up of China in 1979, Hong Kong manufacturers relocated factories to Southern China, where labour costs were lower. The rapid industrialisation of the relatively less developed Asian countries has widened the choice of sources of supply. At this time, Li & Fung realised there was great potential for the trading business. The heavy investments made in these years in establishing a regional network of offices (Taiwan, Singapore and South Korea) is the foundation of the company's present strength in servicing its customers.

In 1985, Li & Fung (Retailing) Limited was formed. There were two chains within the retailing group: Circle K and Toys "R" Us. The retailing group's business extends from
Hong Kong to Taiwan, Singapore, Malaysia, the Chinese Mainland and other South East Asian countries.

In the 1990s, as business kept growing, Li & Fung decided to expand its network of sourcing offices in order to gain new customers as well. This was made mainly through the acquisition of other buying agencies. Traditional strengths in the Far East are complemented by a growing presence in the Indian sub-continent as well as the Caribbean and Mediterranean basins, which are gaining importance as quick response production bases for North American and European markets respectively.

In 1999, Li & Fung also diversified into the distribution business through the formation of a privately held business, the IDS Group. This company provides a menu of integrated-distribution services in three core businesses across Asia: manufacturing, logistics and marketing.

To sum up, over 90 years Li & Fung has evolved into a truly multinational group engaged in export trading, retailing and distribution.

**5.1.2.1. LI & FUNG (TRADING), LTD.**

For the analysis of this particular network, it is only relevant to speak about the export trading business - Li & Fung (Trading), Ltd. – the group’s major business and the world’s biggest trading company.

The company’s main product segments are soft goods (garments) and hard goods (fashion accessories, furnishings, gifts, handicrafts, home products, promotional merchandise, toys, sporting goods and travel goods).

Over the years, the company has evolved from being a simple buying agent to being a supply chain manager across many producers and countries. It provides the convenience of a one-stop shop for customers through a total value-added package: from product design and development, through raw material and factory sourcing, production
planning and management, quality assurance and export documentation to shipping consolidation. Its mission is to deliver the right product, at the right price at the right time.

This evolution took place in three stages, influenced by the changes occurred in the global retailing industry, customer and retailer preferences, and also economic trends across Asia through the early 1970s.

The first stage comprised the 1970-78 period, when Li & Fung acted as a regional sourcing agent for foreign buyers who did not have the resources for dealing directly with Asian suppliers.

From 1979 to 1982, Li & Fung evolved from sourcing agent into a manager and deliverer of production programmes. Customers came up with an idea of the product and gave specifications such as look, colour and quality, and then Li & Fung developed a detailed manufacturing programme for that product. The company worked together with the factories to plan and monitor the manufacturing process, to ensure quality and on-time delivery.

The third stage began in 1983, as Li & Fung faced a new challenge. The newly industrialised countries (NICs) such as Thailand and South Korea had emerged as low cost, labour intensive manufacturing hubs, whereas Hong Kong had become an expensive and less competitive place. With the liberalisation of the Chinese economy, the company decided to move the labour intensive portion of production to southern China. All high end value-added activities, such as design and quality control, were maintained in Hong Kong. This is called “dispersed manufacturing”. For example, when Li & Fung got an order for dolls, these were designed in Hong Kong and the moulds were also produced there. However, the moulds were then shipped to China, where they were injected with plastic; dolls were assembled and their clothes were tailored. After the completion of the labour intensive activities, the dolls were shipped back to Hong Kong for final testing, inspection, packaging, transportation and
distribution. Over the years, Li & Fung has gained expertise in dispersed manufacturing and has extended its network outside China.

In the late 1990s, as private label brands became more and more popular, product life cycles shortened and competition among retailers intensified, companies (namely in Western countries) had to focus on their supply chain processes. In fact, they started to outsource not just their manufacturing activities, but the whole supply chain management, mainly to save on costs and time. Li & Fung has therefore evolved once again, to become a manager of supply chains. Taking the dispersed manufacturing technique further, the company has dissected the entire value chain, from product design and development, raw material sourcing, production planning, conducting quality assurance and factory inspections, managing production and export logistics, on-time delivery and complying with import and export quota restrictions.

In 1995, Li & Fung acquired Inchcape Buying Services, a British trading conglomerate, which had an established network of offices in South Asia, the Mediterranean and the Caribbean. This acquisition nearly doubled the size and geographic reach of the company and brought with it a vast European customer base to complement its strong position in North America. Several other acquisitions followed throughout the late 1990s and beginning of 2000s.

Li & Fung has become a much broader intermediary, connecting and coordinating several links in the supply chain. And to strengthen its position in the global trading market, the company pursued an acquisition strategy. In fact, using the classifications provided by Gadde and Snehota (2001) and Balabanis (2005), Li & Fung can be considered as a provider and full service provider, respectively.

Li & Fung, Ltd. nowadays has a total staff of over 10,000 distributed by 72 offices across 41 countries worldwide, with a turnover of over US$8.7 billion in 2006.

Nowadays, Li & Fung works in close partnership with nearly 10,000 independent factories (i.e. not owned by Li & Fung). Of these, 47% are located in China, 21% in
Southeast Asia, 21% in India and 7% in Europe (1% in Portugal). This supplier distribution has obvious cost related reasons, but the recent expansion of production for Europe and the Mediterranean is happening because of a new type of production. Most European customers have been placing smaller orders, but for more sophisticated products with a relevant fashion component, hence proximity being quite important. Nearly 68% of Li & Fung’s customers are from the USA, 20% are European, and they are predominantly department stores and specialised retailers.

In terms of structure, besides the natural geographical division, there is a customer-centric division and a product type division. Within each business stream, there are several divisions, either customer-centred or product-centred, as detailed in Table 12. For instance, within LF One there is the LE (Living Europe) Division, whose main office is in Portugal.

<table>
<thead>
<tr>
<th>Stream</th>
<th>Primary Markets</th>
<th>Customer Types</th>
<th>Soft/Hard</th>
<th>Sample Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>LF One</td>
<td>US, Europe, Japan</td>
<td>Brands, Importers, Specialty Stores</td>
<td>Both</td>
<td>Disney, Avon, Next, Debenhams, Next, Homebase, Coca-Cola, WH Smith, Black Cat, etc.</td>
</tr>
<tr>
<td>LF Three</td>
<td>US, Canada, Japan, Mexico, Southern Hemisphere</td>
<td>Supermarket, Discounters Mass Merchants, Department Stores</td>
<td>Softgoods</td>
<td>Cato, Belk, Goody’s, Jacob, Mervyn’s, etc.</td>
</tr>
<tr>
<td>LF Seven</td>
<td>Europe</td>
<td>Brands, Specialty Stores</td>
<td>Softgoods</td>
<td>Ann Taylor, Liz Claiborne, Ben Sherman, Monsoon, Victoria Secret, Karstadt, Quelle, Neckermann, etc.</td>
</tr>
<tr>
<td>LF Eight</td>
<td>US</td>
<td>Brands, Department Stores</td>
<td>Both</td>
<td>Kohl’s, Carter’s, Reebok, Sara Lee, etc.</td>
</tr>
<tr>
<td>LF Nine</td>
<td>US, Canada, Mexico Southern Hemisphere</td>
<td>Supermarkets, Discounters Mass Merchants Department Stores</td>
<td>Hardgoods</td>
<td>Fred Myer, Loblaws, Peachtree, Meijer, etc.</td>
</tr>
<tr>
<td>LF Ten</td>
<td>US</td>
<td>Brands, Specialty Stores</td>
<td>Softgoods</td>
<td>AEO, Gymboree, Express, Tommy Hilfiger, etc.</td>
</tr>
<tr>
<td>LFUSA</td>
<td>US</td>
<td>Licensed Brands, Acquisitions, Logistics &amp; Importer Operations</td>
<td>Both</td>
<td>Levi Strauss Signature, Levi Strauss Red Tab, Royal Velvet, Cannon, etc.</td>
</tr>
</tbody>
</table>

Table 12. Li & Fung (Trading) Ltd. - Business Streams

Source: Li & Fung
Li & Fung allows each division to act as an independent unit with its own customers and profit and loss accounts. Division managers have considerable freedom to run their divisions. To motivate them to achieve their targets, the company gives out financial incentives. The necessary financial resources and administrative support are provided by the Operational Support Group (OSG), who also provides back-end support to the entire group operations (e.g. personal computers and network connections). The OSG also acts as an in-house human resources provider, offering recruitment services.

There is however one area where Li & Fung is not so flexible. Financial control and operating procedures are still centralised and tightly managed at the company’s headquarters in Hong Kong.

Li & Fung (Trading), Ltd. can either act as:

- Trading company - buys product to factories or assembles several components of the final product and then resells it to a customer. Customers do not know which factories are making their products.
- Agent (more frequent situation) - deals with factory on behalf of customer, from whom receives a commission fee. Customers know and have limited contact with factories.

The business form can vary depending on customers. With Next, all Li & Fung offices operate as agents.

5.1.2.2. Li & Fung Portugal

Li & Fung Portugal was created in 1996, but the office already existed before as part of Inchcape. It dealt mostly with apparel. Later in 2002, Li & Fung acquired another Portuguese buying agency called Holport, who dealt with home textiles and hard goods. At the moment, Li & Fung Portugal has got about 80 employees. Its main office is located in the surroundings of Oporto, but also has a small office in Alcobaça, the region where most ceramics and glass factories in Portugal are located.
Its structure is simple, being headed by the two division managers: one for Living Europe (LE) and another for Europe Apparel (EA). Each division has several departments, each comprising a number of customers. Within each department there is a merchandiser manager and the merchandisers, who are basically commercial people that deal with the customers and the factories daily. To support all departments, there is the quality control department, the people who spend most of their time in the factories, monitoring samples and production, making regular audits to current suppliers and also auditing potential new suppliers.

In 2005 a new department was created: Product Development and Research Studio (PDRS). Its is a group of six designers, whose job is to keep up to date with the latest trends and design new and innovative products (home textiles, ceramics and glass) and then, of course, to present the work to customers. If these are interested, the designs can then become reality in the selected factories. This is a value-added service provided by the company, aiming at differentiation from other intermediaries. The work of this team is obviously more likely to be more valuable to customers who do not have their own design studio.

This office has been growing both organically and in terms of volume. More than half of the business is apparel, but ceramics and glass are becoming more and more important. Li & Fung Portugal is the office responsible for sourcing in Europe, so it works not only with Portuguese factories, but also with Eastern European ones.

5.1.3. NEXT AND LI & FUNG

The relationship between Next and Li & Fung started when Next Home was created in 1995 and preferred to work with intermediaries, rather than dealing with suppliers directly. The first Li & Fung office to work with Next Home was Taiwan, then followed by others such as Hong Kong, Shanghai, Thailand, Vietnam, Indonesia, Philippines, India and Portugal. Li & Fung earns a percentage of each order shipped.
In broad terms, Li & Fung’s role is to intermediate the relationships between Next Home and the various suppliers and its main functions are:

- introducing new suppliers;
- presenting new products from suppliers;
- monitoring and supervising new products and/or samples requested by the customer;
- negotiating prices and delivery dates;
- ensuring deliveries of orders are on time;
- monitoring production and quality control, as well as labels and packaging, according to instructions and standards previously defined with Next’s technologists;
- making payments to factories.

Indeed, going back to Next’s purchasing process, Li & Fung is present in every activity.

Normally it is the agent who introduces the customer to new suppliers, unless the customer already knows factories from a previous relationship with another agent. Then, practically all day-to-day tasks are performed through the agent. Li & Fung is always looking for new factories that can be able to supply Next the types of products it is looking for. Having knowledge about the supply base, Li & Fung can suggest the best factory(ies) to produce a certain product. Of course Next can also ask Li & Fung to contact a certain supplier (whom they might know from previous contacts), but Next often relies on the Li & Fung offices for the choice of suppliers, since Li & Fung has a better knowledge of local suppliers. Ultimately, one might say that Next will only work with the suppliers suggested by Li & Fung.

It is Li & Fung who passes the trends and briefs on to factories. Next always visits factories accompanied by members of the Li & Fung team, who will then follow up the developments – monitor production of samples, negotiate prices based on customer’s targets and present new products developed by factories. When there are orders from Next, it is Li & Fung who monitors production and makes quality control.
• **Overview of Current Business**

At the moment, Next Home is the third biggest customer of Li & Fung’s Living Fashion Division and the first UK customer. Since Next started working with Li & Fung, the volume of business has always been increasing year after year, achieving US$ 60 million in 2006.

The current Li & Fung share of business for each product category is presented in Figure 5:

![Figure 5. Li & Fung’s share of business by product category](image)

Source: Next

Overall, Li & Fung’s share of Next Home’s total sales in 2006 was 35% for Home Furnishings and 13% for Furniture, but the furniture business is likely to increase to 22% of total sales in 2007 (this is a new area of business for Li & Fung with Next).
Figure 6. Li & Fung’s share of Next Home’s total sales

Source: Next

Below, in Figure 7, we can see how business with Li & Fung is distributed among offices. Then, Table 13 details the monetary amount of business per country and the variation from 2005 to 2006.
Taiwan is by far the office with the largest business share, 45%, followed by Hong Kong with 21%. However, only a few factories are really located in Taiwan or Hong Kong. They are actually located in mainland China, but relationships with Chinese factories are managed by the Taiwan and Hong Kong offices. Among the products sourced from these countries are decorative, bathroom and kitchen accessories, dinnerware, lamps, furniture, glassware, frames, metal products, wall plaques and Christmas decorations.
India comes third and mainly supplies rugs, curtains and cushions. Then come Thailand and other Asian countries like Vietnam, the Philippines and Indonesia, where Next buys products like furniture and other wooden items, frames and kitchen wares.

In 2006 Li & Fung used 196 factories to supply Next Home, 60 of which were brand new. The top 20 suppliers accounted for 63% of Next Home’s turnover.

Li & Fung Portugal started working with Next Home in 2003. At the end of 2004 Portugal’s share was 3% (including business with Polish glass factories) and it grew to 4% in 2006. Next Home sources in Portugal for the following product categories:

- Accessories – ceramics and glass decorative items
- Kitchen – dinnerware and serveware
- Lighting – table lamps with ceramic bases
- Bedding – baby blankets

Accessories is by far the most profitable segment for Portugal, making up for 92% of Li & Fung Portugal’s total business with Next Home in 2006, having represented 86% in 2005. Then comes Lighting, which had a share of 12% of business in 2005, but has decreased to 6% in 2006. Kitchen has a very small percentage with just 2% in 2005 and 1% in 2006. Bedding is a new department for Li & Fung Portugal with the first orders for baby blankets being placed in 2006. The volume is still quite small (less than 1%) and it is not predictable that it becomes as big as Accessories.

- **Li & Fung’s Competitors**

There are several other companies in the buying agency/trading business. Many of them are local, but others are also multinationals, however smaller than Li & Fung. For example, although Next only works with Li & Fung for sourcing ceramics and glass products in Portugal, it works with other agents to source Portuguese apparel, shoes and bed linen.
Before working with Li & Fung Portugal, Next had other agents, but the relationship ended mainly because of price and service reasons.

Next works with both agents and traders, although the agents are the majority at the moment.

5.1.4. THE SUPPLIERS

Each Li & Fung office works with suppliers in their specific geographical area. Chinese factories are dealt with by the Taiwan, Hong Kong and Shanghai offices. In turn, the Portuguese office is responsible for dealing not only with Portuguese suppliers, but also factories in Eastern Europe (namely Romania, Poland and the Czech Republic).

The number of factories supplying Next has varied throughout the years. By the end of 2003, when Next started working with Li & Fung Portugal, there were four Portuguese ceramics suppliers. Two years later, there were seven Portuguese suppliers (five ceramics and two glass), plus two Polish glass factories. By December 2006, there were three Portuguese ceramics factories supplying Next, one Portuguese textile factory and one Polish glass factory. The criterion used to quantify the number of factories working for Next at a particular date was the existence of orders placed in the previous six months. This information is important to note, since it does not mean the other factories have ceased their relationship with Next. It just happened that there were no orders placed in those factories for some months; however, those factories kept showing products and Next kept visiting their showrooms and stands at fairs.

All Next’s suppliers have to pass a strict selection and approval process to ensure their production is in compliance with the required capacity and standards. They must also undertake to work within Next’s code of practice, which sets out terms for working conditions and rates of pay. Factory audits and regular visits by technologists are used to continually evaluate both new and existing suppliers, check their commitment and confirm their suitability. This shows that Next tries to reduce transaction uncertainty.
For this case, we have decided to interview three of the Portuguese ceramics factories supplying Next at the end of 2006: Faianças D. Dinis, Ceramirupe and Arfai. These will be briefly presented in the next section.

5.1.4.1. Faianças D. Dinis

Faianças D. Dinis (to be designated as “Dinis” for simplicity) was founded 30 years ago and is the Portuguese factory that has been supplying Next for the longest time, since 1999. It is owned by two partners and currently has around 10 employees. It used to have around 40 employees, but after a significant sales reduction in 2005, downsizing was inevitable. It is now subcontracting the initial stages of production – moulding and making of biscuit - and only making the decorations and packaging in house. Dinis does not have a design team anymore and does not exhibit in fairs. Its main market nowadays is France.

5.1.4.2. Ceramirupe

Ceramirupe is a 20-year-old company, owned by a married couple. It started to supply Next in 2000 and in 2005 was Next’s main Portuguese supplier for ceramics. It used to have two production facilities, but one of them was closed in 2006, after an overall reduction of the volume of sales for all customers. Currently, it has around 100 employees. Usually, all production processes are made at Ceramirupe but, at busier times, subcontracting (of biscuit, for example) can be made. It has a strong design team of two persons, who regularly develop new products and techniques. This company’s main customers are British and German.

5.1.4.3. Arfai

Arfai was founded in 1995 by a Belgian man, who had already been working in the ceramics business for many years. He used to trade Portuguese ceramics all over Europe, so he knew the distribution channels well. Eventually, he decided to buy Arfai, a factory who was in a bad financial situation, and, since then, it has been run by this
Belgian and his Portuguese wife. This company started supplying Next in 2005 and in 2006 was Next’s main decorative ceramics supplier. It has about 50 employees nowadays, including one designer. Arfai’s main customers are British and American.

5.2. The Case Study

In this subchapter we proceed with the actual study of the actors’ behaviour in the triad formed by customer, intermediary and suppliers, in the context of international sourcing, following the research stages described in the previous chapter.

1. Defining the research’s objectives

1.1. Literature review

The first subjects reviewed were obviously interaction, relationships and networks, following the IMP’s perspective. Then, we have presented the main features of customer-supplier relationships, namely its typologies and evolution stages. We have also referred to purchasing strategies of customers and marketing strategies of suppliers. Other very important subjects for our study were triadic relationships, intermediaries and international sourcing, of course.

1.2. Definition of the research question

We intend to study the triadic relationships that exist in the context of international sourcing, so our research question is: “How do the actors behave and interact in the triad formed by customer, intermediary and suppliers, in the context of international sourcing?”
2. **Conducting the case study**

2.1. **Selection of the unit(s) of analysis**

The unit of analysis is the triad composed by the customer, the intermediary and the suppliers. According to Havila *et al.* (2004), in international business relationships, the exporting supplier is often represented in the foreign market by an intermediary, such as sales subsidiaries and agents. Therefore, the authors believe there is reason to consider the tri-partite interaction between the supplier, the intermediary and the customer in international business relationships. In our case, the intermediary represents the customer in the global sourcing activities, but we believe the same triad characteristics apply.

2.2. **Selection of the data collection techniques**

As we have seen before, the evidence for case studies can come from several sources. The sources of evidence used in this case will be detailed below.

a) **Interviews**

Interviews were the main source of evidence for this case, for the reasons pointed out by Daniels *et al.* (2004) in the previous chapter. In fact, interviews may allow researchers to develop a deeper bond with informants than is possible through written questionnaires. They are also appropriate when there is a small population of possible respondents, which is the case. Besides, direct contact between interviewer and interviewee makes it possible to explicit both questions and answers when necessary.

Since we wanted to understand each actor’s views on a number of topics, we have made focused open-ended interviews. The questions were basically the same for all
interviewees, but during the course of the interviews, opportunities arose for making specific and additional questions about certain topics.

b) Documentation

- Press articles and other publications about Li & Fung
- Li & Fung’s website www.lifung.com
- Next’s website www.next.co.uk
- Internal Li & Fung and Next data

c) Participant observation

Being a merchandiser at Li & Fung Portugal, the researcher is directly involved with the daily relationships between Next and Li & Fung, and between Li & Fung and the suppliers. Therefore, the researcher has a privileged access to information and can have a better understanding of actors’ behaviours. The researcher has tried to separate the study from the professional activity, in order to avoid biased views and actions that could interfere with business, which was facilitated by the fact that she does not have a top management role.

Triangulation was made through documentation and participant observation. The information collected at interviews was compared with figures and other information sourced from internal Li & Fung and Next’s documents. Being a participant observer, the author of this work was able to verify many of the information provided by interviewees.

2.3. Data collection

Data collection started in 2005 and the last data were gathered in early 2007. The interviewee from Next Home was Paul Clarkson, Buying Manager, covering the areas of Accessories, Lighting, Kitchen, Electricals, Bathroom/Bath Textiles, Curtain Poles and Stationery. He was responsible for the buying teams of every area mentioned above,
so he was a key element in the company’s buying strategy. Above Paul Clarkson there is only the Home Product Director.

The interviewee from Li & Fung Portugal was Miguel Ribeiro, who was Senior Merchandise Manager at the time Next Home started purchasing home goods in Portugal, now being Li & Fung’s Global Coordinator for Textiles.

Then we have interviewed the managers/owners of the three Portuguese ceramics factories supplying Next Home at the end of 2006: Faianças D. Dinis, Ceramirupe and Arfai. There was another ceramics factory that supplied Next until October 2006, but we have decided not to interview its manager, since that factory went through an insolvency process, ending up being sold to another company in February 2007. We did not interview the textiles company either, since the relationship is quite recent (started in 2006) and there have only been a couple of orders from Next. We did not interview the Polish glass factory, due to the impossibility of the researcher to travel to Poland to make the interview.

After the first round of interviews, we went back to the interviewees in order to clarify some points and obtain some additional information.

3. Data analysis

3.1. Identification of the analysis criteria and their application

We intend to use network pictures (Ford et al. 2002) as a research tool, namely as an illustrative device for understanding and categorising network environments; and also as an interpretative tool to explore how managers understand their environment (Ramos et al. 2005). By asking basically the same questions to all interviewees, our aim is to capture each actor’s network pictures, that is, their own view of the triad.

We have built a matrix for interpreting the data collected (see Appendix 3). This matrix is composed by a number of characteristics, which were defined based on the initial
literature review. Then the matrix was filled in according to the information gathered through the interviews, of which a content analysis was made, within the network pictures framework.

Each actor’s network picture is the basis for their perceptions of what is happening around them, for their actions and reactions in the network (Ford et al., 2002). In other words, the actors’ network pictures are the basis for their motivations, expectations, attitudes towards relationships with other actors, perceptions of their position within the network and strategic decisions.

3.2. Definition of propositions

After completing the matrix and with the information provided by the other sources of evidence used, we were able to start defining propositions.

Regarding motivations and expectations, we have verified the following:

a) Next

Next’s main motivation is to continue being one of Britain’s major retailers. Next wants to find suitable products for its customers, regardless where they come from, at a cost that allows Next to have the desired profit margin and still set selling prices that can be considered competitive for the final customer. Besides the obvious cost issues, since purchases from suppliers usually account for more than half of total costs of most companies (Ford et al., 2001), for a retailer like Next, purchasing from suppliers is an extremely important matter, also because of the fashion dimension of the business.

b) Li & Fung

Li & Fung’s main motivation is to obtain as many orders as possible from Next for the suppliers, aiming to reach a US$100 million business. In order to achieve this, Li & Fung (and Li & Fung Portugal in particular) is always searching for new suppliers, not
only in Portugal, but all over Europe, capable of offering more competitive options for Next (mainly cost wise).

c) Suppliers

All suppliers’ main motivation is obviously to sell as much as possible to Next. And they expect Li & Fung to help them achieve this goal, since two of the factories (Dinis and Ceramirupe) admitted having problems in their commercial department. Suppliers hope to be able to offer Next the products it is looking for, with the level of service and prices that Next is expecting from them. Besides increasing sales for Next, Arfai also expects to gain more foreign customers through Li & Fung.

In face of this information, we can infer that:

**P1: Actors have different motivations and expectations.**

As for capabilities, we know that:

a) Next

Next makes a strong bet on its own designs. In particular, Next Home has a 16-person design team, who is responsible for setting the trends, the themes and creating the actual products. In what concerns ceramics and glass items, Next relies in great part on suppliers’ own designs and shapes, but even so, most of the times, alterations are requested. So, we can say design is surely one of Next’s main capabilities. Then, as a retailer, the other important capability is actually marketing the products.

b) Li & Fung

According to Miguel Ribeiro, Li & Fung’s main strength is “its global dimension, which allows finding more competitive options than Portugal (e.g Poland).” Another strength is the “dedicated teams”, who “speak the customers’ language and breathe the customers’ culture”. Indeed the 72 offices across 41 countries make Li & Fung the
largest buying agent / trading company in the world. However, this also makes Li & Fung very close to each market and very close to the suppliers it works with. Besides the natural geographical division, there is a customer-centric division and a product type division. For instance, there is an entire division focused on serving a big customer like Levi’s; and there are divisions called LE (Living Europe) and LT (Living Textiles). In Miguel Ribeiro’s words “Customers are all different, therefore it is very important to be flexible and responsive to any necessary change.”

Being a centenary company, Li & Fung has deep knowledge of markets, customers and suppliers. Nowadays, Li & Fung has a supply base of around 10,000 manufacturers all over the world. Miguel Ribeiro has also mentioned that the agent plays an integration role and must explain to the customers the characteristics of each supplier – “If each factory presents itself, obviously it will only refer itself. For example, Ceramirupe could only grow because it was supported by Li & Fung.”

Another important strength of Li & Fung is the wide portfolio of services provided: product design and development, raw material sourcing, production planning, conducting quality assurance and factory inspections, managing production and export logistics, on-time delivery and complying with import and export quota restrictions.

Paul Clarkson from Next thinks that Li & Fung is “… quite an aggressive company in terms of trying to gain business, so we decided to work with you I think through products, cost and through service as well.” One of his favourite features about Li & Fung is the dedicated teams working for specific customers – “The strength of Li & Fung is the market representatives, the people that work on the ground and the individual relationships they have with my teams and other teams in the business as well (…) they understand our market and our customers.” He also stresses “… it’s generally for me about the quality of the people, because at the end of the day, everyone’s trying to work with the same factories, same profiles of customer.”
c) Suppliers

We believe an analogy can be made between Portuguese ceramics manufacturers and the manufacturers from the developing countries (LDCs) and newly industrialised countries (NICs), mainly in terms of companies’ capabilities. In fact, for both groups of manufacturers, their major customers have been large retailers or importers/wholesalers. Considering the five stages of exporting defined by Wortzel and Wortzel (1981), we could say that Portuguese ceramics manufacturers are in Stages III (Dinis) and IV (Ceramirupe and Arfai).

Stage III companies produce for their customers’ orders, but have developed enough internal design capability to produce export quality goods with little or no assistance from their customers in setting design specifications. Their marketing activities take place within and outside its home country, for example, participating in trade shows and fairs. However, although the companies are more active in marketing its production capabilities, marketing of goods is still left to their customers. Price is important, but companies are recognised by their know-how. In our case, we must add that the ceramics industry is a traditional industry in Portugal, therefore, companies have expertise that is valued by Next. In fact, it has been said by Next’s buyers in various occasions that they basically look for different product in Portugal, more value. Being at Stage IV means that companies may still allocate a part of their production capacity to contract manufacture, but also produce and market their own products. Wortzel and Wortzel (1981) said that Stage IV manufacturers would start producing for their own inventory rather than to customer’s orders, evolving from a marketer of production capacity to a marketer of products. This does not seem to be the case with the studied Portuguese ceramics companies, as the majority of their production is still for customers’ orders. However, these companies do take a great deal of responsibility for design, packaging, quality control and shipping. As we have described before, Next often specifies the design of the products, but they do so after seeing the companies’ existing products and proposals of decoration techniques and shapes. In Wortzel and Wortzel’s (1981) description of Stage IV companies, it is also mentioned that their marketing organisation is more elaborate and may include a sales management function,
a sales force and an after-sales service. In reality, all interviewed Portuguese factories have a sales or commercial department, although most companies have referred to it as one of their weakest areas.

In terms of the self-perception of weaknesses, both Dinis and Ceramirupe have admitted that sales was the area where they had more problems. Curiously, the interviewee from Li & Fung said that factories should concentrate on production, which should be their core-business, leaving marketing for the agent. He has also pointed out that price and a weak cooperative spirit (i.e. cooperation among factories) as two major weaknesses of Portuguese suppliers.

As for strengths, two of the factories pointed out product quality as the main reason why Next worked with Portugal and with them in particular. Ceramirupe and Arfai have also referred the possibility customers have of buying smaller quantities and greater diversity from Portugal, when comparing Portuguese suppliers with those from the Far East. Ceramirupe has even used the expression “better deliveries”. This supports Vernon-Wortzel, Wortzel and Deng’s (1988) findings that importers rate price, product quality and delivery as the most important supplier criteria. And indeed Paul Clarkson from Next said he thinks the prices got better – “Value for money, it’s got better in the last couple of years, I think perhaps in response to the Chinese threat.”

Speaking in terms of customers and suppliers’ abilities and uncertainties, suppliers wish to be able to solve Next’s problems, through building an offering that meets its needs (Ford et al. 2001). This offering should be composed by products, which must be as innovative as possible in order to appeal to Next’s customers, at reasonable prices and with short lead times (average of four weeks from Portugal).

From all that has been said above regarding capabilities, we can assume that:

**P2: Actors have different capabilities.**

Analysing the actors’ attitudes to relationships, we see that:
From the answers of Next’s Buying Manager Paul Clarkson, it becomes evident that Next separates relationships from business. If there is a good personal relationship with agent and suppliers that is a bonus, but the most important things are the products and prices. Moreover, when asked if he would change from Li & Fung to another buying agent, if some persons from Li & Fung moved into that other agent, he said that decision would have to be very balanced. He believes that a relationship with a given person is “embedded within the culture of the company that person works for, so if they went to a competitor it would be a different framework of understanding”. If Next were approached by someone that had previously worked at Li & Fung, that person would surely be more listened and considered, that if he were some unknown person, but Next would not easily change their intermediary. Paul Clarkson sums up by saying “(…) relationship is important, but if at the end of the day the service of the Li & Fung person wasn’t good enough in comparison to where we are, then you wouldn’t go with them. Because we’re not here to have really nice relationships with everybody, we’re here to make sure that we have good work relationships that drive product development. So it’s all a balance. It’s not a quick answer. So everything changes all the time, every season.”

Next’s buying manager believes his company is “(…) approachable and the teams are not really into hierarchy, so we don’t impose that in our relationships with people. I think some cultures are quite formal, quite frosty, a little bit cold, but we have generally good relationships with our supply base and agent base.” He recognises they receive input from suppliers in terms of product development and said Next encourages the relationships with suppliers to be “really strong”.

However, long-term relationships with high involvement are not particularly important for Next – “If the relationship is good, then it’s a bonus and we carry on and it’s important that we establish relationships that we can trust, but at the end of the day, if they start to get complacent or they’re not responding, then we’ll find an alternative because at the end of the day we need to give the best to our customers. The customer is more important than the supplier.” Speaking particularly about Portuguese suppliers, Paul Clarkson admits that relationships with them have a more personal touch than, for
instance, relationships with Chinese suppliers – “The Chinese are very business-minded and quite cold and don’t focus on the relationship, because there’s a dialogue difficulty as well.”

According to Campbell’s (1985) classification of buyer-seller relationships, there is a dependent relationship between Next and its suppliers, in which the buyer has a command strategy and the suppliers follow a cooperative strategy (to be detailed below). Still following Campbell’s model (1985), most characteristics of command buying are visible in this case:

- product – high frequency of purchase and high switching costs;
- industry – average level of competition, tradition of command buying;
- company – buying company much larger than supplier and with more professional organisation;
- individuals – product is important to buyer, individuals know each other personally, buyer prefers a command strategy and supplier accepts cooperative role.

Nevertheless, between Next and Li & Fung, considering the latter as a supplier, then this would more likely be an interdependent relationship, with both actors playing cooperative strategies.

In sum, we can say the relationship between Next and the suppliers is clearly a customer dominated relationship, whereas the relationship between Next and Li & Fung seems to be more collaborative (Johnsen and Ford, 2001).

b) Li & Fung

The relationship between Next and Li & Fung can be described as long term, continuous and with high involvement. Indeed, this relationship’s characteristics are totally in accordance with Ford’s (1980) classification of a relationship in the long term stage: high experience, low uncertainty, minimum distance, maximum commitment and extensive adaptations. Indeed, after more than 10 years working together, the companies
have a very good knowledge about each other’s systems and procedures. It is also true that personal relationships have developed between individuals from Li & Fung and Next. Commitment from Li & Fung to this relationship (and to all customers in general) is confirmed through its internal organisation, namely the teams dedicated to specific customers.

Through its relationship with Li & Fung, Next is simplifying its supplier network, since, instead of dealing with each vendor directly, all contacts with suppliers are made through Li & Fung (Ford et al., 2006, p. 115). So, instead of dealing with six factories in Portugal, Next only have direct contacts with Li & Fung Portugal (except when buyers come to visit factories in Portugal), which clearly has a positive impact on its costs (mainly administrative and human resources).

The monetary volume of business also justifies the existing high involvement relationship. Next’s business with Li & Fung reached US$ 60 million in 2006 and US$ 2.6 million with Li & Fung Portugal. Li & Fung is not Next’s only buying agent, but it is definitely its major intermediary, namely for Next Home. Next needs Li & Fung’s global dimension, the proximity of each office to the local suppliers. This is surely one of the reasons why the relationship has been lasting over the years.

All of the above justifies our classification of the relationship between Next and Li & Fung as interdependent (Campbell, 1985).

The relationship between Li & Fung and the factories can also be classified as interdependent, since both parties follow cooperative strategies. There is a practically daily contact between Li & Fung and the factories supplying Next, as Li & Fung needs to monitor production, assess quality of products, organise shipments, among many other tasks. Therefore, there is undoubtedly a close and high involvement relationship between Li & Fung and these factories. But, of course, there are other factories with which there is not such a close and frequent contact – those factories which are not supplying Next regularly yet, which have just presented offers and samples of their products.
The interviewee from Li & Fung, Miguel Ribeiro, has stressed that “Li & Fung is a strong partner on both sides: customer and suppliers”. Between Li & Fung and the suppliers, he says there is “a relationship of good communication and trust” and the major benefit from this relationship is cooperation. Indeed, given the nature of Li & Fung’s business, i.e. being an intermediary, it cannot operate its business without suppliers, hence the importance of a cooperative relationship with suppliers, in order to satisfy the customer’s needs. Miguel Ribeiro also thinks that factories benefit from the existence of the agent, because “communication with the customer is better.”

c) Suppliers

All of the interviewed suppliers think that long term, high involvement relationships are of utmost importance, because only knowing the customer well, can the suppliers better satisfy its needs, by improving their products and service. Loyalty from customer and agent is very important for them. This is understandable, since they are the ones who have invested more in the relationships.

Campbell (1985) advises the supplier subject to a command purchasing strategy to keep its marketing costs to a minimum. His role is to do the buyer’s bidding, so he should be flexible, give personal attention to the customer’s needs and have efficient production facilities.

Now referring to the five stages of buyer-seller relationships proposed by Ford (1980), we can say that Next’s relationship with suppliers Dinis and Ceramirupe is at the long-term stage, since they began in 1999 and 2000, respectively. The companies undoubtedly have vast experience of working with each other and uncertainty is reduced. For example, both of these factories know very well what are the usual procedures at Next during the selection phase for a new season. They also know what are the colours that have been best sellers at Next over the past years. Also, as the Ceramirupe’s owner said: “..today it is much easier to make a price for Next than it was some time ago. We have no doubts about packaging or labelling, we know from the
start what the basis we have to work with is, to make a price. In terms of distance, this is obviously reduced. Social distance is not very important, since there are not many personal contacts between members of the factories and members of Next, so it makes more sense to speak about technological distance reduction, since factories have adapted their operations to Next’s requirements. At this stage, commitment is maximum, as both buyer and sellers have demonstrated it to each other through formal and informal adaptations. Actually, commitment seems to be taken more seriously by the factories than by the customer. As we have seen, Next has a command buying strategy and suppliers are dependent on this customer, so they are the ones who invest the most on the relationship. They have been selling products for Next for almost ten years, so they do not want to stop doing business with this customer.

The relationship between Next and Arfai is at the development stage, since it only began in 2005. Both companies’ experience about each others’ operations, norms and values is increasing. Uncertainty and distance are being reduced and, consequently, commitment is getting stronger. Being Next’s major decorative ceramics’ supplier in 2006, Arfai keeps making adjustments in its organisation in order to increase production capacity and reduce lead times, such as hiring more employees, working extra hours and changing the factory’s layout.

After all these considerations, we can say that:

**P3: Actors’ attitudes to relationships vary.**

Now looking at each actor’s perceptions of its position within the triad, we have verified the following:

a) Next

Next perceives itself as the most powerful company in the triad – in Paul Clarkson’s words “I think the customer to the agent, we’re always the dominant driver. If I decided we didn’t buy things with you, then I can make that decision and you guys need to respond or not to that, so at the end of the day, we have the power, because of the
customer.” So, being the customer in this triad allows Next to be the dominant driver. Next assumes its power over the agent and, consequently, over the suppliers. “We have the power, because of the customer”, says Paul Clarkson. Despite its supremacy, Next believes it has a good relationship with the other actors in the triad – “I think we’re approachable and the teams are not really into hierarchy, so we don’t impose that in our relationships with people. I think some cultures are quite formal, quite frosty, a little bit cold, but we have generally good relationships with our supply base and agent base.”

b) Li & Fung

Li & Fung claims to be the world’s leading consumer goods sourcing company, with its structure of over 70 offices covering 41 countries and territories all over the world. But, at the same time, Li & Fung can also be seen as quite small, since each office is very autonomous, which enhances the company’s flexibility.

c) Suppliers

When asked about who had the power within the triad, all interviewed suppliers were unanimous in saying Next was the most powerful actor, followed by the agent. They all recognised themselves as the weakest link, having to obey to the customer and the agent’s requests. Ceramirupe’s owner went even further, saying that “Next has an installed attitude of customer who is always right, even when it is not.” He has also admitted having submitted to Next’s will, even when Next was not right.

This is clearly a case of a customer-dominated asymmetrical relationship (Ford and Johnsen, 2001), both regarding the agent and the suppliers. Adaptations are requested by the customer and most decisions are made unilaterally, so the suppliers have a reduced capacity of making their own decisions about the future of the relationship. As a consequence, they could lose their commitment to the customer, but this does not seem to be the case.

Therefore, we can say that:
P4: Actors’ perceptions of their position within the triad are different.

Finally, we would like to explore the actors’ perceptions of the triad and overall network. The data analysis results were the following:

a) Next

Next is aware of its dominant position over the agent and suppliers, as well as of its bargaining power. As we have seen in detail, Next admits having the power over the agent and, consequently, over the supplier, because it is the customer. And, of course, Next’s strategy depends on its customers, the final consumers. Nevertheless, Next sees itself as flexible and approachable.

Next relies on Li & Fung and its other agents to look for new suppliers and new products. Next have turned to Portuguese suppliers in search of different products, at a “good price”, the so called “value for money”. Overall, Next is happy with the Portuguese products, quality and service and even think prices have improved over the years, due to the competition from the Far East. But Next constantly looks for new suppliers and new products, in order to differentiate from their competitors. Next clearly says its customers are more important than its suppliers, so Next is really not worried about being loyal to the current suppliers at a given time. If Next finds someone with more interesting products and/or prices, Next will very likely change. With regard to agents, the decision for change may not be taken so lightly. If Next is happy with a certain intermediary, it is not likely to change easily; Next would have to evaluate the offering carefully and probably take some time to make the decision.

b) Li & Fung

Back in 2002 Li & Fung Portugal perceived there was an opportunity to make business with Next, as there were Portuguese suppliers that were already selling to other British retailers, but not to Next.
Li & Fung believes the suppliers’ core business should be production only, leaving the marketing functions to the agent, who is more skilled to do so. Li & Fung claims to have an integration role, based on cooperation with both customers and suppliers, as Li & Fung knows that without reliable suppliers it is not possible to offer a good service to the customer.

In terms of competition among intermediaries, namely between agents and importers, Li & Fung is aware that one of the main advantages of importers is the minor risk they offer to customers. Therefore, in the words of Miguel Ribeiro from Li & Fung, “… the agent must be competitive to cover the risk and still give more margin and more service to the customer. At least margin and service equal to the importer.” Li & Fung have been managing to grow worldwide, mainly through the policy of acquisitions of smaller local agencies and also through the varied portfolio of services offered. Li & Fung also thinks competition among intermediaries is “healthy and beneficial” for Next, so both companies are accordance with regard to this matter.

c) Suppliers

The most striking difference in Next’s and the suppliers’ perceptions is their opinion about new suppliers entering the triad. While Next regards its constant search for new suppliers and products as a positive strategy, aiming to satisfy its customers, suppliers Dinis and Ceramirupe consider that Next and Li & Fung are not being loyal. Ceramirupe’s owner said: “They didn’t need to increase the list of factories because the suppliers they had were enough for the amount of orders that Li & Fung had. I’m specifically talking about 2005, the factories they had were enough.” And Dinis’s owners claimed that “Today they [Next] simply seek price. They are not loyal... They can be very friendly, we don't question that, but if they find cheaper products somewhere else they will change.” Even though Dinis and Ceramirupe did not mention any name, they were referring to Arfai, the newest supplier in Portugal. Arfai, in turn, say they do not want Next to represent more than 30% on their customer share, because they know that Next has caused serious instability in some companies when terminating relationships or radically decreasing the volume of business.
The last proposition can be seen as a summary of the previous propositions and is based on the model of managing in networks developed by Ford (2002):

**P5: Actors’ perceptions of the triad (and overall network) are different and that will influence their actions and strategic management.**

Having defined these propositions, we shall now discuss them in the next section.

### 5.3. Discussion

Drawing on the five propositions inferred in the previous section, we will now proceed with our analysis of the case, by discussing separately the relationship between the customer and the intermediary, and the relationship between the intermediary and the suppliers.

This discussion will focus on four main questions:
- What image does each actor have of the triad?
- How does that image affect his behaviour?
- How do relationships between actors develop?
- How does business develop?

First, we will focus on Next and Li & Fung. We have seen that Next perceives itself as the most powerful company in the triad, assuming its power over the agent and, consequently, over the suppliers (Henneberg *et al.*, 2006; Hakansson and Gadde, 1992). Nevertheless, Next believes it has a good relationship with its agent and supply base. Li & Fung sees itself as the world’s biggest purchasing agent, but also sees itself as a flexible and cooperating partner for the customer, who is willing to do what is necessary to satisfy the customer’s needs, namely adapting its internal structure.

This image Next has of itself allows the company to have full control of their agent and supply base, i.e., it has the final word when deciding from whom it wants to supply from. Regardless of being approachable and friendly, in reality, the decisions are
ultimately made by Next, even though Li & Fung have some power of persuasion and often give advice to Next about the various day-to-day matters of the business (e.g. existing and/or possible new suppliers, new products, etc.).

For Next, Li & Fung is a provider (Gadde and Snehota, 2001) or a full service provider Balabanis, 2005). But Li & Fung can also be seen as a large supplier who, in turn, subcontracts several smaller suppliers worldwide, i.e. Li & Fung can be considered a first tier supplier (Hagberg-Andersson et al., 2000). The immediate consequence of this strategy is the simplification of its supply network (Ford et al., 2006, p.115). This, in turn, leads to cost savings (e.g. human resources structure, communications, etc.), since it is outsourcing many activities, instead of performing them internally. Ultimately, we can say that, in this case, the intermediary contributes to the overall improvement of purchasing and distribution efficiency.

The relationship between Next and Li & Fung has been going on for more than ten years now, and we have seen that the volume of business and number of Li & Fung offices working with Next have been increasing as well, which leads to a greater influence of Li & Fung over Next. Actually, the global dimension of business is one of the most important features of this relationship. Li & Fung’s worldwide sourcing ability is of utmost importance for Next (or any other customer), not only for the wider opportunities of finding better products and prices, but also because of the proximity to the suppliers. In fact, when Next started working with Li & Fung Portugal, its network horizon (Anderson et al., 1994) was enlarged, as Li & Fung Portugal also opened the way to sourcing in Eastern Europe.

On the one hand, even though the relationship between Next and Li & Fung can be seen as more collaborative, the truth is that, ultimately, this relationship is asymmetrical, since Next has the power inherent to being a large customer (Johnsen and Ford, 2001). But on the other hand, Li & Fung is a very powerful actor as well, because it is the world’s largest export sourcing company. Considering that supplier selection is one of the most important decisions a company pursuing an international sourcing strategy has to make (Liu and McGoldrick, 1996), Next’s choice certainly has been based on Li &
Fung’s dimension and ability to solve its problems. Actually, we can say that Next sees Li & Fung as an extension of its buying and merchandising department.

For all that has been said above, we can conclude that the relationship between Next and Li & Fung is the strongest and closest within the triad, being based on loyalty and continuity.

Now we shall look at Li & Fung and the suppliers. It has already been mentioned that Li & Fung sees itself as a partner, not only for the customer, but also for the suppliers. Li & Fung believes the factories can only benefit from the cooperation with Li & Fung, who is able to enhance the communication between them and the customer, since they do not have enough commercial skills. The suppliers see themselves as the weakest actors in the triad and admit they have to abide to the wishes and requests from Next, who is represented by Li & Fung. However, they also claim they can be useful for the customer, mainly in terms of quality of products and service. So, on the one hand, we have Li & Fung willing to cooperate with suppliers, but, in the end, it is acting on behalf of Next. On the other hand, we have the suppliers, conscious they have not enough power to impose their will, regarding which suppliers Next/Li&Fung choose to work with. Nevertheless, it seems they keep working as best as they can, i.e., developing new products, which they hope are interesting for Next, as well as providing good delivery lead times, so that they can have the chance of maintaining the business.

It is interesting to note the different image the three suppliers have of Li & Fung. Dinis and Ceramirupe see Next as a fundamental customer for them, who is more important than the agent, and are willing to do whatever is necessary to maintain and increase the business. So these two suppliers would like Li & Fung to help them regain a larger share of Next’s business, by limiting the entrance of new suppliers. This attitude is totally opposed to that of Next, who counts on Li & Fung to constantly look for potential new suppliers. Since Li & Fung has indeed looked for new suppliers (namely Arfai), Dinis and Ceramirupe view this as a lack of commitment and loyalty. However, Arfai, who seems to be more market oriented, has a broader network horizon and sees Li & Fung as a means to get to other customers, i.e., as a “distributor customer”.
Regarding the relationship between Li & Fung and the suppliers, this is a very close one, given that contacts between them are made on a daily basis, not only by phone or e-mail, but also face-to-face, as Li & Fung people visit factories quite often. Throughout the years, Li & Fung has gained deep knowledge about all the factories it works with and, inevitably, relationships of a more personal nature have also developed between people from Li & Fung and people from the factories.

One of Li & Fung’s main functions is to look for new suppliers, who can be able to provide better products, service and prices for its customers. After analysing a supplier’s production skills, capacity, prices and so on, Li & Fung decides if that supplier will be able to adequately serve the customer it represents. From here, the relationship and the business will develop or not, depending on Next’s acceptance of Li & Fung’s suggestion.

Even though Next and the suppliers only rarely have direct contact, it is important to analyse the relationship between them.

We have already seen that there is undoubtedly an asymmetrical relationship here, where the customer dominates and suppliers are dependent (Johnsen and Ford, 2001). Indeed, Next, being a large retailer, has considerable power and thus pursues a command purchasing strategy (Campbell, 1985), so the suppliers (much smaller in size) are demanded to make many more adaptations and investments than Next. And there is also the problem of balancing the need to demonstrate commitment to the customer and the danger of becoming over dependent on that customer. In peak times, namely when a certain product is selling very well, Next will want that supplier to increase its production capacity. Some may be able and/or willing to do it, but others may not. Suppliers must ponder between allocating a larger percentage of their total production capacity to a single customer, thus facing greater losses in case the customer significantly reduces its purchases; and not allowing any customer to have a sales share larger than, say 20% or 30%. To illustrate this situation, we have Dinis who has seen its sales volume reduce drastically, from 50% in 2000/2004 to 10% in 2006. However, Arfai’s owner, who seems to have a broader network horizon, said he would not want
Next to weigh more than 30% on his customers’ portfolio, in order not to become too dependent on Next.

But the truth is that, in a traditional industry like the ceramics, suppliers really do not have much choice. The retailers have all the power and the suppliers are locked in the relationships, because, either they want to produce and sell according to the customers’ requirements, or they lose the customers, which would eventually lead to closing the factories.

Finally, it is important to note that Next is reducing its supplier base by using intermediaries, instead of dealing with all suppliers directly. But, besides this, we have seen that Next is also reducing the actual number of suppliers it sources from, which may suggest a tendency to pursue more high involvement and more collaborative relationships, in order to reduce need and transaction uncertainty, reduce procurement costs and pursue joint product development. This may also favour a higher commitment (actual and perceived) and more adaptations from both parties.
SYNTHESIS AND CONCLUSIONS

The principal aim of this dissertation was to analyse customer-supplier relationships in the context of international sourcing, considering the existence of intermediaries, which is frequently the case in international business. The objective was to analyse how the actors behave and interact within the network they belong to. In order to do this, we have used the case study method because, as we have seen in chapter 4, this was the most appropriate research method for this type of investigation. The unit of analysis was a triad composed by a customer (Next), suppliers (Dinis, Ceramirupe and Arfai) and an intermediary (Li & Fung).

The analysis of the case was made using the network pictures tool (Ford et al., 2002; Ramos et al., 2005), since we wanted to understand the perceptions each actor had about the overall network and the triad, in particular. In order to do this, we have collected data from the companies' websites, press articles and other publications, internal documents and also participant observation. Then we have proceeded with focused open-ended interviews, in which we have asked basically the same questions to the interviewees.

After analysing the answers to the interviews and all other collected data, we were able to infer the following propositions:

P1: Actors have different motivations and expectations;
P2: Actors have different capabilities;
P3: Actors’ attitudes to relationships vary;
P4: Actors’ perceptions of their position within the triad are different;
P5: Actors’ perceptions of the triad (and overall network) are different and that will influence their actions and strategic management.

The use of network pictures as a research tool has proven quite useful for this investigation, as it has facilitated description and interpretation of the triad. Network pictures have allowed us to analyse in a systematic way how the actors behave in the
triad and, ultimately, describe the process behind a placement of a certain product on sale at a retail shop.

We have verified that in a business relationship triad, the higher the interaction between the customer and the agent, the lower between the customer and the suppliers, as Havila et al. (2004) have stated. In fact, when Next changed from the previous intermediary in Portugal to Li & Fung (who offered more and better services and thus could perform more activities on behalf of the customer), its relationship with the agent has strengthened, whereas its direct relationship with the suppliers has weakened. If the customer uses the agent to deal with its suppliers instead of dealing with them directly, it is obvious that the interaction between customer and agent will be much higher than the interaction between customer and suppliers.

We have observed that these relationships are asymmetrical and particularly relevant between the customer and the suppliers, who would obviously like the relationship between them to become more collaborative. In the attempt to reduce this asymmetry, suppliers are led to improve their creativity, make changes on their production process in order to reduce lead times and allow customers to buy smaller quantities of more differentiated products.

Finally, we believe this case study may indicate a change of the power relations in the market. Indeed, when demand was higher than supply, suppliers were the strongest actors. Then, there was a shift of power to retailers, with the boost of the large distribution chains, hypermarkets, etc. Nowadays, in a global economy (where there is interdependence of markets), the need for competitiveness improvement requires a strategy of international sourcing, which depends on a deep knowledge of markets, in order to see where the most efficient suppliers are (i.e. the ones who have better and cheaper products). It is the agents who have this knowledge, so we can foresee an increase of their power and importance in the future.

It is important to stress that this study does not intend to provide generalisations, but rather a description of how the actors interact within this particular triad. It has a
limitation, which is the fact that it was not possible to interview Next’s former intermediary in Portugal, as that company has recently gone out of business. It would have been interesting to know that company’s picture of the situation. Nevertheless, our findings may be useful to provide researchers, company managers and marketers in general with insights into network analysis, as well as tips for behaviour and strategic action.

Indications for Future Research

Naturally, some questions can be raised, which can be the starting point for further investigation. With regard to the triad, and given Next’s tendency towards the reduction of the number of suppliers, it would be interesting to verify the relation between commitment and trust, as proposed by Havila et al. (2004), namely if:

- the remaining suppliers are in fact the ones who have demonstrated more commitment;
- as a consequence, trust within the triad will increase.

Regarding the actors, we could try to find out which of the following factors could explain why each supplier has different network pictures:

- the company’s development stage (Wortzel & Wortzel, 1981);
- the company’s organisational culture and strategic management orientation, i.e. whether the company is, for instance, production oriented or market oriented;
- the duration of the relationship (Dinis and Ceramirupe already supplied Next before Li & Fung was the agent, whereas Arfai, who wishes to reinforce its involvement with Li & Fung and is not so oriented towards Next, began to work with this customer only after Li & Fung became the agent).

Finally, in order to try to confirm if there is indeed a tendency towards a higher involvement of customers with intermediaries (which increasingly provide more services), to the detriment of a lower direct involvement with suppliers, we believe it would be interesting to analyse other triads.
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APPENDIX 1. NETWORK PICTURES

According to Ramos et al. (2005), network pictures can be used as both a managerial and a research tool on three different conceptual levels:

a) as an illustrative device for understanding and categorising network environments;

b) as an interpretative tool to explore how well managers understand their networked environment

c) as a tool to provide both managers and researchers with insights into network analysis may be used for developing future direction.

A network can be represented in various different ways, depending on the people involved. Therefore, a network picture is a representational technique that aims to capture the views that specific actors have of the network within which they operate. It is a sense-making device used for understanding or to find logic for the environment where actors are integrated.

On the first level of analysis, the focus is on the actors, exploring who they are. Network pictures are held by individuals, not by companies (Ford et al. 2002; Henneberg et al., 2006). There are multiple network pictures inside one company, since each individual has his own network picture, and they can sometimes be contradictory. It is not possible to infer one network picture for the whole company by simply combining the distinct network pictures held by each of its key individuals in relationship management. So, in order to understand a company’s apparent network picture, it is necessary to analyse individual network pictures and their extent of commonality. Henneberg et al. (2006) argued that network pictures should be analysed at the “pictorial” level, assuming that such pictures reflect the beliefs and attitudes that affect the decision-making process, and that network pictures represent what the individuals consider as being important about the network in which they operate.

The second level of analysis focuses on understanding the links between the actors, the resource ties and activity links. Network pictures are not just a mere representation of
the network, because they always serve a specific end. Consciously or not, researchers and practitioners use individuals’ network pictures with some objective in mind. And while looking at their surroundings, individuals unconsciously include in their frameworks what they consider as relevant (Ramos et al., 2005).

The typical focus when analysing network pictures is on the actors, since this is almost exclusively what managers include on their representations. So Ramos et al. (2005) propose that a different methodology is required in order to understand the broader environment and the role of activities and resources. For that, managers need to be interviewed in a more interactive manner. The authors propose a four stage procedural model to work with managers in order to capture their network pictures:

![Network pictures’ dimensions](image)

**Figure 8. Network pictures’ dimensions**

Source: Ramos et al. (2005)

1. **The scale of the network – number of actors included**

The number of actors included depends on the actor’s horizon (Anderson et al. 1994; Holmen and Pedersen, 2001, 2003), so they are related to the concept of artificial boundaries of the network. Although it may always be possible to find a connection between any two companies, since there is one global network (Easton & Araújo, 1992), only a restricted number of situations and actors can be identified and acted
upon. This is because of the actors’ limited cognitive capacity, business environment’s complexity (Holmen and Pedersen, 2003) and invisibility of some network relationships and connections (Anderson et al. 1994).

2. The structure of the network – nature of actors and resources included
The nature of the companies is a function of the perspective that the actor takes while looking at the surrounding network, which includes specific relationships. When looking at the other companies, one looks at their capability and resources, potential aspirations and probable problems. A company’s capability development (organisational structure, resource constellation and activity structure) reflects the resources, opportunities or ability that the company has to develop relationships with other companies (Hakansson and Snehota, 1995).

3. The processes within the network – nature of relationships involved
The processes of the network reflect the network’s dynamics. Hakansson and Snehota (1995) have presented a scheme of analysis of the development effects of business relationships that integrates three levels of analysis for the three elements of the ARA Model (Hakansson & Johansson, 1985): the company level, the relationship level and the network level. This scheme has been used as a tool to analyse the effects of change in a relationship and/or to identify the factors that affect the possibilities of development of a relationship. It can also be used to identify where and how to intervene in relationships in order to achieve some desired outcomes. In examining the relationships between actors, the authors of this paper propose that this scheme is combined with Hakansson and Snehota’s (1995) notion of relationship substance, involving the evaluation of actor bonds, resource ties and activity links.

4. The personal positioning in the overall network
According to Hakansson and Snehota (1995), the identification of a company’s position in a network can be done by looking at the surrounding web of actors, resource constellation and activity patterns, which are the result of the relationships established between the companies. When a company takes a certain strategic action, it does so (even if unconsciously) in order to achieve a better position in the network where it
operates. But this process of mobilisation of other companies’ action and respective resources is very subjective, since companies do not objectively know what position they occupy in their network. A company may only have a perception of the position it occupies in the network and this perception will depend, among other factors, on the company’s characteristics as well as on the surrounding network’s characteristics. A wrong conception of companies’ positions may put at risk the viability of the planned strategic action.

Ramos et al. (2005) argue that after combining these four dimensions, we have all the elements the actors look at, thus reflecting their network pictures. These dimensions should not be used to understand networks per se but to grasp actor’s network pictures through their aggregation. Then, the inferred network pictures can be used to understand what happens in the network.

Finally, the third level of analysis attempts to provide insights not just into what is, but also what might be. Now the focus is on what is not in the network picture, on exploring what actors, activities or resources are not, but could be in the network picture. If a company intends to change its position in the network, it may develop actions aimed at modifying the structure of the network (creating new relationships, terminating existing ones or changing the contents of existing ones); or it may influence the other actors’ perceptions of the connections between relationships (Johansson and Mattsson, 1992). In this latter case, the company will try to affect other companies’ network pictures. So strategic action is therefore intimately connected to the different actors’ network pictures, because the participants act and react according to their views of the situation and to what they consider to be the other companies’ views (Ramos et al., 2005).
APPENDIX 2. INTERVIEWS

1. INTERVIEW SCRIPT TO A MEMBER OF NEXT

1- When and why did Next Home start working with Li & Fung? a) j)

2- Up until 2003, Next used to have another intermediary in Portugal for ceramics and glass. What perception did you have of that company? Why has Next ceased to work with them? b) e) f)

3 - What was your perception of Li & Fung then? Why have you chosen to work with Li & Fung Portugal? b) f)

4 - What is your opinion about Li & Fung Portugal now? b) f)

5 - What do you expect from your agents and from Li & Fung in particular? a) b)

6 - Next has been progressively working more with agents than importers. Why is that so? j)

7 - What are the difficulties/problems you find in doing business with suppliers in general and Portuguese ones in particular? How do you overcome them? c)

8 - And what about problems with agents? c) g)

9 - What were the reasons that have led Next to work with Portuguese suppliers? What did you look for? And now that you have experience of working with them, what’s your opinion about them? a) b) f)

10 - Is it important for you/your business a long term relationship with suppliers with much involvement? Why? d) g)
11 - How do you see NEXT in the relationship, i.e. how would you describe Next’s relationship with the agents, suppliers, competitors, etc? d) g) i) Tips: power, influence, leadership, cooperation, loyalty

12 - What would make you stop working with Li & Fung?
   If the persons you normally work with at Li & Fung moved into another company, who offered the same conditions as Li & Fung, would you start working with that company? e)

a) Actor’s motivations
b) Agent/supplier abilities and supplier selection criteria
c) Perception of weaknesses
d) Type of relationship
e) Scale of network (network horizon)
f) Structure of network
g) Processes within network
h) Personal positioning in network
i) Power
j) History/evolution of relationship; other information
2. INTERVIEW SCRIPT TO A MEMBER OF LI & FUNG

1- What has Li & Fung (Portugal) done in order to gain the customer Next?  j)

2 - What has led Next to change from the previous intermediary in Portugal to Li & Fung? a) b) f)

3 - In your opinion, what are the advantages/disadvantages that Li & Fung may offer to a customer like Next? b) f)

4 - What is your opinion about the exporting Portuguese suppliers (ceramics, glass, home textiles)? To be more specific, please identify their strengths and weaknesses, in a context of production for exports? b) c) f)

5 - Do you think these factories are able to be successful internationally by themselves? c) f)

6 - Why do you think Next looks for Portuguese suppliers (price, product, lead times, etc.)? b)

7 - How would you describe the relationship between Li & Fung and the suppliers? Please mention costs and benefits for both parties. d) g)

8 - Could you please speak about problems that occur in the relationships with both customers and suppliers? (e.g. communication, inter-cultural) c) g)

9 - Li & Fung acts as an agent, but also like a trader/importer. Which of these features is more important nowadays? Can you identify any geographical tendency? j)

10 - Which do you think are the reasons that make a customer prefer an agent or an importer? b)
11 - How do you see Li & Fung in the relationship, i.e. how would you describe its relationship with the customers (esp. Next), suppliers, competitors, etc?  

Tips: power, influence, leadership, cooperation, loyalty

a) Actor’s motivations  
b) Agent/supplier abilities and supplier selection criteria  
c) Perception of weaknesses  
d) Type of relationship  
e) Scale of network (network horizon)  
f) Structure of network  
g) Processes within network  
h) Personal positioning in network  
i) Power  
j) History/evolution of relationship; other information
3. **Interview Script to the Portuguese Suppliers**

1 - When and how did you start working with Next? j)

2 - What is your opinion about Next? What does Next look for in Portuguese factories? b)

3 - Why do you think Next works with your company? a) b) f)

4 - What is Next’s share in your total production? Has it changed over the years? j)

5 - What are the particularities of doing business with Next? Any particular difficulties? d) g)

6 - How do you manage to overcome those problems? j)

7 - How do you usually find new customers? J)

   (Tips: fairs, press)

8 - Is/are there any area(s) in your company where you would find more weaknesses (e.g. marketing, human resources, design, etc)? c) f)

9 - In your opinion, what were the reasons that have led Next to change their agent in Portugal back in 2003? a) b)

10 - What differences have you noticed between the former intermediary and Li & Fung? d) e) g)

11 - What is your opinion about Li & Fung? j)

12 - What are your expectations about Next and Li & Fung? j)
13 - Is it important for you/your business a long term relationship with customers, with much involvement? Why? d) g)

14 - How do you see your company in the relationship, i.e. how would you describe your relationship with the customers (esp. Next), agents, factories, competitors, etc? Tips: power, influence, leadership, cooperation, loyalty h) i)

a) Actor’s motivations
b) Agent/supplier abilities and supplier selection criteria
c) Perception of weaknesses
d) Type of relationship
e) Scale of network (network horizon)
f) Structure of network
g) Processes within network
h) Personal positioning in network
i) Power
j) History/evolution of relationship; other information
APPENDIX 3. NETWORK PICTURES’ MATRIX