

## **CUSTOMER-SUPPLIER RELATIONSHIPS IN THE CONTEXT OF INTERNATIONAL SOURCING**

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### **ABSTRACT**

This paper focuses on customer (retailer) - supplier relationships in the context of international sourcing, when using intermediaries. Therefore, the objective of this work is to analyse the role of intermediaries, looking at the business efficiency and thus contributing to a greater competitiveness of the retailer. A triadic approach is adopted (Havila *et al.*, 2004) to study the relationships between the actors and the network pictures tool (Ford *et al.*, 2002; Ramos *et al.* 2005) is used to analyse how they behave and interact within this triad. Throughout our work, we follow the perspective of the customer (a retailer) who uses an intermediary (an agent) to deal with various suppliers.

Our analysis shows that the actors have different network pictures, which inevitably will influence their behaviour. Our findings also suggest that the power and importance of the intermediary in international business may increase, as it has the necessary in depth knowledge of markets which the retailer needs to pursue its international sourcing strategy and thus improve its competitiveness. The study's results also point in the direction of an atmosphere of greater trust within the triad as time goes by, originated by a greater commitment of actors.

**KEY WORDS:** Networks, network pictures, triadic relationships, intermediaries, customer-supplier relationships, international sourcing.

## INTRODUCTION

The strategic importance of the supply side in companies has been increasing considerably since the last two decades of the 20<sup>th</sup> 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 management of relationships and linkages established with external organisations, namely suppliers (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, in terms of quality and costs. 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 paper, 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 paper 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. We describe and analyse 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.

## **LITERATURE REVIEW**

In order to analyse the actors' behaviour within the triad, we will follow the International Marketing and Purchasing Group's (IMP) perspective and the main themes related to this investigation are interaction, relationships and networks. These were the base for all the work

and analysis of the practical case studied in this paper. Since the companies described in our case study operate internationally, this work needs to be framed within the context of international sourcing.

### **The network approach to industrial markets**

Interaction, relationships and networks (IMP Group) are fundamental subjects, as the object of study is relationships among members of a network.

Interaction between actors is a series of acts and counteracts that creates interdependencies and affects their behaviours (Hakansson and Snehota, 1995). An organisation 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).

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.

A simple and abstract definition of network was given by Hakansson (1997, p. 257): “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, p. 725, 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 Mattson, 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).

### **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 Mattson, 1992).

### **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, p. 14).

Prior to Ford *et al.* (2002), several authors had used other expressions to refer to a similar idea to network pictures. For instance, Johanson and Mattson (1992) referred to “network theories”, Anderson *et al.* (1994, p. 4) mentioned “network horizon” and Borders *et al.* (2001) spoke about “network maps”.

More recently, Henneberg *et al.* (2006, p. 3) 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).

### **Customer-supplier relationships**

Purchasing has a major strategic importance and suppliers play an important role in the companies’ strategies. 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, even more so, because 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 (Ford *et al.*, 2001, 2006).

It was also important to review the main types of customer-supplier relationships, such as high vs. low involvement (Gadde & Snehota, 2000; Gadde & Hakansson, 1994), symmetrical vs. asymmetrical (Johnsen & Ford, 2001, 2002) and independent vs. dependent vs. interdependent (Campbell, 1985), as well the relationship stages described by Ford (1980).

### **Triadic relationships**

There is a particular feature about 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.

These authors have pointed out that triads have specific characteristics that cannot be found in dyads. Firstly, each actor functions as an intermediary of the other two. Secondly, all three parties do not need to interact with each other at the same time. Actually, the total amount of interaction is limited in a “true” triad, thus if A is interacting with B it cannot interact with C at the same time, unless they are in the same place or use tri-partite phone/video conference. Thirdly, the higher the interaction between A and B, the lower between B and C. Fourthly, in triadic relationships, commitment precedes trust, therefore higher trust driven by increased commitment.

### **Intermediaries in international sourcing**

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. This is the case of the intermediary as a provider, according to Gadde and Snehota’s (2001) classification, or the intermediary as a full-service provider, according to Balabanis (2005). 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.

As we have already seen, intermediaries are very common in international business, namely in international sourcing strategies. 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).

## THE RESEARCH METHOD

The case study was the chosen method for this study of a triad, since 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. 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.

Firstly, we reviewed the relevant literature (as previously explained). Secondly, we elaborated a matrix composed by the following topics (as shown in Table 1): the actors' motivations; the supplier selection criteria; the actors' abilities and weaknesses; the types of relationships; the four dimensions of network pictures – scale of the network, structure of the network, processes within the network and personal positioning in the network; and the notion of power. Thirdly, this matrix was filled in with the information gathered.

***Table 1.***

Data was collected in 2007 and the first data sources were documentation (press articles, websites, internal Li & Fung and Next data) and participant observation, as the researcher is a merchandiser at Li & Fung, thus being directly involved with both the customer and the suppliers. Then, another major data source was focused open-ended interviews to managers from Next, Li & Fung and the suppliers. Interviews' scripts consisted of basically the same questions to all interviewees, in order to capture their network pictures (i.e. their own view of the triad) and also allowing us to analyse the other mentioned literature topics. For example, regarding the structure of the network (i.e. nature of actors and resources), we have assessed actors' abilities and weaknesses, based on the literature by Ford *et al.* (2001) and Vernon-Wortzel *et al.* (1988). Therefore, we have asked questions to know:

- a) Why Next had chosen Portuguese suppliers and what buyers were looking for.
- b) What were the reasons why Li & Fung thought Next worked with Portuguese suppliers; what was Li & Fung's opinion about Portuguese suppliers.
- c) What suppliers thought were the reasons why Next looked for them.

Triangulation was made to compare and verify data from the various sources.

After completing the matrix, we were able to start defining propositions.

## **THE CASE STUDY**

### **Actors' Presentation**

The unit of analysis is thus the triad composed by Next (the customer), Li & Fung (the intermediary) and the Portuguese ceramics manufacturers (suppliers).

### ***Figure 1.***

Next is a British retailer, founded in 1982, which now has over 400 stores in the UK and Ireland. It sells a wide range of products from clothing to home wares and fresh flowers. Next's major suppliers are located in Asia and Europe, but in most cases Next uses intermediaries to deal with suppliers. To deal with Portuguese suppliers, Next had an intermediary in Portugal until 2003, when it changed to Li & Fung Portugal.

Li & Fung (Trading), Ltd. is the world's biggest trading company, based in Hong Kong and created in 1906. 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. Nowadays it has a total staff of over 10,000 distributed by 72 offices across 41 countries worldwide.

Each Li & Fung office works with suppliers in their specific geographical area. The Portuguese office is responsible for dealing not only with Portuguese suppliers, but also factories in Europe. 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 (the ones we have considered and interviewed on this case study), one Portuguese textile factory and one Polish glass factory.

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. Factory audits and regular visits by technologists are used to continually evaluate both new and existing suppliers, check transaction uncertainty.

For this case, we have interviewed three of the Portuguese ceramics factories supplying Next at the beginning of 2007:

- **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 used to have around 40 employees, but after a significant sales reduction

in 2005, downsizing to 10 was inevitable. Dinis does not have a design team anymore and does not exhibit in fairs. Its main market is France.

- **Ceramirupe** is a 20-year-old company, which started to supply Next in 2000 and in 2005 was Next's main Portuguese supplier for ceramics. It has a strong design team of two persons. Its main customers are British and German.
- **Arfai** started supplying Next in 2005 and in 2006 was Next's main decorative ceramics supplier. It has about 50 employees nowadays, including one designer. Its main customers are British and American.

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 and products; 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 suppliers. Next only deals with Suppliers directly when buyers visit the factories or trade fairs.

### **Definition of Propositions**

Regarding motivations and expectations, we have verified the following:



*Next:* Want to continue to be one of Britain's major retailers. Aim to have suitable products for its customers (regardless where they come from), at competitive prices, which allow desired profit margin.

*Li & Fung:* Want to reach US\$ 100 million business with Next and to continue searching for new and better suppliers

*Suppliers:* Want to sell as much as possible to Next and they expect Li & Fung to help them to do business with Next and other customers.

In face of this information, we can infer that:

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

As for capabilities, we know that:

*Next:* Its strongest capability is design, as well as marketing the products. However, the company has insufficient knowledge about suppliers worldwide.

*Li & Fung:* Its global dimension and the fact that it is the largest buying agent in the world. It also has an extensive knowledge of markets, suppliers and customers, given its proximity to them. The wide portfolio of services provided and the dedicated teams (to customers) are also strong capabilities.

*Suppliers:* They are experts in ceramics manufacture, and they claim to have quality and flexibility. Applying the five stages of exporting defined by Wortzel and Wortzel (1981), Dinis is at Stage III (weaker at selling products, mainly producing to contracts); Arfai and Ceramirupe are at Stage IV (already producing and marketing their own products). However, all suppliers admitted weaknesses in their sales/commercial departments.

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:

Next: Admits that products and prices are the most important things. Long-term relationships and high involvement not particularly important and the company separates personal relationships from business. Next sees itself as an approachable company, although it pursues a command buying strategy (Campbell, 1985). But the relationship seems to be more collaborative with Li & Fung.

Li & Fung: Defines itself as a strong partner for both Next and the suppliers (interdependent relationships), having a long-term and high involvement relationship with Next, and also high involvement and close relationship with many suppliers.

Suppliers: All believe long term, high involvement relationships are very important and would like to develop a stronger personal relationship with Next. They value the loyalty from customer and agent very much. Dinis and Ceramirupe have a long term relationship with Next, whereas Arfai's relationship with Next is still at the development stage.

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:

Next: Sees itself as the most powerful company in the triad, but also as an approachable company.

Li & Fung: Is conscious it is the world's leading consumer goods sourcing company, but being organised in a regional base, it is also quite small, given each office's autonomy.

Suppliers: All recognise Next as the most powerful company in the triad and the agent as the second most powerful. They see themselves as the weakest link, so this looks like a customer-dominated asymmetrical relationship.

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:

Next: Aware of its dominant position, which implies more bargaining power and the chance to pursue a command purchasing strategy. Relies on intermediaries to look for new products and new suppliers. Next admits not to easily change intermediary, but is not worried about being loyal to current suppliers.

Li & Fung: Believes suppliers' core business should be production only, leaving marketing to the agent. Thinks that competition among intermediaries is healthy and beneficial for Next. The company's growth is due to acquisitions and the portfolio of services offered (buy and build strategy). Li & Fung pursues a strategy of adaptation to the customers' needs, namely in terms of its internal structure and services provided.

Suppliers: Dinis and Ceramirupe think Next and Li & Fung are not loyal, but would like to increase business with them. They seem more oriented to the triad (greater dependency). Arfai does not want Next to represent more than 30% of its customer share, appearing to have a broader view of the network (not so dependent).

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.**

At this point, we are able to show that the propositions defined are in accordance with the literature topics previously defined in the matrix, as shown in Table 2.

**Table 2.**

Having defined these propositions, we shall now discuss them.

## **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, the relationship between the intermediary and the suppliers, and the relationship between the customer 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?

### **Next – Li & Fung**

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, because it has the market intelligence and the capacity to develop and adapt products.

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.

### **Li & Fung - Suppliers**

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 (because they know that changing suppliers has costs, and its aim is rather to increase profit and quality), 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.

### **Next - Suppliers**

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.

## CONCLUSION

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 and distribution was not organised, 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. Next is dependent on Li & Fung, since the latter has the knowledge about suppliers, who, in turn, are also dependent on Li & Fung, as we have seen. Moreover, Li & Fung, being a partner for Next, increasingly providing more services, rather than being a mere buying agent, contributes to the optimisation Next's value chain.

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, as well as a perspective of each actor's evolution and inter-relationships.

### **Limitations of the Study and Indications for Future Research**

This study 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.

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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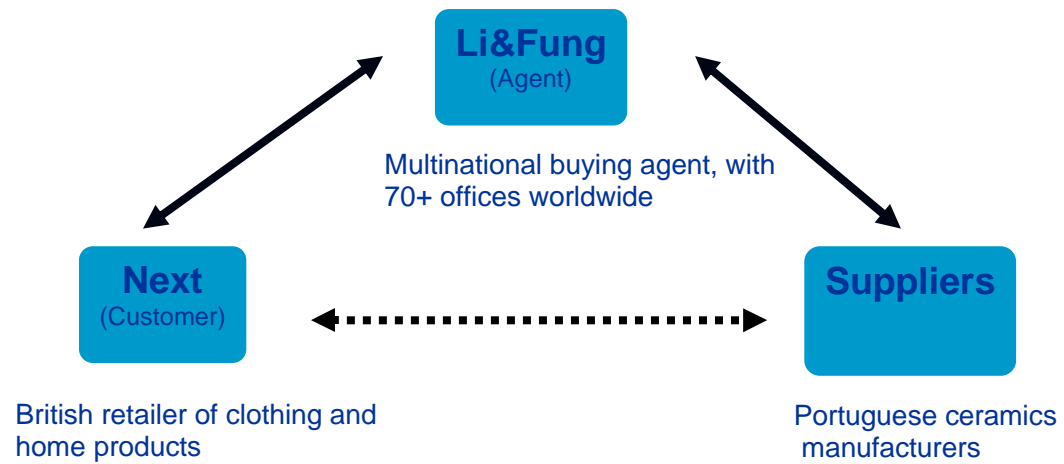
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## FIGURES AND TABLES



*Figure 1.*  
*The Triad*



Table 1.  
Topics of matrix for interpreting collected data

Topics	Actors' motivations	Supplier abilities Supplier selection criteria	Self perception of Weaknesses	Type of relationship	Scale of Network	Structure of Network (nature of actors and resources)	Processes within Network (nature of relationships)	Personal Positioning in Network (self-perception)	Power
Authors	Ford et al. 2001	Ford et al. (2001) Vernon-Wortzel, Wortzel, Deng (1988)	Ford et al. (2001)	Campbell (1985) Gadde, Hakansson (1992) Gadde, Snehota (2000) Ford, Johnsen (2001)	Ramos, Ford, Naudé (2005)	Ramos, Ford, Naudé (2005)	Ramos, Ford, Naudé (2005)	Ramos, Ford, Naudé (2005)	Henneberg, Mouzas, Naudé (2006) Hakansson, Gadde (1992)

Table 2.  
Propositions matching literature review

Topics	Actors' motivations	Agent/Supplier abilities Supplier selection criteria	Perception of Weaknesses	Type of relationship	Scale of Network (network horizon)	Structure of Network (nature of actors and resources)	Processes within Network (nature of relationships)	Personal Positioning in Network (self-perception)	Power
Authors	Ford et al. 2001	Ford et al. (2001) Vernon-Wortzel, Wortzel, Deng (1988)	Ford et al. (2001)	Campbell (1985) Gadde, Hakansson (1992) Gadde, Snehota (2000) Ford, Johnsen (2001)	Ramos, Ford, Naudé (2005) (Anderson et al.,1994; Holmen and Pedersen, 2001, 2003)	Ramos, Ford, Naudé (2005)	Ramos, Ford, Naudé (2005)	Ramos, Ford, Naudé (2005)	Henneberg, Mouzas, Naudé (2006) Hakansson, Gadde (1992)
Propositions	1	2	2	3		2	3	4	4