Buyer-Seller Relationships in Port Wine Distribution

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Abstract

The main purpose of this study is to research buyer-seller relationships in Port Wine distribution. Based on case studies in three of the main Port Wine markets (France, the UK and the Netherlands), an analysis was made of the type of distribution relationships between buyer and seller, leading to the development of a buyer-seller matrix. It was concluded that not all relationships can evolve towards cooperation, and that the investment in resources and time required by cooperation would make it impossible to apply it to all relationships. Although cooperative relationships may well constitute a competitive advantage for Port Wine companies, they take up a great deal of time and resources and may therefore lead to a decline in the quality of other relationships. It is possible to construct balanced and satisfactory transactional relationships. In this sense, it may well be more advantageous to prioritise investment towards improving transactional relationships with greater collaboration.

Keywords: Marketing, Distribution, Multiple Channels, Port Wine.

Introduction

Thach and Olsen (2006) noticed that one of the critical elements for the success of any wine producer is to build effective partnership relationships with its distributors. In fact, distribution research in the wine industry has been identified as an important area of investigation that lacks intensive study (Orth et al, 2007; Beaujonot et al, 2004; Thach and Olsen, 2006). As for the Port Wine industry, there is the same need for research, particularly since no investigations have been conducted recently. Lages (1998: 98) urged for investigations into Port Wine distribution, yet a decade later, there is still a gap in this area.

Despite the fact that Port Wine is highly internationalised, the sector remains greatly dependent on a few markets; indeed four countries (France, Portugal, the Netherlands and the UK) represent 68% of the total sales volume and 62% of total value (IVDP, 2008). In all these four markets, alcoholic beverage distribution is undergoing a profound change (Lopes, 2004).

The Port Wine sector is familiar with international markets, and has faced the great changes that occurred in worldwide distribution over the last few centuries, with one of the worst periods being post-World War II. Before the war, commercialisation in the UK (at the time the most important market) was done via direct contacts between producers and merchants; those days are over (Bradford, 1983). In fact, the concentration that took place in distribution after World War II meant that informal and family-owned marketing channels began to disappear. Port Wine started to be distributed by third parties (alcoholic beverage multinationals, retailers, independent companies) or by using its own channels in the case of Port Wine companies owned by multinationals (Aguir and Lopes, 2000).

In order to face the major challenges presented by the changing distribution environment, a concentration process occurred in the Port Wine business. In fact, this process began in the 1950s (Bradford, 1983) and the trend increased in the following decades with several companies being acquired (and subsequently sold) by alcoholic beverage multinationals. Currently, five groups (Gran Cruz, Symington Family Estates, The Flaggate Partnership, Sogrape and Soavinho) account for some 80% of the Port Wine business (Woodard, 2008: 9).

Marketing channels have also changed dramatically over the last few decades, particularly with respect to architecture, partnerships, operational practice and performance skills (Mudambi and Aggarwal, 2003; Gadde, 2004). There has also been a profound change in the way companies deal with each other. Two trends can be observed simultaneously – a deterioration in marketing channel relationships, but also a closer relationship between some suppliers and buyers (Frazier and Antia, 1995). The high level of coordination required by modern markets has led to a reduction in the number of business partners, with the consequence that collaboration between buyer and supplier has become more intense (Ploetner and Ehret, 2006).

As companies become involved in a more restrictive set of relationships which have a long-term perspective, a new paradigm has come to the fore, based on relationship development and management, namely relationship marketing (Grönroos, 1994; Parvatiyar and Sheth, 2000; Möller and Halinen, 2000).

The development of cooperative relationships constitutes a substantial challenge, not only because of its complexity, but also because of the scarcity of time and resources. It is therefore necessary to learn more about these complex relationships (Frazier and Rody, 1991).

Port Wine is now facing a great challenge: how to cope with the changing distribution landscape and how to develop new collaborative and cooperative relationships. In this article, we aim to study the relationships between buyers and sellers in the Port Wine sector.

In the next section, we describe the research methodology and a summary of the theoretical perspectives of each construct, followed by the results of the study and some conclusions.

RESEARCH METHODOLOGY

Case Studies: We investigated the distribution processes in three different markets (France, the UK and the Netherlands) of a specific Port Wine company. The selection of these three markets was based on their importance, as they represent 54% of all Port wine sales (France represents 27%, the Netherlands 16% and the UK 11%); but also taking into consideration the fact that these markets have different stages of
distribution development. In fact, Port Wine distribution in the UK faces the concentration of the off-trade market under a limited number of companies (Hingley, 2005), with a highly efficient logistics system and the willingness to develop alliances with producers (Cotterill, 1997). In the meantime, in France there is collaboration between producers and distributors (Messeghem, 2004). There is also great concentration with a few chains of hypermarkets and supermarkets controlling the market, but there is still some powerful specialised distribution. As for the Netherlands, there is a dichotomy in alcoholic beverage distribution between the supermarket chains and the independent specialised stores (slijters), and it is difficult for a brand to be present in both distribution systems.

Therefore, since these three markets represent over half the Port Wine sales and also have such different distribution models, it seemed only natural to select these markets to undertake the case studies. A distribution company was selected for each market: each of these companies has distributed the same Port Wine brand for several years, which meant that a potential bias attributed to brand differences could be avoided.

We followed the recommendations of Yin (1994) and prepared a data collection protocol based on the theoretical background. Two case pilots were conducted in advance, and some minor adjustments were made. For data collection, a focused interview (Yin, 1994) was conducted with the CEO of each company, lasting 2 - 2½ hours. A transcript of the entire interview was then written up and a content analysis made.

THEORETICAL BACKGROUND

Supply Chain Management: Handfield and Nichols (1999) define supply chain management as the integration of all activities associated with the flow and transformation of goods, from raw materials to the final consumer, as well as information flows. Supply chain management is both a logistic and marketing concept (Min and Mentzer, 2000).

The perspective is that the supply chain constitutes a system of interdependent companies, which promotes more collaborative relationships and partnerships between buyers and sellers (Jahre and Fabbe-Costes, 2005), reducing costs and enhancing relationships quality (Liker and Choi, 2004; Lambert and Cooper, 2000).

The importance of the supply chain has been proved conclusively, not only as a means of improving cost efficiency, but also as a competitive advantage (Stone, 2004). The chain is therefore considered as a strategic resource (Ketchen and Hult, 2007). Supply chain management requires coordination and the integration of activities in key processes (Stock and Lambert, 2001; Alvarado and Kotzab, 2001), through strong formal and informal communication between chain members (McAdam and McCormack, 2001), across complex networks of interdependent companies.

Through collaboration within the supply chain, the parties can achieve substantial operational advantages, thus promoting consistent collaboration, instead of confrontation (Duffy and Fearne, 2004; Bhutta et al, 2003; Lindblom and Olokonen, 2008). This adds value to products and services, and simultaneously develops capacities for solving logistical issues and marketing problems (Alvarado and Kotzab, 2001).

Conflict: Gaski (1984: 11) defines conflict as “the perception on the part of a channel member that its goal attainment is being impeded by another, with stress or tension the result”. Several authors argue that business relationships always entail conflict and cooperation (Welch and Wilkinson, 2005; Stern and Rewe, 1980; Gadde and Håkansson, 2001; Madhok, 1995). A high level of conflict is not just a problem in the context of low collaboration (Gadde and Håkansson, 2001). If not managed appropriately, conflict can lead to the termination of a relationship; but when disputes are managed in the right manner and amicably, they can be labelled as functional conflict (Morgan and Hunt, 1994). This promotes commitment for both partners (Madhok, 1995), which is necessary for a sound relationship (Håkansson and Snehota, 1995).

With respect to marketing channels, conflict can also increase when multiple channel strategies are used (Sharma and Mehrotra, 2007; Rosenbloom, 2007). Cespedes and Corey (1990) conclude that the use of a multiple channel strategy enables the determination of the degree of conflict to be managed.

Tsay and Agrawal (2004) observe that conflict in marketing channels could undermine attempts to develop cooperative relationships, leading to lower profits for both partners.

Trust: In the marketing literature, there is extensive research involving behavioural constructs. Trust has been identified as a key element in any business relationship (Arnott, 2007), as particularly important in any cooperation research (Ring and Van de Ven, 1992; Gyeskens et al, 1998), and all the more so in the context of marketing channels (Halliday, 2003).

Kumar (1996: 95) defines trust as the “ability of the parties to make a leap of faith: they believe that each is interested in the other’s welfare and that neither will act without first considering the action’s impact on the other”.

Such relationships are time-consuming: trust cannot be regarded as a static concept, but something in constant evolution. In time, partners get to know each other better and trust levels change as successes and failures, as well as general interactions between partners, occur (Gadde and Håkansson, 2001). Trust has been researched, not only as a coordination mechanism, but as an important precondition for better performance in complex competitive environments (Free, 2008).

Trust is critical when there is uncertainty and asymmetrical information, and is fundamental in order to understand interpersonal behaviour and economic relationships (Agarwal et al, 2007). This perspective has recently been confirmed in research on wine distribution in the USA. In fact, Thach and Olsen (2006) concluded that, when facing a market with uncertainty and with asymmetrical information, wine producers tend to rely more on partners whom they trust.

Trust has been cited as an essential element for cooperation (Min and Mentzer, 2000; Lui et al, 2006; Ganesan, 1994). In fact, cooperation requires a high degree of commitment and, therefore, trust is often presented as a basic element of a cooperative relationship (Min and Mentzer, 2000; Lui et al, 2006). Ganesan (1994: 3) states that sellers who are concerned with the success of a retailer, along with their own, will be trusted to a greater extent than sellers who are interested solely in their own welfare.

Trust is a psychological condition that could be either the cause or the result of cooperation (Rousseau et al, 1998). Perhaps for this reason, Spekman and Carraway (2006) argue that, despite being a key link in cooperative relationships, trust is fragile and subject to several tensions and vicissitudes. Cooperation is impossible, without a minimal level of trust (Ploetner and Ehret, 2006). The greater the capacity to trust, the lower the transaction costs needed for partners to negotiate, reach agreements and conduct a cooperative relationship. Trust, therefore, reduces the need to have legal structures and safeguards to manage the relationship (Ring and Van de Ven, 1994).

Adaptation: Brennan and Turnbull (1998: 31) define adaptation as behavioural or structural modifications, at the individual, group or corporate level, carried out by one organisation, and which are initially designed to meet the specific needs of another organisation. Adaptation is not perceived as merely an answer to the market situation, but as an efficient way to maintain and develop a valued relationship.

Ling-Yee (2007) notes that adaptation can be an important source of knowledge, thus facilitating positive relationship development. Therefore, adaptation allows companies to change their structure, in attempting to increase their response capabilities towards partners (Levintal, 1997). This shows commitment and reduces the distance between parties, leading to relationship strengthening (Lukkari and Parvinen, 2008). Adaptation entails a more behavioural approach to business relationships, allowing for the existence of more flexible partnerships (Mukherji and Francis, 2008).

In markets where buyers and sellers frequently establish and develop lasting relationships, adaptation to the partner is expected to occur (Håkansson, 1991). Nevertheless, there appears to be evidence that sellers adapt more frequently to buyers than otherwise (Brennan et al, 2003).

Adaptation may occur as a means of developing a partnership need or to improve and strengthen the relationship itself (Brennan and Turnbull, 1999). Alternatively, it may be the result of a desire to make adjustments in order to achieve mutual benefits for both partners (Hågborg-Andersson, 2001). Such adaptations are potentially necessary to allow buyers and sellers to establish successful long-term relationships (Canning and Hamner-Lloyd, 2001).

In their study of buyer and seller relationships, Fang et al (2008) conclude that investments in specific adaptations enhance cooperation. The authors also note that these specific adaptations are followed by a joint effort to accommodate changes in the relationship.
The optimisation of activities requires coordination through adaptation (Jahre and Fabbe-Costes, 2005), so that adaptations represent a coordinated and cooperative response to change (Gulati et al., 2005).

Gow et al. (2002) empirically concluded that adaptation capacity in the supply chain management (SCM) of a wine producer enhanced the results reached by the company and its partners. Beaunant et al. (2004), studying the Australian wine industry, concluded that wine producers with greater capacity to adapt were the ones most willing to develop cooperative relationships.

For Brennan et al. (2003), one important characteristic of "partnership" is the willingness of at least one actor to adapt to the needs of the other. Adaptation strengthens the relationship between business partners (Johanson and Mattsson, 1987).

Opportunism: Opportunism is defined by Williamson (1975: 255) as "self-interest seeking with guile". He adds that opportunism can "involve either data distortion or the making of self-disbelieved promises". Williamson (1975) argues that behaviours such as "tough" negotiations or strong disagreement are not opportunistic behaviours. Either party in a business relationship can engage in opportunism, which involves several elements (Jap and Anderson, 2003: 1688). These include: i) the distortion of information, including overt behaviours such as lying, cheating and stealing, as well as more subtle behaviours such as misrepresenting information by not fully disclosing; ii) reneging on implicit commitments such as shirking, or failing to fulfill promises, and obligations.

Williamson (1993) argues that the opportunism concept does not mean that all actors are unreliable, but implies that one should not become naively involved in relationships. Several studies suggest that opportunism could be mitigated by creating control mechanisms (Stump and Heide, 1996; Williamson, 1993). Others argue that the opportunism hazard is inherent in any business relationship (John, 1984, Jones, 2005). In cooperative relationships, opportunism is by no means absent, and in fact constitutes one of the major threats (Phelan et al., 2001).

Within marketing channels, it might be more efficient for a seller to work with several distributors, but this could increase the potential for opportunism (McAfee and Schwartz, 1994). Also, buying opportunism is negatively related to dependence on a supplier and is positively related to supplier control over seller decisions (Provan and Skinner, 1989).

The existence of trust between partners allows for a reduction in opportunism (Bunduchi, 2008), strong relationships are more important as a means of opportunism control than contracts (Deeds and Hill, 1998).

Opportunism does not constitute the opposite of trust. For example, technical support could enhance trust, but is not a safeguard against opportunism (Sako and Helper, 1998). Lado et al. (2008) conclude that it is feasible to develop cooperation relationships with a minimal level of trust (generalised trust, as defined by the authors), as long as the risk of opportunism is perceived as low.

ANALYSIS AND RESULTS

The three companies studied are remarkably diverse, which contributes to the wealth of the analysis. Their turnover ranges from €13,500,000 to €51,800,000. One of the firms has been in existence for about 150 years, while the others are more recent. All of them distribute exclusively alcoholic beverages, particularly wines, Port wines and champagne. None of the companies is held by a multinational beverage corporation.

Conflict – The companies we consulted maintained that the level of conflict in relationships with their clients has increased in the last fifteen years. For company A, negotiation is characterised simultaneously by "arm’s length" and cooperation. Company B maintains that cooperation is the fundamental focus, while company C defines negotiations as essentially "arm’s length". All the responsible affirmed that conflict and cooperation (albeit in different measures) are both present in their commercial relationships, which confirms the observations made by several authors (Stern and Reve, 1980; Anderson and Narus, 1990; Gadde and Håkansson, 2001; Madhok, 1995).

As suggested by Anderson and Narus (1990), the companies in question view conflict as inevitable. For company A, conflict with big clients is constant and referred to as "almost permanent warfare".

When conflicts are permanent and intense, companies B and C consider them to be obstacles in forming collaborative relationship. Company A does not share this view. The director of the latter thinks it is impossible to have a "wouldn’t it be fabulous if we all got along amazingly well?" view of business, and believes that conflict must realistically be seen as inevitable. It is therefore essential to know how to deal with it.

Trust – All those responsible for the companies studied think that trust plays an important role in their relationships with partners. For company A, trust is essentially integrity, since "in a commercial relationship we use codes, it would not be realistic to say that we have to trust that they are all telling the truth, trust resides in the way the company works". The various directors believe that trust is based on the positive feeling that success can be achieved together, grounded in the certainty that both partners will fulfill their promises. Company C characterises the fulfilment of promises by identifying clear and identical commercial practices for all clients, which is in line with its more formal strategy, based on very specific contracts and rules. Company B mentions the intensity of the relationship, given that "the better companies know each other, the more they understand one another and the greater trust they have in what the other is doing".

All the companies identified trust as a key factor in doing business, and affirmed that they were committed to increasing their firms’ reliability. All of them cited their longevity as a guarantee of their commitment to the development of trust, maintaining that they would never have continued to exist as companies if they had not developed a relationship of trust with their business partners. Those responsible for the three companies considered that trust reduces opportunism, promotes conflict resolution and fosters cooperative relationships.

Adaptation – All the companies stated that they had changed their structure so as to respond better to market needs. Although they consider adaptation to be important, none of the companies made specific investments to adapt to the needs of a business partner, though they are receptive to doing so.

The needs to adapt have evolved over time. For company A, in the past the market was characterised by a small number of producers and a sprinkling of clients. At that time, companies adapted essentially in accordance with producers: "we agreed an action plan with the producer and placed this plan on the market, but suddenly very powerful clients appeared and we had to change the strategy, and now we need to adapt to them".

The director of company B believes that adaptation is a basic need of the firm and constitutes a pragmatic option: "if there are demands from a client that seem logical and that can contribute to my future growth, then we will make those changes". Company C followed a process of substantial change to its strategy in order to adapt to the market. For those responsible for company A and B, in a market characterised by frequent and profound changes, the capacity to adapt constitutes a competitive advantage: "ideally our company should be small enough to adapt quickly, but large enough to have the scale at the level of information technology" (company A).

All those responsible for the companies recognised the importance of trust in the adaptation process, which would appear to confirm the conclusions drawn by Canning and Brennan (2004), Canning and Hamner-Lloyd (2001), Jeffries and Reed (2000) and Brennan et al (2003). The three companies also recognised that adaptations strengthen the connections between business partners, proving the conclusions reached by Johanson and Mattsson (1987).

Opportunism – The three companies in question indicated that they regularly witness opportunistic behaviours on the market. However, they said that when these occur, they come from the clients’ side. All the companies identified trust as a key factor in doing business, and affirmed that they were committed to increasing their firms’ reliability. All of them cited their longevity as a guarantee of their commitment to the development of trust, maintaining that they would never have continued to exist as companies if they had not developed a relationship of trust with their business partners. Those responsible for the three companies considered that trust reduces opportunism, promotes conflict resolution and fosters cooperative relationships.

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threat to the relationships between buyer and seller and indicated it as a cause for the breakdown in distribution relationships.

Based on the results of our research, we developed the buyer-seller relationship matrix, presented in figure 1:

Figure 1 Buyer-Seller Relationship Matrix

Three factors are considered to affect the relationship: adaptation, trust and conflict. Opportunism, as a relationship menace, is present in various degrees across the different relationships.

**Dependence** relationships are characterised by less trust, high adaptation on the part of only one actor and intense, persistent conflict. In this type of relationship, the actors are dependent on their partner. Adaptations, often in specific assets, are forced through intense and persistent conflict, marking relationships where trust is low.

In **arm’s length** relationships, the actors have little trust, a reduced capacity to adapt and conflict is permanent and intense. This panorama is imposed by lack of mutual knowledge between the parties. It may be said that these connections between actors constitute a transitory state. In truth, they are not sustainable for any length of time: either they evolve or they generate a break-up in the relationship.

**Transactional** connections are the most frequent. The actors trust each other, there is less conflict, but the capacity to adapt is low. Many of these relationships are even characterised by some collaboration between the parties, but there is no cooperation.

**Cooperation** relationships are characterised by a high level of trust, great capacity to adapt and less conflict. Normally, the actors reach this state in stable, long-lasting relationships. The evolution towards cooperative relationships requires accumulated knowledge between the parties and a relationship history characterised by adaptations and the strengthening of trust. Due to the greater proximity between actors, this type of relationship develops knowledge and capacities that can be applied in other relationships, enabling the enrichment of these relationships.

Opportunism, as a threat to the relationship, runs through the different connections in varying degrees.

Conflict, adaptation and trust are included in all the different relationships, while the difference lies solely in the intensity with which each of these factors is felt.

CONCLUSIONS

The Port Wine Industry is facing a period of great transformation. Bridge (2008: 22) has stated that “the golden years when the region was well known and consumers faced little choice have passed”, adding: “the emergence of new wine regions, combined with an increasingly complex and dynamic choice and a much more fickle consumer means that nothing can be taken for granted”. He concludes that: “In this new world, demand must be created every day and shelf in wine shops justified”. Therefore, distribution plays a major role in each Port Wine producer’s strategy.

In this way, relationships between buyers and sellers are particularly relevant in the Port Wine sector.

Based on the case studies developed in three of the main Port Wine markets, a relationships matrix was constructed. As a result of this analysis, it was concluded that:

- Not all relationships can evolve towards cooperation. Nor is it possible for a company to focus on cooperation in all its relationships. In truth, the investment in resources and time required by cooperation would make it virtually impossible to apply it to all relationships.

- The development of cooperative relationships constitutes an advantage for the companies involved in it due to the knowledge and resources accumulated through these experiences. In a way, it might be said that companies with a history of cooperative relationships acquire a “halo” which is valued by their counterparts. The knowledge and resources acquired during the cooperative relationships may be applied to other transactional relationships, enriching them and boosting their return.

- Although cooperative relationships constitute a competitive advantage for Port Wine companies, they do absorb a high level of resources and time and may have a negative effect on the quality of other relationships.

It is possible to build balanced, satisfactory transactional relationships. Thus, rather than investing in the building of cooperative connections, it may be more advantageous to prioritise investment in perfecting transactional relationships with greater collaboration intensity. In this way, cooperative relationships should not be seen as an end in themselves, and companies should not set the building of cooperative relationships as a major objective. Instead, they should develop cooperation with a view to learning and enriching themselves for future adaptation in other transactional relationships.

- Focusing on a distribution strategy supported in the multiple channels, investing in very good capacities of supply chain management, developing the capacities and resources to make a reliable company and building strong transactional relationships with quality and collaboration may well be the best distribution strategy.

LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

Our study has focused on buyer-seller relationships in the Port Wine industry, so our results should therefore be carefully applied to other sectors. It would, also, be worth studying, in greater detail, the different collaboration alternatives in transactional relationships.

REFERENCES


