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1. Introduction

This is a thesis aimed to discuss and examine Swedish grocery retailers' relationships with suppliers of private labeled products. For many years, the Swedish grocery retail market has been very concentrated, on the supplier side as well as on the retailer side. Due to this situation, the retailers have for long periods used the same suppliers, and have meanwhile developed long-term relationships with these. Over time, trust and confidence between them have increased and as a consequence the relations are well functioning and, as a result, appear to be less in need of clearly specified contracts than transactions between newly introduced partners do.

Recently, Swedish grocery retailers have been experiencing a change; the internationalization process and the entrance of ten new member countries into the EU that took place on the 1st of May 2004 opened up for new opportunities. Although competition has increased on the home market, there are now advantages such as more cheap suppliers available in countries within relatively short distances. It has also increased the retailers' interest in utilizing these, since there now is all-embracing food safety legislation. There appears to have been previous reluctance to exploit producers from some of these countries, because of the risk of obtaining less safe products. Thus, these countries are, now governed by the same laws, which among others might simplify for these actors to establish relationships. However, even though there is now a legal framework available, and borders are dissolved, there will still be impediments to the creation of relations. Retailers' relations to Swedish suppliers have been simplified by the fact that Sweden is a fairly homogeneous country, where social and cultural habits and norms are commonly understood and the same law is applicable (the overall governing law naturally also here being EU law). Therefore, the establishment of relationships with suppliers outside the Swedish borders might be hindered by cross-border obstacles, formal as well as informal. Consequently, this thesis will look closer into this subject.

1.1 Problem

Competition on the Swedish grocery retail market has increased profoundly, mainly as a result of foreign retailers entering the market and establishing hard discount stores. To keep up with this intensified competition, Swedish retailers need to lower their costs and are therefore launching their own brands, i.e. products similar to the brand leaders', but produced cheaper and hence offered to a lower price. Concerning the manufacturing of these products, there are two main options for retailers. Both involve subcontracting: One option is to let anyone but the largest producer manufacture for them. Usually a non-market leader does not believe it has a chance to compete about the first place with another manufacturer. Therefore, it decides to remain the second/third/fourth largest producer of a specific product, and at the same time make money on manufacturing products for other brands. The goal of these

manufacturers is to satisfy customers and to gain shelf space.¹ The other option is for the retailer to let its brand be manufactured by firms in other countries, where the price of manufacturing is much lower than what can be obtained in other places, and where the retailer feels that a similar quality can be achieved. For instance, today already, many of these products are imported from Eastern Europe where labor and production costs are lower.² Consequently, this shows that retailers do not obtain private labeled products through a regular supply chain that is utilized for other products. Rather, subcontracting is employed in this case.

In May 2004 ten new countries from Central- and Eastern Europe became members of the European Union, namely Cyprus, Estonia, Latvia, Lithuania, Malta, Poland, Czech Republic, Slovakia, Slovenia and Hungary.³ The majority of these countries are known for being labor-intensive states i.e. labor costs are low and in addition it is inexpensive for foreign companies to invest there. This labor intensity may increase radically if these states are provided modern technology. Furthermore, as these countries became members of the European Union, several trade barriers disappeared and as a consequence it is a lot less costly and time consuming for foreign companies to move their production to these regions or to use subcontractors in these countries. Also, as they have become members of the EU, Sweden and these countries do not any longer have diverging food laws and consequently a number of impediments are eliminated. This also constitutes an incentive for Swedish retailers to import products from these countries.

For the purpose of this thesis, I have decided to focus on Poland specifically. This will be the country of focus in my study, partly because Poland appears to be the country with most potential regarding this area for the moment, and partly because Poland is already engaging in subcontracting activities to a large extent. I will look into the pros and cons of switching to Polish suppliers from Swedish and particularly at the difficulties and problems that might occur as relationships are sought for outside the borders. The relations that will be of focus are illustrated by the following model:

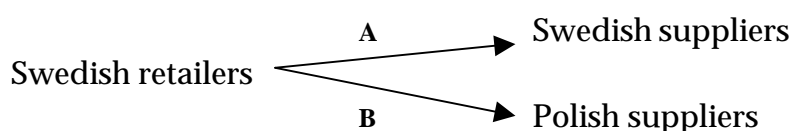


Fig. 1. Relations to be studied for this thesis.

Whereas relation “A” has been created over a long period of time, due to the previously mentioned concentration on the Swedish grocery retail market, this relation consists to a large extent of long-term relationships that contains trust and reliance. Relation “B” on the other hand is currently about to form. Evidently, these two different kinds of relations will have dissimilar impact on Swedish retailers and alter their relationship strategies. Consequently, the thesis will study, from a business law perspective, the legal framework that impacts this situation, and from a business administration perspective, theories clarifying the relationship building.

¹ Elg, U et al (2000). *Dynamiskt relationsbyggande i Europa. Om hur olika slags relationer samspelar – illustrerat av svenska dagligvaruföretag*. Lund Business Press. Pg. 169

² Burt, Steve, Professor Stirling University. Guest lecture 2003-02-24.

³ The European Union website: www.europa.eu.int

Since the membership in May, cross-border obstacles between Poland and the EU countries have disappeared, and the country is governed by the same laws as twenty-four other countries. This might mean that there will not be such a strong need for specific contracts or agreements regulating important elements in the food production sector, such as food safety laws and protection since this all will be governed by EU law. Shortly, it appears as if contracts and agreements in the future can be less specific and that what becomes more important is that the partners in the value chain establish and develop well-working relationships. It can be questioned however, whether legislation can be detailed to such an extent that it will be redundant with highly specialized contracts. At the same time, if the actors have well-working relationships, then maybe some aspects do not have to be covered by a formal contract. For instance, as will be seen in the theory below, many long-term relationships tend to contain a high degree of trust, reliance and confidence, which can contribute to that certain things might be implicitly understood. On the other hand, the lack of a contract specifying obligations can easily lead to conflicts between the parties and these may then be difficult to settle on. It is therefore of great importance to assess the relationship and the partner carefully, before deciding what aspects that should be covered by a contract.

As indicated above, the Swedish grocery retail market has shifted rapidly, both in structure and size. Only five years ago, the market was built up mainly by three large wholesalers that provided all the Swedish grocery retailers with its products. This meant that each network was domestic in character and very limited. The strict vertical marketing systems resulted in extreme power of the wholesalers in both directions; on the one hand, the wholesalers largely controlled the retailers' assortment and logistics alternatives, and on the other hand, since all the groceries in reality had to go through the wholesalers to reach the retailers, the wholesalers also controlled the manufacturers.

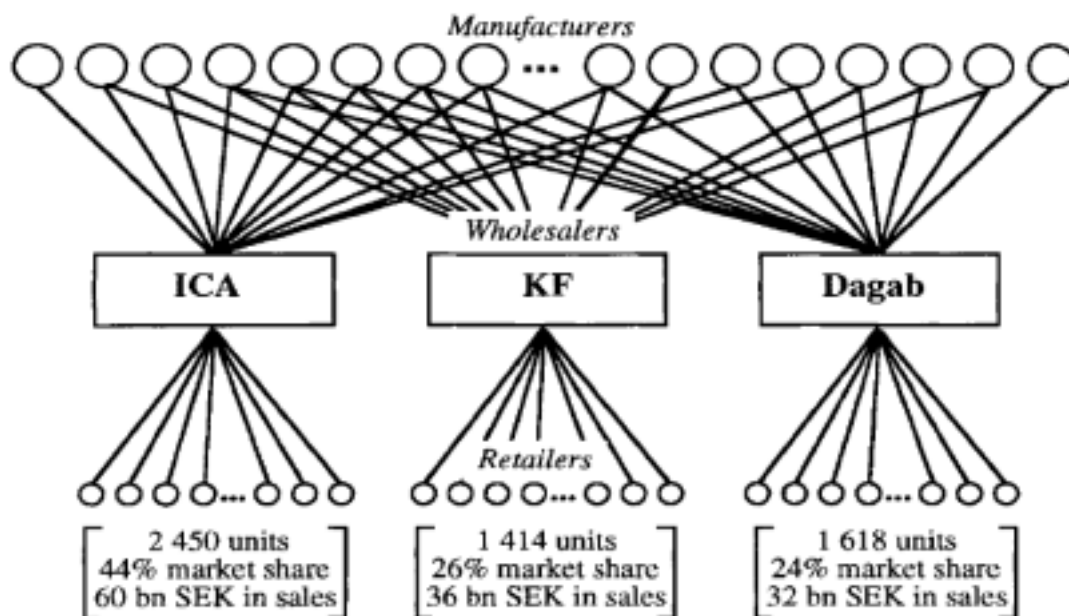


Fig. 2. The structure of the Swedish grocery retail market in 1995.
 Source: Elg, U et al (1997). *Prevailing national networks: an obstacle to European interaction?* The International Review of Retail, Distribution and Consumer Research. 7:1. Pg. 6

Note: Dagab is a wholetrade sale company now owned by Axfood. Similarly, KF is now Coop.

Like all relationships where power is unevenly distributed, this led to problems for the weaker party, in this case the manufacturers. In order to maintain their roles as suppliers, large adaptations in order to fit the wholesalers' requirements were needed. This resulted in significantly increased costs in terms of packaging, production capacity and service adaptations.⁴

Furthermore, as the internationalization process began and national boundaries started to dissolve shortly after Sweden's entrance into the EU, situations changed for these actors and still change, not least because of the entrance of additional countries into the EU. Manufacturers' previous dependence on wholesalers and retailers has been reduced, although the competitive situation has hardened. In addition, the high interest in private labels from all directions, has contributed to the new market condition. Today, as seen above, nearly all Swedish retailers provide retailer brands and many even try to increase the share of these. Also, the close connection to the rest of Europe that has developed has given retailers a chance to re-evaluate their relationships with their domestic suppliers, and instead choose those who offer the most favorable terms and provide products to the best price and lowest cost. Thus, the preconditions have changed dramatically for the historically so stable and clearly bounded Swedish grocery retail market.⁵

The theory covering this area is extensive and best practices exist, depending on the preferences and goals of the company. Relationships are also important in the international arena, since cross-border exchanges usually contain higher levels of uncertainty than domestic business transactions do. As will be seen in later sections, uncertainty in this context refers mainly to need-, market- and transaction uncertainty. That is, uncertainty whether transactions will take place, ambiguity whether there is in fact a need for the specific product, and lastly indistinctness of the market characteristics. Except for the increased uncertainty, another reason relations are important is because of the change in the surrounding environment that grocery retailers and suppliers act within today. The industry is now characterized by heavy global competition and competition based primarily on time and quality (as will be discussed in further sections). According to theory, the establishment of relationships is one preferable alternative for actors to cope with this intensified competition. In addition, there appears to be a special interest from Swedish retailers to utilize the low cost production countries that are now entering the EU, there among Poland.

In order to pinpoint the abovementioned issues and foremost to identify the changes, other sub questions will be, among others: Production costs are lower in Poland, but will the Polish suppliers manage to live up to the food safety standards, and do Swedish retailers trust these manufacturers to produce for them? Will there be strive for establishment of relationships also with Polish suppliers or is this only a domestic phenomenon? And can relationships with foreign suppliers be so strong and contain such high amounts of trust and reliance that the use of specific contracts will decline? In short, I will combine business law theory with business administration theory

⁴ Elg, U et al (1997). *Prevailing national networks: an obstacle to European interaction?* The International Review of Retail, Distribution and Consumer Research. 7:1, 0959-3969

⁵ Bengtsson, A et al (2000). *The process of internationalization: how Swedish food retailers perceive their domestic supplier relationships.* International Review of Retail, Distribution and Consumer Research. 10:4, 321-334.

because I believe this will lead me to obtain a better answer to my questions. This is what will be further investigated below.

It is important to remember that retailers in the discussion at issue also are customers, depending on their activity. Equally, the words ‘supplier’, ‘manufacturer’ and ‘producer’ will be used interchangeably. These points are made in order to minimize the risk that the reader will be confused in cases where ‘the customer’ refers to the retailer and not the final consumer. Similarly, the terms ‘private labels’ and ‘retailer brands’ will be used interchangeably.

1.2 Purpose

The purpose of this thesis is to analyze what implications, if any, Poland’s entrance into the EU has on Swedish retailers’ relationships with domestic and Polish suppliers, and the overall implications on the situation such as strategy choice Swedish grocery retailers make (i.e. whether they switch to Polish suppliers or not, whether they establish relationships also with Polish manufacturers, etc.). Consequently, it will be considered what type of relationships that already exist between Swedish retailers and at the one side private label suppliers in Poland, and on the other hand private label suppliers in Sweden.

I aim at being able to, at the end of this thesis, describe the implications (if any) on Swedish grocery retailers and suppliers that are in fact resulting from the Polish membership of the EU, and then specifically on how it has affected the relationships and what kind of relationships that are needed and important aspects for Swedish retailers to think of. I also intend to give indications on what pros and cons there are to switch from Swedish suppliers to Polish.

In short, being able to clarify the relationship situation between having a Swedish and having a Polish supplier of private labels, and how the legal framework affects it is the underlying purpose.

1.3 Demarcations

Evidently, there are large differences between suppliers, depending *inter alia* on their size, business etc. However, for the purpose of this paper I will generalize and not distinguish notably between different suppliers, but rather just refer to ‘suppliers’.

The retailers interviewed for this thesis all follow a number of requirements regarding the quality assurance of their products. Two of them follow the standards that are available at www.globalfoodsafety.com. Furthermore there is a well-developed monitoring system, HACCP (Hazard Analysis Critical Control System) within the EU that is followed by most retailers, so also the ones mentioned in this thesis. Even though my topic is somewhat related to these issues, these two points will not be discussed throughout this work. The HACCP and quality assurance system are extensive systems that would have to be dealt with thoroughly in order to appreciate

their total functions, which I therefore decided to skip, in order not to float out from the original topic.

Lastly, except for the three largest Swedish grocery retailers described in the background chapter, there are several other ones, for instance the retailer chain BergendahlsGruppen AB and a number of hard discount stores. However, BergendahlsGruppen AB is only active on the South Swedish market ⁶ and none of its store has its own private labels, why this retailer lacks importance for this study. Similarly, the hard discount stores are treated (among others because of their special private label strategies) in this thesis.

1.4 Disposition

The paper will be constructed according to the following: Chapter two is a methodology chapter in which I will go over how the problem is attacked, what methods I have used and what schools I have followed.

Continuously, chapter three is a chapter that aims at giving a description of some background information in areas that are relevant for the overall purpose and theory to come. For instance, it will give a description of the three major Swedish retailers, a broad picture of the Polish market and its manufacturing potential, and also a shorter clarification of private labels. Chapter four and five are theory chapters, dealing with business administration theory such as business-to-business (B2B) issues and industrial marketing in general, and relationship marketing and issues in particular. Business law theory will be discussed only in terms of EU law and then specifically laws regulating subcontracting and food safety legislation.

Chapter six is an analyzing chapter. Here I will apply the theory in previous chapters to the answers obtained from the interviews on the retailers. I will also discuss trends and possible outcomes, as well as make a statement of how the legal environment and framework affects the establishment of relationships across borders. Since there are always underlying problems for each writer to remain unbiased, I will try to pursue a discussion that clearly shows my arguments and how I have reached each conclusion. By doing this, I hope to give the possibility for each reader to draw his/her own conclusions. The last chapter comprises a short conclusion, in which the most important and significant findings are highlighted roughly.

⁶ It did recently open its first store outside this area (in Stockholm) however.

2. Methodology

In order to be able to clarify what relationships Swedish retailers have with Swedish and Polish suppliers of private labels, as well as important aspects to think about related to this and finally about how the legal framework affects the matter, the information needed is *theory* covering relationship marketing, B2B issues and industrial marketing. Information about these aspects will help me gain an understanding and develop statements about the area from a business administration perspective. Gaining full comprehension about how actors in the international market establish and maintain relationships also requires primary information from the retailers themselves, in other words *empirics*, mainly in terms of interview responses (primary data, see below), why interviews have been conducted. Additionally, to understand the European legal framework and comprehend its impact on the topic, I am also in need of business law theories in terms of European food safety legislation and rules regulating subcontracting. The former issue will be essential, since, although EU law now maintains that it is the food manufacturer that is responsible for ensuring that the food is safe, it is vital for Swedish retailers that the food they import is safe; if Polish produced products tend to be unsafe, Swedish retailers may not consider subcontracting Polish suppliers. The latter, namely legal measurements regulating subcontracting activities, such as the subcontracting notice are of relevance, why this also will be discussed. Also, in order to fully apprehend this notice, an overview of Art. 81 will be needed, and is therefore mentioned. To summarize, these two theoretical approaches are chosen in order to obtain the purpose and thereby see what implications the Polish EU membership have on the relationships between Swedish retailers and Polish and Swedish suppliers.

My first impression was that private labeled products are part of a distribution and supply chain. As mentioned, this has proved to be false. Swedish retailers' private labeled products are obtained through subcontracting with cheap and successful suppliers. As a result, I will not, as originally planned, use theories covering competition law in terms of vertical agreements, which would have been of utmost interest if the situation was different. Rather, I will focus on subcontracting and food safety law, which is of more relevance under the current circumstances. Additionally, these theories will better serve to find the answer to my questions mentioned in section 1.1 'Problem'.

I want to make clear that this thesis is of a theoretical character, thus based on theory. Empirics in terms of primary data will only be used to *illustrate* and *exemplify* this theory.

To create a single case study, thereby limit the topic, and obtain a more specific final result, I have, as mentioned, chosen to apply my theory to one of the ten new member countries, namely Poland.

2.1 Data Collecting Methods

There are basically two main methodology approaches; *deductive*, and *inductive*. Whereas the deductive method uses theory as a base and from there on try to predispose events, the inductive method is based on the reverse process, thus conclusions are drawn from empiric facts, which the author later tries to fit in with theory. In this thesis the deductive approach will be used. Hence, I will use various literatures to find theories that can be applied onto different situations and relations.

Furthermore, in *quantitative data*, information is gathered based on numbers, i.e. typically questionnaires with given answer alternatives or statistical data. The methods used in obtaining quantitative data are usually formal and controlled to a high degree by the researcher. In turn, in *qualitative data* gives a deeper understanding of the investigated subject. It is in short derived from words, and the method of obtaining it is much less formal than for the quantitative data. Observations and open interviews are basic tools within this approach. Choosing one of the methodology options above is often difficult. During the research process both schools are oftentimes used parallel.⁷

For this thesis I will primarily collect information based on words and the context; to obtain the purpose, reach the result, and being able to answer the questions stated in my problem, I will try to develop and adapt relevant parts of the empirical findings and integrate these with the theory (i.e. using the theory as a template). In this sense my study is of a qualitative nature. On the other hand, statistical information is also of vital importance for this thesis, while the study also obtains a quantitative character. Furthermore, I will aim to start my work on this thesis without having any [conscious] presumptions and I will attempt to collect information that, in my view, appears relevant.⁸

There are incredible amounts of information available regarding relationships and networks between retailers and suppliers. Also food safety has become a largely disputed area over the past years, since the EU has attached heavy interest and extensive protection measures to it. At times, it has therefore been difficult to find the most pertinent information and the selection process has therefore been vital. Certain areas have been specifically difficult to find information about, for instance what contracts and strategies Swedish retailers employ, much due to the secrecy retailers try to maintain for their intra-firm policies.

In the search for relevant information and theories covering the relevant issues for the intended purpose, I have mainly used the university's article portal "Elin" and other more serious journal portals such as ProQuest. By utilizing these, I have accessed a wide variety of well-recognized international journals, in which to a large extent, more or less acknowledged researchers have posted their research and studies. Hence, through various journals such as European Journal of Marketing, Kluwer Online, Agribusiness and the like, it has been possible to study pertinent papers and opinions regarding my specific topic. Furthermore, several institutions, such as the National

⁷ Holme, I et al. (1991) *Forskningsmetodik – om kvalitativa och kvantitativa metoder*. Studentlitteratur Lund. Pg. 42

⁸ *ibid.* Pg. 55

Board of Trade⁹, Euro Stat¹⁰ and Euro Info Centre¹¹ have provided me with useful information, not least regarding country-specific statistics and data. Moreover, theories have been collected in books, official-, public- and institutional documents, studies and researches, investigations, newspaper and magazine articles as well as Internet websites. When generating searches on Internet search portals, such as Google, I have pointed my search phrases towards articles that would include factors such as retailing (primarily food/grocery), private labels, subcontracting, Poland, EU, and vertical/business relationships.

Regarding the business law area, the main focus in my information search has been on relevant competition law, various vertical agreement restrictions, definitions etc., as well as food safety legislation. In order to properly comprehend the case and issues involved, I have used the initial source, i.e. the case and the Advocate General's opinion as published in the European Court Reports.¹² Food legislation in terms of regulations and directives has also been one of my major sources, accessed through the European Union gateway.¹³

When using this type of material it is important to remember that the information is rarely gathered for the same purpose as I will use it for and that it therefore may be angled. Therefore, before devoting my trust to the articles, I have more closely examined the source in order to see whether it was written for a purely scientific purpose, or whether it was composed by an agency gaining on angling the information. For instance, naturally, a Polish travel agency would most likely only post the positive facts about the country in order to, for instance, attract more tourists. Thus, the authors of such materials oftentimes have their own underlying interests in the subject and may therefore not always give a proper picture of the situation. Hence, since the trustworthiness of some such material may be hard to determine, it is of vital importance that not only one source is given too much priority, but rather that several sources are balanced against each other and used in creating a picture of a certain situation.¹⁴ Therefore, through all of the investigation process, multiple sources have been used in order to minimize the risk of using inadequate information.

2.1.1 Primary and Secondary Data

Collecting empirics can be done through many different ways, for instance collecting one's own data through observations, interviews and questionnaires. This is referred to as *primary data*.¹⁵ These types of methods are often used in order to adopt a higher credibility for what is written and give the reader a deeper knowledge about the subject.¹⁶

⁹ Swedish National Board of Trade website: www.kommers.se

¹⁰ European Union website: <http://europa.eu.int/comm/eurostat/Public/datashop/print-catalogue/EN?catalogue=Eurostat>

¹¹ Euro Info Centre website: www.euroinfo.se and through e-mail with Eva Fahlén eva@eiv.u.se

¹² European Union website: www.europa.eu.int

¹³ *ibid.*

¹⁴ Jacobsen, D-I. (2002). *Vad, hur och varför: om metodval i företagsekonomi och andra samhällsvetenskapliga ämnen*. Lund Studentlitteratur. Pg. 210

¹⁵ Arbnor, Bjerke (1994). *Företagsekonomisk metodlära*. Lund Studentlitteratur Pg. 244

¹⁶ Lundahl, Skärvad (1999). *Utredningsmetodik för samhällsvetare och ekonomer*. Pp 189

To increase my understanding of the current situation and to obtain information of Swedish retailer's view of Polish suppliers, I have carried out various interviews. ICA has been the focal company of this study. The reason for choosing ICA as the main retailer is because of its strong position on the Swedish grocery retail market, but also due to the fact that it is currently working intensively with the launch of its own ICA labeled products. Therefore, I will mainly refer to the interviews with Jonas Rydberg at ICA.

However, to expand my vision and increase my understanding of the overall Swedish grocery retail market I have also performed interviews with the Purchasing Manager for Private Labels at Axfood, Johan Neuman, as well as with Per Rosengren, who is responsible for the grocery retail sector at Coop Sverige AB.

Primary data is used in the form of open interviews with the above-mentioned persons. Several interviews were performed phone wise and via e-mail, due to the geographical distance that prevented personal interviews. The questions were predetermined and of an open kind, in order to encourage the respondent to answer freely and be able to add all relevant information, and to minimize the risk of obtaining biased answers. This means that a broad interview guide stating the main questions and topics was created that covered relevant areas. These original questions were sent to the respondents a week in advance, in order to prepare them on the topic to be discussed, to give them sufficient time to collect possible missing information and give more balanced and deep answers that might have been difficult to obtain otherwise. However, throughout the interview supplementary questions arose as the interview objects referred to additional issues and other areas that would be of interest for this study. The questions and areas that were discussed concerned what type of relationship the retailers currently have, what type of relationships they strive for, how their contracts are constructed, what obstacles they see when importing products from other countries, how food safety requirements affect their choice of suppliers etc. The answers were printed down during the interviews, in order not to prevent important points to be ignored.

Secondary data refers on the other hand to when data is collected through the reading and understanding of what other people have already collected and written.¹⁷ An example of empirical secondary data that is utilized in this thesis are articles, such as “*Dynamiskt relationsbyggande i Europa. Om hur olika slags relationer samspelar – illustrerat av svenska dagligvaruföretag*”¹⁸, which describes the situation for Swedish grocery retailers before 1995, or the report by the Swedish Competition Authority (Konkurrensverket)¹⁹, that gives an indication on how suppliers and retailers appreciate their relations to each other. Although these papers do not investigate the same issues as I intend to here, some parts contains gathered information that is also of relevance for this study, and hence can be utilized.

¹⁷ Lundahl, Skärvad (1999). *Utredningsmetodik för samhällsvetare och ekonomer*. Pp 189

¹⁸ Elg, U et al (2000). *Dynamiskt relationsbyggande i Europa. Om hur olika slags relationer samspelar – illustrerat av svenska dagligvaruföretag*. Studentlitteratur Lund.

¹⁹ Konkurrensverket (2002). *Dagligvaruhandeln, struktur och leverantörsrelationer*.

2.1.2 Reliability and Validity

The results of performed studies must always be checked as for the *reliability* and *validity*, in order to determine if the result is to trust. Reliability refers to the fact that observations are performed properly, and validity means that the actual researched variables are those that were intended to be concentrated on in the first place.²⁰ There are several ways of determining the validity, among others to try the result against others, either the people who initially gave the answers, against outside experts or even against other theories. Critical observation is of similar importance no matter whether the qualitative or quantitative approach has been used.²¹

Before utilizing any information, I have tried to observe for what purpose the information was collected and aimed for. Much of the empirics found in the search for information seemed relevant at a first glance, but when examined more thoroughly, turned out to be angled for a completely different purpose. Much of this secondary empirics have not appeared to be reliable, in my opinion. For instance, studies in which 40% of the respondents have dropped off, or where the number of variables has been too few, cannot be used to draw meaningful conclusions from. Hence, I have omitted articles and studies of this kind. It has on the other hand been less complicated to find relevant and useful theory. Since, as mentioned, much of this information has been collected from well-recognized journals, and from the European Union website, the information have seemed valid for the most part, although this is hard to determine. Also, due to extensive literature and a large number of articles, most of the information utilized, has been tested and compared to the results that other scientists have reached.

2.2 Methodology Criticism

There is much criticism pointed towards the use of both qualitative data and quantitative data. In reality neither give an objective and impartial perspective. Since there is always some kind of interpretation made by the writer, the material will, consciously or unconsciously, be given some personal reflections.²²

Also, the disadvantages of not conducting personal interviews are several. First, there is a risk that the interviewed persons do not take the interview as serious as if it would have been conducted face-to-face. Secondly, there is no possibility to capture non-linguistic statements, such as body language. However, the respondents used in these interviews were very clear in their statements and since the questions were more of an informational kind, rather than questioning personal beliefs, the significance of this point seems less important.

²⁰ Thurén (1998). *Vetenskapsteori för nybörjare*. Liber förlag. Pg. 22

²¹ Jacobsen, D-I. (2002). *Vad, hur och varför: om metodval i företagsekonomi och andra samhällsvetenskapliga ämnen*. Lund Studentlitteratur. Pg. 21, 255

²² *ibid.* Pg. 44

2.3 Initial Comprehension

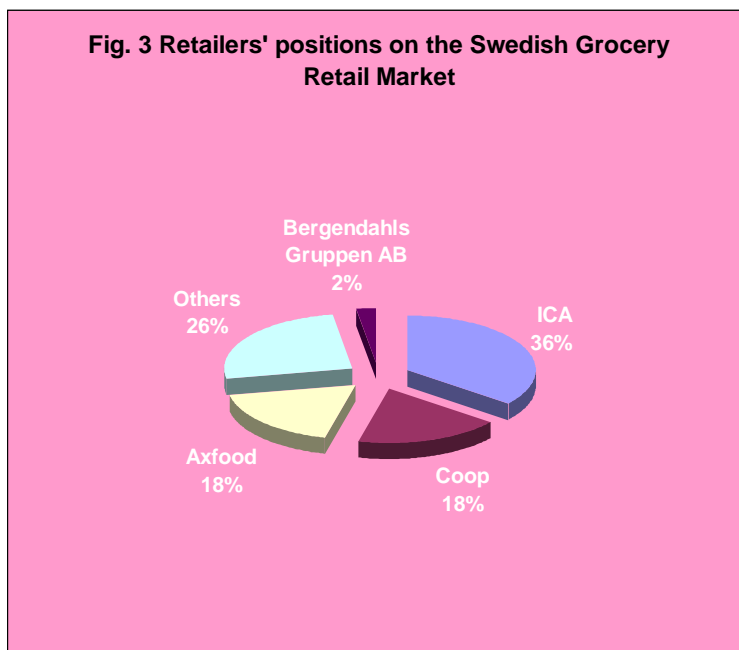
My academic background consists of a bachelor's degree in Business Administration – marketing and management. Subsequently, I spent a year deepening my knowledge in marketing and management at the C-level. The most relevant course during that time for this thesis appears to be “International Food Marketing and Retailing”, in which I developed a certain interest in the grocery retailing sector and the globalization of it. Additionally, a course in Industrial marketing will likely be useful in this dissertation, due to its large focus on relationships and networking. Therefore, I believe that I possess the sufficient prerequisites necessary in order to understand the market and the actors subject to my study. Concerning the Business Law area, my understanding is not as comprehensive, why I will carefully and extensively study this topic, in order to appreciate it properly, with the underlying aim to give an adequate description and analysis. I am aware that my initial beliefs most likely will bias my writing, hence I will do my best to give an impartial discussion (see part 1.3 - Demarcations).

3. Background

In order to be able to discuss the various issues of this topic as mentioned in the problem and purpose, it is my belief that a more general description of some related topics have to be presented first. To apprehend the topic properly, the reader must have an understanding of what private labels really are, what the grocery retail market in Sweden looks like, and in addition characteristics of the Polish market are of relevance. Therefore, this chapter will treat these issues individually.

3.1 Major Grocery Retailers in Sweden

Four large retailers, in size order, dominate the Swedish grocery retail market: ICA, Coop, BergendahlsGruppen AB, and Axfood. Together they possess a market share of 73% of the Swedish market.



Source: Self-composed based on information from the above-mentioned retailers.

Since BergendahlsGruppen AB only operates in the Southern part of Sweden, and since it has not launched its own private label the following description will exclude this one. Rather, I will depict the three leading ones, i.e. ICA, Axfood and Coop.

The Swedish grocery retail market has historically not only been exceptionally concentrated in the number of retailers, but also in terms of food producers. In the beginning of the 1990s, three large food producers, namely Nestlé, Philip Morris and Unilever, dominated manufacturing of food in Sweden. Since then, these manufacturers have become increasingly larger, and obtained the leading brand

position. Hence, their competitiveness against private labels is remarkably strong.²³ Hughes indicates that partnerships and the establishment of relationships is an important strategy, when wanting to battle the competition in this area. This approach will speed up the launching of new products that satisfy retailers' demand to a higher degree, which is the case with retailer brands.²⁴

Regarding private labels in Swedish grocery stores, the trend has been pointing upwards for the past four years, and during 2003 retailer brands accounted for 11% of total sales. A recent study performed by the marketing research firm AC Nielsen, further indicates that retailer brands experience particular growth in some categories of food. Fresh food, dairy products and candy, are the sectors that have been most successful over the past year. They have all experienced growth with more than 30% since 2002. The retailers claim that thanks to retailer brands and their cheap position, other brands will have to lower their prices and the consumers will benefit. Research indicates a different effect of the retailers' own brands however; the only consequence is that the small suppliers cannot manage the intensified competition and eventually disappear, but the overall grocery prices remain the same.²⁵

Below follows a broad presentation of the market leading Swedish grocery retailers, in order to illustrate the structure and composition of the Swedish market.

3.1.1 ICA Ahold

The leading retailer on the market is ICA, in which the Dutch retailer giant Ahold owns 50%. 30% is owned by ICA Förbundet Invest AB and the remaining shares are held by the Norwegian company Canica AS. Accumulated in all markets ICA Ahold (hereinafter 'ICA') has 3000 stores, currently spread out in the Scandinavian markets and the Baltic States. Approximately 1800 of these are situated in Sweden and had a turnover of SEK 76 billion in 2002.

ICA has the advantage that it is one of the most well-known Swedish brands, much due to the facts that the company was established already in 1938 and that it has had very appreciated and successful advertisements over the past years. In fact, the ICA commercials won the prize of 'Best commercial of the year' in both 2002 and 2003. That same year, 2002, ICA also experienced a change of ownership, when the Dutch retailer giant Royal Ahold closed the agreement with ICA that generated the now existing company ICA Ahold. It currently holds market shares of 35.5%.

ICA is trying to position itself and its products as "*personal, simple, inspiring, safe and modern*". Furthermore they emphasize how important it is to be clear and honest towards all stakeholders, regarding visions and intentions.

As regards private labels, ICA has a number of brands:

²³ Annual Report 2002. Swedish Co-operative Union (KF).

²⁴ Hughes, D (ed.) (1994). *Breaking with Tradition: building partnerships and alliances in the European Retail Food Industry*. Ashford. Wye College Press. Pg. 23

²⁵ Svenska Dagbladet (2004-02-16). *Kedjornas egna märken hot mot småleverantörer*. Näringsliv

ICA – is the main brand in the private label sector, and is sold in all ICA stores in Sweden. When first launching the ICA brand, only a few categories of products carried it. Nowadays, ICA has expanded in this area and today everything from toilet paper to fruit can be purchased with the ICA brand on it. ICA states that it has high requirements of both quality and environment on their products. The ICA brand also has an ecological version. These products carry the name *ICA Ekologiskt* and are products produced in accordance to the KRAV requirements, among others not allowing any pesticides or fertilizers to be used.

Skona – is ICAs environmentally friendly brand that can preferably be used by people with allergies. Approximately 35 products are included in the Skona category, and they are all within the cleaning sector.

Euroshopper – this private label brand is ICA’s discount brand including nearly 90 different products. It has emerged through cooperation between grocery retailers in ten other countries, involving eleven different companies.²⁶

Due to ICA’s strong market position as the leading retailer, it is a strong power towards the producers who, unless they are the leading producer, in most cases cannot afford to turn down an offer to produce for ICA’s own label. Some manufacturers even consider producing for the ICA brand the only way to later get their own products and brand onto the shelves in the ICA stores.²⁷

3.1.2 Coop

The second largest retailer on the Swedish market is Coop, which is a consumer cooperative that holds 18.4% of the market. It was previously known as KF, which was founded in 1899 already, even though the first agency did not open until five years later. In the beginning of the 1990s, KF got together with five other consumer cooperatives and created a more efficient and fully integrated retail company. In 2002 there was another change – KF merged with Coop Norden, comprised by Coop in Norway (NKL) and Coop in Denmark (FDB). Coop Norden has approximately 2000 stores in the three countries. In Sweden, Coop runs two different chains, namely Coop Forum and Coop Konsum. The former is the biggest hypermarket in Sweden and has 43 outlets, while the latter possesses 373 stores.

Coop is placing much emphasis on finding solutions that will last in the long run and are economically, socially and ecologically good for society. The retailer is claimed to represent the typical values symbolizing the cooperative, and the name was chosen in order for customers to associate it with what it is – a cooperative. The brand is also positioned as ‘value for money’. Coop has, just like ICA, a few different own brands²⁸:

Blåvitt – is the oldest brand of Coop’s own brands. It was launched already in 1979, but then under a different name. It was positioned as ‘brand free’ products; for instance, detergent bore only the name ‘Detergent’ etc. These products were always sold to a low price but never to a sale price. Coop is now transforming the Blåvitt

²⁶ ICA website: www.ica.se

²⁷ Kindwall, H (2002). *Varumärkesspecial: Dagligvaruleverantörer I kläm I handelns dubbelspel*.

Dagens Media Pg. 3

²⁸ Coop website: www.coop.se 2004-02-19.

brand into another low price brand named X-tra that will be the same in all the Coop stores across the borders.

X-tra – a low price brand that will only cover the mostly used household products. Its aim is to be the lowest priced brand on each of the Danish, Norwegian and Swedish markets. In difference from Blåvitt, X-tra also lives up to various quality standards.

Signum – unlike Blåvitt this brand offers high quality similar to those of manufacturer brands, but they are offered to a lower price. The brand was launched in 1995 and is today the leading brand in fresh ready-made food. However, the brand is deeply ranged and has a large number of products in different segments.

Änglamark – this is an environmentally friendly brand, focused on health, environment and ethics. The brand opposes pesticides, is proactive of good working conditions for humans all over the world, and favors a natural and free treatment of animals.²⁹

3.1.3 Axfood

Axfood was founded in 2000, through the merging of a number of retailers on the Swedish and Finnish market. It differs from the above-mentioned retailers in the sense that they can be either fully owned (Hemköp, Willy's, Willy's Hemma, Dagab, and Axfood Närlivs) or franchised (Spar, Tempo, and Vivo). In either case, the concept includes the creation, development and maintenance of successful stores. Its vision is to become the Nordic market leader, through the offering of unique products and concepts. Axfood is acting mainly on the Swedish market, where the retailer possesses an 18% market share, which makes it the third largest retailer in Sweden.

Currently, the retailer's 1000 different private labels account for 14.8% of Axfood's total turnover, and the retailer is constantly trying to increase this number. Axfood has private labeled products in most categories, also for non-grocery products. In order to ensure maximum profitability of the private label strategy, the retailer is staying out of some sections, where brand loyalty is especially high, for instance infant food, shampoo, and toothpaste. The three main private labels the chain holds, are all mid-positioned brands, which according to the retailer itself, means that the products are of the same quality as the leading brand, but offered to a price approximately 10% lower. The following three brands can only be purchased at the store with the same name respectively:

Hemköp – includes roughly 300 products.

Willy's – comprises 240 different products that indicate value, high standards, and modernity.

Spar – includes 90 products that are common for all Spar stores, no matter nationality.³⁰

In addition, the retailer also has private labels that are the same for all the Axfood group of companies. There are three different brands, one in each price category, i.e.:

²⁹ Annual Report 2002. Swedish Co-operative Union (KF) and Coop website: www.coop.se 2004-04-29.

³⁰ As a consequence of the increased competition the grocery retail market is experiencing, on April 23, 2004 a decision to merge Spar and Hemköp was taken. The stores will take the name 'Hemköp' and there will be 200 Hemköp stores as a result of the fusion. It is estimated that all Spar stores will be transformed to Hemköp stores by 2005 (www.axfood.se).

Eldorado – the companies’ low price brand, consisting of 400 products that are offered to a 20-40% lower price, and therefore have less fancy packaging and design as well as simpler quality.

Godegården – 80 products having a mid-position, meaning that the quality is similar to the market leader’s, but the price is 10-15% lower.

Garant – Axfood’s high quality brand, consisting of 50 carefully selected products in categories such as seafood and blue cheese. This brand is mostly priced even higher than the market leader’s products.

Axfood exercises a powerful private label policy. The retailer accentuates that its own-labeled products are in line with all Swedish rules and regulations and to ensure product quality, microbiological tests are consequently performed. Axfood has a number of different private labels, but maintains that no matter the position of the brand, it should always remain lower priced than similar brands. Furthermore, the retailer explains the lower prices by asserting that the private labels either consists of different amounts of raw materials, that they have been produced differently, or that they have a cheaper package than higher priced manufacturer brands. Moreover, Axfood is spending less money on marketing for these products, enter beneficial contracts with its worldwide suppliers.

Axfood is placing much effort on ensuring that the private labeled products have the same taste and nutritional content as manufacturer branded products. Tests with independent customers are executed every time a new private label product enters the assortment, and unless the taste, consistency, and appearance is similar to the manufacturer brands, the products will not be accepted. At some occasions, the products’ functioning is also tested, e.g. whether it has the necessary qualities to match the market leaders’ products when using it in cooking.

As regards the suppliers of Axfood private labels, the company asserts that they originate from suppliers that for a long time have supplied private labeled products to other parts of the European market.³¹

The description of the three leading retailers above, illustrates how wide-spread private labels are on the Swedish grocery retail market. Interestingly, all of these stores also aim at increasing the percentage of private labels within their stores. Therefore, low price will likely remain to be one of the most important competitive issues when trying to attract consumers. This further demands that the retailers can obtain high quality products to low cost and price from suppliers that they preferably can establish long and profitable relationships with.

3.2 Private Labels

The European market is the biggest one calculated in numbers of market shares that can be obtained. Then, being the fourth biggest supplier in one branch seems to be all

³¹ Axfood website: www.axfood.se

right, however, it is rarely profitable.³² Therefore, becoming supplier for the retailers' own brands are a good alternative.

3.2.1 Definition

Private labels are products that are labeled uniquely by one certain retailer. The purpose is to provide customers with lower priced products, while the retailers at the same time earn more profits due to the larger margins. Studies have shown that private labels tend to emerge when the economy is in recession. Yet, they maintain this market share even when economies recover.³³ Other factors behind the emergence of private brands are the concentration of retailers on the market, their aim for high profits but also the fact that retailers have become better at managing store brands.³⁴

An apparent trend that has developed today is that retailer brands do not only compete on price. Rather, retailers have started to diversify and strengthen their products, for example, today there are ethnic private labels, higher-end products and strong brand images surrounding the retailer brands.³⁵ Burt and Davis³⁶ indicate that retailer brands are penetrating new categories of markets exceptionally well, for instance the ready-made meal sector. In general, retailers give twice as much shelf space to retailer brands than manufacturer brands. The brands that have lost their shelf space, in turn, are the second and third brand on the market. Stefan Billing, ICA storeowner, also pointed out the retailer strategy of placing the retailer brands mid-high, making them more easily available to customers.³⁷

As for trends there has been a shift in the perception of private labels during the past decade. From being seen as equaling generic products, providing low priced and low quality products, retailers during more recent years retailers have improved the image of the products, as they have now better and more professional packaging, which has progressed consumers' view of retailer brands. Many people now see private labeled products as potential substitutes to the manufacturer brand since they offer high quality products to a lower price.³⁸ Traditionally, the Swedish grocery retail market has been fairly restrictive, both in terms of internationalization and in terms of private labeled products, mainly due to various legal restrictions regarding cross-border trade, as well as hesitation among Swedish manufacturers to produce private labels.³⁹ However, during the end of the 1980's many people lost their interest in branded

³² Jansson (1994). Pg. 200

³³ Stanley, J (2001). *Brands vs. Private Labels: Which Is Winning?* <http://retailindustry.about.com>

³⁴ Verhoef, P et al (2000). *Strategic reactions of national brand manufacturers towards private labels.* European Journal of Marketing. Vol. 36, No. 11/12, Pg 1.

³⁵ Davies G (1998). *Retail brands and the Theft of Identity.* International Journal of Retail & Distribution Management. Bradford

³⁶ Burt S, Davies G (1999). *Follow my leader? Look-alike retailer brands in non-manufacturer-dominated product markets in the UK.* The International Review of Retail Distribution and Consumer Research.

³⁷ Billing S (2003). ICA store visit

³⁸ Burt S, Davies G (1999). *Follow my leader? Look-alike retailer brands in non-manufacturer-dominated product markets in the UK.* The International Review of Retail Distribution and Consumer Research.

³⁹ Elg, U et al (2000). *Dynamiskt relationsbyggande i Europa. Om hur olika slags relationer samspelar – illustrerat av svenska dagligvaruföretag.* Lund Business Press. Pg. 90

products and became more willing to substitute their purchase to products with no brand at all, in order to receive a cost saving.⁴⁰ However, as Pellegrini points out, “*the weakening of brands is just the weakening of manufacturer brands*” – retailer brands are stronger than ever before.

A study performed in the mid 90s, reveals that although there was strong aversion among manufacturers to produce private labeled products, more than 50% of the responding suppliers did in fact supply retailers with these products. Additionally, the remaining half claimed they would engage in private labels within the near future. At this time, the general understanding was that most of the retailer’s private labels should be produced by Swedish producers, rather than international ones. Products generated by the latter were supposed to be large-scale, standardized products, sold to a low price. Replies obtained from retailers regarding the same issue, gave a different answer however. Most of these (90%), responded that they would increase their number of private labeled products, and that these to a large extent would be imported from foreign suppliers. This result has various implications for producers. In order to stay competitive and to maintain the relationships with retailers, each supplier must be willing and able to manufacture private labels, and the products need constant improvement. Here again it shows that the ability to establish and maintain good relationships with partners becomes an even more important issue, especially for manufacturers that are not able to produce unique or relevant products.

The utilization of non-domestic suppliers may lead to a more varied product range in the so far fairly concentrated, Swedish grocery retail market. Previously, the largest retailers have exploited the same suppliers to a large extent, and thereby obtained similar types of products. Now, due to increased competitiveness and the demand of product development, there may be an evident shift in the products available at the retailers. Thus, the retailers may be able to supply its customers with a more attractive and wider product assortment.⁴¹

3.2.2 General Pros and Cons

Retailer Advantages and Disadvantages

There are several pros and cons concerning private labels. Private labels foremost provide advantages to the retailer. Among others, the margins are higher for private labeled products than other, due to the fact that the retailer does not have to invest a lot in marketing etc., which makes it more profitable and allows for more freedom in pricing.⁴² On the other hand there are a number of factors retailers have to take in consideration when launching their retail brand. Continuously, the disadvantages may be numerous, *inter alia* there is a risk that if the generic brand that is first introduced in the product category is positioned too low, the retailer might be associated with bad

⁴⁰ Pellegrini, Luca (1996). *Brands vs. Trade Names: Manufacturer and Retailer Missions in the Value System*. Working Paper Series 96/8. Institute of Economic Research. Lund University. Pg. 12

⁴¹ Elg, U et al (2000). *Dynamiskt relationsbyggande i Europa. Om hur olika slags relationer samspelar – illustrerat av svenska dagligvaruföretag*. Lund Business Press. Pp. 90

⁴² Stanley, J (2001). *Brands vs. Private Labels: Which Is Winning?* <http://retailindustry.about.com>

quality and the image may be damaged.⁴³ Moreover, if the retailer sells too many private labeled products and not any well-known brands, they can be perceived as less powerful in the market place. Retailer brands also create a risk that the retailer will focus too much on private labels at the expense of other products. Another risk for retailers when selling private labeled products is if the customers perceive them as lower quality products. They then tend to believe that all the other items will have the same low quality.⁴⁴ Finally, many consumers believe that low price equals low quality, which can make it hard for retailers to launch their own brand.⁴⁵

Retailer Demands on Suppliers

Most retailers, when looking for manufacturers for their private labels, emphasize that they must have the following qualities: ethical and environmental awareness and employee benefits. Suppliers vary by category; some categories will have one supplier, while others can have up to fifteen. A remark in an interview concerning the topic alleges:

*“You don’t need multiple suppliers in a category as leverage against each other for cost. As long as you have a good supplier who can work with you on collaborative forecasting -who can understand your growth and meet your demand curve- you’re all right”.*⁴⁶

Some retailers grant long-term large-scale orders to the manufacturers, which decreases the manufacturers’ risk. Also, since the machines can run to full capacity and the long purchase guarantees leave the manufacturers without high advertising costs, it leads to more cost efficient production. Retailers using this strategy gain the advantage that they may negotiate good purchase prices for their products.⁴⁷

The relationship that forms between the retailer and manufacturer often becomes serious. Not least because of the lengthy application process all suppliers must comply with and through which retailers get to know them better. When the company has found a supplier with the best quality in the market, they will commit themselves to provide the best quality, value, and cost.⁴⁸ There are also retailers that work through the different product groups and discuss with leading producers in most of the categories.⁴⁹ They are using a proactive approach, meaning that these retailers have developed relationships with suppliers who correspond to their demands regarding standards and quality requirements. For instance, ICA has more than 150 suppliers working with their private brands, half of them within the nation, due to environmental issues and effective logistics. Competition among companies that want to produce for retailers is high because it becomes a possibility for them to produce larger quantities, and maybe even export internationally. They will probably also gain

⁴³ Burt, S, Davies G (1999). *Follow my leader? Look-alike retailer brands in non-manufacturer-dominated product markets in the UK*. International Review of Retail, Distribution and Consumer Research. Pg. 7

⁴⁴ Burt, S (2003). Professor at Stirling University. Guest lecture 2003-02-24

⁴⁵ Stanley, J (2001). *Brands vs. Private Labels: Which Is Winning?*. <http://retailindustry.about.com>

⁴⁶ Thayer, W. (2001). *You Have to Step Out of the Box!* Private Label Buyer.

⁴⁷ Aldi’s website. www.aldi.de

⁴⁸ Thayer W (2001). *You Have to Step Out of the Box!* Private Label Buyer.

⁴⁹ Okonofua, H (2002). *Mamma Scan är pappa till ICA:s köttbullar*. Fri Köpenskap. Pg. 2

knowledge about production processes that they were previously lacking, which could make them more successful in future manufacturing.⁵⁰

3.3 Poland

3.3.1 Market Description

Before 1987 Poland was, just like the other Eastern European states, governed by a policy where trade was managed by the State and where trade with foreign countries was not a prioritized issue. However, suddenly a major change took place. In 1990 quotas and tolls were removed, the national currency (the zloty) was devalued, and trade with the Western countries spun off. Poland became a member of the EU on May 1, 2004.⁵¹

As a consequence of the membership into the Union, the adaptation process in the country speeded up significantly. This has led to that the country already in many areas are close to comply with the standards set by the Union. Each year, the Commission executes a publication on the awaiting membership countries' adaptation progress, in order to estimate their ability to adapt the new legislation. The 2003 report indicate that Poland still suffers some adaptation problems in some important aspects of the grocery and agricultural sector. The two main problems are firstly, a problem with financial support for the agricultural sectors and secondly, low hygiene standards in plants and other buildings dealing with groceries. Especially in the dairy and meat handling zones, the hygiene has traditionally been far below the requirements laid down by the EU. The butcheries also lack sufficient controls of veterinary procedures. Yet, as an article in a leading Swedish newspaper maintains, the Swedish border controls have not experienced any problems (such as contaminated products) with groceries coming from Poland.⁵² However, the country still suffers from bureaucracy, which in this context is particularly evident in the country's poor law enforcement. These points indicate that it might take time before there will be compliance with the rules laid down by the EU within some areas.⁵³ On the other hand, research indicates that Polish manufacturers have considerable potential. The labor force possesses broad knowledge, foremost in the agricultural and technical area. Polish employees are now known for being flexible and they tend to learn from experience. The typical Polish workforce is also cost effective and productive. Moreover, a substantial amount and effort has been placed in companies' R&D functions the past years, and they are constantly trying to develop this area even more. Thus, these are factors contributing to the belief that the Polish market will be able to comply with the EU requirements, and also be able to contribute to the Common Market.⁵⁴

⁵⁰ Aldi website: www.aldi.de

⁵¹ The Polish Embassy in Stockholm. www.polem.se 2004-01-09.

⁵² Strömkvist, S (2004). *Vakande ögon ger säker mat*. Sydsvenskan 2004-04-29, A4

⁵³ Palmgren, T(2003). *EU utvidgningens inverkan på de finländska företagen*. Pg 24

⁵⁴ PAIZ, Polish Agency for Foreign Investment. *Poland Open*.
<http://www.polandguangzhou.com/publications/food29.pdf> 2004-03-16

Poland and the other accession countries will gain great benefits by joining the Union. For instance, they will be a part of the internal market, which means that they will have only one toll fee, they will be part of the common trade policy and they will also obtain a template to follow when closing business deals. So far, the average level of tolls in Poland has been the double for that of EU-15 (10% in Poland vs. 5% in the EU). Furthermore, the new member countries will get access to all the contacts that the Union already has established with partners all over the world as well as various free trade agreements.⁵⁵

3.3.2 Market Potential

Poland appears to be the country out of the ten new members, with most potential to become a great trading partner for many other nations. It is evident that Poland is one of the fastest growing economies and considering the EU membership, Poland's strength will not likely decline within the near future. Already, Poland is EU's largest trading partner, accounting for 24% of the export and 20% of the import.⁵⁶

Significant investments by foreign companies into the food industry are the main driving force behind the exceptional growth of the Polish food industry. Also, because of the large investments, Polish firms can now offer new and more environmentally friendly technology.⁵⁷ Even though the dominant part of the financial support is channeled into the manufacturing food sector, the industry also obtains support from other Polish instances. These are, among others:

- **The Agricultural Restructuring and Modernization Agency** – supports farms and small food companies financially. It is mainly concerned with educating farmers and developing an effective technical infrastructure. The agency employs a simple financial remuneration system, in which repayment and the possibility for credit is uncomplicated.
- **The Agricultural Market Agency** – this company that sells raw and processed agricultural products both on domestic and international markets. The agency is also taking care of agricultural inventories and investigates the market conditions for diverse food products. Most importantly however, the organization implements the agricultural policies set by the Polish government.
- **Foundation for Agricultural Assistance Programmes** – seeks to improve the market conditions. Additionally, the foundation attempts intensively to implement the EU requirements on the agricultural Polish market. To simplify the process, the organization has divided the Polish market into six different sectors, where a group of people works actively to speed up the process of adaptation.⁵⁸

⁵⁵ National Board of Trade (2003). *Handelspolitisk lägesrapport 2003*.
http://www.kommers.se/binaries/attachments/2308_hplagesrapport2003.pdf 2004-02-12.

⁵⁶ Ibid.

⁵⁷ Piasecka, L (2002). *Affärer med Polen. Praktiskt nätverk i Öresundsregionen*. Praktiskt Växtkraft. Pg 8,9 <http://www.praktiskabroar.com/Projekt/Polen.pdf>

⁵⁸ PAIZ, Polish Agency for Foreign Investment. *Poland Open*.
<http://www.polandguangzhou.com/publications/food29.pdf>

Studies performed by the Institute of Agriculture and Food Economics⁵⁹ shows that the Polish food-manufacturing sector has a 25% added value. This can then be compared to the overall EU value added in the same sector, which only reaches a level of 15%. As regards labor force, the labor cost per hour is drastically lower in Poland than the average in the EU-15 countries. Whereas the hourly average wage there is approximately €22, the same amount in Poland is only €4. This large difference will most definitely act as a competitive advantage for production in Poland. Additionally, the food manufacturing sector is the one that attracts the most labor – in 2000, the industry had 480 000 employees. Also, only during 1998, the labor intensity increased by 19%.

Also the Polish government has taken several steps in speeding up the growth of the domestic food industry. Several incentives have been created. Since it is foremost the investment of foreign companies in the country that has contributed to the improved conditions, these are the activities the Polish government aims to support. Some examples are that foreign companies are exempt from customs duties for machinery on equipment, there is a local property tax reduction available, and the corporate tax is linear and estimated to become the lowest tax in the OECD countries by 2004, and finally, losses may be spread out over a five-year period.⁶⁰

In order to increase Poland's competitiveness even more, the country has adopted a National Development Plan that will span over the time between 2004-2006. It divides the country into 16 different regions and each of these regions will receive financial aid from the European Union. In fact, between 45-52% of the overall financial aid given by the Union to the new member countries will go to Poland.⁶¹

Reetsma is a retailer that has three food manufacturing plants in Poland. The CFO of the company is very satisfied with the production result and asserts that the labor force is well-educated and that the working environment is characterized by flexibility. He then continues:

*“The technical skills and training are of a high standard and we were able to establish a very constructive relationship with the unions”.*⁶²

The Euro info center (EIC), among others, serves as a link in connecting manufacturers in Poland with distributors elsewhere. To exemplify, one request looks like the following:

“Business opportunity: Fruits and vegetables (Distributors/Investors/Partners)
This Polish company, which produces apples, cherries, vegetables and fresh eggs, is looking for distributors. It is also looking for investors for fruit and vegetable processing (freezing, drying, etc) and for poultry breeding partners. Due to the

⁵⁹ Institute of Agriculture and Food Economics, 2000: CSO – Statistical bulletin 1996-2000.

⁶⁰ PAIZ, Polish Agency for Foreign Investment. *Poland Open*.
<http://www.polandguangzhou.com/publications/food29.pdf>

⁶¹ EIC (Euro Info Centre). *EU Enlargement Update*.
<http://www.hertsdirect.org/infobase/docs/pdfstore/poland> 2004-02-11.

⁶² Mide, Detlef. Chief Financial Officer at Reetsma Retailing. Polish Agency of Foreign Investment.

company's convenient location, there is also the possibility of a joint investment in a logistics center.”⁶³

Many of the largest retailers on the European market have already decided to import their private label products from Poland. For instance, Bakal Center in Poland handles fruits and also manufacturers food. They have been a major supplier since 1996 to among others Tesco and Ahold. Similarly, Fantasyfood is another Polish company, established in 1991, which produces a variety of frozen foods and supplies it to the key retailers in Europe such as Real, Carrefour and Lidl.⁶⁴ In a report called “Private Label Own Brand Market in Poland”⁶⁵, one can read:

“With relatively low costs, (transport, labor, energy, tariff and non tariff barriers) products produced in Poland are frequently cheaper than imports. The Private Label Own Brand route to market avoids the need for advertising and brand building, and is therefore an attractive option for local producers which do not have budgets for brand building.”

This quote clearly and concisely summarizes the potential and possibilities of the Polish market.

However, as regards the search for manufacturers of private labels, a report by the Swedish Competition Authority⁶⁶ discloses that it is not yet possible to assert whether retailers to a larger extent will utilize international suppliers. This will be further discussed in chapter six, ‘Analysis’.

⁶³ EIC (Euro Info Centre). *EU Enlargement Update*.

<http://www.hertsdirect.org/infobase/docs/pdfstore/poland> 2004-02-11.

⁶⁴ Retailpoland.com www.retailpoland.com *Private labels*. 2004-02-11.

⁶⁵ PMR Ltd. (2002-05) *Private Label in Poland. The Retail Portal for Poland*.
http://www.polishmarket.com/private_label.php 2004-02-11.

⁶⁶ Konkurrensverkets rapport (2002). *Dagligvaruhandeln – Struktur, ägarform och relationer till leverantörer*. 2002:6

4. Relationship Marketing Theory

As aforementioned, it appears as if the establishment of relationships is more important than ever before, not least in order to constrain the increased competition on the grocery retail marketing arena, that has developed mainly as a consequence of the internationalization process. In the case at issue, the focal relations are those between Swedish grocery retailers and suppliers – Swedish as well as Polish. Hence, the theory that will be of relevance is industrial marketing. More specifically, relationship marketing issues will be those of most significance; there are a number of issues to think of when having relations with other actors within the supply chain and even more issues to consider when establishing these relations. To be able to categorize the major Swedish retailers' relationships and see how well these fit into existing theory, I will look at this extensively below. Among others, it will contain an explanation of various types of relationship possibilities including a description of subcontracting.

4.1 Relationships

Firms in a retail value chain can choose if they prefer to merely have a buyer-seller transactional relationship or if they want to go further and establish deeper relationships with each other (i.e. partnering, networking etc.). In transactional relationships each purchase constitutes a new tie with a selling firm, and focus is only on that specific purchase. In order to determine what kind of tie a selling company should have with a manufacturer, a thorough analysis of the company, its objectives and its position has to be performed. Cotterill's opinion is that the concentration in the retail sector has created a larger need for vertical integration.⁶⁷

Today, the majority of companies is very dependent on other companies, and corrects their activities according to these. This consideration that involves adaptation to the other party's actions concerning economic, social (trust, commitment and influence/power) and technical aspects, constitutes what is commonly known as relationships. Most companies establish relationships in order to minimize or at least control the risk and uncertainty that occur as resources are exchanged between firms.⁶⁸ Another reason to establish relationships is that it gives the companies the possibility to utilize complementarities and thereby affect both productivity and efficiency. If properly managed, relationships can also create economic advantages.⁶⁹

There are several types of relationships retailers can have with their suppliers/manufacturers. The following figure illustrates the connection between the character and type of the relationship.

⁶⁷ Cotterill, R. (2001). *Neoclassical Explanations of Vertical Organization and Performance of Food Industries*. *Agribusiness* Vol. 17(1). Pg 33-57.

⁶⁸ Håkansson, et al. (2002). *The IMP perspective of assets and liabilities of business relationships*. in *Understanding Business Marketing and Purchasing*. Thomson Learning. 3rd Ed. Pg. 38-39

⁶⁹ *ibid.* Pg. 41

<i>Relationship Types</i>		
Adaptation	Planning	Openness
"Merely" a purchase	Co-operation	Long-term partnership

Fig. 4: Different types of industrial relationships
Source: Based on lecture notes⁷⁰

In general, relationships vary primarily in terms of focus and span. Additionally, all interactions tend to contain three different dimensions, namely actors, exchanges (resources), and relations. This system is coexisting in an environment or context where there is a certain atmosphere that further affects the interaction between the parties. Not least do these last two factors bring uncertainty, such as market uncertainty and transaction uncertainty, into the system. Furthermore, in order to achieve the most efficient and effective relation, it should contain a certain degree of commitment and trust. Relations containing these elements usually develop to successful relations where stability, co-operation, creativity, reduced uncertainty and conflict resolution are central concepts. This is more likely to occur if the parties share the same values, do not seek to take advantage of the other, and engage in effective communication. Usually, the relationship is also especially successful if the only existing alternative to the relation is a position where high costs would occur and the competitive advantage would be reduced.⁷¹

According to Ford, all relationships can be said to go through three phases. The first phase, the *start phase*, is characterized by relationship building, large flow of information and adaptation from both parties. In the *maintenance phase*, which is the second one, both parties work hard at trying to keep control over the strategic information. During the *completion phase*, the last stage, the strategic information is collected and evaluated and both parties aim at finishing off on good terms.⁷²

Companies in a relationship are rarely homogeneous, but rather differ in characteristics such as on the one level size, history, technology, organization, and culture and on the other level, in experience and attitudes. Therefore, it is important that the companies adapt to each relationship, in order to create the perfect fit between the two.⁷³

There are several advantages of establishing relationships with firms – they give the companies involved a chance to optimize the production volume and each company can focus on its particular strengths and take use of its special abilities. There are however also a number of disadvantages of relationships. For instance, relationships function as liabilities to a firm because companies become less flexible and cannot make a particular choice without the others' consent. Secondly, it creates an

⁷⁰ Elg, U. *Industriell marknadsföring*. Kurs, Lunds universitet. Lecture notes 2003-04-16

⁷¹ Bryntse, K, Tjärnemo, H (1996). *Inköp i interaction*. PM for a Ph D course at Lund University.

⁷² Ford, D et al. (2000). *Managing Business Relationships*. John Wiley and Sons. Pg. 109.

⁷³ *ibid.* Pg. 71-73.

additional source of uncertainty and thirdly it may act as an impediment for future relationship initiations.⁷⁴

What is particularly interesting about relationships is that co-operation and competition tend to act together. The degree of each of these variables is varying depending on where in a relationship the parties are. According to one model, there are four types of relationships between companies. These are characterized by⁷⁵:

- 1) **Low cooperation and low competition** – In this stage, competition outperforms cooperation. The parties are independent of each other and therefore fighting for benefits, which means that each party will keep to themselves the profits or advantages they gain. Both parties are fairly uninvolved, and exchange is merely a question about transactions.
- 2) **Low cooperation and high competition** – Relationships with this combination are usually somewhat deprived relationships. Conflicts are common and mostly concerns issues such as finance or distribution, and can usually be derived from poor communication and too low levels of information exchange. Still in this stage, there is a focus on the own firm, which means that the degree of trust tends to be low. Commonly, relationships that are not tied up with contracts or agreements dissolve because of the high amount of stress and adaptation pressure. Some parties manage to get over these problems and work effectively to increase the level of cooperation or decrease the level of competition. If managed, the relationship will pass on to stage three.
- 3) **High cooperation and high competition** – here, each party's role is determined which makes the relationship very effective. Furthermore, the high level of social exchange helps increase cooperation to such an extent that the negative aspects of the high competition are not affecting the relationship negatively. There is successful conflict resolution and each party is aware that the other is acting in its best interest, which leads to that the competitiveness is better coped with. Parties in such a relationship usually perceive it as being improving, and over time cooperation will increase and competition decrease which will lead them to the last stage;
- 4) **High cooperation and low competition**– this kind of relationship oftentimes has a long history and is based on the presumption that both parties are satisfied with the relationship. The parties are therefore very committed, and work with a long-term perspective. Over time, strong personal connections have developed and the relationship has become very stable.

⁷⁴ Ibid. Pg. 93

⁷⁵ Wilkinson, I et al. (2002). *Business dancing – the nature and role of interfirm relations in business strategy*. in *Understanding Business Marketing and Purchasing*. Thomson Learning. 3rd Ed. Pp. 108

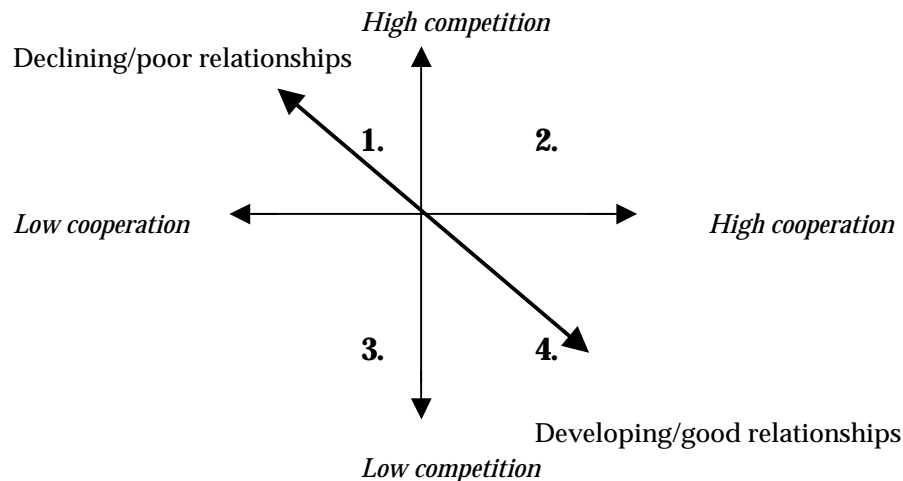


Fig. 5: Four Types of Interfirm Relationships and their Evolution
 Source: Wilkingson, I & Young, L (2003). *Business dancing – the nature and role of interfirm relations in business strategy*. Understanding Business Marketing and Purchase. Pg 113

In general, it can be stated that the degree of conflict is higher in relationships that are built on single or rare transactions. The deeper the relationship gets, the less conflict will emerge. Since conflicts increase the costs of the relationship, channel members strive for a reduction of conflicts and an increase of co-operation. This is most likely to occur over time, i.e. in long-term partnerships.

When companies seek to establish relationships with partners on the international market, this places additional demands on the company. It has to be organized differently, and certain competencies are required. Additionally, it is of great importance that the company thoroughly investigates its strategic options and possibilities. Questions that have to be considered include whom to establish the relationship with and what demands that should be placed on each specific partner.

In general, since the value chain is dependent on how the relationships between any two of the actors within this chain function together it is of vital importance that they work sufficiently. Research shows that the majority of relationships do not work satisfactorily however. Mistrust, rivalry and secrecy are some of the adjectives used when businesses are to describe their relationships with other firms. Especially due to the recent developments in the food industry sector, where each retailer usually employ multiple sources and thereby several suppliers, competition between these channel members tend to occur. Therefore, the strive for mutual advantage and continuous improvement by all members needs to be coordinated before the partnerships are entered into. Shortly, success is much determined based on how well the relationships are functioning.⁷⁶

Also, the different relationships a company has, tends to affect the others. For instance, international vertical relationships usually have a positive impact on a company's home market vertical relationships (eg. for the retailer in this case).⁷⁷ The

⁷⁶ Gilbert, D (2003). *Retail Marketing Management*. Prentice hall. 2nd Ed. Pp. 214.

⁷⁷ Elg, U et al (2000). *Dynamiskt relationsbyggande i Europa. Om hur olika slags relationer samspelar – illustrerat av svenska dagligvaruföretag*. Lund Business Press. Pg. 156.

international relationships will place the company at a better position; since the home country relationships may be of less importance, the company can obtain a stronger negotiation position among these domestic partners. Thus, the company can pressure its home market suppliers to a higher degree. This can bring about reduced prices or a more tailored offer. Also, since both partners (the domestic one and the international one) will act as substitute for each other, exchanges with the domestic partner will occur less frequently. This implies a reduced importance of that specific relationship, which also contributes to that the company can place higher demands on that partner. On the other hand, the newly established international relationship can also be perceived as something provoking in the view of the domestic suppliers. This could in turn have negative consequences for those relationships, since the relationship may assume a fierce tone, trust may be reduced, and at a worst case scenario, the supplier may search for new partners. However, as long as the relationship is valuable to both parties, it will likely remain. An important note is that it is only as long as the international partner can supply the same goods as the domestic one, that the relationship will have the above-mentioned effects. Thus, it has to be a substitute.⁷⁸

Not only do an increased number of available suppliers give advantages however. The new alternatives also increase the costs for the company, indirect as well as direct. There are also several facts pointing to that there would be no over-exploitation of international suppliers merely because the possibility exists. It is more common that companies take use of well-known suppliers, since it would both be more time consuming and more expensive to find international suppliers and establish new relationships with these, than to develop the already existing ones. Also, the establishment of new relationships contributes to increased uncertainty, which companies usually tries to avoid, since it can lead to increased costs.⁷⁹

Regarding the grocery retail market, since it is concentrated to such a large extent, the leading retailers possess considerable power over the channel members. Unevenly distributed power in the partnership is however never advantageous for the relationship, since the weaker party in such cases will feel deprived. Also, in cases with unevenly distributed power, the stronger party will dominate, thus, the partnership will not be founded on interaction, which is the ultimate base. The same situation occurs if a large supplier is dependent on only one retailer. Instead of having the ultimate relationship characterized by interdependence, these types of relationships will instead include a large amount of fear and reduced trust.⁸⁰

The following section contains a more thorough examination of some different kinds of relationships and their implications.

4.1.1 General Overview of Partnering

A trend that has emerged over the past decades is that each company should mind less about short-term results, and focus on co-operation and long-term relationships instead. It is the general understanding in today's business markets that establishing

⁷⁸ Ibid. Pp 70.

⁷⁹ Ibid. Pg. 209

⁸⁰ Gilbert, D (2003). *Retail Marketing Management*. Prentice hall. 2nd Ed. Pg. 214.

partnerships is the one and only way to be successful.⁸¹ Therefore, partnering⁸² is a strategy that has been intensively used in the retailing sector over the past decades. It is a way to achieve competitive advantage through lowering costs for both parties in the relationship. In some partnerships where they share technical, economic and social factors, there is a strong need for trust, common goals, mutual commitment and thus, good communication and cooperation are vital. However, not all partnerships extend this deep; some partnerships merely have a tactical and transactional motive and therefore the parties need not to be as closely tied.⁸³ Common for partnerships is however that they are:

“(...) an inter-organizational entity developed between two independent organizations in a vertical relationship within a supply chain.”⁸⁴

Vertical partnerships are fairly common within the food industry. This type of relationships refer to partnerships on the vertical level in the supply chain, i.e. for instance between suppliers/manufacturers and the retailer.⁸⁵ Actors within the supply chain seek to establish this kind of relationships for a number of reasons. To mention one, vertical relationships give retailers the possibility to increase their competitiveness.

There are a number of different ways in which retailers can obtain the products they prefer. Recently, there has however been a clear shift in how companies accomplish this. There are primarily three developments that can be distinguished⁸⁶:

- **Outsourcing** – as companies outsource some of their activities to other companies, this gives them the possibility to focus and specialize on a few core activities instead. In most production processes advanced technology is needed, so by limiting the number of activities performed in-house, the company will reduce technology costs. On the other hand, costs in terms of goods purchased by the company increase due to this change. The company will however become more effective and efficient on those processes they perform instead. This strategy has been remarkably popular and today a large number of companies take use of outsourcing.
- **Reduction of number of suppliers** – the utilization of this strategy varies a lot between different industries, and has been adopted mostly within the automotive sector.
- **Establishment of partnerships with suppliers** – In the past it was very rare that companies established relationships with other companies in the same segment. Today however, this strategy is promoted widely, since it is believed to offer both parties advantages and make the internal operations of the companies more efficient.

⁸¹ Ford, D et al. (2000). *Managing Business Relationships*. John Wiley and Sons. Pg. 119

⁸² Partnering here refers to the establishment of relationships with partners on any level – horizontally as well as vertically.

⁸³ Mentzer, J et al (2000). *The Nature of Interfirm Partnering in Supply Chain Management*. Journal of Retailing Vol. 76(4). New York University. Pg 549

⁸⁴ *ibid.* Pg 550

⁸⁵ Hughes, D (1993). *Breaking with Tradition. Building Relationships & Alliances in the European Food Industry*. Wye College Press. Pg. 3

⁸⁶ Ford, D et al. (2000). *Managing Business Relationships*. John Wiley and Sons. Pg.109-110

Moreover, relationships in an industrial market constitute entry barriers for actors that do not have partners in that market, but wish to have so. Additionally, the relationships are more likely to create barriers difficult to overcome, if the supplier and retailer are in different international markets. Therefore, it is important for the relationship seeking company to firstly perform an extensive market analysis of the market of entry.⁸⁷

Subcontracting

Subcontracting refers to when a firm has its goods produced by another company, even though still overseeing the process and deciding the outline and details, for instance, deciding on delivery schemes and exact specifications. Shortly put, subcontracting means outsourcing parts of the production. In some subcontracting agreements other parties are involved, executing the distribution process. In some instances, another partner supplies the materials and other firms may perform supplementary activities involved in the production. This is identified as a *subcontracting network*. Usually subcontracting starts out with only two parties, and then, over time, more and more actors become involved and a network develops. The wider the network gets, and the longer the period over which it extends, the more will the parties learn from each other.⁸⁸

The benefits to the subcontractor of this type of network will thus be the other companies' experience and knowledge in marketing and infrastructure in the country of interest. The most pertinent however, is to penetrate a new market with scarce resources. Often the subcontractors are small-or medium-sized firms (SMEs), which obviously do not have the same capacities as larger manufacturers.

Simultaneously, the contractor obtains advantages in terms of lower cost production (therefore oftentimes referred to as economic subcontracting) and greater flexibility over its operations. The latter indicating that the principal does not have to put time and effort into the production process, meaning that it saves capital and work, for instance because the process of finding, purchasing and converting raw material is now outsourced.

In a study of IKEA's suppliers, some interesting facts were revealed regarding the company's relationship with its suppliers. In IKEA, the most important activities on how to deal with suppliers, are controlled hierarchically. Other, less principal activities are managed through external controls such as contracts, interaction and penetration into the suppliers organization. For IKEA this means that they are giving its suppliers various instructions of how the products are to be performed. Therefore, the IKEA suppliers' contacts with the company go via purchasers, quality inspectors and production engineers. This is a common strategy in many companies using subcontractors and suppliers in general.⁸⁹

⁸⁷ Ford, D (2002). *The development of buyer-seller relationships in industrial markets*. in Understanding Business Marketing and Purchasing. Thomson Learning. 3rd Ed. Pg. 74

⁸⁸ Ghauri, P. et al (2001). *Using Networks to Solve Export-Marketing Problems of Small- and Medium-sized Firms from Developing Countries*. European Journal of Marketing Vol. 37 5/6 2003. Pg 744.

⁸⁹ Bryntse, K. Tjärnemo, H (1996). *Inköp i interaktion*. PM for the Ph D course in Marketing Theory, Lund university.

4.1.2 Relationship Types

Two types of partnerships can be distinguished. First, there is *strategic partnering*, which implies a relationship that stretches over a long period of time and in which the goal is strategic. The relationship has the advantage of giving benefits both to customers (in terms of value) and to each of the partners (in terms of profits). Usually, the parties in a strategic relationship regards the other one as being a part of the own firm, and in general the relationship is seen as being exclusive and hard for competitors to mimic.

The other type of partnering is called *operating partnering* and refers to partnering that extends over shorter time periods. In operating relationships the retailer usually sells its own brand to a high degree, and therefore varies in its choice of manufacturers, depending on the terms of the contracts and accessibility to the producers. Shortly, operating partnering is characterized by the search for effectiveness and efficiency through a limited use of resources and fast ways of distributing. Important for both parties here are the partners need to adapt quickly to changed circumstances, such as a shift in consumer preferences. Short delivery times, high quality and low inventories are the main objectives.

However, although mainly cost advantages can be achieved through partnering, retailers rarely establish this kind of relationships with all of their suppliers. The reasons for this are several, among others since it is costly due to the longer process, higher risk taking etc. For it to be successful it also requires that the companies are somewhat on the same level as regards values, quality demands and so on. Unlike strategic partnering, in operating partnering the partner firm is not viewed as a part of the original firm, but as a close associate that helps making the supply chain more efficient, foremost in a shorter time objective.

Partnerships have, as mentioned, become more common during recent times, according to Mentzer et al partly because long-term relationships contribute to enduring benefits. The retail market of today is characterized by rapidly shifting customer preferences, shorter product life cycles and quicker production, which negatively impacts the firm's costs. In general, three environmental forces that push for the need to develop partnerships can be distinguished, namely:

- environmental uncertainty
- global competition
- time and quality based competition

The advantages of establishing relationships in times when any of the above mentioned situations exist, are that the companies become more stable, flexible and can coordinate its activities better than when they act alone. Also, when working so close together, it is easier to respond better to consumers' preferences of fast and quick delivery of higher quality products. Systems such as JIT (Just-In-Time) that reduce storage time and help lowering the costs can more easily be pursued.⁹⁰

⁹⁰ Mentzer, J et al (2000). *The Nature of Interfirm Partnering in Supply Chain Management*. Journal of Retailing Vol. 76(4). Pg 553-4. New York University

The Interaction Process from the Retailer's Point of View

If there are several suppliers on the market, it is fairly easy for the retailer to choose a manufacturer for its products. It will take the manufacturer that offers the best products to the lowest price. Oftentimes, the situation is more complex however. There may be uncertainties for the retailer regarding what in fact is needed, what suppliers to trust, what the market preferences are etc. All these factors make it harder for the retailer to establish relationships with suppliers. On the other hand, depending on the kind of interaction employed all these variables can be affected to some extent, and thereby also be reduced in uncertainty level.

The *need uncertainty* can be affected both ways. It will increase if the supplier has thought about additional materials, machines or features the product will need in the production process, and it will decline if the supplier is able to produce the good differently, which in turn will lead to the use of less inputs. *Market uncertainty* is related to opportunity costs in terms of what a company will lose by developing a strong link to one specific supplier, i.e. the non-utilized suppliers may have had better offers. Lastly, the *transaction uncertainty*, which refers to all problems related to the exchange of the product (legal, logistics, etc), can be reduced if these processes are standardized. If not, there will be additional negotiations and agreements needed and the uncertainty will remain high.

Yet, if the uncertainty nevertheless is high, the retailer should aim at keeping traditional suppliers that the company has pursued business with before, choose manufacturers in a country that is similar in cultural aspects, employ specialists to handle both internal and external communication and finally engage in frequent communication sessions with the supplier. These actions can help curbing the uncertainty.⁹¹

The Interaction Process from the Supplier's Point of View

The key activity for the supplier is to make the retailer feel that it can solve various problems, and do so to a representative cost. Retailers search for specific products and need products to be delivered in the most effective way. Therefore, the *need solving* and *transfer ability* of the supplier are evaluation criteria the retailer will be looking for when choosing supplier. Thus, the supplier needs to possess knowledge in areas such as technology, economy and equipment and it must also have the resources needed to create the product.

The capacities and resources of the firm are usually divided unevenly between the supplier's various customers (i.e. in this case the retailers), depending on the customer's importance for the supplier's overall business. However, it appears to be a trend that the longer period of time the relationship lasts for, the more effort will the supplier put into that specific relationship. It is an advantage to the seller that it possesses the control over the uncertainty dimensions. This gives it the possibility to affect the retailer, and make it produce certain desired outcomes.

Actors in the industrial markets should at first be seen as unique and a specific strategy should be composed for each relationship. What strategy to pursue depends

⁹¹ Håkansson, H et al. (2002) *Influence tactics in buyer-seller processes*. in Understanding Business Marketing and Purchasing by Ford, D. Thomson Learning. 3rd Ed. Pg. 53,54

on the marketing situation. This situation is either comprised of competitors which have strong relationships with a firm's potential customers. In this case, the strategy should be aimed at breaking these relations, thus, the company should do whatever it can to increase the market and need uncertainties. Or, the company itself has very good bonds with its partner and needs a strategy that will develop and stabilize these relations. Hence, to enhance the relations, the company should minimize the perceived uncertainty for the partner.⁹²

All in all, relationships in this context can be described as a process, and as the process goes on, commitment, experience and the amount of adaptations from both parties will increase, at the same time as uncertainty will be reduced.⁹³

Disadvantages of Relationships

As noted, relationships can bring many advantages and benefits to companies. However, like with most things, there is also a backside of it. Relationships will have negative impact on a company because:

- *Companies will experience a loss of control.* There will be reduced control over important variables of the company, such as resources, activities and intentions.
- *There will be a certain degree of indeterminedness.* It will become more difficult to make relevant decisions for the future, since relationships are changing constantly and the future is unknown.
- *Increased use of resources.* It is costly to establish and maintain relationships.
- *Other opportunities will be lost.* As resources are channelled into relationships, the possibility to invest in other individual opportunities that arise will be limited.
- *Demands will be unexpected.* Since the partner most likely will have other relationships, this means that the company will become part of a larger network, and thus be required to perform additional tasks, obligations or live up to certain expectations.⁹⁴

Therefore, assessing whether the benefits still will outweigh the disadvantages should be a key activity before establishing any relationships.

4.1.3 Supply Strategy

As regards a company's relationship to a supplier, the supply strategy can be said to have three dimensions. The first one is *scope of supplies*, which refers to the extent of supplies and the overall effect on the firm as a whole. For instance, some companies rely more on their suppliers (i.e. purchase the entire production range from suppliers) than others. The differences in scope of supplies, evidently have varying impact on the company's costs. The larger dependence on the supplier, the higher relationship

⁹² *ibid.* Pp. 55

⁹³ Håkansson, H et al. (2002) *Influence tactics in buyer-seller processes.* in Understanding Business Marketing and Purchasing. Thomson Learning. 3rd Ed. Pg. 74

⁹⁴ Blois, K (2002). *Don't all firms have relationships?* in Understanding Business Marketing and Purchasing. Thomson Learning. 3rd Ed. Pg. 100

handling and product purchasing costs. This also means that the amount of control the purchasing company can exercise is reduced as the scope of control is increased.

Outsourcing is one example that indicates a large dependence on suppliers and a high scope of supplies. In order for the relationship to be profitable, it requires effective logistics. It has a number of effects on the overall company, such as the risk of redundancies in personnel. Companies that take the decision to buy rather than produce, have a market-oriented approach. This means that they believe that competition will refrain suppliers from taking out too high prices for their products. Since competition among suppliers often is strong, the suppliers/manufacturers are aware that the company may go to someone else. Research shows however, that this is only the case if the goods are simple and standardized. If the market on the other hand is characterized by strong relationships between suppliers and retailers, and there is close integration, market forces will not prevent suppliers from charging too high prices.⁹⁵

The second dimension of supply strategy is the *posture of supplier relationships*, meaning the way in which a company manages its supplier relationships. Over the years there has been an intense discussion about the degree of closeness that a company should hold to its suppliers. Even though the answer cannot be standardized, since every relationship differs from another, it has become evident that companies today have fewer and more intense relationships, whereas previously they had several, and the importance of each was limited. Thus, the overall understanding is that only close relationships generate significant benefits. The degree of truth in this general belief can be questioned though. In fact, as pointed out, all relationships contain both co-operation and conflicts and these two act together.

One way of measuring the closeness between companies is to look at the degree of integration. Companies can be integrated in three different parts in the company, namely in activities, resources and actors. Closely integrated companies are integrated in all the three sectors (thus, seek to achieve more than just cost reductions), whereas other companies only are integrated partly in one of them. Companies tend to be loosely integrated when the buying company's uncertainty is low, requirements are standardized and can be achieved by the supplying company with the already existing equipment and knowledge. Furthermore, the personal interaction is low and the products do not have to be adapted to specific demands. Despite the common belief that only close relationships generate benefits, loose relationships do so as well. Among others, due to the low personal involvement, administration costs and management costs will be reduced. Moreover, it is easier for the purchasing company to switch suppliers and the pressure on them will increase, which will refrain them from charging high prices. Evidently there are cons as well, for instance, the purchasing company will have to bear the supplier's adaptation costs.⁹⁶

The third and last dimension of supply strategy is *structure of the supply base*. This refers not only to the type of suppliers, but also to the number of them and the nature of the relationship. The question about single- or multiple sourcing falls within this strategy dimension and is fairly similar to the previous discussion. As mentioned,

⁹⁵ Ford, D et al. (2000). *Managing Business Relationships*. John Wiley and Sons. Pg. 123-125.

⁹⁶ *ibid.* Pg. 129-138

proactive of single sourcing is that it is easier to establish close relationships and gain the respective benefits thereof. The benefits of multiple sourcing are also mentioned above; it is less complicated and costly to switch between suppliers etc.⁹⁷

4.1.4 Managing Supplier Relationships

Relationships are successful where they help moving the company towards its goal in a more effective and efficient way. However, a company usually has a large number of supplier relationships that is a part of a larger complex system. This means that it is generally hard to make a change in one of the relationships, or in one of the variables in the company, without causing a change affecting the whole system. For instance, if purchasing costs were reduced, it would normally lead to overall profitability for the company. However, in order to achieve the reduction in purchase costs, a change of supplier might be needed, which in turn will increase relationship handling costs or reduce relationship handling benefits.

The most suitable relationship for a company depends on a number of factors. One thing is definite though – all companies should be analyzed thoroughly in order to determine whether the best relationship is merely a “now-and-then”, distant relationship with a number of suppliers, or whether this ultimate relationship is a close and long-term relationship with only one or a few suppliers.

Regarding purchasing management, there are foremost two problems. The first one is to develop an appropriate structure of suppliers and the second is to manage each of these relationships in an efficient way.⁹⁸

Effective management of relationships requires both parties to be responsive to each other's initiatives, problems and opportunities. Thus, as Wilkingson and Young puts it, being manageable is as important as being able to manage others. It also involves the creation of value for both parties, and not only the protecting of ones own values.⁹⁹

Relationships do not become successful without various inputs. First of all, they demand careful management, proper allocation of resources between the different relationships in order for the resources to match what they return. They also demand investments for initiation, development and maintenance. Secondly, the organization must be formally structured in order to develop commitment and loyalty, and to minimize the costs. Also, the success depends a lot on the characteristics of each party. Organization-specific characteristics that matter are, for instance, expertise possessed by each party, the companies' position in the market, and the technologies they have. Consequently, if the manufacturer's technical equipment is much less advanced than the retailer's, the gap between them might be larger. This in turn will

⁹⁷ *ibid.* Pg.140

⁹⁸ Håkansson, et al. (2002). *The IMP perspective of assets and liabilities of business relationships*. in Understanding Business Marketing and Purchasing. Thomson Learning. 3rd Ed. Pg. 36

⁹⁹ Wilkingson, I et al. (2002). *Business dancing – the nature and role of interfirm relations in business strategy*. in Understanding Business Marketing and Purchasing. Thomson Learning. 3rd Ed. Pg. 107

affect all the other elements of the relationship, such as mutual trust, communication processes and willingness to adapt.¹⁰⁰

This leads us into the fact that relationships must be viewed in their overall context, including market structure, dynamism, internationalisation, position in the manufacturing channel and the social system. To explain a few of them, it can be stated that dynamism is important in the sense that if the relationship is close, information will be exchanged actively and each party can thereby make sounder decisions. Similarly, the social system is of great importance, foremost when acting on the international market. It is vital for the firm to know the social system in which the actions are to take place, in order to handle the situation properly. The social system aspect also includes various legal measures that have to be dealt with when having a relationship with a partner in a country where the social system is different from the home country one.¹⁰¹

4.2 Evaluation of Relationships

It is commonly thought among corporations that the move of production to a low cost site will lead to significant cost reductions. This might very well be the case. There are however additional concerns that must be taken into account; costs do not only stem from manufacturing. Certainly, transports, administration, and waiting are also sources of costs to most companies, if not all. Yet, for some companies the search for manufacturers, monitoring of the same, and quality assurance constitute additional cost posts.

4.2.1 Costs v. Benefits

Relationships vary in terms of that some give immediate outcomes, whereas some do not generate results for a long period of time. What they both have in common however is that the evaluation process is usually difficult. Since supplier relationships have large implications on the company's overall performance, the monitoring and evaluation of these are essential. A standardized assessment procedure cannot be used, since the value of each relationship depends completely on the companies involved, and the context in which it acts. There is however a general framework companies can take use from, in the determination of the costs and benefits arising from supplier relationships.

¹⁰⁰ IMP Group (2002). *An interaction approach*. in Understanding Business Marketing and Purchasing. Thomson Learning. 3rd Ed. Pg. 20-25

¹⁰¹ *ibid.* Pg. 26-27

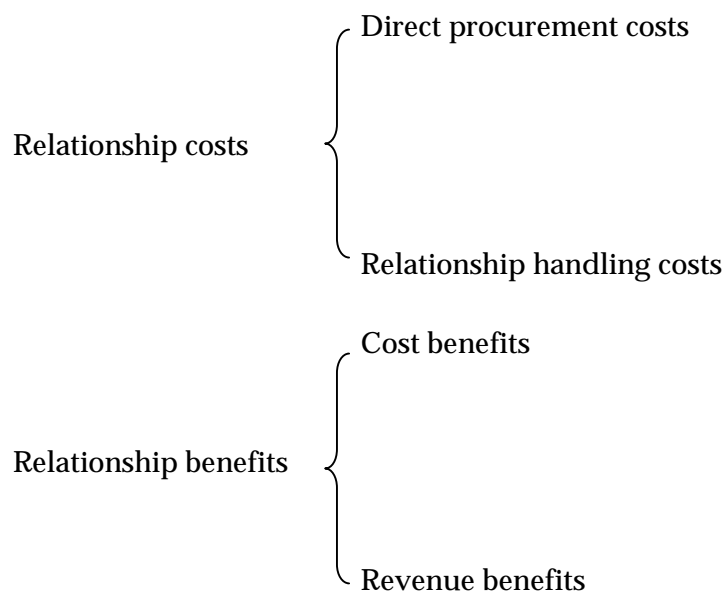


Fig. 6. Framework for the evaluation of economic consequences of supplier relationships.
 Source: Ford, D et al. (2000). *Managing Business Relationships*. John Wiley and Sons. Pg. 113

Relationship costs are composed of *direct procurement costs* (direct) and *relationship handling costs* (indirect). The former refers to costs such as transport, handling, and administrative costs, that are specific to each individual relationship. There has been a traditional strong emphasis on reducing these costs, to such a high degree that other cost minimizations have been disregarded. The latter refers to a subdivided cost source, where the first group refers to costs linked to a specific supplier. It involves, among others, costs that arise when adapting to a specific supplier, costs originating from training of suppliers, monitoring of the supplier, and solving problems arising from the relationship. The second subgroup of costs, are those derived from communication, purchasing and warehouse activities. These costs primarily refer to costs that have arisen from previous investments in, for instance, storages. Taken all together, relationship costs are "a function of the activities necessary to develop and maintain supplies", as Ford puts it.¹⁰² He continues by asserting that relationship-handling costs are often the "function of the number of relationships rather than the number of transactions". This gives some indication of the importance of them.

Other costs that will occur as a result of the relationship are those that arise as both parties try to avoid being harmed by the other. This indicates that building trust can be a way of reducing costs. Several of the above-mentioned costs are hard to measure quantitatively; it is essential though, considering the monetary size.

As mentioned previously, a large part of a company's overall costs, today stem from the purchasing from suppliers, due to that many processes are outsourced or subcontracted. Hence, the large impact of suppliers on company costs.

¹⁰² Ford, D et al. (2000). *Managing Business Relationships*. John Wiley and Sons. Pg.113-114

Relationship benefits, on the other hand, consist of *cost benefits* and *revenue benefits*. Except for the apparent profit – the product, component or substance at issue – other benefits are the gaining of different technology or knowledge and skills. Successful supplier relationships can work as an incredible catalyst for the company's performance, effectiveness and overall standing on the market. Supplier benefits can be divided into two categories:

1) *Cost benefits*: refers simply to the cost reductions at any level of the firm that have developed through the use of supplier relationships. Examples are reduced manufacturing, administrative, and R&D costs (to a large part due to more efficient information exchange).

2) *Revenue benefits*: As the name indicates, these benefits arise through the increased capacity of the firm to generate revenues, which in turn is the result of the supplier relationship. Similarly to relationship handling costs, these are very difficult to assess on a quantitative basis. Unlike those costs however, the benefits are usually more complex, and therefore more complicated to derive to a certain supplier.

In assessing supplier relationship benefits, it is also necessary to bring in the expected future benefit. Like all future forecasts, this benefit is extremely hard to determine, in large part because of the lack of knowledge regarding the future context.¹⁰³

Important to remember is that not every relationship needs to generate financial profits per se. It is the relationship portfolio that should be evaluated. Therefore, it is of incremental importance that the bundle of relationships is a mixture of complementary and combinatory ones. In relation to this, a central notice is that the degree of involvement that should be put into each relationship, varies over time. Additionally, relationships will be both assets and liabilities, depending on the overall situation of the company. Thus, it cannot be stated that high-involvement relationships always are to prefer above low-involvement ones.¹⁰⁴

What can be concluded from this relationship chapter is that the type of relationship to engage in, depends on the objectives of both parties, on the tasks at issue, and finally on the environment. Hence, it cannot be stated that a certain type of relationship is the ultimate one.¹⁰⁵

¹⁰³ *ibid.* Pp 112.

¹⁰⁴ Håkansson, et al. (2002). *The IMP perspective of assets and liabilities of business relationships*. in Understanding Business Marketing and Purchasing. Thomson Learning. 3rd Ed. Pg. 45

¹⁰⁵ Wilkingson, I et al. (2002). *Business dancing – the nature and role of interfirm relations in business strategy*. in Understanding Business Marketing and Purchasing. Thomson Learning. 3rd Ed. Pg. 117.

5. EU Business Law Theory

The four freedoms (free movement of goods, services, persons and capital) were created in order to reach the aims of the European Union, namely welfare, fair competition, higher living standards, quality of life, non-inflationary growth, economic and social unity and solidarity, shortly, to create an internal market with no borders. Further, the idea behind the free movement rules was partly to promote manufacturing to take place within the Union where it would best be suited, i.e. where manufacturing costs are the lowest and other conditions optimal. This was seen as the ultimate way to compete with other large economies such as the USA and Japan.¹⁰⁶

Cross-border flow of goods presupposes a number of things. In order for it to function, several aspects of the companies' functions must be coordinated. Each party must engage in synchronization of strategic and operative systems, which will be simplified if an agreement is entered into and if a contract is signed. This would ultimately involve a concord on issues such as information handling, delivery conditions, licenses, competition clauses, responsibility etc. Due to the differing legal structures of the European countries, domestic commerce has formerly been favored over cross-border trade. However, the EU and the legal framework it has brought to the area, has had large implications on this situation through a simplification of the process. In order to ensure that the parties in a relationship act in both parties' best interest, it is important that the legal structure operates encouraging for the companies.¹⁰⁷

Products flowing within the EU have to be adjusted according to a number of specific legislative measures, which affect the product development. For instance, there are¹⁰⁸:

- Harmonized rules within the Union that are based on EC directives.
- Not yet harmonized rules, which are still mandatory to comply with.
- Demands and requirements from various institutions in the different Member States.

As regards the last point however, there is the overall acknowledged *Cassis de Dijon rule*¹⁰⁹, which indicates that there should be a mutual recognition of products across Member States, i.e. a product recognized in one state, should also be recognized in the others. Shortly, it is a necessary measure in order to reach the Single Market, which is based on the removal of trade barriers.¹¹⁰

¹⁰⁶ Nyman Metcalf, K (2002). *Fri rörlighet för arbetstagare och utvidgningen av EU – konkurrens på olika villkor*. in Europaperspektiv. Pg. 55

¹⁰⁷ Norinder, H. (2000) *Juridiken som verktyg i flödeskedjor-ramar och förutsättningar*. in *Flödesekonomi. Supply Chain Management*. Studentlitteratur Lund. Pg 136-138.

¹⁰⁸ Swedish Trade Council, www.swedishtrade.se 2004-01-02

¹⁰⁹ Based on case C-120/78 *Rewe-Zentrale AG v. Bundesmonopolverqaltung fur Branntwein* [1979] ECR 649

¹¹⁰ Craig, P, et al (2003). *EU Law. Text, Cases and Materials*. 3rd Ed. Pg. 636 ff

However, there are other factors and rules a company must also take into account as regards products. These are *inter alia* standards, branch praxis, environmental aspects and consumer preferences¹¹¹ Therefore, each producer/seller must evaluate each product and its characteristics and determine whether it is compatible with all the rules, regulations and standards.

Not only rules and regulations regarding the product itself have to be considered. Also agreement-specific measures will be of vital character in this case. Among others, it is important to establish whether the agreement is in accordance to Community law, and thus not creates a cartel or is harmful to the overall Community trade (see further section 5.1.1 ‘Art .81’).¹¹²

5.1 Subcontracting

As noted, subcontracting was treated shortly already in the previous chapter. This activity can however also be viewed from a business law point of view, why it will be considered once more. Subcontracting is in legal terms defined as:

*“Agreements under which one firm, called ‘the contractor’, whether or not in consequence of a prior order from a third party, entrusts to another, called ‘the subcontractor’, the instructions, to be provided to the contractor or performed on his behalf”.*¹¹³

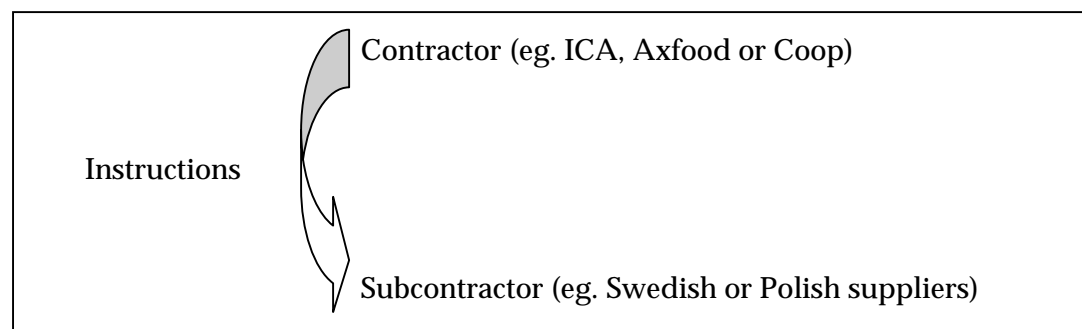


Fig. 7. Illustration of subcontracting typified with examples from this particular thesis.
Source: Self-composed, based on Commission Notice of 18 December 1978 concerning its assessment of certain subcontracting agreements in relation to Article 85(1) of the EEC Treaty. OJ C1 3.1.1979.

Subcontracting can be divided into three categories, namely subcontracting agreements relating to:

- **Products** – i.e. the subcontractor manufactures only a part of a product or a part of a total range of products.
- **Equipment**
- **Services** – the subcontractor supplies the contractor with necessary services in order for the contractor to pursue its core business.

¹¹¹ Swedish Trade Council, www.swedishtrade.se 2004-01-02

¹¹² Norinder, H. (2000) *Juridiken som verktyg i flödeskedjor - ramar och förutsättningar*. in *Flödesekonomi. Supply Chain Management*. Studentlitteratur Lund. Pg 145.

¹¹³ Commission notice of 18 December 1978 concerning its assessment of certain subcontracting agreements in relation to Article 85(1) of the EEC Treaty. OJ C1 3.1.1979, p. 2.

Since this thesis concerns grocery retailing, subcontracting agreements will consistently only refer to agreements covering products.

Shortly, subcontracting is a form of work distribution that constitutes a strategy option for all companies. Generally, however, it tends to be SMEs that devote themselves to it, since it gives them possibilities to become higher scale producers or even international exporters. That is, for SMEs, subcontracting offers great development opportunities.

Companies that decide to take advantage of the many benefits in Poland, seek to find subcontractors, i.e. manufacturers that will produce goods for them. Finding companies that are interested in subcontracting for foreign firms is fairly uncomplicated. Many of them see it as their chance to start exporting. However, it is of great importance for Swedish companies that they settle correct agreements. Issues that have to be decided upon are time for delivery, size of delivery, conditions for delivery, quality and production method etc.¹¹⁴ Monitoring thereby becomes one of the most important issues when dealing with subcontracting. Many organizations therefore recommend companies to have one inspector at each industry.¹¹⁵

When concluding subcontracting agreements, there are several legal and technical aspects that have to be considered. The obligations and rights of the parties should be spelled out clearly, preferably in written form. Subcontracting touches upon two main EU legislative measures, namely Art. 81(1) of the EEC Treaty and the *Commission Notice on Subcontracting Agreements*¹¹⁶ in relation to previously mentioned article. These are considered below.

5.1.1 Article 81

Art. 81 (ex Art. 85) and Art. 82 (ex Art. 86) were composed on the basis of Regulation 17 of 1962, in order to ensure that cartels would not lead to anti-competitive behavior by firms within the EU. These articles were altered by a new regulation that came into force on 1 May 2004. Below is a shorter overview of Art. 81 as it was constructed prior to this date, and thereafter follows a few words on the implications of the modernization of these Articles.

Art. 81 is divided into three parts, in which the first one consists of a non-exhaustive list of agreements, decisions or concerted practices that would prevent competition within the Community and therefore is prohibited. The agreements mentioned are those which¹¹⁷:

¹¹⁴ Holmgren, G (2003). *Internationell affärsutveckling i Polen*. Projektet internationell affärsutveckling in Polen. Östsvenska Handelskammaren. Ringqvists tryckeri.
<http://www.internationellhandel.nu/polen/tidning.pdf>

¹¹⁵ Swedish Trade Council (2003-05-12). *Marknadsplats Östersjön. Marknadsintroduktion i Polen*.
<http://www.balticsea.swedishtrade.se/affarsradgivning/marknadsradgivning/pdf/polen.pdf> 2004-02-11

¹¹⁶ Commission notice of 18 December 1978 concerning its assessment of certain subcontracting agreements in relation to Article 85(1) of the EEC Treaty. OJ C1 3.1.1979, pg. 2.

¹¹⁷ Quoted from Article 81(1) EEC

- directly or indirectly fix purchase or selling prices or any other trading conditions;
- limit or control production, markets, technical development, or investment;
- share markets or sources of supply;
- apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

An additionally important statement in the article is that the agreements, such as those mentioned above, must also have “*the object or effect of preventing, restricting, or distorting competition in the Common Market*”. Furthermore, the agreements discussed in this article, cover those that are agreed upon by undertakings, which in this case is a broadly interpreted term with no spelled out definition in the Treaty. However, from case law, it is evident that the term covers a wide range of entities; from corporations to individuals to co-operatives. That is, regardless of how the undertaking is financed and no matter whether it pursues commercial or economic activities, there is a great possibility that it will fall under the definition of undertaking used in this article.

Section two of Art. 81 only states that if the agreement at issue is one that has previously been classified as void it will be so regardless of this article. The third and last fragment of Art. 81 points out a few instances where 81(1) will not be applicable. This will happen in cases where it:

“(...) contribute[s] to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit (...)”.¹¹⁸

However, if it does so but also imposes disproportionate restrictions on the undertakings with reference to what is to be attained, or where competition is threatened by elimination, the first part of 81(3) again will not hold.

Important to notice is that even informal agreements can be caught by Art. 81. In general, also the term ‘agreement’ is interpreted broadly in this article and thus covers a wide variety of agreements. Concerted practices refer to ‘hidden’ agreements where there is a common understanding between the parties to conduct illegal activities, even though there may not be any formal evidence to prove it. An example of this is the case *ICI*¹¹⁹, in which the parties had never formally entered into an agreement, but were still engaging in co-operation with the aim to avoid competition.

A final requirement in order for Art. 81 to apply is that it has an effect on trade between Member States. As long as it does not, it will remain under the jurisdiction of the concerned Member State. However, a case in which both parties of the agreement are in the same Member State will not prevent Art. 81 to apply.

¹¹⁸ Korah, V (2000). *An Introductory Guide to EC Competition Law and Practice*. Hart Publishing, 7th Ed. Pg. 69

¹¹⁹ Case C-48/69 *ICI v. Commission*.

After years of attempts to modernize the European competition rules, a new Regulation was adopted, and in May 2004 Reg. 1/2003 came into force. This regulation has many similarities to Art. 81 in that all concerted practices, agreements that restrict competition, and decisions on concentrations will be forbidden. The difference lies mainly in that the individual exemptions that article 81 realizes will disappear. Rather, there will be a general exemption possibility that will hold without a need for a specific decision.

This alteration will lead to that the responsibility is on the companies, concerning whether the agreements they enter into are restrictive of competition and whether they fulfill the necessary conditions to be exempted. This also means that the domestic competition authorities will have higher responsibility and thus, more cases will be resolved on a Community level. Consequently, the national courts are the ones who are responsible for applying Art. 81 and 82 every time Intra-Community trade is threatened.¹²⁰

5.1.2 EU Notice on Subcontracting¹²¹

This notice covers subcontracting agreements regarding goods, services and work and has been widely employed. Due to the focus of this dissertation, I will only discuss the parts of it that apprehend subcontracting of goods.

According to this notice, any agreements that follow the description quoted above (5.1) will fall outside of Art. 81(1) (ex 85(1)). The EU subcontracting notice also specifies what prevails in cases where the subcontractor is demanded to use certain equipment or technology provided by the contractor. Oftentimes, it is the wish of the contractor that the subcontractor may not use that equipment to produce other than the goods for the contractor and that the goods may only be passed on to him. By this Notice, the Commission upholds that this is in line with Community law – i.e. it does not interfere with the prohibition laid down in Art. 81(1). However, in order for it to be compatible with Community law, a few things must be fulfilled. The equipment provided must be an essential facility for the subcontractor in order for it to produce goods in accordance to the instructions given by the contractor. ‘Essential facility’ refers to that: “... a facility which is not replicable by the ordinary process of innovation and investment, and without access to which competition on a market is impossible or seriously impeded” has to be shared by the facility’s owner. An example would be railways that are a necessity for all train companies. Continuously, the subcontractor may not be an independent supplier of the market. This denotes that in cases where the contractor produces goods that entail industrial property rights, secret knowledge or manufacturing processes (know-how), studies or similar documents that supplements the production process, the subcontractor is dependent on the contractor and therefore, Art. 81(1) does not apply.

¹²⁰ Widegren, M (2002). *Ny förordning lägger stora ansvar på företagen*. Konkurrensnytt 2002.

¹²¹ Commission Notice of 18 December 1978 Concerning its Assessment of Certain Subcontracting Agreements in Relation to Article 85(1) of the EEC Treaty. OJ C1 3.1.1979, pg. 2.

However, the Commission Notice also indicates that when the subcontractor is not in need of additional equipment or technology from the contractor, but nevertheless can produce the specific good, the above-mentioned restrictions are not justified. That is, if those restrictions were allowed in cases where the contractor only supplied the subcontractor with information about the process to be executed, the subcontractor would be clearly restricted in terms of conducting business in the same area but with other partners.

Korah posts an interesting point here. She alleges that if the contractor could not ensure that the equipment, know-how or technology would be protected, there is a considerable possibility that the contractor itself would produce the products. Since this in fact would limit competition, the Commission has in this case asserted that specific instructions to a subcontractor on how to manufacture shall not come within Art. 81(1). At least not if the alternative is that the contractor's equipment, know-how or technology would be exploited. For the same reason, the subcontractor should not in these cases be defined as independent undertakings.¹²²

There are also other restrictions that the subcontracting agreement may involve without giving rise to a breach of Community law, in terms of Art. 81(1). For instance, both parties may be allowed to withhold from the public, production processes or other secret information that one of the parties has obtained from the other party during the partnership. Furthermore, the contractor may also restrict the subcontractor not to use this newly gained know-how for manufacturing other products after the agreement has expired. This is tolerated only for the period of time when the production process is not commonly known among the public.

The Commission proceeds by discussing occasions where the subcontractor passes on improvement of the production process, which has been invented during the time of the contract. It may concern technical improvements or new applications that will improve the original product. If the subcontractor also gives this information to other parties that may be interested, i.e. provided that it is non-exclusive, it is not seen as hindering competition and is therefore compatible with Art. 81(1). The only way this information concerning improvement can be directed for the contractor exclusively is if the enhancement only can take place provided that the outsider manufacturer also possesses specific, secret know-how.

On the other hand, if the subcontractor pursues R&D by itself, it may not pass on this information to the contractor provided that it can be used independently of them both and does not concern the product at issue. If it would be allowed to do so, this could impede competition and would therefore be in breach of Art. 81.

Continuously, if the subcontractor is given the permission by the contractor to produce goods with a specific trademark, trade name or the like, it does not mean that the subcontractor is allowed to manufacture such goods and provide to someone else but the contractor.

¹²² Korah, V. (2000). *An Introductory Guide to EC Competition Law and Practice*. Hart Publishing. 7th Ed. Pg. 299

5.2 Case law

Although I have limited the purpose of this thesis not to investigate the topic from a free movement of goods viewpoint, this area will be slightly touched upon below. The motive is to broaden the reader's perspective, point out related issues, and lastly to clarify certain terms that are of relevance in order to understand the case law mentioned.

There are several dissertations on the free movement of goods within the EU. One of special interest for this thesis is the one by Quitzow, which pinpoints a number of interesting issues regarding domestic measures. For instance, he discusses when these measures should be permissible, when they are proportionate to the overall Community aim, and when the Community institutions should intervene and eliminate trade barriers. The author further mentions various cases in which national rules imposing special national requirements on products have been judged as contrary to Art. 28 (ex Art. 30).¹²³

Article 28 of the Treaty states:

“ Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States”

Even though it is a fairly straightforward article, some uncertainties still remain since it does not specify the meaning of a 'measure of equivalent effect' (MEQR). Therefore, Directive 70/50 was issued by the Commission and by its second article it clarifies what constitutes MEQRs. Some of the examples mentioned in the extensive list are:

- minimum or maximum prices for imported goods
- less favorable prices for imported products
- payment conditions for imported products which differ from those for domestic products
- conditions in respect of packaging, composition, identification, size weight

Measures like this constitute hindrances to trade when these rules are applied explicitly to foreign goods, whereas the same rules do not apply for domestic goods. Thus, the basic idea behind Art. 28 is that there should be no room open for Member States to favor their own goods, in comparison to foreign products.

One of the most common instances where Art. 28 is used is when countries impose import or export licenses or similar restrictions on goods. Albeit this may be one of the most obvious ways in which nations favor their own goods, there are several more 'informal' ways in which states do the same. For instance, a state advocating the public to buy domestic goods in favor of foreign would undoubtedly be contradictory to Art. 28¹²⁴. Similarly, a state measure requiring products to be marketed with its state of origin is also incompatible with the free movement of goods. The only cases

¹²³ Quitzow, C-M.(1995). *Fria varurörelser i den Europeiska gemenskapen. En studie av gränsdragningen mellan gemenskapsangelägenheter och nationella angelägenheter*. Pg. 35

¹²⁴ See for instance case C-249/81 Commission v. Ireland, in which the Irish government encouraged retailers and manufacturers to use the symbol "Buy Irish" on the products.

where this is appropriate is if the origin mark implies that the good is of a certain quality, composed by special material or manufactured through a specific process or if the origin mark refers to a special place of tradition or folklore that has a unique meaning.¹²⁵

Discriminatory price fixing constitutes another breach of Art. 28. This includes price-fixing that makes it harder for importers to sell their products in that particular state. Except for price-fixing there are other ways a state can render it more difficult for foreign traders to enter the market. An example would be if the state requires that products follow a special registration procedure.

By the *Dassonville formula*, stemming from the *Dassonville case*¹²⁶, the Court established the principle that any trading rules that directly, indirectly, actually or potentially hinder Intra-Community trade should be abolished. Thus, when finding a MEQR it is the **effect** that is the key, i.e. not the intent.

Even though it appears to be evident that Art. 28 covers actions taken by states, this does not mean that private parties are not covered. The European Court of Justice (hereinafter 'ECJ') has interpreted the term broadly in a number of cases¹²⁷. The state can even be liable in cases where private parties cause the problems or obstacles, such as in *Commission v. France*¹²⁸ where farmers acted unfavorably, trying to prevent foreign farmers to enter the market. Since the ECJ considered the French state to be legally responsible for making sure that the freedom of goods was applied in the country, Art. 28 applied even in this case.¹²⁹

Of relevance for this thesis is the *Rau case*¹³⁰, which concerns a contract that was signed on July 23, 1980, between Walter Rau Lebensmittelwerke (hereinafter 'Rau'), a German manufacturing company and De Smedt, PvbA Zemst (hereinafter 'De Smedt'), a Belgian undertaking. By way of the contract it was agreed on that Rau would supply De Smedt with margarine. The product was packed in packages having the form of cones, each weighing half a kilo. As mentioned, in Belgium, where the margarine was to be sold, it was against the law to market margarine that was not packaged in cubes, at this time. Therefore, a special clause was added to the contract, in which Rau granted that the margarine could be sold in Belgium, considering the European legislation on the free movement of goods. According to the contract, unless the margarine could be sold in the cone shaped packages, De Smedt would not have to pay or even accept the margarine. It turned out however, that the product was not allowed to be either sold or kept in Belgium, whereby De Smedt terminated the contract. Due to this breach of the contract, Rau brought proceedings against De Smedt.

The substance of this case is whether it constitutes a measure having an equivalent effect or not and therefore is contrary or compatible with EU law. Shortly, Belgian law stated that margarine packages sold on the market had to be square-formed. The

¹²⁵ Craig, P (2003). *EU Law. Text, Cases and Materials*. 3rd Ed. Pg. 613-618.

¹²⁶ Case C-8/74 Procureur du Roi v. Dassonville

¹²⁷ Case C-249/81 Commission v. Ireland, C-266/87 R. v. The Pharmaceutical Society, ex parte API.

¹²⁸ Case C-266/87 R. v. The Pharmaceutical Society, ex parte API.

¹²⁹ Craig, P (2003). *EU Law. Text, Cases and Materials*. 3rd Ed. Pg.618-625

¹³⁰ Case C-261/81 Walter Rau Lebensmittelwerke v. de Smedt PvbA. ECR 1982 Pg. 3961

argument of the Belgian government, attempting to protect the measure, was that the Belgian consumers could be confused if they had to deal with different packages. According to Reg. 178/2002¹³¹ (see below 5.3.1), Art. 16, it is true that consumers must not be misled in any way; e.g. not by confusing marketing, labeling, packaging or any other deceptive characteristic. Furthermore, the package requirement in this case did apply equally to all margarine producers, domestic as well as international; therefore it could not be discarded as purely discriminatory. Nevertheless, the requirement was more costly for non-Belgian manufacturers to comply with, since they normally do not produce cube-shaped margarine containers. Thus, the rule acted as an impediment to intra-Community trade, and was discriminatory to some extent. The Court continued by pointing out that the consumer confusion problem could have been solved by requiring specific labels on the margarine packages, hence, by using less restrictive measures. Thus, the conclusion was that the measure did constitute a MEQR, which is incompatible with Art. 28 (ex Art. 30) of the Treaty, and thereby seen as hindering the free movement of goods.

Groceries generally represent a very complicated area for the Community to deal with. Traditions, labeling and additives are issues that each Member State prefers to deal with individually, since a harmonization of these rules break long traditional rules and habits. ECJ's rulings in cases related to this, however indicate that the Court favors Community interests in favor of domestic ones.¹³² Quitzow also mentions that a state's requirement on high quality products would be undermined if that same country also would be obliged to accept lower quality products manufactured in other states to enter the market. There is therefore an evident risk that this would lead to an overall quality reduction, unless these legislative measures existed.¹³³

5.3 Food Law and Food Safety

As the Foot-and-Mouth and Mad Cow Diseases startled Europe, it was obvious that consumer protection measures within the food area had been set aside in the strive to quickly obtain the Internal Market. It was evident that all measures necessary had to be taken in order to prevent non-safe groceries to enter the market. Moreover, if unsafe products nonetheless entered the market, the existence of a system that quickly and efficiently withdraws these products from the market and informs involved parties was essential. Therefore, the HACCP (Hazard Analysis Critical Control System) system was introduced (see section 1.3 Demarcations).¹³⁴

Several other measures were also taken. For instance in a green paper the Commission extended the general Community laws on food safety and much was written on the

¹³¹ Reg. 178/2002, *Laying Down the Principles and Requirements of Food Law, Establishing the European Food Safety Authority and laying down procedures in matters of Food Safety*. OJ L31 2002-02-01.

¹³² Quitzow, C-M.(1995). *Fria varurörelser i den Europeiska gemenskapen. En studie av gränsdragningen mellan gemenskapsangelägenheter och nationella angelägenheter*. Pg. 153

¹³³ *ibid.* Pg. 158

¹³⁴ Reg. 178/2002, *Laying Down the Principles and Requirements of Food Law, Establishing the European Food Safety Authority and laying down procedures in matters of Food Safety*. OJ L31 2002-02-01. Art. 19

topic.¹³⁵ Since then, the discussion about food safety has gained great dimensions. Much has been discussed about antibiotics and the use of it in feed for animals. Furthermore, a large number of decisions have so far been taken within the Union in order to protect the health and safety of consumers regarding food. These decisions concern everything from additives, labeling, packaging materials, and frozen foods, to dairy products, the handling of biological products, and promotion of quality products. Other measures that have been taken are the setting of maximum allowed levels of radioactive contaminations, as a result of the nuclear accident in Chernobyl.¹³⁶

Furthermore, in 2000, the Commission presented 17 new directives, whose motives are to ensure the safety and hygiene of groceries. “*Guaranteed food safety from soil to table*” is the underlying theme in the creation of this proposition, which clearly affects most actors within the food production chain in the Union. The regulations have four main purposes: to bring together, harmonize, and simplify detailed rules and hygiene demands. The directives set out the guidelines; it is however still for each grocery producer to take the necessary actions to ensure this safety. The overlying aim is to have a homogeneous system with clear rules within the Union.¹³⁷

5.3.1 Regulation 178/2002¹³⁸

According to Art. 5 of Reg. 178/2002, the purpose of the European Food Law should be to protect the health and life of humans and keep the protection level high. Making sure that animals are treated well is an additional purpose. However, it also involves the protection of the interests of individual consumers, and not least to ensure that companies devote themselves to fair trade practices. Taken as a whole, the aim is nonetheless to obtain free movement of food and groceries within the Internal Market.

The European Parliament and the Council adopted this extensive regulation on January 28, 2002, and it concerned general principles and requirements on grocery retail legislation. Among others it contains different sections in which the European Food Safety Authority is established, various principles and requirements of food law in general are elaborated on, and it also explains the process according to which food safety should be executed. The regulation aims at ensuring that the internal market works effectively, and at the same time only provides the consumers with safe and healthy products, even if they are so called ‘domestic traditional products’. They will still have to comply with the general principles and obligations laid down, otherwise the high safety level, adopted within the Community, will be undermined.

Safe groceries are closely connected to the degree to which groceries can move freely within the Union. Free movement can only be obtained under the conditions that the laws concerning the matter are somewhat equivalent in all States. For instance, as long as principles, processes and definitions within the area differs, the risk of

¹³⁵ See for instance COM (97) 0183 Communication on Consumer.

¹³⁶ European Parliament Facts Sheet. *Consumer Protection Measures*. 4.10.2

¹³⁷ European Information Center. *Paket för matsäkerhet*. Nr 3, 2000. www.euroinfo.se 2004-01-09.

¹³⁸ Reg. 178/2002, *Laying Down the Principles and Requirements of Food Law, Establishing the European Food Safety Authority and laying down procedures in matters of Food Safety*. OJ L31 2002-02-01. Pg.1-24.

misunderstandings and reduced safety is high. Therefore, Chapter I of the regulation includes definitions of various grocery related concepts. For example, Art. 2 of the Regulation asserts:

“(...) ‘food’ (or “foodstuff”) means any substance or product, whether processed, partially processed or unprocessed, intended to be, or reasonably expected to be ingested by humans. ‘Food’ includes drink, chewing gum and any substance, including water, intentionally incorporated into the food during its manufacture, preparation or treatment (...).”

Furthermore, Art. 3 in the same regulation specifies the exact meaning of ‘food law’:

“(...) the laws, regulations and administrative provisions governing food in general, and food safety in particular, whether at Community or national level; it covers any stage of production, processing and distribution of food, and also of feed produced for, or fed to, food-producing animals”.

The only way safe products can be guaranteed is by careful monitoring of the entire food chain, from farming, via production and retailers to the consumer. Thus, the goods must be traceable and each actor within the food chain must be acquainted with exactly from where and whom the product or added substances stem. The general understanding is that the retailer is the actor within the chain that is most well suited to create a functioning system ensuring traceability. Hence, the primary responsibility of the assurance of safe products is on the retailer itself. Additionally, those in the value chain with profit intents, may only market groceries that have been classified as ‘safe’. However, the principle that legal responsibility is on the retailer is not the law in all states, and the definition of ‘safe products’ still varies between Member States. Subsequently, trade barriers have developed, as well as advantages and disadvantages, depending on in which state the retailers are situated. This in turn has led to unfair competition. Consequently, there must be international standards and trade agreements and the general principles must be clearly understood by all parties involved.¹³⁹ It is further proposed that the relevant institutions to execute assessments and contribute with independent examinations should be the authorities in each Member State. The role of the authorities in this area is discussed extensively in the regulation, it will however not be considered further here.

In the preamble of the regulation the importance that the transition time for the Member States stretches over a long enough period of time is discussed. Each state must be given a fair opportunity to comply with the Community regulation on the topic. Furthermore, ensuring consumers, grocery retailers and traders that the grocery retail legislation functions properly and covers all necessary areas, is vital for the Internal market to function accurately. In the preamble it is also mentioned that a lot of effort has been put into convincing consumers, traders and other stakeholders that no unsafe products will be placed on the market. On the contrary, the bar has been placed very high in accepting or discarding products as safe or unsafe.

¹³⁹ Reg. 178/2002, *Laying Down the Principles and Requirements of Food Law, Establishing the European Food Safety Authority and laying down procedures in matters of Food Safety*. OJ L31 2002-02-01. § 25-30 and Art. 18

There are several supplementary directives issued in the food safety area. Just to mention a few, there is one that restricts the maximum levels for pesticides on such food as fruit, vegetables, and cereals¹⁴⁰, a second directive concerns the Member States' laws and their regulations on food additives¹⁴¹, and a third example is Council Dir. 94/35 on sweeteners for use in foodstuffs. Regarding the last one, it is accentuated that it should be used only as a substitute in certain categories of products, for instance those positioned as 'energy-reduced' or 'diet product', or even in cases where the intention is to prolong the shelf life.¹⁴² In the preamble of this directive it is noticed that diverging national laws covering foodstuffs (sweeteners in this case) actually act as impediments to the free movement of foodstuffs. Similarly to this, most directives regarding additives have clear statements in the preambles on when they may and may not be used. Conclusively, these differing legal systems may in fact lead to markets with no, or at least unfair, competition.

5.3.2 Food Safety and the Enlargement

Naturally, it is as important to maintain high quality and safety of food also after enlargements of the EU. In a press release in May 2003¹⁴³, Commissioner Byrne maintained that the accession countries already had made large improvements as regards to qualify their food in accordance to the high food safety standards of Community legislation.

Just as in many other areas of Community law, the *principle of subsidiarity* can be applied here. That is, it is believed that the most appropriate solutions for each country will be found locally where the knowledge about suitable standards for that particular area is the greatest. Therefore, each Member State may set its own standards and are fairly free in doing so, as long as it does not interfere with the overall Community legislation. The conditions must also ensure complete food safety. The products will be carefully monitored all along the value chain and examined through various inspections.

Commissioner Byrne accentuates that even though the standard requirements are high, when the legislation was adopted, there was room left for each country to continue to produce their food according to traditional and local methods without being caught by it. Hence, there is some flexibility in the European food legislation, even though some aspects of it, for instance the requirements on good infrastructure in connection to food distribution, are less flexible.¹⁴⁴ Moreover, the flexibility was created in large part in order to ease the entrance of new countries into the Union. Additionally, since the production of specific traditional food is of great importance to many states, it is possible to have some of these products granted under special directives, such as the Milk Directive¹⁴⁵, which after investigation by the Commission, would place the products on the market with less restrictive adaptations.

¹⁴⁰ Commission Directive 2000/48.

¹⁴¹ Council Directive 94/34/EC.

¹⁴² *ibid.*

¹⁴³ Press Release 2003-05-13. Commissioner Byrne: *Promoting Food Safety and Diversity throughout an Enlarged EU*

¹⁴⁴ *ibid.*

¹⁴⁵ Council Directive 92/46/EC

Therefore, many countries seek to have some of their food classified as ‘traditional’. Those traders who do not seek to sell their products on the European market may continue to sell them on the national market after having them stamped with a special mark ensuring that the products will stay only on that domestic market.¹⁴⁶

Then again, some producers will want to sell their products on the European market, but will not be able to comply with the food standards in time. Therefore, transition periods have been created. These periods can also be prolonged for those countries that covet even more time to comply with the Community food requirements. In a speech on 11 January 2002¹⁴⁷, Mr. Byrne stated that the major objective is to:

“...foster investments that will reinforce the ability of operators to meet Community veterinary, hygiene, sanitary, food quality, animal welfare, and environmental requirements”.

He then continued:

“This means preparing for the opportunities of the Single Market”.

A fundamental requirement in making the food safety strategy work in all the Member States is to ensure that there is effective enforcement of legislation. This is essential in order to reach the Single market. Furthermore, as the significance of safe products has become a necessary requirement for those wanting to trade within the Union, so has the importance of consumer policy become an increasingly important issue. As mentioned in the previous section, all risks of badly imitated products, misleading advertising or wrongful information should be eliminated. There is a chance that there will be an increase of this type of actions as new states enter the Union. These new members may attempt to place products on the market without engaging in efforts to adapt them to the requirements laid down in Community legislation.¹⁴⁸

Another major change for the new member countries will be an alteration of responsibility to the manufacturer. This is to ensure that the products comply with the rules. In most of the new Member States the control has previously been at state level, whereas now, the responsibility is on the food processor alternatively the manufacturer. Even though it has taken time to communicate obligation requirements, many states have already complied with this condition and responsibility issues are becoming constantly clearer.¹⁴⁹

¹⁴⁶ Press Release 2003-05-13. Commissioner Byrne: *Promoting Food Safety and Diversity throughout an Enlarged EU*.

¹⁴⁷ Byrne, D. Commissioner for Health and Consumer Protection (2003) *New Challenges Ahead to Ensure Food Safety: Enlargement, and upgrading Food Controls*. 9th East-West Agricultural Forum. Green Week Berlin, 10-12 January 2002

¹⁴⁸ Commissioner Byrne, D. *Consumer Policy for Candidate Countries*. 2001-10-17.

¹⁴⁹ Törnell, M et al (2003). *EU 25 – 500 miljoner människor på världens största marknad. EU utvidgningen – Lägesbeskrivning av undantag och övergångsperioder samt det ekonomiska läget*. Confederation of Swedish Enterprise.

[http://sn.svensktnaringsliv.se/sn/publi.nsf/Publikationer/D977710C1256DD70048A546/\\$File/PUB200311-002-2.pdf](http://sn.svensktnaringsliv.se/sn/publi.nsf/Publikationer/D977710C1256DD70048A546/$File/PUB200311-002-2.pdf)

This chapter has provided insights into the European legal system as regards food safety and the legal framework enclosing subcontracting activities. In the following chapter I will try to connect these issues to the relationship theories stated in the previous chapter. To exemplify I will also make references to the answers obtained through interviews with Swedish retailers.

6. Analysis

Introduction

This chapter will provide a *discussion* about how the Swedish grocery retail market and the relationship situation between Swedish retailers and Swedish and Polish suppliers are currently. As mentioned, I will combine the two theory chapters and try to see what the outcome is when these two aspects, i.e. business law and business administration, interact. To illustrate how it functions in practice I will use interview answers from representatives from ICA, Axfood and Coop. I will refer to the following persons:

- **Jonas Rydberg**, Buying Director at ICA Buying AB in Stockholm.
- **Johan Neuman**, Purchasing Manager for Private Labels at Axfood, Stockholm.
- **Per Rosengren**, responsible for the category Groceries at Coop Sweden in Stockholm.

Hence, the empirics will be applied onto the theory and various aspects will be considered and highlighted. The following, and last chapter will give some short indications on what I personally have found throughout the work with this thesis, thus draw some conclusions from what has been written previously.

From the theory in previous chapters it can be concluded that the internationalization process has had specifically one major impact on Swedish suppliers and retailers: Traditionally, the suppliers were the strong party that possessed the most control. Now, the retailers have pushed the suppliers off this position, due to that the decisions about what products to purchase from suppliers are very much centralized. At the same time the retailers are few and of extremely large sizes. Hence, the overall strength of suppliers has been considerably weakened.

Development of the Swedish Grocery Retail Market

The Swedish grocery retail market can foremost be illustrated by one word – concentration. This goes for the retailers as well as for the suppliers. Whereas mainly three large retailers possess the majority of the Swedish market, the four largest suppliers have traditionally stood for the delivery of the majority of products, at least in some sectors such as dairy products, water and margarine. In 2002 even some product categories were supplied only by two tremendously large manufacturers. On the other hand, some food sectors such as the meat and bakery category consist of a very large number of small suppliers. Internationalization has shifted this trend for most categories, whereas in some sectors this concentration still remains however. It is evident that the membership of Poland has increased the interest in the country from Swedish retailers. The reasons are many: there are no longer diverging food laws between us, production cost is lower, the distance is shorter to Poland than to other low cost production countries, and since the country is now a European Union member, many cross-border obstacles have disappeared.

The market has also become more integrated as a consequence of the dissolving borders. All of the leading Swedish retailers have become more vertically integrated. Whereas Coop has integrated both backwards and forwards, ICA has mainly integrated backwards. At the same time, the constant enlargement of the EU has led to increased import competition, which has strengthened the overall position of the retail industry due to a significant increase of purchasing channels. This has all led to that most retailers engage in widely coordinated purchasing, in which European or Nordic retailers purchase their products together. As a result, smaller suppliers obtain a more difficult position; the retailers choose those manufacturers that can produce high quality products in large quantities. Simultaneously, the suppliers that are selected obtain a considerably strong position with important relations to the most significant actors.

All in all, the internationalization of the grocery sector has foremost contributed to a favorable situation for the Swedish retailers. The underlying reason is the almost unlimited amount of available suppliers that the EU has brought with it. Internationalization nevertheless brings a few disadvantages as well, uncertainty being the main drawback. As indicated earlier, this uncertainty will be evident both for suppliers and retailers. Although the countries may become somewhat more similar, large cultural and social differences will remain between Swedish retailers and Polish suppliers, and this is the source for a certain degree of uncertainty. According to the theory, co-operation might therefore not be as efficient as a relationship within the same country. Resulting from this, the relationship will not be fully stable. Whether this is/will be the case between Swedish retailers and Polish suppliers is yet to come.

Relationship- & Private Label Strategies

The theory and the empirics gathered suggest that the partnering Swedish retailers are aiming to pursue is the so-called *strategic* partnering. This, because the benefits extend not only to the retailer, which can sell more and obtain products at lower costs, but also because they extend to suppliers who get the opportunity to export and enter new markets with their products. Lastly some argues that also consumers gain benefits in terms of high quality products to low prices. However, the relationships to many of the Polish suppliers have not yet become deep enough to be characterized as strategic partnering. Rather, at the moment, Swedish retailers seek different suppliers to produce their private labeled products and this choice is determined on the suppliers' capacity and offerings. Thus, the relationship to Swedish suppliers can be characterized as strategic partnering, whereas the relationship to Polish suppliers still is of the operating kind (both parties have to adapt quickly etc.).

The interview results point to that the retailers focused on in this thesis all purchase their products from a large number of countries. Yet, the largest Swedish retailer, ICA, currently purchases none of the private labeled products from Poland. Jonas Rydberg, asserts however that the enlargement of the EU visibly has increased ICA's interest for the Central- and Eastern European states. Common for the retailers is further that they constantly evaluate their supplier base. All the interviewed retailers perform initial assessments of their suppliers. Although these might be costly, once the suppliers are narrowed down, the retailers have a broader base to choose from. That is, albeit there are many suppliers from the beginning, all of them will not fulfill the requirements. Rather, after an assessment procedure the number of suppliers will be less, but those that remain can all be utilized.

Following the information provided at the interviews, it would not be exceedingly expensive for any of the retailers to switch suppliers since they all have extensive manufacturer networks. Moreover, Neuman at Axfood, indicates that it is the quality and price that are the main determinants. Also, if better alternatives are found somewhere else they do not hesitate to switch producers. Continuously, Rydberg alleges that large drop-out rates of suppliers at the assessment meetings act as impediments for the retailers; to evaluate large number of suppliers and only have a final choice of five per cent is a costly process for the company. Hence, this typifies one of the disadvantages with relationships – increased use of resources since relationships are costly to establish but also to maintain.

Furthermore, according to the theory mentioned, the choice of suppliers is also based on the supplier's need solving and transfer ability. This goes along with the interview results. Neuman maintains:

“We choose suppliers with regard to quality standards, delivery skills and certainty, product research and development ability, logistics cost, and price.”

At ICA the Supplier's handbook exemplifies the requirements on the private label suppliers, but generally they choose suppliers based on ingredients/raw materials, packaging, capacity, quality (safety, labeling, ecology and ethics), shelf-life and logistics standards.¹⁵⁰ This supplier selection strategy typifies the theory aforementioned, namely the rationalistic view where the retailer's strategy is constituted of a three-step process. Firstly, the retailer executes a thorough analysis of the initial conditions, secondly various opportunities arising from this initial position are identified, and lastly these are implemented. The interviewed persons further maintain that before the implementation takes place, agreement-specific issues are discussed and agreed on. Hence, fairly early in the process, the retailers become aware among others of how much flexibility the relations will be characterized of.

Continuously, from the theory in previous chapters the conclusion can be drawn that in cases where companies have the possibility to reduce their dependence on one single partner, unless too costly, this will be done. The scope of supplies for ICA for instance, is fairly extensive since an effective risk spreading strategy is employed. That is, no product categories are purchased from only one supplier. The company is aware of that obstacles or problems may occur, and therefore decided to use multiple suppliers for each product. An advantage of this strategy is that since the dependence on each supplier is limited, this means that the relationship handling cost is smaller than if the dependence would be larger. This typifies a disadvantage in that the retailer's power over the supplier is reduced. Like Neuman maintains, Axfood's power over its producers has increased only as its volumes produced at those suppliers have amplified.

This risk spreading strategy is easier to utilize for certain product categories than others; for canned fruits there are a large number of existing suppliers, whereby multiple sourcing becomes easier to employ here than for other products. An additional advantage of this strategy is that the company simplifies a possible supplier shift in the future. Since the degree of dependence is fairly small for ICA, a switch of

¹⁵⁰ ICA Supplier's Handbook 2004. Pg. 19

suppliers would not be devastating. It might however be problematic and costly to find a new partner, since as Neuman alleges, also the supplier side is becoming increasingly concentrated. Additionally, the number of *possible* suppliers in reality might have been reduced, despite the opening of borders.

However, if assumed that the increased number of food manufacturers all were equally fine producers that could be chosen from, this would lead to less dependence both from the supplier and from the retailer. The advantage to be gained by retailers is that they can put more pressure and higher demands on its suppliers. As mentioned, ICA has chosen not to pursue this strategy, partly in order to stay on good terms with domestic suppliers. Yet, literature, referred to in previous chapters, points towards the fact that the internationalization process in reality has serious impact also on already existing relationships, and that many retailers do in fact take advantage of this.

Evaluation of Suppliers

Learnt during the work with this thesis is that international relationships foremost have two effects: firstly, they can give the company competencies and increased knowledge in various areas. Secondly, an increased number of supply sources will make a company less dependent on its original suppliers, thus as Elg et al were indicating in chapter four, there will be asymmetry in the relationship. Similarly, theory proposes that this unevenly distributed power in the relationship might have the effect on the suppliers that the supplier feels the need to adapt more and give extremely valuable solutions and offers to ICA, if it wants to keep its position as supplier of ICA's private labels. The empirics in previous chapters assert that it is important that the suppliers are willing to adapt to the retailers' demands. As competition has become more intensive due to the internationalization, adapting is a vital issue for manufacturers that want to stay competitive. We saw in earlier chapters that the offering of good service, added value and other benefits are necessary contributions manufacturers have to supply in order to maintain strong positions on the market. The importance of this can be illustrated by the comments made by Neuman, who alleges that Axfood chooses suppliers depending on where the retailer obtains the best deal or 'overall package'. He continues to assert that they do not hesitate to switch supplier if they are offered something better at another producer. Here again, the importance of relationships becomes evident – the stronger and better relations between the retailer and supplier, the less likely are one of them to terminate the relationship or contract.

As regards ICA's choice of manufacturers, Rydberg does not want to accentuate that it is the cheap labor cost that has attracted ICA to low cost producing countries. On the other hand, he maintains that there is other important aspects connected to the country *per se* that play an important role for selecting manufacturing location. For instance, prices for energy, and standard of living in the country at issue are two factors that affect the choice, since these may affect the final costs. Therefore, it is important to evaluate the suppliers but also the surrounding elements. Consequently, for it to be profitable and useful for Swedish retailers to use Polish subcontractors, the manufacturer by itself has to be cheap and innovative, but also the Polish country structure has to be favorable – something that is more likely to be realized, as Poland becomes a member of the EU. This is therefore one possible factor behind the increased interest from Swedish retailers in Polish suppliers.

It has become evident during the interviews that quality standards play a vital role in the relationships between retailers and suppliers. Rydberg constantly emphasizes ICA's high quality standards. It is hereby evident that the management of relationships is a very significant aspect, where knowledge is required in order to obtain good outcomes. ICA has its own department dealing exclusively with the quality and food safety aspect. This department executes constant monitoring and supervision of its suppliers. In accordance to the theory, the inspections are extensive foremost at the engagement of new suppliers. As mentioned, each supplier is examined from numerous aspects, there among certification, working standards and many, many more. This is therefore a significant cost source (more specifically a *relationship handling cost*), which in the theory is referred to as one major disadvantage with relationships.

However, suppliers cannot only be evaluated from the point of view whether they fulfill the requirements set by the retailer or whether they can produce to a low and favorable price. Rydberg, especially, alleges that it is the customer preferences that must act as evaluation criteria of the retailers' actions. If the manufacturers cannot produce products that the customers like, the relation to that supplier loses its function. Shortly, the relationship costs and benefits do not only stem from manufacturing, as aforementioned. Regarding this issue, Poland's entrance into the EU appears to have lowered Swedish retailers' relationship costs. Namely, since less administrative activities have to be performed, direct costs are reduced. For instance, homogenized laws, the use of standardized contracts and quicker deliveries are enabled through the countries' memberships. Whether the procurement costs will also decrease is a more complex issue. That is, the EU membership does not explicitly affect this matter; there still have to be adaptations between the retailer and the supplier, the suppliers must be trained and monitored. However, what can be concluded is that the procurement costs appear not to be larger for manufacturers in Poland than elsewhere, and as Poland becomes more and more Europeanized, less of these activities have to be performed or invested in.

The Polish EU-Membership

It is evident that the membership in the EU has increased Swedish retailers' interest in Poland. The reasons are several: there are no longer diverging food laws between them, production cost is lower, the distance is shorter to Poland than to other low cost production countries, and since the country is now a European Union member, many cross-border obstacles have disappeared. Consequently, it will be easier to develop long-term, stable and beneficial relations to a country that in the near future likely will develop somewhat similar cultural and social values as the other European Union members. For instance, Swedish retailers today find it easier to pursue business with German companies than with a company established in Uganda. Convincingly, this, in addition to Swedish retailer's actual interest in the new EU member countries, points to the direction that Swedish retailers will utilize European manufacturers as far as it is possible. Firstly because of the lower price of production, and secondly because of the increased ability to establish and develop relationships which in turn can contribute to lower relationship costs.

This illustrates how a membership in the EU can boost the activities for a country. The interviews seemed to indicate that Poland's entrance into the EU would definitely increase the retailers' interest for the country. For years, Poland has offered cheap

labor force and knowledge, and from May 2004 more advantages such as freer flow across borders and thereby quicker deliveries, and less complex contracts are available. The most important effect is however that the country's overall standard is likely to be improved.

The interviews conducted reveal that except for all these new possibilities and options for retailers as well as for suppliers, the dissolution of national boundaries through the emergence of the European Union, as seen, also has several effects on the relationships between retailers and suppliers *per se*. To begin with, the relationships Swedish retailers had with domestic suppliers before the entrance into the Union, have changed. Since the external environment in which these relationships were formed now is altered, the agreements settled in the contracts will likely not fit into the new external context – a possible outcome mentioned in the earlier theory chapters. Literature illustrates this as a general situation for most retailers. As regards ICA however, Rydberg alleges that ICA's relationships with domestic retailers have not changed particularly, due to the fact that the whole process is customer driven. Hence, ICA's main goal is to satisfy customers and therefore the decision on where or whom to obtain the products from, is not purely their responsibility. Equally, at Axfood Neuman maintains that they are in fact enjoying greater possibilities to affect suppliers, but that this possibility has increased only as their volumes at that specific producer has increased. Both these retailers maintain that they are in fact working actively on promoting domestic suppliers, even though products are gathered from all parts of the world. Due to the former concentration of the Swedish market, it appears to be likely that more Swedish retailers still try to guard the positions of Swedish suppliers, taking into account the previously well-established relationship between these. This is then contrary to the theory that suggests that most retailers care less about domestic suppliers as they are offered better alternatives abroad. Consequently, it would be suitable to pressure one's home market relations to become more beneficial as the company obtains more partners with good offers abroad.

Yet, it is important to remember that the retailers do not prefer to admit if they are obtaining a more favorable position through increased numbers of suppliers, since they do not want to come across as 'foul' partners. Also, another reason why Swedish retailers are not playing out old suppliers against new ones is because most of the private labeled products that are purchased from other parts of the world are in fact the kinds of goods that the retailer cannot obtain in Sweden: specific fruits, coffee etc.

In short, what has happened due to the emergence of private labels and the European Union is that the decisions made within the grocery retail sector has become centralized and the retailers have gained an extremely strong position. They are the ones who control the shelf-space, set the prices and carry out the marketing campaigns. Evidently, this produces an effect where suppliers have no other choice but to adapt to whatever requirements that are set by the retailers – the alternative would be a closeout from the market.

The centralization means that the product assortment in each store becomes somewhat limited and dependent on the choices that these few persons at the purchasing departments make. At ICA a purchasing strategy is pursued where purchasing is coordinated with other Nordic retailers. Many of the retailers' agreements with European suppliers are coordinated ones, and the amount of these has increased for

every year. A possible outcome of this centralization strategy appears to be a lesser need of a large number of suppliers. Thus, the impact on suppliers is that fewer producers will obtain supplying agreements with the retailers, especially since the ones that do get to supply the retailers will do so to a high degree. Also, since most small manufacturers will not be able to supply retailers with the extensive amounts of goods that they require, these will likely be closed out from the market. These manufacturers will also experience difficulties with producing other goods that can compete with the retailers' own labeled products. This will however also be a problem for larger suppliers.

Thus, the above-mentioned problems in combination to the high concentration among retailers on the Swedish market contributes to that a supplier that cannot obtain a contract with one of the few retailers on the market, will experience large negative consequences. This is then the effect of the limited amount of alternative distribution channels. Hereby the possibility of Swedish suppliers to export is not overlooked. Naturally this option exists for also Swedish suppliers. However, the statement merely describes Swedish suppliers' relationships to *Swedish* retailers, since this is the focal topic of this study.

The Utilization of Polish Subcontractors

The new situation, with an enlarged 'play field' for the actors, offers new possibilities to establish new relationships with other retailers and suppliers, and thereby also other purchasing options. The theory discussed in previous chapters indicates that when subcontracting is used, the retailer always has direct relations with the manufacturers, i.e. no intermediaries are used. Due to this shortened supply chain, ICA is aiming at establishing long-term relationships where the exchange is large for both parties. For instance, ICA educates its suppliers on valid and useful information such as characteristics and preferences of the Swedish market, and the retailer also gains useful information in return from the manufacturer. Thus, illustrated here is another relationship benefit – mutual learning.

Regarding the current status of the Polish suppliers, Rydberg maintains that: "*There are always improvements that can be made, but the situation looks promising*". He continues by stating that for the moment there are a large number of manufacturers that do not live up to the requirements set and thereby become excluded from the market. On the other hand, many producers do adapt at a very quick pace, partly because of the high demands that are placed on them. Rydberg asserts that due to this fast adaptation, it does not appear to be a problem to establish relationships with Polish manufacturers within the near future. Also Coop and Axfood appear to have noted this adaptation competence among the Polish suppliers, which will possibly speed up the production move into Polish soil. Theory highlights the fact that it is the food processor that is responsible for providing the Internal market with safe products. This puts less pressure on Swedish retailers. However, if unsafe products nonetheless are placed on the Swedish market, the Swedish retailers will suffer the consequences. Also, as seen there is some flexibility in the food safety legislation. Each member country may set its own standards, as long as they are in line with the overall EU legislation.

Continuously, as mentioned earlier, relationship benefits that may occur in relations with Polish suppliers will foremost be the knowledge Polish manufacturers already

possess. Like Rydberg maintains, many Polish suppliers already have years of experience in the production of groceries that are to be transported far distances. It will be less expensive for retailers to explore these developments than to place money in additional research programs.

Moreover, a situation where Swedish retailers purchase their private labeled products from Polish suppliers, typifies the theory that suggests that cost entries are portable. In this case, transport costs will be larger than if the products were purchased from Swedish producers. On the other hand production costs will be reduced when manufacturing takes place in a country like Poland, since it enjoys lower plant costs (rents etc), wages, and cheaper raw materials.

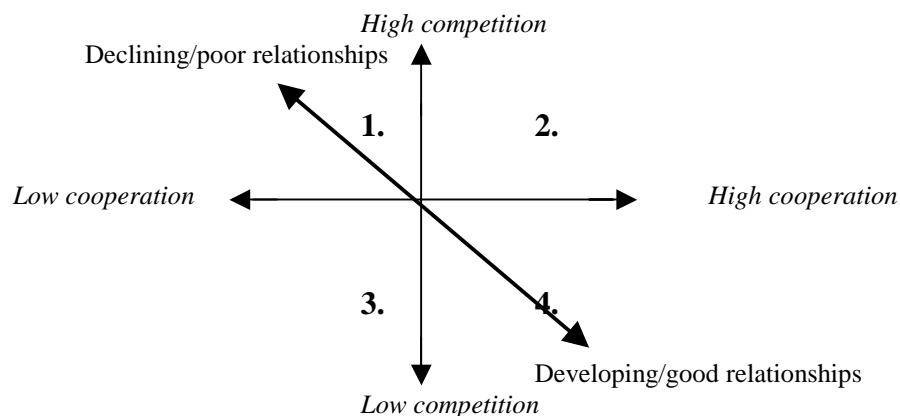
ICA does in fact currently produce food in Poland – but only for its Baltic outlets. Hence, it is easy to believe that ICA do not pay as much attention to whether the goods comply with the standards in this case but is rather exploiting the cheap production cost in Poland for the Baltic states. This strategy is possible to employ with products that are to be sold in the Baltic States, because the customer requirements in these areas are not as high as here in Sweden. Thus, the high quality standards and customer demands appears to have affected Swedish retailers to a large extent to utilize mainly Swedish suppliers that to a higher degree comply with these standards than the majority of low wage, non-EU member, production countries do.

Co-operation Enhances the Relationships

Once the relationships are established, ICA together with the producer come up with the product specification. Rydberg asserts that as regards specifications for private labeled products, this is developed through coordination between the two. As for somewhat easily produced products such as rice, there are not many specifications to give. Other products are more complex however, such as frozen pizza. In such cases, the supplier usually possesses the best knowledge on what to produce and how to produce. Thus, where this is the case, the supplier has a greater stake in the product specifications than if the retailer would have decided on the production methods itself. Also Axfood and Coop appear to be employing this strategy since they are developing their products co-jointly with their suppliers. Noticed through the interviews is that the knowledge among manufacturers is many times the driving force behind the development of new private labeled products. For example, since ICA itself does not engage in specific R&D regarding these products, the new ideas for the most part stem from suggestions either from existing suppliers, competing suppliers or even from customers. Due to this ‘free push’ the retailer brands get in the R&D area, retailer brands do too appear to have a chance to play out the manufacturer brands, i.e. contrary to the Commission’s belief stated earlier. Consequently, to generalize, Swedish retailers can be categorized as retailers whose relationships are characterized by high cooperation and low competition. In accordance to this view, they are all aiming for long-term relationships that over time will become increasingly more stable.

This implies that in figure 4, section 4.1, Swedish retailers have previously been positioned to the left of the chart, but are now positioned more to the right, i.e. where the relationships are of a long-term nature and characterized by openness. At least this is what should be strived for in order to optimize the flow of supply and obtain most benefits.

Equally, in relation to this we can take use of the *Model of four types of interfirm relationships*, which was discussed earlier.



Traditional suppliers, i.e. for the most part Swedish ones, fall naturally within **square 4**. Since the relations usually have developed over time, both parties have learnt to trust and work well with the other, and due to the long-term characteristic of the relationship, both are fairly committed. Neuman alleges that the majority of Axfood's foreign private label relations fall within a phase where there is a high degree of safety, where both parties' roles are clearly defined, where there is trust and not only economic exchange. Additionally, he maintains that they always prefer to keep each supplier for more than the time of one contract period, but that this depends on the supplier's competitiveness. Also Rydberg classifies ICA to fall within this stage. As mentioned, both these retailers employ private label strategies where they encourage the producers to develop their own ideas and ways in which goods can be produced. Thus, the R&D function is largely based on co-operation between the two partners.

All this implies that the Swedish retailers are striving to reach the 4th square as they are attempting to develop good and long-term relationships – not only with Swedish suppliers, but also with foreign ones, such as Polish ones. It appears however to be likely that many of the relations are currently within **square 3**, as also the manufacturers want to stay competitive and reduce their uncertainty by keeping their doors open to other retailers in other countries. In accordance to the theory, it is however important that each company determine individually if a special transaction or business relation would be best achieved through a long- or short-term relationship. Furthermore it seems like the increased focus today on relations, has led to a higher degree of commitment.

Consequences of the Extended European Legal Framework

An analysis of the European legal framework has revealed that it is more concerned with consumer health issues and protection of consumers than protecting various actors, such as producers or retailers. Thanks to the new food laws and food safety protection measures established by the Commission and adopted by the EU members, consumers can feel more secure and as a consequence retailers now dare to have their products manufactured in countries that were previously considered 'unsafe'. As discussed in chapter five, all members of the Union must upgrade and take large steps regarding their food production, handling and systems, in order to be considered full-

worthy members with all rights, especially regarding the sale of domestic products in other countries.

A parallel can be drawn here to a new law that has been adopted by the EU¹⁵¹ in order to protect the European forests from the pinewood nematode, which is a type of bug that typically kills pinewood trees. It has been discovered that these insects come to Europe with loading pellets made of pinewood from China, Thailand, Japan, the U.S. and Canada. These types of pellets are oftentimes used to ship groceries and other types of food from these countries. The new measures taken by the EU mean that pellets of this material must be heated for 30 minutes so that the core of the wood obtains a temperature of 56 degrees Celsius (there are additional ways to prepare the wood but this is the most common one). This is a classic example of a measure having the effect that retailers rather seek to find producers inside the EU, since these procedures would have to be conducted if they would have goods shipped from outside countries and thus, more time and money would have to be put into it.¹⁵²

As described in section 5.1.3, the EU Notice on Subcontracting contains clauses that are favorable foremost for the contractor. For instance, because of this notice, Swedish retailers can provide Polish suppliers with special equipment and know-how (provided that it fulfills the underlying requirements mentioned in the notice), in order for them to be able to produce more satisfactorily, but without worrying about that this equipment will be used for production of competing products. Due to the existing protection measures in EU legislation, it is more likely that Swedish retailers will engage in subcontracting with Polish manufacturers, than if there would be risk that the knowledge of the contracting company would be spread to competitors.

The interview objects from the three leading Swedish retailers, all asserted that their private label supplier contracts are standardized to a very large extent. For example, Coop, Axfood and ICA all develop and utilize standard contracts that will make sure that the products are traced, just as prescribed by EU law. As discussed earlier, the contracts also have to include clauses ensuring that constant controls are executed; otherwise the private labeled products will not be accepted. Thus, since borders are dissolved and obstacles such as quotas removed, it will be easier to transport goods between countries and less specific contracts will be needed. Therefore, considering the standardization of the contracts, less time and effort has to be put into this function. Also, the EU membership of Poland means that the same laws apply in both countries and as a result these areas do not have to be covered by additional agreements.

Certainly it is vital that certain aspects are covered by the contracts. As exemplified by the *Rau* case not least packaging issues must be agreed on, in order to ensure that it is in accordance to the relevant law in that country, and foremost, to ensure that none of the activities are incompatible with Art. 81 discussed earlier. For instance, Swedish retailers must ensure that none of their partners are put in a competitive disadvantage in relation to others, i.e. the same conditions must apply to all of them. Also, the retailers' control power is limited which must be kept in mind, and they may not include supplementary obligations. The bottom line is that the retailers must be know

¹⁵¹ Commission Decision 2001/219/EEC. OJ L81.

¹⁵² Håkansson, E. Project Manager Logistics Operations Nordic, Kraft Foods Sverige AB

for sure that they are not restricting or distorting the competition within the Community.

Again, since EU law now applies in both Sweden and Poland, some contract specifications might not be as essential to print out. Accordingly, this seems to imply that contracts are now playing a less important role. For instance, the food safety area is now more or less homogeneous for all the European Union countries, which means that contracts covering this do not have to be specifically developed; retailers searching for producers should be able to assume that all the member countries already are employing proper and safe ways to manufacture and handle food. In addition, the flexibility of the requirements laid down by the EU, mentioned in chapter five, means that it would be easier for Poland and similar countries with lower infrastructure and living, to adapt. For instance, countries that lack the necessary facilities are allowed to use less complex and less inexpensive facilities when, for example, loading and unloading.¹⁵³ Usually smaller firms cannot afford the expensive equipment but smaller firms tend to perform these activities quicker, therefore it should not matter. As a result, it gives most firms in the majority of Member States a chance to be in the game.

Subcontracting in terms of Swedish retailers utilizing Polish manufacturers for the production of private labeled products can through this study be seen to create strong inter-brand competition. Much due to the fact that the retailers control the shelf-space and advertising campaigns, other brands are disadvantaged. Except for that, there does not appear to be a specific negative impact of these vertical agreements. On the other hand, consumers have benefited of these vertical agreements in terms of wider product ranges and to some extent lower priced products. Since there is no general understanding between the two parties to restrict the prices, and the retailers that have been interviewed for this thesis do not appear to engage in any of the activities that in the theory chapter are mentioned as specifically harmful for Intra-Community competition or trade. Thus, in accordance to EU law, the Commission appears not to have any reason to prohibit or restrict the agreements that the leading Swedish retailers today have with suppliers.

¹⁵³ Yet, less strict requirements never deals with hygiene aspects, but merely with infrastructure.

7. Conclusion

Whereas the previous chapter pursued a discussion, this chapter will provide a conclusion. Personal opinions and beliefs will be presented here, but only the main points will be highlighted.

It is evident that the internationalization process and the enlargement of the EU has led to a weaker position for suppliers in general. The retailers have more manufacturers to choose from, which means that there is increased import competition. The emergence of private labels has also contributed to this outcome – i.e. not only do suppliers experience competition from other suppliers, but also from the retailers themselves, as they launch their own private labels.

As a consequence, the trust between retailers and suppliers has declined. Whereas the Swedish retailers are aiming at establishing long-term relations with Swedish suppliers as well as Polish, the suppliers are more reluctant to engage in these long-term relationships; the retailers have a competitive advantage, since they are the ones managing the shelf space, marketing, and price setting activities for all products within their stores and many suppliers are afraid that the retailers might ‘steal’ their ideas as they present new product concepts to the retailers. Thus, that the retailers may let similar products be produced at other, cheaper suppliers. The suppliers do however not have much choice. Although the competition has increased also for retailers (hard discount stores and foreign retailers have entered the market and more seem apt to do so), the grocery retail market in Sweden is still concentrated. Thus, if the suppliers want to obtain economies of scale or even being able to get their products to the market at all, they must be on good terms with the retailers, because of the few alternative distribution channels. Additionally, the subcontracting notice gives protection for the retailers, but the notice does not protect the suppliers in the same way. A possible effect of this might be that the suppliers will engage in less product development, which in turn can reduce the quality of the products.

The long-term relationships Swedish retailers have traditionally had with Swedish suppliers are seriously affected by the intensified competition. Now there are high-quality low-cost producers available within short distances and the retailers do not hesitate to switch producers as soon as there are profits to gain. This, in addition to the fact that there is now extensive food safety legislation within the EU, which Poland now is a member of, has increased the interest from Swedish retailers in subcontracting Polish suppliers.

Continuously, having good and stable relationships today seem to be the most vital factor, as retailers seek to obtain good deals regarding price, delivery and innovative products. They are so to speak *forced* to establish relationships because of environmental uncertainty, global competition and the time and quality based competition that the market is comprised of today. After studying this situation between Swedish retailers and suppliers from Poland and Sweden, I am now under the impression that globalization more or less forces companies to establish partnerships

and alliances if they are to survive the increased competition. Hence, from the understanding gained during the course of work with this thesis, it appears as if contracts within the EU now play a less important role and relationships and the management thereof are of greater importance. Swedish retailers' relationships to Swedish suppliers have become less stable whereas the relations to foreign, in this case Polish, suppliers have done the opposite. The major contributing factor to the improved relationships between the Swedish retailers and the Polish manufacturers is the EU membership. Because of this there are now:

- no diverging food safety laws
- cross border obstacles have disappeared
- protection for employing subcontracting

These factors contribute to that good relationships easier develop between the two parties. This in turn has led to increased openness, which has improved the trust, confidence and reliance between them. As a consequence, the need for administrative activities and specified contracts has been minimized. As less time and money has to be put into the administrative functions, these cost entries can be transferred to relationship handling costs and assessments, which will be fairly high in the beginning of the relationship. Although retailers also have to evaluate Swedish suppliers, there still seems to be a greater risk that a larger number of Polish suppliers will not live up to the standards and requirements set. Once finding the proper suppliers, the initial assessment costs will however be weighted up by the lower production and raw material costs that are to be achieved in Poland. Also, even though there will be large amounts of money put into monitoring and supervision, this will still be the same no matter if Swedish or Polish suppliers are employed. Therefore, these costs will not increase particularly just because of the utilization of Polish suppliers. Additionally, over time, the trust and confidence between the parties will increase even more, and less monitoring and supervision will be needed. Relationships are profitable not least in the sense that the parties are more hesitant to betray the other or terminate the contract beforehand.

I believe that Swedish suppliers will experience continued problems with competition from suppliers in the ten new member states, as they gradually will fulfill the EU requirements. Swedish retailers will then be more eager to utilize these in order to capture the cost savings that will be available. As seen in chapter three, the report by the Swedish Competition Authority maintained that it was difficult to estimate whether there would be a larger utilization of foreign suppliers. Important to remember though is that this report was written in 2002. At that moment, a large number of Swedish suppliers were engaging in manufacturing for retailers' private labels, mainly because it was clear that Swedish consumers preferred certain product categories to be manufactured by Swedish producers. These categories were foremost the meat and dairy sectors. Thus, it is no understatement that the Swedish grocery retail sector benefited from the various diseases that hit part of Europe during the 1990s. As a consequence, many discussions arose regarding whether the high quality groceries demanded by Swedes in fact were possible to obtain from outside the Swedish borders. I clearly believe that this is possible today, and then foremost as a result of the food safety measures taken by the EU. This means that the European manufacturers have regained some of their power against Swedish suppliers.

Conclusively, I would like to state that the more is the merrier for retailers who have more choices, cheaper suppliers available within shorter distances, can put pressure on the suppliers and consequently obtain better deals. For suppliers, home market ones as well as Polish ones, the situation is the opposite since they face more intense competition and must make more adaptations to satisfy retailers and get entrance to the markets. Using Polish subcontractors today is not much more complicated than utilizing Swedish ones, and in addition, the EU membership has contributed to that the likelihood that also Polish products will be safe and of high quality is significant. Due to these legislative measures in EU law, retailers feel more secure now in subcontracting Polish suppliers. There are legal measures protecting their ideas and equipment, and the food safety legislation ensures safe products without special clauses needed in the contracts, and at the end it protects their customers. All in all, homogenized laws, the use of standardized contracts and quicker deliveries enhance the openness between these parties and as a consequence thereof, long-term relationships have been able to evolve. As a result, the relationship between Swedish retailers and Polish suppliers has been enhanced, whereas Swedish suppliers' position has become seriously degraded.

As regards future studies, a study of similar character evaluating the possibilities of another of the new EU member countries would be interesting. Another suggestion would be to look at this topic from a different legal perspective, i.e. to analyze the vertical distribution agreements or focus more into the free movement of goods issue. In a few years it would also be motivated to perform a study that presents what happened to the Polish suppliers of private labeled products, their adaptation to the EU and how Swedish retailers have been affected by it. Lastly, a dissertation comparing Swedish suppliers of private labels to Polish suppliers of the same appears to be a relevant area of study.

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