Exploring The Nature Of Buyer-Seller Relationships In The Western Australian Wine Industry

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Abstract.

Since the majority of grape growers and wine makers in Western Australia are family enterprises, they are highly risk averse and suspicious of unfamiliar exchange partners. In the absence of formal contracts, the nature of the relationship between wineries and grape growers is largely one of interdependence. To produce good quality wines, wineries need a reliable supply of good quality grapes, which, in turn, requires technical information to be exchanged and production activities to be coordinated. Since both parties are mutually dependent, uncertainty is reduced and there is a high degree of satisfaction, trust and commitment to the relationship.

Introduction.

In the pursuit of superior quality and improved competitiveness in the international and domestic market, more Australian wineries are developing and maintaining close, cooperative relationships with grape growers. Firms are establishing closer relationships with their suppliers because it enables them to be more efficient and cost effective (Kalwani and Narayandas 1995). Developing and maintaining long-term relationships can improve access to markets and more reliable information (Low 1996), customers can anticipate improved access to a more reliable supply of production inputs (Hakansson 1982), improved product quality and performance (Han, Wilson and Dant 1993), a higher level of technical interaction, potential product adaptations and technical assistance (Cunningham and Homse 1982). Through becoming closer to customers and better understanding and satisfying customers needs, suppliers can achieve greater customer loyalty and higher repeat sales (Evans and Laskin 1994). Buyers become less sensitive to price competition and suppliers may benefit from higher prices (Kalwani and Narayandas 1995). Both parties are better able to plan and forecast production schedules (Lohtia and Krapfel 1994) and to coordinate deliveries (Easton and Araujo 1994). However, the greatest benefit arising from long-term buyer-seller relationships is the reduction in uncertainty (Heide and John 1990; Noordewier, John and Niven 1990).

Gronroos (1995) defines relationship marketing as a means of establishing, maintaining and enhancing relationships with customers at a profit, so that the objectives of the parties involved in the relationship are met. This is achieved by mutual exchange and the fulfilment of promises. A firm pursuing a relationship marketing strategy will attempt to create more value for its customers than that which is provided by the core product itself. Through installing capital goods, providing technical advice, developing just-in-time logistics, adapting the product and providing a host of other elements, the relationship becomes both more attractive and more profitable, thus enhancing the attractiveness of an on-going relationship. As such elements are different types of services, the more the firm adopts a relationship marketing strategy, the more it has to understand how to manage the service elements of its market offer.

Christopher, Payne and Ballantyne (1991) view relationship marketing as primarily a concept which adds customer service and quality to the traditional marketing mix. However, the exact meaning of the term service varies with the nature of the product and the requirements of the buying organisation (Hutt and Speh 1995). Service may include such variables as reliable delivery, technical assistance, innovative suggestions, credit arrangements, support for special needs and advance notice of impending price changes or shortages in supply.

Furthermore, not all market relationships are identical. Webster (1992) describes relationship marketing as a continuum, anchored at one end by pure transactions and at the other by strategic alliances. Acknowledging that relationships may take many forms, industrial marketers must develop specific relationship marketing strategies for particular customers. Jackson (1985) suggests that organisational marketers need to assess the time horizon within which a customer makes a commitment to a supplier. Lost-for-good customers generally face high costs in switching to a new supplier and view their commitment to a particular supplier as being relatively permanent. Once won, this customer is likely to remain loyal to the supplier for a very long time. Conversely, the always-a-share customer displays much less loyalty to any one particular supplier. Because of low switching costs, these customers share their patronage with multiple suppliers and are generally more sensitive to short term inducements such as price.

The occurrence of these different buyer-seller relationships depend upon the characteristics of the market, the product, the buyer and the situation (Campbell 1985). Buyer-seller relationships may be independent, interdependent or dependent. Independence arises when a buyer plays the market and the supplier has plenty of potential customers. Interdependence arises when both firms approach the relationship with a strategy of cooperation. A dependent relationship results from the dominance one party exerts over another.
With increasing dependence comes greater vulnerability. Dependence in an exchange relationship may make one firm more susceptible to the power and influence of another. The more powerful partner may be in a position to create more favourable terms of trade for itself (Heide and John 1988; Frazier, Gill and Kale 1989). In general, firms will seek to reduce their dependence on other firms (Heide and John 1988) and to increase the dependence of other firms upon itself (Lohtia and Krapfel 1994). However, firms may seek to reduce and manage dependence by either purposely structuring their exchange relationships with other firms (Heide 1994), or dealing with multiple entities (Ganeson 1994).

In the context of the Australian wine industry where 84% of the national grape crush is processed by just ten wine companies (Strategy 2025 1996), potentially, these large and commercially powerful organisations have considerable economic bargaining power in relation to the many small grape growers. While historically, most have relied upon contractual agreements, as the supply of grapes is increasing and the market is becoming increasing turbulent, more wineries are relying on verbal agreements, trust and the long-term relationships that have evolved between the respective parties.

Methodology.

In November 1999, all members of the Western Australian Wine Industry Association were asked to complete a mail questionnaire. Given that the list contained the names and addresses of both wine grape growers and wineries, the list was cross referenced against the list of all registered wineries to effectively place respondents into one of two groups. Each of the wineries received a questionnaire asking them about the nature of the relationships they had with their most preferred grape growers. Conversely, each of the grape growers received a questionnaire asking them about the nature of their relationship with their most preferred winery. Respondents were asked to respond to 52 statements on a six point scale from 1 (I disagree a lot) to 6 (I agree a lot).

To reduce the halo effect, the questions were grouped into one of eight blocks. Information was sought on offer quality, satisfaction, trust and commitment; two moderating variables (dependence and uncertainty) and two relationship building variables (adaptations and communication).

Scales were developed from the literature reported by Anderson, Chu and Weitz (1987),
Anderson and Narus (1990), Anderson and Weitz (1992), Athaide, Meyers and Wilemon (1996), Bunn (1993), Doney and Cannon (1997), Dwyer, Schurr and Oh (1987), Ford (1984), Frazier (1983), Heide and John (1988), Ganeson (1994), Gundlach, Achrol and Mentzer (1995), Hakansson and Wootz (1975), Kumar (1996), Mohr and Niven (1990), Moorman, Deshpande and Zaltman (1993), Morgan and Hunt (1994) and Noordewier, John and Niven (1990).

Results were then analysed using principal component analysis (with varimax rotation and Kaiser normalisation). However, for each block of questions, the resultant factors which were extracted proved to be significantly different for each group. Consequently, in order to extract factors which were more common to the industry, the data from both groups was combined and the principal component analysis repeated for all 52 items together. Those items with factor loadings below 0.5 or with cross-loadings greater than 0.4 were excluded. Further clarification of the items contributing to each factor was achieved by applying the reliability coefficient (Cronbach's alpha).

Results and discussion.

Principal component analysis yielded five factors which collectively explained over 78% of the variance (Table 1).

Table 1. Relationship factors in the WA wine industry.

	Number of items	Factor mean	Standard deviation	Eigen value	Alpha coeff	Percent variance
Factor 1	10	4.53	0.896	8.761	0.907	20.38
Factor 2	12	4.51	0.828	8.743	0.870	20.33
Factor 3	9	4.19	0.863	7.015	0.789	16.31
Factor 4	4	2.82	1.164	4.719	0.886	10.97
Factor 5	5	3.55	1.011	4.638	0.713	10.79

Factor 1 (relational quality) was found to be a composite measure of satisfaction, trust and commitment. The construct captured the partners perceptions of being treated fairly and equitably, the extent to which the relationship met the partners expectations and the extent to which their partner had the best product quality. The construct also captured the extent to which the partner always kept their promises, always considered the other partners best interest, and the belief each partner had in the information provided by the other. Commitment was captured by three items which included the extent to which the partners shared similar goals, the extent to which the relationship was based on mutual benefit and trust, and the partners expectation that the relationship would continue.

While Han, Wilson and Dant (1993), Ganeson (1994), Morgan and Hunt (1994), Wilson (1995), Baker, Simpson and Siguaw (1999), and Garbino and Johnson (1999) model satisfaction, trust and commitment as separate constructs, Dorsch, Swanson and Kelley (1998) describe relationship quality as a higher-order construct containing dimensions of all three constructs. Conversely, Crosby, Evans and Cowles (1990) model relational quality as a composite measure of both satisfaction and trust. While evidence for this single construct is derived primarily from the relationship theory in consumer markets, Leuthesser (1997) reports having found a similar construct in an industrial market.

Factor 2 (post-purchase satisfaction) captured a further eight measures of satisfaction including the partners perceptions of being adequately rewarded, the extent to which the benefits achieved from the relationship exceeded the outcomes available from other relationships and the degree to which partners cooperated and responded to each others requests to coordinate production schedules, clarify expectations and quickly handle complaints. As expected, satisfaction was also derived from the extent to which a long-term relationship reduced uncertainty.

Crosby, Evans and Cowles (1990) and Leuthesser (1997) define satisfaction as an emotional state that occurs in response to an evaluation of all interaction experiences with the partner. Dorsch, Swanson and Kelley (1998) define satisfaction from the perspective of a firm that perceives they are receiving value and feel valued. From the extent literature on buyer-seller relationships, satisfaction is also defined as the extent to which the exchange transaction meets the performance expectations of the partner (Wilson 1995) or the extent to which a firm feels adequately rewarded for the sacrifices undertaken in facilitating the exchange (Frazier 1983). From the services marketing arena, a third dimension of satisfaction arises which suggests that, from the customers perspective, satisfaction results from a salespersons ability to reduce perceived uncertainty (Crosby, Evans and Cowles 1990). While the construct relational quality captured the extent to which partners met each others expectations, Factor 2 (post-purchase satisfaction) captured the other dimensions of satisfaction.

Factor 3 (communication) was derived from the communication and adaptations each respective partner undertook to facilitate the relationship. The construct captured nine items which measured the extent to which partners worked together to improve product quality, to keep each other informed and to advise each other of grape quality. There was evidence to suggest that both power and information was equitably shared within the relationship. When a satisfactory long-term relationship had been established, partners were more inclined to work at retaining the relationship, often rejecting alternative offers, and, in the case of grape growers, being more amenable to harvesting as directed by the winery.

Factor 4 (benevolence) captured four items, all of which proved to the inverse of each item measure. This construct measured the extent to which either partner did not engage in opportunistic behaviour, did not act dishonestly, did not take a long time to agree on price and the extent to which conflict was absent from the relationship.

Similarly, the items extracted in Factor 5 (certainty) indicated that there was a high degree of certainty in the relationship. The market for grapes was not highly unstable, nor were prices highly unstable. Planting decisions were based on market requirements. However, it was also evident that, over time, both partners had become more dependent upon one another and that, as a result, they chose not to transact with other parties.

Conclusions.

Despite the dominance of the ten major wine companies, the vast majority of wineries in Australia are small family owned enterprises, partnerships or private companies. The Australian Bureau of Statistics (1999) estimates that there are more than 990 wineries in Australia processing the grapes sourced from over 3,500 small growers, whose average vineyard area is just 15 hectares. In such an environment, more so in Western Australia, since WA produces just 2% of the national crush, the nature of the long-term relationships between grape growers and wineries is expected to be heavily influenced by personal and family values because of the family's participation in the ownership and management of the business.

Family businesses are said to be closed systems (File, Mack and Prince 1994). They are highly risk averse because family interests and needs are also at stake. Consequently, family businesses are more suspicious of unfamiliar exchange partners and exert more effort in pre-purchase search and qualifying behaviours before contemplating new transactions. As a result, experiences with past decisions may lead to a certain level of commitment to preferred choice alternatives. Such commitments are based on conscious explicit evaluations which may be related to either the product or the partner. Osborn (2000) describes how there is a significant amount of communication and information exchange between wineries and grape growers, depending upon their individual needs. Grape growers need to be told what kinds of grapes to grow and how to grow them, for with information, education and training, it is not only possible to improve grape quality and increase returns, but clear and open communication enhances grape growers feeling of security. It is also evident that grape growers often take great pride in the quality of the wines produced from the grapes they have grown (Avery 2000). Informing growers of the accolades given to a particular wine and offering discount prices in the restaurant or for wine purchases has been found to facilitate what Gummesson (1987) describes as part-time marketers. Thus, even in the absence of contracts, when both parties share a mutually beneficial long-standing personal relationship, switching costs are high, thereby perpetuating a long term commitment to the relationship. What remains to be seen is the extent to which similar relationships are found in South Australia, Victoria and New South Wales where there is currently a significant over supply of wine grapes.

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