

What Suppliers Seek from their Downstream Buyer's

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Abstract

The results of a study undertaken in the Western Australian apple industry suggest that what growers want from their downstream buyers and what they actually receive as a result of their transactions with their preferred trading partners are vastly different. While most growers want a return that is commensurate with the effort they put in, the prices offered by market intermediaries generally leave the growers dissatisfied. In order to reduce the risk and the uncertainty associated with the exchange, growers will invariably seek to establish long-term relationships with preferred trading partners. However, many customers prefer to maintain arms-length transactions and seem generally unwilling to provide the growers with either market information or technical advice.

INTRODUCTION

Kotler and Armstrong (1999) note that to succeed in business-to-business markets, a supplier must understand what their customers want and aim to satisfy those requirements more effectively than their competitors. In order to be more competitive, firm's need to provide augmented products and services that offer their buyers more than they expect to receive or think is necessary.

Monckza et al. (1998) indicated that 50% of a firm's quality problems result from the poor selection and management of their supply base. They suggest that buyers should only select those suppliers who can meet their requirements in key performance areas like price, quality, service and delivery. Wilson (1994) considered quality, price and the ability to deliver as the most important factors for buyers to evaluate their potential suppliers. According to Kotler and Armstrong (1999), supplier selection usually involves an analysis of the supplier's capabilities such as technical competence, their ability to provide the necessary services and their ability to deliver on time.

Ellram (1990) explored supplier selection using both hard and soft criteria. Hard criteria included price, quality, delivery and service, while the soft criteria included those variables that were more difficult to quantify like compatibility and the strategic direction that the supplier was taking in terms of building long-term relationships with buyers. Fearne and Hughes (2000) recognize that the implementation of efficient consumer response (ECR) mechanisms and category management (CM) by suppliers can make them more efficient. However, in what many regard to be a mature industry, it is the supplier's willingness and ability to innovate to exploit emerging opportunities in the market that is of greatest value to downstream customers.

While there is a plethora of literature describing the criteria customers use in selecting their preferred suppliers, on the other side of the transaction - what the supplier wants from their preferred customer – there is a paucity of literature.

Rational economic theory would suggest that growers will endeavour to sell their produce to that customer who offers the highest price. However, a high price is not the only criterion to consider: growers will also select customers based on other criteria such as prompt payment terms, the frequency and timing of delivery, the buyers demand for promotional support and other incentives, and the product quality required (Batt, 2003). Tracey and Tan (2001) note that while buyers normally focus on price reductions, suppliers will strive to get their buyers to recognize the total value of their offer. This includes the price plus quality and delivery, as well as technical capabilities and other value-added activities. Parker (1993) suggests that if producers can match the quality they have available with the buyer's specifications they can maximize profits by selling the right product to the right customer. However, Hingley (2005) notes that suppliers are often willing to forgo higher prices in the expectation that their downstream customers will accommodate the large volume of product they have available. Where there is some guarantee of continuity, this may enable the producer to recover the costs of investments in technology and infrastructure and to benefit from the economies of scale.

The aim of this paper is to identify the criteria used by growers in choosing between alternative buyers and to explore the differences between what is desired by growers and what they actually receive from their preferred downstream customers.

METHODOLOGY

To determine what apple growers in Western Australia expected from their preferred downstream customers, detailed interviews were conducted with 52 apple growers. A list of 278 apple and pear growers was obtained from the Western Australian Fruit Growers Association (WAFGA) and a questionnaire dispatched by mail. After nearly two months and even after a reminder letter, only 12 usable questionnaires had been returned. Through the District Associations and Branch meetings, face-to-face interviews were subsequently undertaken with growers using a snowball technique.

For this study, respondents were first asked an open-ended question which sought to identify the criteria they used in choosing between alternative buyers. Respondents were then asked to respond to 12 prepared statements using a six-point scale where 1 was "not at all important" and 6 was "very important". For each of the different market intermediaries with whom the grower transacted: fruit packers, market agents, supermarkets, retailers and fruit exporters, respondents were then asked to indicate on a six point scale, where 1 "was not at all well" and 6 was "very well", how well each market intermediary was able to meet the same 12 criteria. The paired sample t-test was utilized to explore the gap between what growers ideally wanted and what they actually received from each customer with whom they transacted.

RESULTS AND DISCUSSION

In deciding to whom they would sell their fruit, the most frequently cited responses by growers were high price/best returns (61%) and an established long-term relationship with the customer (33%)(Table 1). The importance of the relational elements of the exchange was reinforced by such responses as trust, honesty, reliability, ability and fairness, and the desire to continue to transact. Doing business with people the growers knew and trusted could potentially reduce the risk of being taken advantage of by opportunistic buyers. Besides that, growers preferred to transact with those buyers who could offer them good service (13%).

Not unexpectedly, in choosing between alternative customers, the importance of economic and the relational elements in the exchange was reinforced when growers were asked to rate the importance of 12 customer selection criteria (Table 2). In choosing between alternative customers, the economic criteria included a fair price (5.72), financially strong (5.48), favourable payment terms (5.20) and the ability to take all the growers harvested fruit (5.18). The relational elements included a good business reputation (5.32), frequent communication (4.84), a willingness to meet the grower's immediate needs (4.54) and a close personal relationship (4.54). Geographic proximity (3.28) and the capacity to transport the grower's fruit (2.34) were the least important criteria, presumably because of the distance between the farm and customers in the Perth metropolitan area. As transportation costs were normally covered by the growers, it was no surprise to find that this was considered one of the least important variables.

Having identified the factors that were considered most influential in the grower's choice of preferred customer, a further examination of what the growers wanted and what the growers actually received from each of their preferred customers was undertaken. The paired sample t-test was used to measure the difference between what growers expected and what they actually received from their preferred customer: namely fruit packers, market agents, supermarkets, retailers and fruit exporters.

Grower's Transaction with Fruit Packers

In terms of the grower's transaction with fruit packers, from the total of 50 respondents, only 14 growers sold fruit to fruit packers. All 14 growers were smallholders, who, in the absence of suitable fruit packing facilities of their own, either engaged the fruit packers to grade and pack their fruit under contract at some predetermined price, or sold their fruit outright immediately after harvest.

In examining what the growers ideally wanted and what they actually received from their preferred fruit packer, for the first two measures, fair price and financial strength, the fruit packers were perceived to be weak (Table 3). It seems, in part, that these smallholder growers may have failed to recognize how much added value the appropriate dipping, washing, waxing, grading, labeling and packing of fruit contributed to the wholesale price.

Despite the significant additional investment that fruit packers had made in infrastructure and equipment, as the fruit packers were growers themselves, they faced the same volatility and uncertainty of price in the market. When prices were low, this will erode the fruit packer's equity, thus leading to a perception that they were not financially strong. On a more positive note, fruit packers were generally able to take all the growers harvested fruit, to provide technical advice and market information, and to meet the grower's immediate needs. Most of the fruit packers were located in close proximity to the grower's properties.

Grower's Transaction with Market Agents

Some 22 apple growers indicated that they transacted with wholesale market agents in the Perth Metropolitan Market. In terms of the gap between what growers wanted and what their preferred market agent was able to deliver, most of the growers indicated that they were dissatisfied (Table 4). As prices in the wholesale market are determined by supply and demand, there is much price uncertainty. Growers often felt that they did not get a fair price commensurate with the effort they had put in to produce

the fruit. This situation was further aggravated by the often marked price difference between the wholesale price and the retail selling price.

The business reputation of many market agents is low as indicated by Batt (2003). Although market agents pay the growers fortnightly or monthly, in the past, several market agents have failed, and thus there is an element of risk that growers will not get paid. Furthermore, most market agents were not transparent and were seldom willing to provide market information or to meet the grower's immediate needs. For these reasons, growers preferred to transact with those market agents with whom they had a close long-term relationship. Even so, most growers transacted with multiple market agents to ensure that they received a fair price.

Grower's Transactions with Supermarkets

Only three large growers indicated that they were transacting directly with supermarkets. They choose to do so because they needed to move a large volume of fruit and thus, to some extent, they were prepared to forgo higher prices.

In terms of the gap between what growers wanted and what their preferred supermarket was able to deliver, most of the growers indicated that they were dissatisfied (Table 5). While the supermarkets did not take all the growers fruit because they had specifications, they were financially strong and they did have a good reputation which provided some guarantee of payment. While the terms of payment were generally 90 days, the larger growers were able to accommodate that.

Most notable in the transaction between growers and supermarkets was the absence of any social or personal relationship: the decision to transact with the supermarkets was a straight forward business decision. The supermarkets seldom communicated with the growers and little market or technical information was provided during their transactions.

Grower's Transactions with Retailers

Almost 20% of the apple growers who completed the survey instrument indicated that they transacted directly with one or more independent retail stores. By examining the gap between what growers ideally wanted and what they received from their preferred retailer, it was evident that most growers believed they were getting a fair price. The retailer was perceived to be financially strong and to have a good business reputation. Furthermore, the retailer's terms of payment were generally good (Table 6).

However, retailers did not often communicate with the growers and there was little exchange of market information or technical information. This situation arose because the retailers were themselves customers, transacting primarily with market agents and secondary wholesalers or provedores. It was in their best interest to withhold information on the price at which they were purchasing fruit from other suppliers and to use that information to negotiate lower prices from the growers.

In terms of delivery, while growers had to deliver the fruit to the retailers, in most cases, the retailers were geographically close to the growers. Furthermore, the growers generally had a close personal friendship with the retailer. Presumably, because the retailer was not a major outlet for the grower, the grower's relationship with their preferred market agent was much closer.

Grower's Transactions with Fruit Exporters

When looking at the transactions between growers (17) and their preferred fruit exporter, there was a significant gap between what the growers ideally wanted and what they actually achieved from their transactions (Table 7). There was a significant difference between the price growers expected and the ability of the fruit exporter to provide a fair price and to take all the growers' harvested fruit. Fruit exporters were largely unable to offer a fair price because of the high price of Australian fruit in the world market, relative to alternative suppliers from China, New Zealand and South Africa. Furthermore, fruit exporters were unable to take all the growers harvested fruit because of the need to provide high quality fruit to the export market. Not unexpectedly, growers perceived that they were not being rewarded for the extra effort required to meet international specifications. Other markets were both more attractive and less demanding.

With regard to the exporter's business reputation and the manner in which the exporters were paid for their services - commission on sales - if the exporter made a poor decision, growers could receive substantially less than what they had been promised. Problems with rejection and exchange rate fluctuations were considered by many growers to present too much risk and thus, to the maximum extent possible, they would seek alternative markets. Furthermore, there was little evidence of any personal relationship between growers and fruit exporters. However, growers did get some market information or feedback and technical information/advice from fruit exporters. Furthermore, it was apparent that most exporters arranged to pick up the growers fruit from their orchard.

CONCLUSION

Ordinarily, growers will transact with that market intermediary who offers the highest price for their fruit. However, given the risks and the uncertainty that is so often associated with the exchange transaction, growers will seek assurances, preferring to transact with those market intermediaries who are financially secure and have a good reputation. Having satisfied these criteria, growers will choose to transact with those market intermediaries who are the most willing to provide market information. Because they are somewhat removed from the market, growers will utilize such information in deciding how much fruit they will allocate to each customer.

That said, in deciding how much fruit to send to each customer, growers need to match the customer's requirements with the quantity and quality of fruit they have available to sell. As different customers have different product specifications and terms of trade, the grower may find it necessary to compromise, often choosing to sell a known quantity of fruit to a customer who perhaps offers a lower price, but for whom payment is assured. Not only does this reduce transaction costs, but the grower's willingness to accept a lower price may facilitate subsequent sales.

It was evident from the analysis that many growers fail to understand both the transaction costs and the needs of their downstream market intermediaries. For instance, in exploring the relationship between growers and fruit packers, growers were very dissatisfied with the price they received from fruit packers. In the fresh fruit market, prices are determined primarily by supply and demand and not by the grower's costs of production. Clearly, the smallholder growers do not appreciate the costs associated with building packing sheds, cool stores and the costs of grading, packing and storing fruit. Consequently, many growers think they are being taken advantage of by the fruit packers.

In terms of the grower's relationship with the market agents, it is clear that there has been much conflict between growers and market agents in the past. According to Batt (2003), there is little trust and too little communication between growers and market agents. On many occasions, growers were not paid when market agents collapsed due to financial mismanagement. However, for smallholder growers, in order to dispose of the fruit they have grown and packed, they may have little choice other than to transact with that market agent they trust the most. The volumes of fruit that they have available may be too large to sell direct to small independent retailers and the transaction costs too high, yet the quantity of fruit they have available may be too small to transact directly with the supermarkets.

Growers transact with supermarkets because they have to, not because they want to. For the large-scale growers, they know that supermarkets buy volume at an agreed pre-determined price. As growers are more certain of their costs than they are of their returns, they often accept the offer. Growers cannot afford the risk of putting all the fruit onto the wholesale market as this would only drive the prices down further. Consequently, there is little indication of any close personal relationship between the growers and the supermarkets: their relationship is purely business, with each exchange partner being very conscious of the propensity for the other to take advantage whenever the opportunity arises.

In terms of the grower's transaction with retailers, for most smallholder growers, it is very much a secondary activity: they tend only to transact with those retailers who are located close to the orchard. Generally, the independent supermarkets and retailers are too small and it is simply not cost effective to sell only to retailers. However, the results of the study indicate that retailers do pay the growers well.

For fruit exporters, the major problem here is the grower's failure to understand the international market, especially with regard to the quality requirements and the prices offered by competitors. Growers feel that the price they receive is not commensurate with the extra effort they put in to grade the fruit for export. Furthermore, this market is also the most risky, for there is the need to meet the requirements of the importing country and the risks associated with currency exchange. Regrettably, against countries such as China, South Africa and New Zealand, the WA apple industry is not competitive and exports are steadily declining. Nevertheless, most growers recognize the need to diversify markets and to supply some fruit to the export market. Evidently, what growers are really doing is averaging the price across all markets, redirecting more fruit to those markets which are most profitable, but at the same time, recognizing that they must sell some fruit to each market in order to stabilize the price.

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Table 1: Criteria grower's use in deciding to whom they will sell their fruit

Response	Frequency	Percentage
High price/best returns	28	61
Relationship	15	33
Good service	6	13
Trust	4	9
Honesty	3	7
Reliability	3	7
Ability	2	3
Nearest retail agent	2	3
Continue business	1	2
Fair	1	2
Supply and demand	1	2
Prompt payment	1	2
Able to sell second grade fruit	1	2
Financially sound	1	2
Type of packaging used	1	2
N = 46		

Table 2: Importance of the factors growers use in choosing between alternative customers

Factors	Mean	SD
Fair price	5.72 ^a	0.45
Financially strong	5.48 ^a	0.79
Good business reputation	5.32 ^a	0.79
Favourable payment terms	5.20 ^a	0.93
Take all my harvested fruit	5.18 ^a	1.17
Frequent communication	4.84 ^a	1.38
Willing to meet my immediate needs	4.54 ^a	1.36
Close personal relationship	4.54 ^a	1.33
Provides market information	4.48 ^b	1.78
Provides technical information/advice	3.32 ^c	1.68
Geographically close	3.28 ^d	1.90
Transport apples from my orchard	2.34 ^d	1.57
N = 50		

where 1.0 is not at all important and 6.0 is very important
those values with the same superscript are not significantly different at $p = 0.05$

Table 3: What growers want and get from their preferred fruit packer

Factors	Grower wants ¹		Grower Gets ²		t	Sig. (2-tailed)
	Mean	SD	Mean	SD		
Fair price	5.67	0.49	4.83	1.03	3.08	0.01
Financially strong	5.42	0.90	4.83	0.94	2.24	0.05
Good business reputation	5.17	0.84	5.00	0.95	0.52	0.62
Take all my harvested fruit	5.08	1.44	5.42	0.79	-0.67	0.52
Favourable payment terms	5.00	1.04	4.92	0.79	0.32	0.75
Close personal relationship	4.83	1.34	4.33	1.44	1.15	0.28
Frequent communication	4.75	1.66	4.58	0.79	0.32	0.75
Provides market information	4.08	2.19	4.58	1.31	-0.69	0.50
Willing to meet my immediate needs	4.08	1.93	4.42	0.90	-0.65	0.53
Geographically close	3.92	1.88	4.83	1.53	-1.17	0.27
Provides technical information/ advice	3.00	2.17	3.75	1.06	-0.96	0.36
Transport apples from my orchard	2.75	1.66	1.92	1.56	1.13	0.28
N = 14						

¹where 1.0 is not at all important and 6.0 is very important

²where 1.0 is not at all well and 6.0 is very well

Table 4: What growers want and get from their preferred market agent

Factors	Grower wants ¹		Grower gets ²		t	Sig. (2-tailed)
	Mean	SD	Mean	SD		
Fair price	5.74	0.45	4.74	1.01	5.62	0.00
Financially strong	5.35	0.83	5.26	0.92	0.44	0.67
Good business reputation	5.22	0.80	4.26	1.39	2.90	0.01
Favourable payment terms	5.13	0.97	4.48	1.16	2.14	0.04
Take all my harvested fruit	4.91	1.47	5.26	0.86	-1.16	0.26
Frequent communication	4.65	1.53	4.83	0.94	-0.47	0.64
Close personal relationship	4.48	1.31	4.57	1.47	-0.25	0.80
Willing to meet my immediate needs	4.39	1.56	3.87	1.33	1.28	0.21
Provides market information	4.22	1.98	3.57	1.59	1.39	0.18
Geographically close	3.13	1.94	2.52	1.76	1.36	0.19
Provides technical information / advice	3.22	1.81	3.35	1.50	-0.32	0.75
Transport apples from my orchard	2.43	1.47	2.04	1.61	0.93	0.36
N = 22						

¹where 1.0 is not at all important and 6.0 is very important

²where 1.0 is not at all well and 6.0 is very well

Table 5: What growers want and get from their preferred supermarket

Factors	Grower wants ¹		Grower gets ²	
	Mean	SD	Mean	SD
Fair price	6.00	0.00	5.33	0.58
Take all my harvested fruit	6.00	0.00	4.67	1.16
Financially strong	6.00	0.00	6.00	0.00
Favourable payment terms	5.67	0.58	5.00	1.73
Willing to meet my immediate needs	5.67	0.58	4.67	1.16
Frequent communication	5.67	0.58	4.00	2.65
Close personal relationship	5.67	0.58	3.00	2.00
Provides market information	5.67	0.58	1.67	1.16
Good business reputation	5.33	1.16	5.67	0.58
Provides technical information/ advice	4.00	1.73	2.00	1.73
Geographically close	3.67	2.52	3.33	1.53
Transport apples from my orchard	2.67	2.89	1.00	0.00
N = 3				

¹where 1.0 is not at all important and 6.0 is very important

²where 1.0 is not at all well and 6.0 is very well

Table 6: What growers want and get from their preferred retailer

Factors	Grower wants ¹		Grower gets ²		T	Sig. (2-tailed)
	Mean	SD	Mean	SD		
Fair price	5.60	0.52	5.30	0.68	1.00	0.34
Financially strong	5.50	0.97	5.60	0.52	-0.26	0.80
Good business reputation	5.20	0.92	5.20	0.79	0.00	1.00
Favourable payment terms	5.10	1.10	5.20	1.23	-0.19	0.85
Frequent communication	5.00	1.56	3.90	1.66	1.30	0.23
Take all my harvested fruit	4.90	1.52	4.60	1.17	0.43	0.68
Close personal relationship	4.80	1.48	4.00	1.83	1.35	0.21
Provides market information	4.60	2.01	1.80	1.03	4.02	0.00
Willing to meet my immediate needs	4.10	2.08	3.80	1.32	0.29	0.78
Geographically close	3.90	2.03	4.50	1.27	-0.84	0.43
Provides technical information/advice	3.30	2.26	2.00	1.25	1.74	0.12
Transport apples from my orchard	2.90	1.73	1.50	1.58	1.61	0.14
N = 10						

¹where 1.0 is not at all important and 6.0 is very important

²where 1.0 is not at all well and 6.0 is very well

Table 7: What growers want and get from their preferred fruit exporter

Factors	Grower wants ¹		Grower Gets ²		T	Sig. (2-tailed)
	Mean	SD	Mean	SD		
Fair price	5.65	0.49	4.47	1.23	3.92	0.00
Financially strong	5.29	0.85	4.71	1.11	1.83	0.09
Take all my harvested fruit	5.18	1.24	4.00	1.62	2.25	0.04
Good business reputation	5.18	0.81	3.94	1.09	3.92	0.00
Favourable payment terms	4.82	0.95	4.71	1.16	0.46	0.65
Close personal relationship	4.53	1.46	3.41	1.37	3.27	0.01
Frequent communication	4.41	1.70	3.88	1.50	0.87	0.40
Willing to meet my immediate needs	4.24	1.72	3.88	1.22	0.81	0.43
Provides market information	3.76	2.11	4.65	1.06	-1.63	0.12
Geographically close	3.65	1.90	3.18	1.43	0.80	0.44
Provides technical information/advice	3.12	1.97	4.35	1.12	-2.45	0.03
Transport apples from my orchard	2.59	1.54	4.35	1.46	-3.41	0.00
N = 17						

¹where 1.0 is not at all important and 6.0 is very important

²where 1.0 is not at all well and 6.0 is very well