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Key factors influencing economic relationships and communication in European agri-food chains

Ashtown Food Research Centre
RESEARCH & TRAINING FOR THE FOOD INDUSTRY

RESEARCH REPORT NO 99

KEY FACTORS INFLUENCING ECONOMIC RELATIONSHIPS AND COMMUNICATION IN EUROPEAN AGRI-FOOD CHAINS

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GLOSSARY

Relationship types in agribusiness

A business relationship can be a *single or a series of interactions and financial transactions* between a seller and a buyer and can be distinguished by the *type of governance* involved. In this analysis, four types of governance among partners were identified; spot markets, repeated market transactions, formal contracts and financial participation. While the former two relationship types can be categorised as informal relationships, the latter two can be characterised as formal.

Spot markets: Immediate exchange of goods or services at current prices. The identities of the business partners are largely irrelevant e.g., auctions.

Repeated market transactions: Repeated exchange of goods or services at current prices with the same supplier/buyer. The identities of the business partners are of relevance.

Formal (written) contracts: Legally enforceable contracts which define all or part of each party's obligations; can be short- or long-term.

Financial participation: Shared ownership of production, processing or distribution assets with suppliers but the parties remain legally independent e.g., joint ventures, franchise.

SUMMARY

This report reflects the Irish contribution to an EU-funded project which aimed to:

- clarify the relevance of business-to-business relationships and communication in European agri-food chains, and
- identify the economic, social and cultural factors that influence agri-food chain relationships and business-to-business communication.

Such research was expected to be of use to companies seeking to develop more sustainable business relationships.

The project considered meat and cereal commodities in six EU countries. In total thirteen agri-food chains were examined: five pig-to-pigmeat chains, three cattle-to-beef chains, two barley-to-beer chains and three cereals-to-bakery product chains. The pig-to-pigmeat and cattle-to-beef chains were examined in Ireland.

A survey of producers, processors and retailers was conducted using a structured questionnaire; this was complemented by in-depth interviews using a semi-structured interview. In Ireland, the latter focused on the farmer-processor relationship and sought to further develop issues identified in the survey.

In Ireland, repeated market transactions with the same buyer was the most frequently used method of carrying out business in both chains. Formal written contracts were most closely associated with the retailer-processor relationship. Repeated market transactions were considered to be a common business practice and convenient to use. Stakeholders in both chains were not convinced of the efficacy of repeated market transaction in reducing business costs but retailers in the beef chain thought this type of transaction could produce some savings.

The average length of business relationship in the beef chain was 12 years while in the pig chain it was 8.5 years. However, little over half of beef farmers and 75% of pig farmers believed their business relationship with their buyers was financially rewarding.

Farmers and processors in both chains believed that their communication needs were being met. Pigmeat retailers would like to meet their suppliers more often while beef retailers were satisfied with the frequency levels of their communications with buyers. Half of all beef and pig farmers reported that communication with their buyers had a positive effect on their profitability. Farmers, however, believed that their communications with buyer had little

impact on their turnover, process quality or innovation. Telephone (mobile phone in particular) and face-to-face communication were the most common methods of communication.

Stakeholders in both chains were generally risk averse and tried to avoid uncertainty whenever possible. Nine out of 10 pig farmers and 3 out of 4 beef farmers believed that they were in unequal relationships with their buyers. However, farmers and processors were prepared to accept a business relationship in which the buyer was more powerful than themselves while retailers were not prepared to accept such a relationship.

The qualitative study focused on the farmer-processor relationship in the pig and beef chains and provided further insights into both chains. Procurement managers in the beef sector sourced cattle directly from farmers or used a network of third-party agents to procure cattle. Beef factories relied heavily on the use of agents to source cattle with some factories sourcing up to 80% in this way. Small-scale farmers were most likely to use agents. Agents were not used in the pig chain. The pig processing factories generally bought pigs directly from the farmer.

Trust levels between farmer and processor have improved in both chains over the years. Trust levels in the pig sector were considered better than those in the beef sector. The length of the business relationship, frequency and clarity in the communication process, personal bonds and greater transparency in grading and pricing were believed to have contributed to improved trust levels in both chains. Farmers who used agents had less trust in processors than those farmers who dealt directly with processors. While agents provide a useful service to both farmer and processor, a new communication model needs to be adopted to include the farmer-agent-processor relationship.

A number of policy recommendations for improving economic relationships, communication and the competitiveness in Ireland are included along with a number of cross-country recommendations based on the aggregate results of the final study.

INTRODUCTION

Developments such as reduced market support for farmers, stricter environmental legislation and food safety concerns, increased consumer requirements and globalisation present challenges and opportunities for food producers, processors and retailers. Project researchers recognised the need for an analysis of EU agri-food chains to identify measures to promote the development of competitive agri-food chains. It is understood that relationships between agri-food chains will become increasingly important in adapting to market challenges and that improvements in co-ordination and communication between farmers, processors and retailers will strengthen business relationships.

Relationships and communication in the Irish beef and pigmeat sectors were analysed. The Irish beef sector provides an interesting focus for study due to its high export orientation and relative value in EU terms. Similarly, the Irish pigmeat sector is a relevant study point because it is one of the few commodities for which trade was not significantly distorted by the CAP.

This report presents the results of the findings from the research project "Key factors influencing economic relationships and communication in European agri-food chains" (FOODCOMM; project no. SSPE-CT-2005-006458) which was funded by the European Commission as part of the Sixth Framework Programme. The Irish specific research and the cross-country analysis which was carried out as part of this study are presented here. (The countries and associated chains that were examined are presented in Figure 1). In addition, the report will list recommendations for possible EU policy development and actions to be taken in order to enhance well-functioning relationships and communication within selected EU food chains.

OBJECTIVES

The objectives of the FOODCOMM project were:

- to analyse the role (prevalence, necessity and significance) of economic relationships and communication in selected European food chains and
- to identify and analyse the social, economic and cultural factors influencing communication and sustainable economic relationships between producers, processors and retailers.

Figure1: Agri-food chains in each country

Commodity	Processed product	Country
Pork	Fresh pork	Ireland
	Cured ham	Poland
		Spain
	Sausage	Finland
		Germany
Beef	Fresh beef	UK/Scotland
		Ireland
		Poland
Cereals	Beer	Germany
		UK/Scotland
	Bread	Spain
		Finland
		Germany

METHODS

In the Irish cattle to beef chain, 69 farmers, 7 processors and 10 retailers were interviewed. In the Irish pig to pigmeat chain, 49 farmers, 7 pig processors and 5 retailers were interviewed. Data was primarily collected by telephone interview supplemented with a number of face-to-face interviews. Interviews were conducted using a structured questionnaire.

An additional qualitative study was carried out to further develop the research performed in the survey; this focused on the farmer-processor relationship within the selected chains. In-depth interviews using a semi-structured interview schedule were administered to a purposive sample. Procurement managers in 6 beef and 5 pig processing factories were interviewed, as well as

2 beef farmers and 2 pig farmers. A further 2 advisors from the Teagasc beef extension services, one research officer and advisor from the Teagasc pig unit and one development officer in the organic beef sector were also interviewed.

This survey of farmers, processors and retailers was carried out in the other EU partner countries between November 2006 and April 2007. A common questionnaire was used for the cross-country survey and the resulting database contains information on business relationships and B2B communication from 1,442 farmers, processors and retailers in two commodity sectors (meat and cereals).

FINDINGS

This report focuses on the findings from the research carried out in the Republic of Ireland and will also discuss some of the salient findings of the cross-country analysis. Further details of findings from other partner countries can be found on the project web site (http://www.foodcomm-eu.net).

Irish Beef and Pig Chain Survey Results

Repeated market transactions *(repeated exchange of goods or services at current prices with the same supplier/buyer)* with the same buyer was the most frequently used method of carrying out business in both chains. Spot markets were used by one in 7 beef farmers while less than 3% of pig farmers used spot markets. Formal written contracts were most closely associated with the retailer-processor relationship. Respondents along both chains generally agreed that repeated market transactions were a common business practice and were also convenient. While respondents agreed that personal relationships were important in repeated market transactions, personal relationships were not considered a particularly strong reason for engaging in repeated market transactions. Stakeholders in both chains were not convinced of the efficacy of repeated market transaction in reducing business costs but retailers in the beef chain thought that this type of transaction could produce some cost savings.

Both chains had enduring relationships with their business partners - in the beef chain the average business relationship was 12 years while in the pig chain it was 8.5 years. Both chains considered their business relationships to be robust and had the ability to endure whatever conflicts might arise.

More than half of beef farmers believed that their relationship with processors was financially rewarding while three out of four pig farmers stated that their business relationship was financially rewarding. Three out of four beef farmers considered themselves to be in an unequal relationship while 9 out 10 pig farmers believed themselves to be in an unequal relationship. Retailers in both chains considered themselves to be equal partners in their business relationship. Processors in both chains differed in their opinion that they were in an equal relationship.

Beef and pig farmers and processors believed that their communications needs were being met. The communication needs of beef farmers matched their requirements although pigmeat retailers wanted more frequent communication with suppliers.

Half of all beef and pig farmers reported that their communication with buyers had a positive effect on the profitability of their business performance. However, farmers in both chains did not believe that communication with buyers had an impact on turnover, process quality or innovation. Similarly, few farmers in either chain believed that communication had any effect on market share or customer retention. Pig processors were more convinced than beef processors of the positive effects of communication on business performance. Eighty per cent of retailers in the beef chain believed that communication with their main supplier improved their product or process quality. Retailers in the pig chain were divided on the effect communication has on business performance criteria including product or process quality. Telephone and face-to-face communication were the most frequently used form of communication across all chains.

Members of both chains agreed that they are risk averse and tried to avoid uncertainty whenever possible. Farmers and processors in both chains were prepared to take part in an asymmetrical business relationship in which the buyer was more powerful than themselves; however, retailers will not accept this type of relationship.

Quality orientation, degree of competition in the market place and degree of risk aversion were not found to influence relationship choice. However, participation in a public/private quality assurance scheme (QAS), desire for economic independence, and degree of long-term market orientation did influence choice of relationship type. Participation in a QAS and a higher degree of long-term orientation increased the probability of repeated market transactions whilst a higher desire for economic independence increased the probability of using spot markets.

Good communication and the existence of personal bonds between buyers and suppliers were found to be significant determinants of relationship quality. Satisfaction, trust and commitment significantly and strongly influenced relationship quality whilst collaboration and the ability to endure conflict were important determinants of relationship strength.

Aggregate EU Analysis and Cross-Country Comparison

Formal relationship types (RTs) were least likely to be observed in Spain's cereal and Ireland's pigmeat chain followed by the beef chain in UK/Scotland. Large differences between the individual chains were found which reflected the heterogeneous nature of the collected data with regard to the RTs. Relatively large significant differences between the two chain stages (i.e. the farmer processor or the processor-retailer relationship) were also observed. In general, retailers tended to choose more formal RTs with processors as compared to farmers, indicating that downstream businesses were more likely to co-ordinate and organise their relationships more systematically and in a more standardised way. Long-term oriented businesses were more likely to choose formal RTs. Long-term orientation enabled businesses to create a

reliable legal basis for planning and securing future supply or sales. The opposite was true for independence. A strive for independence was a key driver for using informal RTs. Independent businesses prefer to transact without being formally bound to their exchange partners.

Quality orientation of the market also proved to be a determinant, though weaker than the others, for conducting more formal RTs. The more quality-oriented the actors in the market were, the more likely an exchange partner will prefer to use a formal RT.

The determinants of sustainable economic relationships were analysed using structural equation modelling (SEM). Relationship sustainability has been defined as a multi-component construct. The considered components were *"Our trust in this supplier/buyer"*, *"Our commitment towards this buyer/supplier"*, *"Our satisfaction with this buyer/supplier"* and *"Our collaboration with this buyer/supplier in the past"*. While relationship-sustainability index scores were calculated assuming equal weights for all four components, the measurement models in the SEM showed that satisfaction is the most important component, followed by trust, positive collaboration history and commitment. However, the differences in importance were small. The analysis of the perceived levels of the sustainability of the economic relationships indicates that respondents evaluate their 'most important' business relationship as comparatively sustainable. This holds true for all investigated EU countries, analysed commodities/products and chain stages. Differences in the observed scores are generally small. Nevertheless, downstream relationships were generally better than upstream ones, with the exception of Germany and the UK in the meat chain. As for the relationship-sustainability determinants, the analysis revealed that, among the variables on which data were collected and which were hypothesised on theoretical grounds to affect relationship sustainability, only four actually have a significant impact. These are:

- Communication quality (measured as a two-component construct involving "adequate communication frequency" and "high information

quality") as the most important determinant. This is of particular importance in Poland, the UK and Spain. Germany and Ireland are the only exceptions with other relationship sustainability determinants being more important: equal power distribution between buyers and suppliers and the existence of personal bonds for Germany and the existence of personal bonds for Ireland. It is not immediately clear what the reason is for the different situations in Germany and Ireland. But in any case, it has little to do with the prevailing levels of communication quality which is above average in Germany and below average in Ireland. It was also found that communication quality is particularly important in the processor-retailer chain stage and in the meat chain.

- The existence of personal bonds is the second most important determinant for relationship sustainability in the cross-country analysis. In Ireland it is the most crucial determinant and it is highly positively correlated with communication quality. This suggests that personal bonds have an indirect impact on communication quality which in turn increases relationship sustainability.

- The impact of key people leaving is very often positively, significantly and highly-correlated with the existence of personal-bonds. This indicates that key people are those who develop personal bonds with business partners. In Ireland, however there is no significant correlation between the impact of key people leaving and the existence of personal bonds. The impact of key people leaving was consistently estimated as being negative, not always significant and generally low in magnitude. While this variable is of some importance in the overall EU analysis, it is only significant in Ireland and Finland, in the farmer-processor chain stage, the meat chain and in non-formal relationships.

- Equal power distribution between business partners is the third most important determinant for relationship sustainability. It is also of highest relevance in Germany and second most important in Finland but it seems to have no relevance in Ireland and Poland. Neither does it seem to play any role in formal business relationships. In these relationships, using a written contract may help to ease fears of falling victim of self-interested more powerful business partners, since the terms of co-operation can be specified.

Conclusions

High entry costs into both sectors have resulted in relatively stable chains in terms of the make-up of suppliers and buyers. Chain members tend to conduct business with the same buyer/supplier and this is supported by the belief that there are few advantages in switching buyers/suppliers. As a result of this stability, members of both chains have considerable knowledge of each chain member and have a good appreciation of their respective chain requirements.

Both chains generally agreed that the frequency of their communication more or less meets their individual business needs. The use of the mobile phone in the communication process has improved timeliness, enhanced customer service and led to greater efficiencies in both chains.

Repeated market transaction with the same buyer was the most common business practice used across both chains. This transaction type has led to generally close relationships with suppliers and buyers with chain members preferring to use telephone and face-to-face contact. However, despite these close personal relationships, the business relationship can sustain the departure of key people in the business which leads to the conclusion that chain members understand that their relationship is based on sound business objectives rather than a personal connection.

It is expected that beef farmers with reported high dependency levels on their main buyer will see a further increase in their levels of dependency as concentration in the processing sector continues. Other analysis undertaken for this study but not reported here suggests that a shift towards lower economic independence is likely to lead to greater use of repeated market transactions. This suggests that the use of spot markets will continue to decline in the beef sector. The increased use of repeated market transactions is expected to contribute to greater integration and stability within the sector.

Farmers in both chains considered themselves to be in an unequal business relationship with their buyers. Beef processors accepted they were in relationships in which the buyer was more powerful than themselves - however retailers were less likely to accept such a relationship. It is plausible that members of a supply chain could build resentment in a business environment whereby one chain member is considered more powerful than other members in a relationship and this could be detrimental to good communication flow.

Beef farmers in this study reported a poor outlook for the sector with two out of three farmers unable to predict any future growth and over half of farmers stated that their relationship with their buyers was not financially rewarding. This sentiment further fuels the belief among industry observers that the number of beef farmers in Ireland will continue to decline. However, those farmers who will remain in the sector will increasingly adopt a long-term orientation and this is expected to influence relationship choice and increase the probability of using repeated market transactions over spot markets.

Both beef processors and retailers have reported that they have increased the amount of business with their main buyer/supplier in the last two years and retailers are optimistic that this growth will continue. Processors are less confident of future growth potential with their existing buyer. This pessimism is surprising and could be symptomatic of poor communication flows.

Contrary to the common belief that the level of trust in the beef sector is low, this study suggests otherwise with two thirds of farmers reporting that they trusted their buyer and that they were committed to their main buyer. While trust levels could be improved, these findings are encouraging and imply there is a good foundation on which to build trust.

While pig processors reported that communication with their main buyer had an impact on their innovation process along with their product and quality functions, farmers in both chains did not consider communication with their

main buyer had any significant influence on their business performance. It appears that a communication source is being under-utilised by farmers which could, if properly exploited, lead to a positive impact on business performance particularly in innovation and product and process quality.

Participation rates in quality assurance systems were high in both sectors; competing within a quality orientated market did not affect relationship choice for either chain or for farmers as a group. This surprising result may be indicative of a pricing system that is not quality based and suggests that farmers are choosing their relationship on factors other than a market concerned with quality.

Results of the Qualitative Study

The qualitative exploration of Irish food chains aimed to further develop the research carried out in the survey and was focused on the farmer-processor relationship within the selected chains. The themes of this research were the nature of transactions, communication and trust in the farmer-processor relationship. The use of ICT in the communication process within both sectors was also examined.

Procurement managers in the beef sector sourced cattle directly from farmers or used a network of third-party agents who act on a commission basis to procure cattle. All of the beef factories surveyed used agents. Reliance on agents differed from factory to factory with between 50-80% of cattle sourced through agents. There was a tendency to use agents amongst small-scale farmers whereas larger farmers preferred to deal directly with processors. Agents provided a range of services for farmers other than the purchase of cattle. These included transporting cattle to the factories, purchasing unfinished cattle and providing advice on feed and on when to finish cattle. Several procurement managers monitored the supply of cattle available at both local and national level through database management. This facilitated process and financial planning.

Agents were not a feature of the procurement process in the pig processing sector with farmers dealing directly with processors. Scale of pig production may account for this procurement model. The business model for pig processing requires pig farmers to supply pigs on a weekly basis to the factory. A number of rationalisations in the sector has led to a decline in processing capacity and resulted in a change in the market environment prompting some commentators to suggest that it is a "buyers' market", with bargaining power concentrated in favour of the processor. As in the beef sector, verbal agreements rather than formal contracts were used. It is estimated that up to 20% of pigs were sourced using verbal agreements. These agreements provided loyalty bonuses and quality premia for preferred suppliers and, while not legally enforceable, economic sanctions may be imposed for non-compliance with these agreements.

Procurement managers and pig farmers spoke to each other at least once a week whereas beef farmers who supply the factories directly generally communicated on a less frequent basis. Communication generally focused on quality and price issues. Bord Bia, through its quality assurance scheme, has a particularly important role to play in relation to communication on quality. Face-to-face contact between farmers and processors appears to be declining with the shift of responsibility for quality assurance farm audits from processor to independent auditor. Traditionally processors used these audits as part of their communications process with farmers. The impact of the reduction in farm visits has yet to be seen but may be considerable given the belief among some processors that face-to-face contact is very important to maintaining and strengthening relationships with the farming community. Both farmers and processors appeared to be satisfied with the frequency and quality of the communication process.

Communications in both sectors was based on mobile phone and face-to-face contact. The use of mobile phones in both sectors was pervasive. All stakeholders believed mobile phones serve their needs and allow immediate response in a business that works under considerable time pressure. Some processors reported that kill-out reports were available via email but not all

farmers availed of such services. Email use was predicted to grow with the increase of younger farmer entrants to the sector and as processors increase the use of email to send kill-out reports and information regarding electronic payments to farmers. The use of information and communication technology (ICT) was higher among pig farmers than among beef farmers. The scale of operation and sophistication of the business model were thought to be the main drivers in the use of ICT in the pig sector.

Trust between farmer and processor was considered important by all stakeholders. Trust levels in both sectors were thought to have improved over the years. However, it was thought that levels of trust in the pig sector were considerably better than those in the beef sector. Factors that have led to improved trust levels in both sectors included length of business relationship, clarity in the communications process, personal bonds and transparency in grading and pricing. Trading on a weekly basis with the resultant communication frequency between pig farmer and processor, and the absence of agents were believed to be factors influencing the higher trust levels in the pig sector. Farmers who use agents are thought to have less trust in processors - this may be because of the absence of a personal relationship with the processor. There was agreement that lack of trust in both sectors has a historical foundation and there remains a residual mistrust which may be a factor in influencing the low use of contracts in the sector. An interesting study finding highlighted a concern among farmers that some farmers are given preferential prices by some processors and this may be a source of mistrust among farmers.

Few respondents in both sectors believed there was a role for the various agencies or third parties in improving communications or trust and most thought that improved levels of trust could only be achieved by the farmer and processor together. One processor thought that the Teagasc-Dawn partnership model, which sought to improve communication between farmer and processor, was a successful programme and should be extended to include all processors.

The results provided additional depth in the understanding of the farmer-processor relationship in the Irish beef and pigmeat chains. While much seems to have been achieved in recent years to counter the levels of mistrust in both sectors, there appeared to be some residual mistrust. Direct relationships between the farmer and the processor through their nominee, the procurement manager, have led to significant improvements in communications and trust. However a considerable number of beef farmers did not have this level of interaction with the processor because of the use of agents. While agents provided a useful service to both farmer and processor, it appears that, if processors wish to improve their image with these farmers, they need to seek ways of reinforcing trust in the farmer-agent-processor relationship.

CONCLUSIONS

The use of verbal agreements was widely-used by farmers and processors in both the pig and beef chains. While there was no evidence that formal written contracts were used, the study research highlighted a latent demand for formal contracts among some pig producers. There was less enthusiasm for formal contracts in the beef sector although processors were cognisant of the importance of securing regular supplies throughout the year and have responded by incentivising farmers through the use of "producer clubs". These clubs provided incentives for farmers to produce cattle under controlled specifications. A major barrier to the roll-out of contracts was processors' concern that it would be difficult to enforce a contract. It would appear that enforcing a contract would present a difficulty for both parties in this particular business culture.

Verbal agreements have a number of advantages, the primary one being that they work. Farmers and processors in general met their commitments set out in these agreements. Processors were prepared to penalise farmers for their failure to meet agreed commitments by refusing to accept cattle; however, it appears that farmers do not have the ability to similarly sanction processors for non-compliance. This emphasises the power disparity in the farmer-processor relationship.

With the decline in the national herd number, factories will try to intensify their supplier loyalty base by strengthening relationships with farmers through the use of personal relationships.

The role of the agent was of extreme importance in the transaction process of the beef chain. However it would appear that this process of removing direct farmer contact with the processor has been at the expense of supporting the historical mistrust between farmer and processor.

The buyer/supplier relationship in both chains was particularly stable. Prices offered by the factories were broadly similar and therefore farmers rarely switched factories on the basis of price. It appears that location of the factory was an important consideration for farmers when deciding on an outlet for their cattle. With increasing numbers of part-time farmers, this is a particularly important consideration. Interestingly, some processors believed that the quality of the service suppliers received from the factory was also an influencing factor in deciding on an outlet.

The frequency of communications between farmer and processor was considered satisfactory and this was mainly due to the use of mobile phones. Mobile technology facilitated communication between both parties on a number of levels. It provided immediate contact and allowed farmers to receive calls when working in outside units or fields. The use of the mobile phone will continue as the communication tool of choice between chain members. Email, while used by some farmers for less time-sensitive issues, was not being used to its full potential. Beef farmers were less likely to use email than pig farmers. This was due mainly to the high average age of beef farmers who are more resistant to the use of ICT. Pig farmers on the other hand were more likely to use ICT as part of their production systems and use email as part of their communication process.
There is still cause for concern that some farmers were presenting animals to the factories which do not meet the agreed Bord Bia quality assurance specifications. This is a cause of conflict between farmer and processor. While

this tension does exist, both farmers and processors agreed that their relationship was robust and can withstand such conflict.

It appears that younger farmers were more likely to trust processors than older farmers. This was partly due to the poor experiences some older farmers had with processors in the past. The modern relationship between factory procurement manager and farmer appears to have overcome some prejudices and was responsible for developing mature and trusting relationships.

Some beef farmers were concerned that processors were offering more favourable conditions (e.g. price and supply bonuses) to larger scale farmers. This has created resentment between some farmers and is a cause for concern for relationship stability in the supply chain.

RECOMMENDATIONS

National Recommendations

The following recommendations sum up the overall recommendations of the Irish research:

- **Promotion of wider use of supply chain collaboration**
  There is a need for chain members to create and maintain forums whereby participants could come together and understand each other's interests and concerns and identify areas and means for collaboration. These forums could also identify areas requiring publicly-funded support, identify and disseminate information on good practice and assist whole sector supply chain development.
- **Information sharing and transmission**
  Discussion groups with the primary focus of identifying information needs of the chain and how this information can be best transmitted throughout the chain need to be developed. Awareness of the potential value of the information already available in both sectors and how this

can be of use to the various chain members needs to be raised. The potential impact of quality and timely data on business performance needs to be highlighted. This will include examining the various available technologies and may require some chain members to engage in training on how to access this information.

- **Innovation**

  The present relationship structures and communication practices are poorly serving the innovation process within both chains. Chain members need to broaden their agri-food network to include research institutes and advisory services so that the innovation process becomes an integral part of both chains. In parallel, a publicly-funded research programme needs to be developed that can further understand how costs can be removed from both chains while at the same time improving quality.

- **Ensure direct relationship between farmer and processor**

  Mechanisms need to be created to ensure a direct relationship between farmer and processor, including relationships when agents are involved. This will require commitment and an investment of time by all parties.

- **Capacity building of chain members**

  The position of farmers in the chain could be strengthened by supporting the development of activities such as producer clubs which could be further developed into marketing associations. Policy could assist such developments with the provision of funding. Such initiatives could help farmers who value their independence to understand that collaboration can lead to mutual benefits and need not imply reduced independence.

- **Development of a price system that rewards quality output**

  With many producers claiming their business relationships are not financially rewarding, processors need to improve prices to encourage producers to supply, particularly when CAP support is decoupled from production. This could be achieved by developing a quality-based pricing system to reflect the demands of the different market segments. This would require buy-in from farmers and processors.

Cross-Country Recommendations

- It is essential that businesses provide each other with feedback periodically on the current quality of communication and the efficiency of information exchange, so as to identify areas of improvement. This also implies checking the suitability and mutual consistency of applied computer and telecommunication devices, with the aim of fully exploiting their potential to increase information exchange efficiency.
- Results indicate that the existence of personal bonds was especially relevant in the farmer-processor relationship and was particularly helpful when conflict occurred within the business relationship. Face-to-face meetings were seen as an important means for developing personal relationships. Firms should be fully prepared when employees who have dealt with key customers/suppliers leave or change positions within a company. The FOODCOMM research found that, in Finland and Ireland in particular, the departure of key staff had a significant negative impact on customer or supplier relationships. The problem of key staff leaving might be mitigated by e.g. ensuring that there is a transition period during which the relationship is "handed over" to new staff.
- An unequal power distribution between business partners had a negative impact on the relationships in 4 of the 6 countries studied. An imbalance in the scale and market power between businesses can create a feeling of insecurity among the smaller and often more vulnerable partners. This can lower trust and commitment and is detrimental to the quality of a relationship. A potential negative impact of unequal power distribution could be offset by improving communication and transparency and/or by developing personal bonds with business partners. Large business partners who have a superior understanding of market requirements, conditions and developments should adopt a policy of sharing of this information with smaller suppliers which in turn may lead to benefits for all concerned.

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