A Study of Business to Business Relationship Management in the Australian Wine Industry

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Work-in-Progress Paper

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Abstract

Much research has been completed on the benefits of implementing business to business (B2B) relationship management (Leek et al., 2002). There is, however, a lack of empirical evidence on the prevalence of B2B marketing in different companies including Australia. This study will therefore look at the management of B2B relationships within the context of the Australian wine industry. The aim of the study is to ascertain if and how practitioners in Australia manage their relationships by using the relationship portfolio analysis model.
Introduction

When considering relationship marketing, it is usually associated with customer relationship management (CRM). This is especially the case in research conducted in North America. Although some consider CRM to have gained dominance over business to business (B2B) relationship marketing, CRM has its roots in B2B marketing (Gummesson, 2004, p.137). Research into B2B relationship marketing was initiated by the IMP group, which started in Sweden in the 1970s. Extensive research has been completed by the IMP, which has seen B2B relationship marketing gain credence not only in the academic world but also from a practitioner’s point of view.

This work-in-progress paper covers research on the management of B2B relationships within the Australian wine industry. An analysis of the way suppliers and buyers manage business relationships will be made. The buyers represent the wine producers and the suppliers are from whom the buyers purchase their raw materials (for example corks).

Rationale for the study

Considerable work has been conducted on the benefits of implementing relationship management techniques (Leek et al, 2002; Gummesson, 2004). Only 3 studies, however, have focused on looking at whether companies have established relationship management systems (two in the U.S. (Bain, 2001; Yu, 2001) and one in the UK (Leek et al., 2004)). Different results were yielded from these studies which may be attributed to the lack of consistency in defining what relationship management is (Leek et al., 2004). For this reason, the study has gained permission to use the questionnaire used in Leek et al., 2004 study. The use of the questionnaire in this study is designed to be the first in a research series to provide depth of understanding in gaining a broader picture of relationship management and its use throughout the world. This study therefore aims to fill a gap in this area of research by providing an empirical study of the implementation of business relationship management in Australian enterprises.

Why the Australian wine industry?

The Australian wine industry was chosen because it has a large number of both buyers and sellers, which provides an extensive population of potential respondents. Contact lists of buyers and sellers were straightforward to access hence making for ease of sampling. The contact list was purchased from www.winetitles.com.au.

The broad cross section of diverse buyers and suppliers in the wine industry provides greater external validity to the study because it is representative of other industries in Australia. The results can therefore be justifiably generalised to other companies and their management of business relationships.

Companies in the Australian wine industry range from small boutique wine companies to mass-produced wines like McGuigans. This facilitates a comparison of different sized enterprises to assess if the use of relationship management techniques is altered by the size of the company.

The Australian wine industry is a growing industry. It has doubled from producing 777,000 tonnes of grapes in 1993-94 to a projected 1.81 million tonnes in 2003-04. The export value of the industry surpassed the $2.3 billion dollar mark in 2002-03, which was a 20% increase in the previous year. This has left it the 4th largest valued agricultural export commodity for Australia after wheat, beef and wool. With the growth projected to continue, despite the drought, it is considered a good industry to start the series of research in because business relationship management techniques may be more prevalent in such a financially healthy industry. (http://www.abare.gov.au/research/agriculture/wine/wine.html)
Significance
The issues regarding the management of B2B relationships are not only of concern to academics but have managerial implications for practitioners. It is thus a worthy field for continued study.

Literature review
Greater acknowledgement has been given to the importance of managing business relationships to gain competitive success. This is shown through the considerable research that has been done on the benefits of implementing relationship management techniques (Krapfel et al., 1991; Olsen et al, 1997; Leek et al, 2002; Leek et, al 2004). Only two studies (one in the U.S by Bain & Company (2001) and one in the UK by Leek et al, 2004) have looked at whether relationship management techniques are implemented (Leek et al, 2004). The study of relationship management has developed in the broader context of the interaction approach which was first developed by the IMP group. The roots of the interaction approach grew from the New Institutional Economic Theorists.

New Institutional Economic Theorists
New Institutional Economic Theorists exist within the economics field. The ‘head’ of this group could be argued to be Williamson (Ford, 1997). Williamson (1985) focused on transaction cost economies with the belief that reducing transaction costs would result in market performance. This encompasses the idea of shopping around for the best price from different suppliers every time you need to make a new purchase (equated with transaction). This approach is linked to the emphasis on the single transactional episode, in the analysis of business outcomes, which has traditionally been highlighted in business markets. Researchers have suggested that the New Institutional Economics approach has a number of shortcomings. An example of this is the neglect of issues pertaining to the process of exchange between businesses, which is not taken into account when only looking at a single transactional episode. An episode is defined as a business transaction, which is limited by time (Ford, 1997). If one only concentrates on a specific point in time then it is impossible to consider issues like commitment, cooperation and trust which develop during a business relationship. One could also possibly look at conflict as something that develops in a long-term business relationship. The shortcomings of the New Institutional Economic Theorist are tackled by the interaction approach, which focuses on the long-term and complex nature of business relationships (Ford, 1997).

Interaction approach (IMP, 1982)
The roots of the interaction approach grew from the New Institutional Economic Theorists. In this approach the relationship between parties assumes centrality as a determinant of the functioning of business markets (IMP, 1982).

The four components of the interaction model are:
1. Actors in interaction for example buyers and suppliers;
2. Exchange episodes: The type of exchanges that can be made in business relationships include:
   a. Product or service exchange;
   b. Information exchange;
   c. Financial exchange (indicates the importance of a relationship) and
   d. Social exchanges;
3. Relationship atmosphere and
4. Environment of the relationship

The model exists around the idea that buyers and sellers are active participants in the market who can seek alternatives to provide them with what they want. Once a good supplier or
buyer is found a long-term relationship may be formed. In this approach the implications that single transactions can have on other aspects of interaction in the business will be considered. This is unlike the New Institutional Economic Theorist who focuses purely on closing the sale (Ford, 1997).

This aspect of the interaction approach is aligned very closely with the concept of CRM. In CRM, focus is placed on not pushing a customer into buying a good or service they do not want but instead selling them something they want which will make them happy and therefore be more likely to foster a long term relationship.

The analogy, which is often drawn regarding B2B relationship management and the interaction approach, is one of courtship and marriage (Dwyer et al, 1987; Ford, 1997). A buyer may court several suppliers, for example, however cooperation, commitment and trust are not developed until long-term relationships (marriage) occur (Ford, 1997). Relationships occur within an environment of atmosphere (Sutton-Brady, 2001). It is important to note that relationships can include both conflict and cooperation. It is possible for businesses to have important relationships with more than one business. This is known as networking.

Within the interaction approach with its focus on relationships there has emerged the concept of relationship portfolio analysis.

**Relationship portfolio model**

“Relationship portfolio analysis is a tool for analysing and managing a company’s network of relationships” (Leek et al, 2004). Leek et al, (2002) published an emerging model on relationship portfolio analysis which will be used in this study as was used by Leek et al, (2004). The model is designed to compare how suppliers and buyers manage their relationships differently, if at all. This model is based on three methods for managing relationships:

1. **A formal documented system:** This method takes a more objective view of the relationship for example looking at information like sales volume and profitability.
2. **Personal judgment:** Enables individuals who manage the relationship to take into account the subjective context of the relationship. For example looking at whether the atmosphere is positive or negative or looking at how important a specific relationship is which indicates what resources should be allocated to the management of the relationship Leek et al, (2002). This method enables extra information to be taken into account to supplement the formal documented system
3. **Regular meetings:** Having regular meetings with business relations facilitates the actions involved in having a relationship to be conducted for example ordering purchases. Regular meetings also provide an arena to discuss grievances, which will help promote a healthy business relationship. Regular meetings also ensure that parties to the relationship are working within the same framework. This means that if businesses meet regularly to discuss relevant issues everyone is more likely to be on the same page as far as expectations about where the relationship is now and where it is heading in the future (Leek et al, 2002).

The proposed research will be utilising the relationship portfolio analysis model to determine what business relationship management tools are used by buyers and suppliers between formal documented systems, personal judgement, regular meetings or a combination. This will provide managerial implication for practitioners regarding the implementation of relationship management techniques.

**Customer Relationship Management (CRM)**

CRM developed from relationship marketing including B2B in the mid 1990’s and became very popular and better known in the business world (Gummesson, 2004, p. 137). The link
between CRM and B2B is that effective B2B systems need to be in place in order to have positive flow on effects to CRM and thus maximise the benefits to both the consumer and business. For example to maintain adequate inventory levels (especially using Just In Time inventory methods) requires effective relationships with suppliers and thus effective B2B systems.

CRM and B2B both focus on the customer supplier relationship, however, one to one CRM doesn’t include the network dimension that is so important to B2B. A majority of the literature on CRM has focused on the one to one CRM perspective however Gummersson (2004) states that there are B2B applications for the literature to explore. For this reason a customer focused questionnaire from Leek, Naude and Turnbull can be used in the future to explore this area.

Further research is necessary on how relationships are managed in companies. The scope of this study focuses only on B2B, however, another survey specifically relating to customers and CRM is ready to further investigate the link between CRM and B2B within the context of relationship management. This is because a majority of the literature on CRM has focused on the one to one CRM perspective however Gummersson (2004) states that there are B2B applications for the literature to explore.

Aims

This study aims to determine if and how practitioners manage their business relationships using the relationship portfolio analysis model (Leek et al, 2002).

Objectives

- To determine if practitioners implement business relationship management techniques.
- To discover what relationship management tools are used:
  - Formal documented systems
  - Personal judgement
  - Regular meetings
- To discuss the managerial implications of the results for practitioners.
- To compare results with the Leek et al, (2004) study to identify if any significant difference exists between the management of business relationships in Australia and the United Kingdom.

Research Questions

1. Do companies in Australia manage their business relationships?
2. Do buyers and suppliers use business relationship management techniques in the same proportion? In other words do more buyers or suppliers manage business relationships?
3. Do suppliers and buyers manage their business relationships differently (Formal versus informal methods) (Leek et al, 2004)?
4. Do similarities exist in how Australian and British companies manage business relationships? If so how?
5. Has the adoption of relationship management techniques differed between Australian and British companies?
Hypothesis

Q1
H1: Australian companies do manage their business relationships
H10: Australian companies don’t manage their business relationships

Q2
H2: Buyers and suppliers use business relationship management techniques in the same proportion
H20: Buyers and suppliers use business relationship management techniques in different proportions

Q3
H3: Buyers and suppliers use the same techniques in the same proportion to manage their business relationships
H30: Buyers and suppliers use different techniques in different proportions to manage their relationships

Q4
H4: Australian and British companies manage their business relationships the same
H40: Australian and British companies manage their business relationships differently

Q5
H5: The rate of adoption of relationships management techniques for Australian and British companies was the same.
H50: The rate of adoption of relationships management techniques for Australian and British companies was different.

Methodology

Data will be collected using a postal questionnaire that was previously used by Leek et al, (2004). The reason for using this questionnaire is that the study is designed to fit into the context of a larger study that will allow for comparison with the Leek et al, (2004) study done in the UK and future international research. The other reason for using an existing questionnaire is that qualitative focus groups were used to develop the survey and has also been administered in the Leek et al, 2004 study. This means that the questionnaire has been well tested and thus will result in higher validity for this study.

Sampling

The questionnaire will be sent to 1500 companies in the wine industry across Australia. Half of the survey will be sent to purchasing managers (buyers) and half to marketing managers (suppliers) in an aim to obtain an equal sample of the two. The necessity of sending out, what would appear as an excessively large amount of questionnaires is that the Leek et al, (2004) study only attained an 8% response rate. Low response rates are synonymous with postal surveys of this nature especially when the questionnaire is long. If adequate response rates are not achieved via post then a research trip will be taken to either The Hunter Valley or Mudgee to increase responses by personally visiting companies.
The use of e-mail to gather data was considered however this would narrow the sampling frame as not all businesses use e-mail. Viruses and spam are also a concern regarding the response rates for e-mail surveys. The main reason for the administration of a postal survey is to maintain consistency with the Leek et al., (2004) study to enable comparison with it and future research in this series.

**Questionnaire content**
Areas that will be covered in the questionnaire include:
- If they have a system for managing relationships (formally/informally)
- How useful they find common methods for managing relationships
- Ratings of common methods
- Collection of perceived changes in the management of business relationships 4-5 years ago, now and 4-5 years in the future.
- Questions directly relating to the company for comparison purposes.

**Use of SPSS**
The data will be coded and analysed using Statistical Package for the Social Sciences (SPSS).

**Ethical considerations**
Ethics approval has been granted for Catherine Sutton-Brady to conduct this study and consent has been obtained for Karen Oliphant to participate as an honours student under her supervision.
The researcher is committed to conducting this project, in an ethical manner beholding to the highest standards, embodied by focusing on the rights of the participants at all time.

**Scope**
This study is designed to provide results to contribute to a larger international study. It would first be necessary to conduct further research into other industries in the Australian economy for example the financial services sector to provide more extensive picture of the management of business relationships in Australia. The suggested extension of this research would also facilitate a comparison between industries as the Leek et al, 2004 study did. The time constraints associated with this study do not allow this, however, it is expected that future research in this area will be carried out.

**Conclusions**
Although the benefits of managing business relationships have been widely researched, only two studies have looked at the implementation of these techniques. The existence of B2B relationship management techniques has not been empirically tested in the Australian context. This gap in the literature provides the justification for this significant field of research. By collecting and analysing data from the Australian wine industry and using the relationship portfolio analysis model the intended outcomes of the study are:
- To explore if relationship management is used in Australia and if so how;
- To examine how suppliers and buyers manager business relationships differently and
- To report on any managerial implications from the study of B2B relationship management in Australia.
Reference List


www.winetitles.com.au accesses on 17/6/04 at 12:30pm.

(http://www.abare.gov.au/research/agriculture/wine/wine.html accesses on 17/6/04 at 1:00pm.)
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