Creating Value for Competitive Advantage in Supply Chain Relationships: The Case of the Sri Lankan Tea Industry

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Abstract

The declining competitiveness of the Sri Lankan tea industry is an example of shifting competitive advantage in agribusiness. This research uses a case study approach to identify the specific role of information and communication on exporter/importer relationships within the tea supply chain, and the impact on value addition, channel member performance and competitive advantage in the Sri Lankan tea industry. The main primary data collection was conducted through thirty face-to-face executive interviews in Sri Lanka using an extensive semi-structured interview guide. Analyses of the information from the interviews were qualitative in nature. Results demonstrated how good information and communication between exporters and importers promote joint decision making, commitment and loyalty. In turn these affect relationship quality in respect of concepts such as trust, commitment, satisfaction and opportunism. Relationship quality was also shown to have impacts on value creation. Results indicated that this approach leads to inimitable strategic advantages for supply chain players whereby it is difficult for competitors to duplicate such relationships.

Keywords : *Relationships, Value Creation, Competitive Advantage, Sri Lanka, Tea*

Introduction

The Sri Lankan tea industry is of paramount importance to the country's economy. It is currently the highest net foreign exchange generator. It contributes around 14% to the total export earnings of the country. The industry also generates direct and indirect employment for over 1 million people in the country.

The Sri Lankan tea industry has tremendous potential for future growth and employment-generation if the relevant enabling steps to overcome its many problems and inefficiencies are taken. The declining competitiveness of the Sri Lankan tea industry is an example of shifting competitive advantage in agribusiness: increasing competition from countries such as Kenya, India and Indonesia has resulted in reduced market share and low prices in the international market. The country also suffers from relatively low productivity, high cost of production and hence drops in profitability (Liyanage 2003). It still lags behind in the value-added category of export teas abroad.
This research uses a case study approach to identify the role of information and communication on exporter/importer relationships within the tea supply chain, and the impact on value addition, channel member performance and competitive advantage in the Sri Lankan tea industry.

Market Structure : The Tea Supply Chain

In figure 1, the tealeaves are bought from the estate by a supplier or are sold directly to a factory where it is processed. This tea is then bought by a broker and is sold via an auction or through other means of sales to an exporter or to an overseas buyer. This supply chain can take many routes before reaching the final consumer, depending on the type of tea, methods of trade, market structure and type of buyer.

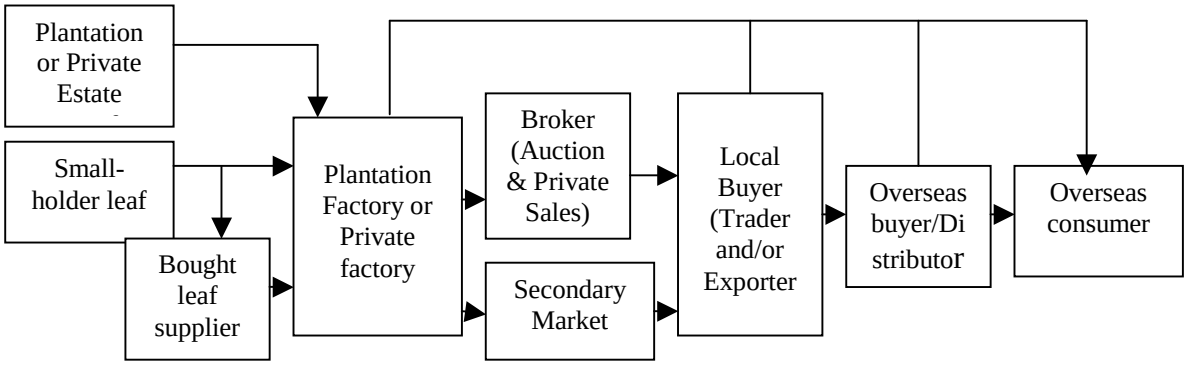

Figure 1. The Sri Lankan Tea Supply Chain

Aims and Objectives

This study hypothesised that better information/communication between the exporter and importer increases relationship quality, creating value in the relationship and thereby increasing channel member performance.

Literature Review

Information, Communication and Power

Cannon et al., (1999) define information exchange as expectations of open sharing of information that may be useful to both parties. More open sharing of information is indicated by the willingness of both parties to share important, even proprietary, information. In practice, this might include involving the other party in the early stages of product design, opening books and sharing cost information, discussing future product development plans, or jointly providing supply and demand forecasts (Claro et al., 2003). Communication captures the value of the information exchanged and is a key indicant of the partnership's vitality (Gaski 1984).

'Power refers to the ability of one channel member to induce another channel member to change its behaviour in favour of the objectives of the channel member exerting influence' (Wilemon 1972). It appears that the power to control or influence the other resides in control over the things that one values.

In most cases in the Sri Lankan tea industry, the exporter has no involvement in the product after it leaves the country. The exporter and importer exchanges information just adequate for a business transaction and therefore functions only within their given roles as exporter and importer. Hence, neither has in-depth knowledge about the other's businesses or the benefits that can be accrued from effective information exchange. The exporter stands to lose more from this lack of information/communication, as not only is he dependent on the importer for knowledge about

the end-consumer, but information from exporter's business reaching the end-consumer is also restricted as the exporter is not involved in product decisions such as branding, packaging, labelling, advertising, in-store promotions etc. This situation is true for majority of the exporters in the Sri Lanka/UK tea supply chain.

Types of Market Exchanges

For a long time, the industrial marketing literature and marketing channels literature characterised the interaction between actors who are engaging in transactional marketing exchanges in terms of power, conflict, and control. With the introduction of relational marketing exchanges, the interaction between actors is described using constructs such as trust, commitment, and co-operation. This means that an actor who is involved in relational marketing exchanges does not behave opportunistically and does not seek to influence the decisions or actions of the other actor (Morgan and Hunt, 1994). Since marketing exchanges are independent and discrete in transaction marketing, actors tend to focus on short-time economic gains. This is less true in relationship marketing because marketing exchanges are episodic, within a long-term buyer-seller relationship. Long-term gains such as social bonding and the prospect of future interaction and gains, therefore, become much more relevant. This is also the reason why the structural attributes of the relational marketplace are characterised in terms of relationships, networks, and interactions (Hingley and Lindgreen 2002, Haugland 1999).

Relationships

The development of interpersonal ties leads to a number of benefits. Communication between both parties is enhanced, and if problems occur, they are more easily addressed. Each partner's objectives in the relationship are better understood, which provide both parties with an opportunity to expand the relationship as a whole. Research suggests that relationships are strengthened by sharing research and consumer information, and by joint planning and problem solving which limits risks on both sides of the dyad (Claro et al., 2003). Most firms today try to apply Relationships Marketing (RM) to their business processes. In international marketing, the relationship between the buyer and supplier is the key determinant of business success (Kumararatne 2003). Relationship quality is considered to be the essence of RM. It is an important aspect in maintaining and evaluating buyer-seller relationships. Smith (1998) explains that there are several distinct dimensions that are used to measure relationship quality, such as, trust, commitment, satisfaction, willingness to invest, conflict, expectation of continuity and minimal opportunism.

Creating Value

Research on how value is created in relationships is scarce. Some researchers define value primarily on monetary terms, such as the revenue received from the customer and the cost of serving that customer, while others use broader definitions which include non monetary benefits and sacrifices such as competitive gains, competencies, social relationships, knowledge etc. (Möller and Törrönen 2003). In a study done by Möller and Törrönen (2003), business suppliers' value creating process was described as a spectrum ranging from core value, to added value, to future value. Walter et al., (2001) classifies the functions of a business relationship as direct and indirect. The key point to note here is that when value creation requires sustained joint efforts, such as is the focus of this research, the value is dependent on the characteristics of the particular supplier-buyer relationship (Möller and Törrönen 2003) (relationship quality).

Performance/Competitive Advantage

Although previously, the main goal of firms was considered as simply profit maximisation, with the recognition of the importance of competition and competitive advantage, a firm's primary goal is now considered to be maintaining a superior performance over a benchmark (Porter 1998). Barney (1991) argues that achievement of a superior firm performance is considered to be highly positively dependent on the firm's competitive advantage. Furthermore, he says that many have argued that achieving competitive advantage and superior performance are the primary goals of almost all firms. He explains that a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitor. A firm will *sustain* a competitive advantage when these other competitors are unable to duplicate the benefits of this strategy (Barney 1991). In this study, the measures of performance will be somewhat consistent with Claro et al., (2003) where it will be based on exporter-importer business relationship, which is a more long-term measure of performance. The reasoning underlying the expected positive influence of a strong relationship on performance is based on the reduction of transaction costs (i.e., sales growth rate) and achievement of mutual expectations (i.e., perceived satisfaction) (Claro et al., 2003). Joint planning and joint problem solving reduces the risk of unexpected problems and allows for creative forms of dealing with disagreements and other contingencies of the business relationships, which reduce transaction costs and consequently improves performance. In this regard, the joint actions allow a supplier to draw attention to their core business because there is little distraction to individually solve problems or revise a strategic plan that did not consider the contingencies of the buyer.

Conceptual Framework

A conceptual framework (figure 2) which captures the interconnected nature of these concepts was derived from the relevant literature on Supply Chain Management and Strategic Business and Marketing Management. Information and experience gained through interviews with key informants in the international tea industry was also significant in building this framework.

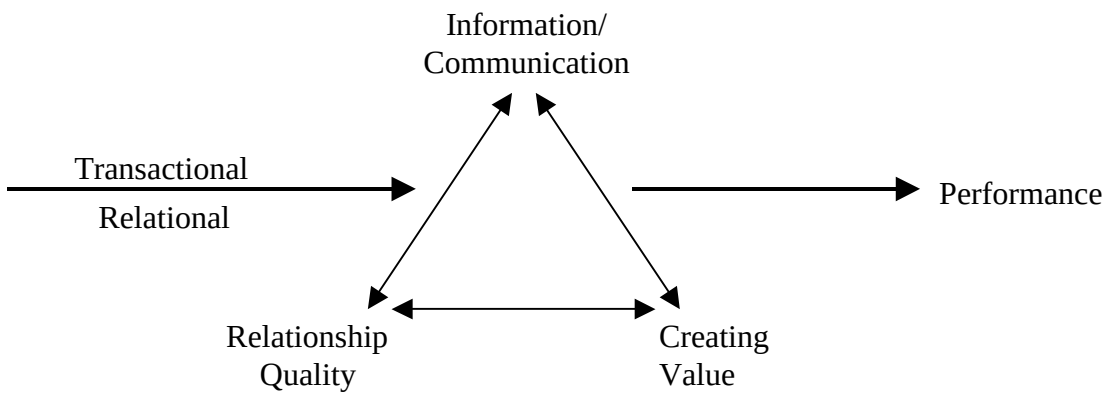

Figure 2. Conceptual Framework

Methodology

Although extensive interviews were the main focus for data collection, document review was also helpful in obtaining and substantiating some of the required data. A case study approach was taken to retain the meaningful characteristics of real life events in investigating the conceptual framework of this study. This entailed comprehensive understanding and extensive descrip-

tion and analysis of the particular situation under investigation and in its context. Data collection was divided into two sessions, the first of which was an exploratory stage in order to obtain more focus and understanding to proceed to the next stage of data collection. The main primary data collection was conducted through thirty face-to-face executive interviews in Sri Lanka and in the UK using an extensive semi-structured interview guide, conducted in the respective company settings. Most of the interviews were recorded digitally and hand written notes were taken at all interviews. This paper will focus on the results obtained from the interviews conducted on exporters in Sri Lanka.

Results

Analyses of the information from the interviews were qualitative in nature. This paper focuses on four specific case study interviews. The names of the interviewees and the respective export companies were kept anonymous to protect their identity. The results are presented in relation to the conceptual framework and the main concepts surrounding it. The four case studies validate the conceptual framework yet identify certain ideas that go beyond the visual representation of the framework.

Company 1

Interviewee: Founder Chairman and CEO
This is a large family owned company exporting branded tea to over ninety countries. Some of its main and successful export markets are Australia and New Zealand. This is the only tea export company in Sri Lanka that has been so successful in exporting its own brand globally. Country Managers are in charge of the operations in the countries to which this firm exports. Communication occurs almost daily with buyers in successful markets. This firm has relevant and timely information of markets, consumers and products, obtained mostly through the relevant Country Managers and through direct contact with buyer.
Frequent, direct contact with the buyers has helped to build long term, trustworthy and personal relationships which have been key to the success of this company in international markets. The owner and Founder-Chairman takes a keen interest in building and maintaining these relationships. Neither the buyer nor the seller behaves opportunistically. Conflicts are rare, and if they do occur, they are resolved amicably. The quality of the relationships this firm has with their buyers is high. For example through the relationship with the buyers in Australia, this firm has undergone product and process innovation, accrued new customers through reference impact of the buyer, gained knowledge of markets and consumers, and access to other relevant actors in the industry. The volumes exported have increased and the value-added aspect of the products is continuously increasing. The characteristics of this particular buyer-supplier relationship are such that it creates a substantial competitive advantage for this firm.

Company 2

Interviewee: Managing Director
This is a small family business exporting commodity teas to about six countries, with UK being one of the main accounts. The buyer in the UK is a prestigious family owned company with whom this company has been conducting business for about fifteen years. There is good communication between the buyer and seller. Although the person from the buying company changes every nine to ten months, it has been the Managing Director of the exporting company who has been personally looking after the UK account for the last 15 years. The success of the business has been the long term relationship with buyer. This relationship has been strengthened by

the fact that both companies share similar values which have evolved similarly through the years. There is a strong element of trust and satisfaction in this company regarding their account in the UK. There has been good communication and understanding between both parties. Although relevant information about the product has been communicated in a timely manner, consumer and market information has been received scarcely through the buyer. However, some information has been divulged when asked. Conflicts have been rare. The few times that conflicts have occurred have been due to incomplete information flows. This exporting firm has been able to increase export volumes to the importing firm while many other exporter volumes to the UK have dropped. This firm attributes their success to the long-term relationship that they have with the importer.

Company 3

Interviewee: Tea Taster/Tea Trader
This is an average sized tea exporting company trading with over fifteen countries. The UK account is not a major one, but they have been doing business with a reputed organisation in the UK for about 2 years. Although the product sold to the UK is not a commodity it does not classify as a finished product either. This is a unique case where the product lies somewhere between the two extremes of a finished product and commodity. The final product sold to the consumer bears the Ceylon name and is distinguished through its unique selling point of the name of the tea plantation garden. The relationship between the buyer and seller is an average one where no single characteristic can be found as outstanding in terms of attributing it to the success of the business. Relevant product information has been communicated adequately although market and consumer knowledge is rare. This firm believes that market and consumer knowledge is not important as they perceive themselves as dealing in a commodities market rather than a more value added market. It is too early to determine the success of their business with the UK as they only just ventured into this new programme. This firm has not yet been able to accrue new customers or enter new markets through the reference impact of the buyer. This company does not acknowledge that any future success in the UK can be attributed to the strength of the relationship. Instead they think that what really counts is the price that they receive for their product.

Company 4

Interviewee: Managing Director
This company is an average sized tea exporting company exporting to over twenty countries world wide. They handle a well reputed and prestigious account in the UK for the last fifteen years trading in commodity teas. This Managing Director has been personally handling the UK account during this time although the buying person from the UK has changed many times since then. They have exchange training programmes with the buying company which enables both parties to gain a wider knowledge of the industry. Trading is based on trust and is often referred to as a ‘gentleman’s trade’. Relevant product information is communicated between the buyer and the seller although market and consumer knowledge is inadequate in the exporting firm. This firm believes that this knowledge is not as important as catering to the buyer’s requirements as this firm deals in a commodities market. Export volumes from this company to the UK have dropped in recent years. The exporting firm highly values the prestige of supplying the UK account. This interviewee does not believe that the importing firm will behave opportunistically although other interviewees in the company were not so sure. Although most of the interviewees agreed that the relationship was important, in their business dealings, they also emphasised that ‘price is the name of the game’.

Discussions

The results help to understand the different types of value creation in supply chain relationships between a developing country exporter and developed country importer, and its link to performance. The results indicate that those exporters who perceive themselves as performing only the function of export, do not value the concept of relationship building or the importance of obtaining more information about markets and consumers. However, those who have built long term trustworthy relationships have enjoyed increased export volumes, more satisfaction, less opportunism and more product innovation. Even those exporters who export a commodity but have built relational exchanges over time have enjoyed more equal balance of bargaining power in the exporter-importer relationship leading to higher performance. These exporters have used the value created within the relationship in order to break away from the commodity trap and build more value to the product within the exporting country. In other words, not only do such relationships build value within the relationship through the possibility of gaining new customers, obtaining market and other information and gaining access to other supply chain participants but they also enable to create value in the product through product and process innovation. These relationships promote joint discussion and decision making. Such relationships become a competitive advantage for companies whose competitors find it difficult to duplicate the advantages.

Conclusions

The results from the four case studies conclude that value has been created in various ways according to the type of relationship. It is evident that the acquisition of foreign market information is a problem commonly experienced by exporting firms which is a disadvantage when competing in international markets. Such exporters rely on what little information they have and compete purely on the basis of price and are dependent on it for success. In long term trustworthy relationships the development of interpersonal ties leads to a number of benefits. Communication between both parties is enhanced. If problems occur, they are more easily addressed. Each partner's objectives in the relationship are better understood, which provide both parties with an opportunity to expand the relationship as a whole. Some of the firms analysed above use long-term relationships as a means to improve their credibility and reputation. In theory, customer value literature suggests that a customer in a valued relationship should be willing to pay a higher price for a higher-quality product, and similarly, it is argued that a supplier's investment in a close collaborative business relationship should provide the supplier with an opportunity to ask for higher prices than competition. This was seen in practice in some of the case studies above.

The Sri Lankan tea industry has tremendous potential for future growth and employment-generation if the relevant enabling steps to overcome its many problems and inefficiencies are taken. Much of the supply chain inefficiencies are due to short-term individual stakeholder interests being lobbied at the cost of long-term viability of the industry.

It is evident that value creating relationships enhance competitive advantage which then enhances market share, profits, customer satisfaction and sales growth. The results of this research confirmed most aspects of the literature, but more importantly it has been able to identify the links in concepts such as relationship quality, creation of value and competitive advantage, on which empirical research is scarce.

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