Value Creation in Relationships between Australian Wineries and their Wine-Grape Suppliers

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Abstract

A global oversupply of wine, international and domestic retail consolidation and decreasing returns for wineries and grape growers are key challenges currently facing the Australian wine industry. Addressing these concerns, both wine-grape growers and the wineries are adopting a value-driven relational marketing approach to profitably grow the demand for Australian wine. Wineries are developing closer long-term relationships with their contracted grape suppliers to obtain grapes that will enable them to produce the wine styles necessary to meet market demands. In order to prosper, these customer-supplier relationships must achieve the desired benefits and fair value for both parties. However, conceptualising relationship value raises a number of important questions. What are the main determinants of relationship value for customers and for suppliers in the wine-grape industry? How do these two parties create value in their relationships? To answer these questions a theoretical model is proposed to examine the relationship value that is created between Australian wineries and their grape suppliers. Essentially, these dyadic relationships will be examined from both the customers and the supplier's perspective.

INTRODUCTION

Over the last fifteen years, the Australian wine industry has grown appreciably, led by spectacular success in export markets. Lured by the opportunity to make a significant return on their investment, farmers and investment syndicates have invested heavily in the industry. But today, the Australian wine industry faces a serious oversupply. The current stocks-to-sales ratio of 2.1:1 compared to a required level of 1.7:1 suggests that the present inventory holdings of 1854.5 million litres are too high (AWBC 2003, ABS 2004a). Growth in domestic sales is relatively stable at around 3-4 percent annually, while competition in the export market from both the traditional and other New World producers is putting substantial downward pressure on prices.

Australia is now the fourth largest wine exporter in the world (WID 2005). Over many years, Australia has achieved strong sustained growth and international competitiveness across all price points on quality-for-money (AWBC 2003, Stanford 2005). Nevertheless, the change in the product value mix is of concern as export sales increase at lower price points. Furthermore, there has been a significant reduction in the premium and super premium segments over the last two years (van der Lee 2004).
As a result, there has been a considerable decline in the average dollar per litre return on sales. While Australian wine exports increased 13 percent by volume in 2003/04, over the same period, the value increased by only 2.9 percent (ABS 2004a, ABS 2004b). Similarly, domestic sales increased 3 percent by volume, but lost 6 percent by value. Reasons for the change have been attributed to a greater consumer interest in lower price-point wine, consolidation in the retail sector, excess wine in international and domestic inventories and less favourable exchange rates (Stanford 2005).

Declining returns in the Australian wine industry now threaten the financial viability of all but the major wine producers. The average rate of return has declined from 7.6 percent in 1997-98 to 4.2 percent (EBT/total assets) in 2000-01 (AWBC 2003). Returns on vineyard operations showed a similar decline due to falling prices for both red and white wine-grapes as a result of the current global and domestic oversupply (Clancy 2005). In order to compete, both wine-grape growers and the wineries themselves are adopting a value-driven relational marketing approach to profitably grow the demand for Australian wine (CIE 2004, Hoj and Pretorius 2004). Wineries have developed closer relationships with their contracted grape suppliers in an integrated effort to achieve an assured supply of the grapes they need to produce the wine styles necessary to meet market demands. As directed by their customers, grape growers manage their yields, grape sugar, colour, berry size, pH levels, titratable acidity and pest and diseases (Clancy 2005). In the export market particularly, wine-grape growers need to comply with mandatory requirements for the use and application of agrochemicals.

If relationships are to be sustainable, suppliers need to be rewarded appropriately for a reliable supply of consistent quality grapes that meet the winery’s specifications (Allen 2003). Contracted growers generally cooperate with wineries in the adoption of new technologies and often sacrifice yields in the pursuit of quality grapes for their customers. This willingness to grow the grapes that wineries require has given Australian wine exports a quality advantage over international competitors at most price levels (Clancy 2005). Nevertheless, many wineries and wine-grape suppliers find that although their sales revenues are growing, it is often at the expense of profit.

In order to flourish, these customer-supplier relationships must achieve the desired benefits and fair value appropriation for both parties. However, conceptualising relationship value raises a number of important questions. What are the main determinants of relationship value for customers and for suppliers in the wine-grape industry? How do these two parties create value in their relationships? To answer these questions a theoretical model is proposed to capture both customers’ and suppliers’ perceptions.

This work-in-progress paper has a three-fold purpose. First, the paper provides a review of the value concept, particularly in relation to relationship value. The paper then describes the methodology adopted to undertake an exploratory study of the long-term relationships between wine grape suppliers and the wineries that purchase their grapes. While this paper does not discuss the findings of this study, based on the findings and
the review of literature, a value-based relationship model is developed. Each relational construct and the relationships between the constructs are described.

THEORETICAL FOUNDATION


However, relationship value means different things at the episode, relationship and network level (Mandjak et al. 2003, Mandjak and Simon 2004). Furthermore, as Mandjak et al. (2003) point out, each person involved in the same business relationship may perceive the combination of determinants differently.

Value is the term used to describe “the worth in monetary terms of the economic, technical, service and social benefits a customer firm receives in exchange for the price it pays” (Anderson and Narus 1999, p. 5). Customer value depends on the functionality or performance of the suppliers, offer quality and the supplier’s ability to meet customer expectations in the exchange (Anderson and Narus 1999, Ford et al. 2003). Such is the nature of episodic exchange where the value is created by the supplier and consumed by the customer (Pardo et al. 2005).

However, value at the episode level does not capture the value that is created by the exchange relationship itself (Pardo et al. 2005). At the relationship level, “…the relationship itself becomes the resource that creates value” (p.13) and “the separation of actors into customer and suppliers is less important […] as value is essentially linked to both partners in the interaction” (p.14).

While Wilson (1995) suggests that not all relationships are symmetrical, for the relationship to succeed, each party needs to see some benefit that is greater than that they could obtain if they worked independently.

Interdependence provides the means to create value between trading partners through activity, resource and actor relationship dimensions (Hakansson and Snehota 1995, Ford et al. 2003). Activity links are intended to create efficient activity structures between the customer’s operations and those of the supplier. Tightening the activity links will closely align and coordinate the activities of the two firms. Resource ties are the outcome of the ways that the trading partners have combined their resources. To strengthen resource ties, a firm may dedicate resources such as offerings, operational facilities and organisational roles to a counterpart. Finally, actor bonds have to do with attitudes, trust and commitment. Trust based interactions create a willingness to make strategic investments and commitments and increase interdependence (Wilson 1999).

Closer, more collaborative relationships enable both trading partners to become more efficient and cost effective (Kalwani and Narayandas 1995). By working together, customers and suppliers can achieve cost savings through reduced search and evaluation costs, reduced transaction costs (Hakansson 1982) and the learning effects and
relationship specific scale economies (Gundlach, Achrol and Mentzer 1995). Customers can benefit from improved access to a more reliable supply of production inputs (Hakansson 1982) and improved product quality and performance (Han, Wilson and Dant 1993). Through a better understanding and ongoing satisfaction of customer needs, suppliers can achieve greater customer loyalty and higher repeat sales (Evans and Laskin 1994). Buyers may become less sensitive to price competition and suppliers may benefit from higher prices (Kalwani and Narayandas 1995). Both parties are better able to plan and forecast production schedules (Lohtia and Krapfel 1994), optimise operational processes (Werani 2001, Walter et al. 2001, Walter et al. 2002) and coordinate deliveries (Easton and Araujo 1994). However, the greatest benefit arising from collaborative relationships is the reduction in uncertainty for both parties (Hakansson 1982, Dwyer, Schurr and Oh 1987, Heide and John 1990, Noordewier, John and Nevin 1990, Oliver 1990, Han, Wilson and Dan 1993).

At the relationship level, benefits can be examined along three dimensions: economic, behavioural and strategic (Wilson and Jantania 1997). The economic dimension includes cost reductions that contribute directly to profitability. Cost savings are derived from a smaller supply base or just-in-time concepts. The behavioural dimension ensures the long-term growth of the relationship through the development of mutual trust. The strategic dimension captures the need to achieve competitive advantage, to strengthen core competencies and to create market position.

Walter et al. (2001, 2002) developed a framework of value creating functions, direct and indirect, from a supplier’s perspective and from a customer’s perspective. Direct functions that create value for a supplier are: profit function, a volume function and the safeguard function. Indirect functions that create value for the supplier either in the future or in other relationships are: the innovation function, the market function, the scout function and the access function. A similar study by Walter et al. (2002) adopted the same framework, without the access function, to examine value-creation from a customer perspective. However, these studies only conceptualise relationship benefits, not relationship value (Werani 2001).

Werani (2001) maintains that relationship value should be examined in terms of the difference between relationship benefits and sacrifice. Relationship sacrifice (negative value components) may include the cost incurred in any additional expenditure of time, the additional coordination costs within each firm, the additional coordination costs between the firms and increased costs of relationship maintenance.

For this study, relationship value is recognised as a subjective measure of the perceived benefits less the perceived sacrifices. Perceived value in relationships can be improved by either increasing relationship benefits or reducing relationship costs (Werani 2001, Eggert, Ulaga and Schultz 2005).

**RESEARCH METHODOLOGY**

Exploratory research to examine the nature of the dyadic relationship between wine producers and wine-grape suppliers was undertaken in Western Australia in 2005 to
develop a theoretical value-based relationship model to fit the Australian wine industry. The sample comprised eight purchasing managers from the wineries (customers) and sixteen vineyard managers or owners (suppliers).

In-depth interviews were conducted in matched 'comparative pairs' (Storer 2004). This procedure required each wine producer in the sample to choose two wine-grape suppliers. Specifically, the first supplier must be a "preferred supplier". The winery then had to choose one other grower who may or may not be a preferred supplier. However, as a comparative study, the first supplier must be more important to the firm than the second. During the interview, the respondents were asked to answer a number of questions in relation to supplier A and supplier B, respectively. This response format gave the interviewer an immediate opportunity to explore the differences in the buyer's relationship with the two suppliers. Nominated suppliers were then invited to participate in an interview to answer similar questions from a supplier perspective.

The questions in the semi-structured interview were developed from an extensive literature review. Gaps in the research were identified along with potential variables or relational attributes of interest to describe value-based customer-supplier relationships in the Australian wine-grape industry.

Each interview was between one to two hours duration and was taped with the permission of the participant. Following transcribing, the information was analysed using qualitative data analysis 'NUD*IST' software. The summary of key findings was fundamental to the development of the model and survey instrument for the subsequent quantitative phase of the research.

A THEORETICAL MODEL OF CUSTOMER-SUPPLIER RELATIONSHIPS IN THE AUSTRALIAN WINE AND WINE-GRAPE INDUSTRY

Collaboration has been identified as a third way between markets and hierarchies to achieve competitive advantage (Anderson and Narus 1999, Werani 2001). Together, customer and supplier firms use their respective resources, time and capabilities to deliver superior value in the target market. As a result, relationship value must be examined from the buyer's perspective and from the perspective of the supplier, based on the assumption that both partners are actively involved in creating value in the relationship (Wilson 1995, Ford et al 1998, Forsstrom 2003).

Considerable research has been done to examine joint value creation in buyer-seller relationships (Wilson 1995, Ravald and Gronroos 1996, Ford et al 2003, Werani 2001, Forsstrom 2004, Mandjak et al 2003, Mandjak and Simon 2004, Pardo et al 2005). Yet it takes different mixes of cooperation and competition for relationships to be effective, depending on the market(s) in which the customers and their suppliers operate, the pattern of their past interaction and/or the nature and goals of the firms (Wilkinson and Young 1997).

The selection of model constructs is based on previous dyadic relationship research (Campbell 1985, Anderson and Narus 1990, Mohr and Spekman 1994, Morgan and
Hunt 1994, Werani 2001, Walter et al. 2002), particularly in the Australian wine industry (Batt and Wilson 2001, Allen 2003) and the results of preliminary field research (Hobley 2005). Iterating between theory and practice has led to the development of a set of nine potential relationship characteristics through which value is created (Figure 1).

**Figure 1: Model of constructs in value-based customer-supplier relationships**

Value creation depends on the ability of the winery and their grape suppliers to deliver high performance on those quality attributes that are important to the consumer at pre-determined price points (Wilson 1999). Therefore, the nature of the relationships between wineries and wine-grape growers requires a degree of interdependence (Batt and Wilson 2001). The wineries will seek contracts with those grape suppliers with the resources and capabilities to add value to their product offer through the consistent supply of quality grapes which meet specifications, while the suppliers need to be technically-guided and adequately rewarded for their contributions in this process. These tasks call for the two parties to work closely together. The main issue facing winery purchasing managers is no longer about buying the right grapes at the right price, but of developing and maintaining cooperative relationships with contracted suppliers over long periods.

In the relationship marketing theory, the greatest support has emerged for the key constructs of satisfaction, trust and commitment (Anderson and Narus 1990, Mohr and Spekman 1994, Morgan and Hunt 1994, Werani 2001, Walter et al. 2002). Batt and Wilson (2001), verify that both wineries and grape growers report a high degree of satisfaction, trust and commitment in their relationships with their preferred trading partner.
Communication and information exchange has a necessary role in the interaction process (Campbell 1985, Forsstrom 2003). Through communication, trust is built, commitment is demonstrated, performance requirements and expectations are discussed and problems are resolved (Ford et. al 2003). Adaptations occur in order to bring about a “fit” between customer and supplier firms as they seek to respond to the changes within the business environment in which they operate (Canning and Brennan 2004). The relationship coordination mechanism will vary as a function of the power and dependence that exists in the relationship (Anderson and Narus 1999). These factors will impact on the administrative mechanisms for decision making, the level of relational norms and the use of influence strategies in the coordination process (Dwyer 1993).

The dependent variable in the model is the perceived relationship value. Therefore, one would expect to find a focus on value optimisation in the development of cooperative strategies between customers and their suppliers (Werani 2001).

**Commitment**

Commitment captures the long-term dimension of the relationship atmosphere. Morgan and Hunt (1994) propose that a firm will commit to a partner when the relationship is considered so important as to warrant maximum effort to maintain it. This entails a willingness to make short-term sacrifices to realise long-term benefits from the relationship (Dwyer, Schurr and Oh 1987).

Commitment has three different dimensions: affective commitment describes a positive attitude towards the future existence of the relationship. Instrumental commitment is shown whenever some form of investment (time, other resources) in the relationship is made. Finally, the temporal dimension of commitment indicates that the relationship evolves over time (Gundlach, Achrol and Mentzer 1995).

In the temporal dimension, the degree of long-term orientation rather than the duration of a relationship seems to be a better indicator of commitment in a relationship (Anderson and Weitz 1992). Exchange partners with a long-term orientation focus on achieving future goals and are concerned with both current and future outcomes (Ganesan 1994). Cooperative relationships have a higher degree of long-term orientation (Werani 2001) which gives partners greater opportunity to optimise the efficiencies achieved through joint synergies as a result of investment in and exploitation of idiosyncratic assets. While the investment is not likely to lead to ownership, the end result is the same - a strategic commitment to the performance of the trading partner (Wilson 1999). As the level of investment increases and firms consequently lose some independence, a position of mutual dependence or interdependence is created.

Generally, wineries have reduced the number of their wine-grape suppliers as collaboration in technical development is resource-demanding (Hobley 2005). Wineries often demonstrate their commitment to the relationship through provision of competent and technically trained representatives, usually the vineyard manager and the
winemaker, who work cooperatively with suppliers to produce grapes of the desired quality. As the wine-grape industry is currently a buyers market, wine-grape suppliers are generally very committed to meeting winery quality requirements for the continuation of their supply contracts.

**Trust**

Trust involves benevolence, which focuses on the motives and intentions of the exchange partner (Ganesan 1994). It is belief that one relationship partner will act in the best interests of the other partner and will not take unexpected actions that may result in negative outcomes (Anderson and Narus 1990, Geyskens et al. 1996). Trust also has a credibility component which is based on the extent to which one relationship partner believes the other has the required expertise to perform the job effectively and reliably. There is an expectancy held by an individual that the partner’s word or written statement can be relied on (Ganesan 1994).

Trust is strengthened when: (1) the other party has a reputation for being fair and is concerned about achieving mutual welfare; (2) past outcomes from the working relationship have been satisfactory; and, (3) the two parties have successfully resolved critical problems in the relationship (Ganesan 1994, Leonidou 2004). When trust is low, the relationship may still continue, but it may become intolerable because of outcome uncertainties and dysfunctional behaviours.

Relationships characterised by trust are more highly valued and parties have the desire to commit themselves to such relationships (Hrebiniak 1974), therefore, trust is considered to be an essential antecedent of commitment (Moorman et al. 1992, Morgan and Hunt 1994, Walter et al. 2000). Trust encourages firms to work at preserving relationship investments by cooperating with exchange partners and to view potentially high risk actions as being prudent because of the belief that partners will not act opportunistically (Morgan and Hunt 1994). It is the degree of trust and commitment that exchange partners have built-up in a relationship that influences their behaviour towards each other and their handling of collaborative opportunities (Ford et al. 1998).

**Satisfaction**

Satisfaction is defined as the extent to which the exchange transaction meets the performance expectations of the partner (Wilson 1995). When exchange between the customer and the supplier takes place in a manner that exceeds performance expectations then satisfaction will arise (Batt and Rexha 1999). Customer satisfaction relates to performance on key attributes within the product offer. The satisfaction of wine-grape buyers will be based on the expectation of growers producing grapes of the appropriate maturity, purity and condition as per the grape purchasing agreement (Allen 2003). Other key aspects of the exchange include the expectation that growers will manage cropping levels to specification, produce timely and accurate crop estimates, harvest at the targeted Baume and ensure minimal delay between harvest and delivery to the winery.

For grape growers, satisfaction occurs when they are able to provide the crucial attributes specified by the winery and are adequately rewarded. Grower satisfaction is
also likely to depend on the provision of clear, written and understandable wine-grape specifications and the competency and timely support of winery viticultural staff with seasonal vineyard management and load assessments prior to harvest (Alien 2003).

Those firms with an independent, short-term orientation will rely on the efficiencies of the market exchange to maximize their profits, satisfaction and value in the relationship. However, providing customer satisfaction is no longer enough to win customer trust, loyalty and repeat sales (Wilson 1999). Only through ongoing satisfaction with performance outcomes will social and economic ties strengthen between partners (Ganesan 1994, Walter et al. 2000). Therefore, it is expected that those relationships between wineries and wine-grape suppliers that have an interdependent, long-term orientation will create a higher level of value.

Adaptation

Interdependent activities and resources are often modified and adapted to bring about a better match between the firms (Hallen et al. 1991). Interdependencies may be: (1) technical – product and production processes; (2) logistical – delivery systems; (3) administrative – planning and scheduling systems; (4) financial – handling of payments; (5) knowledge – information exchange; acting together in technical matters; and, (6) mutual orientation (Johanson and Mattson 1987, Canning and Brennan 2004). In the wine industry such adaptations may involve technical changes in vineyard operations or improvements to the coordination of harvest and grape delivery. The winery may improve inter-firm information transmission via the internet. Hence, by combining their resources and activities more successfully than other suppliers, a wine-grape grower is able to offer superior value to a customer and so enjoy a stronger position in the market (Wilson 1995, Ford et al. 2003, Canning and Brennan 2004). Likewise, a supplier who strives to consistently produce grapes to the winery’s quality specifications will enhance the competitive position of the winery.

Adaptation can achieve better use of resources via the alignment of activities and strengthen actor bonds (reduce opportunism, increase trust and commitment) as a result of companies performing adaptations for the benefit of a particular relationship or partner (Brennan and Turnbull 1999, Ford et al. 2003). As the relationship between two partners develops, their mutual adaptations increase, costs of termination increase and their commitment to each other grows (Ford et al. 1998). The formation of strong resource ties in the relationship leads to symmetrical interdependence or mutual dependence due to the limitation on a firm’s opportunities to adapt to others (Ford et al. 2003).

Communication

Communication is the basis for interaction between suppliers and customers (Ford et al. 2003). It refers to the formal and informal communication between trading partners concerning day-to-day, tactical and strategic issues (Anderson and Narus 1999). There are two main roles for interpersonal communication in business relationships. First, the role of information sharing, which is the extent to which partners voluntarily keep each other informed about important matters (Mohr and Spekman 1994). A key aspect of
information transmission is communication quality in respect to being accurate, timely, adequate and credible. Second, there is the role of communication in negotiation and adaptation. Personal contacts can provide a context for negotiation and a focus for coordinating adaptations in both firms (Ford et al. 2003).

The essential difference between cooperative, value-based relationships and general business relationships is the specific quality of the interaction process (Werani 2001). Collaborative communication applies to the extent to which communication is frequent, explicit, bi-directional (includes positive and negative feedback) and non-coercive (Mohr et al. 1999). There is also a tendency for trading partners to rely less on contractual safeguarding and more on implicit agreements and the cooperative norms that develop through their relationship (Werani 2001).

Osborne (2000) describes how there is a significant amount of communication and information exchange between wineries and grape suppliers, depending upon their individual needs. The communication tends to be focused on achieving performance satisfaction (Batt and Wilson 2001). Grape growers need advice on what grape varieties to grow; quality, timely support from winery viticulture staff; and constructive feedback on the vineyard assessments, the resultant quality of the grapes and any recommendations to assist with improvement (Allen 2003). Likewise, wineries need the supplier to inform their representatives of any information or change that could affect the expected grape quality or yield. With this two-way provision of information, it is not only possible to improve grape quality and increase returns, but clear and open communication enhances feelings of security (Batt and Wilson 2001).

Communication, especially when timely, fosters satisfaction and trust by aligning performance requirements and expectations, and facilitating dispute resolution (Anderson and Narus 1990, Morgan and Hunt 1994). Effective communication between exchange partners is a necessary antecedent of trust (Anderson and Narus 1990, Hunt and Morgan 1994, Friman et al. 2002). Disclosing confidential information to an exchange partner exposes one’s vulnerability, therefore, a bi-directional flow of information between both parties is essential for creating and sustaining trust (Friman et al. 2002).

Cooperative norms

Norms are expectations about behaviour that are at least partially shared by a group of decision makers (Gundlach, Achrol and Mentzer 1995). Such can be defined as the extent to which partners have beliefs in common about what behaviours, goals and policies are important or unimportant, appropriate or inappropriate, right or wrong (Morgan and Hunt 1994). Cooperative norms reflect expectations that a customer and their supplier have about working together to achieve mutual and individual goals (Cannon and Perreault 1999). High levels of ideological agreement and goal compatibility contribute to high levels of cooperation (Frazier 1983). For as long as both partners see their goals being best achieved by joint action, they are motivated to maintain the relationship (Wilson and Moller 1995).

In order to encourage cooperation, firms promote shared cooperative norms relating to how to work together, how to jointly create value and how to share benefits (Anderson
and Narus 1999). These norms include flexibility, solidarity and participation (Bercovitz et al. 2002). Flexibility in response to changing conditions, solidarity, where interdependence is desirable and the preservation of the relationship is an important end (Kaufmann and Stern 1988), and participation, the expectation as well as the realisation that joint decision-making facilitates collaborative change (Dwyer and Oh 1988).

Wine-grape growers and winemakers need to work cooperatively to produce grapes of the desired quality. Growers have to go the extra mile with wineries today to retain contracts (Hobley 2005).

**Dependence**

Dependence refers to the importance of a given relationship to a supplier or customer firm (Anderson and Narus 1999). The partner who is least dependent on the relationship is generally more dominant in the exchange. Dependence increases a firm’s vulnerability by creating problems of uncertainty or unpredictability and reducing autonomy and strategic freedom (Gelderman and Van Weele 2004). The sharing of value will be to the advantage of the dominant partner (Anderson and Narus 1999, Gelderman and Van Weele 2004). Contrary to a position of balanced power, these circumstances can reduce or eliminate feelings of trust and commitment on the part of the dependent firm (Wilson 1995).

Gelderman and Van Weele (2004) propose that a customer’s dependence is primarily based on a need for the supplier’s expertise, capabilities, resources and logistical indispensability. The higher the percentage of sales and profits that a supplier’s product provides and the greater the expectation of sales and profits in the future, the greater the customer’s dependence (Frazier, Gill and Kale 1989). On the other hand, supplier dependence is attributed to the financial magnitude of transactions and the need for technological input and transfer of know-how from the customer.

In addition, both parties need to consider such factors as the availability of alternative exchange partners and the switching costs incurred when replacing a trading partner (Gelderman and Van Weele 2004). For example, although a consistent supply of quality wine-grapes is critical to the quality of the wines produced, the current grape oversupply has created a surplus of alternative sources. In these market conditions, the wine-grape supplier is usually the more dependent partner. However, replacing an existing grape supplier with another can incur huge non-recurring expenses for the winery in “breaking-off” and “setting-up” costs (Benito et al. 1999). These exit barriers result in a measure of interdependence between the wineries and their contracted, preferred wine-grape suppliers.

Furthermore, a dependent relationship partner may ensure that they are treated fairly and equitably through dependence-balancing operations (Anderson and Narus 1999). For example, a wine-grape supplier may choose to increase the level of relationship-specific investment to match the commitment of the winery and thereby increase their value to this partner. Other options may be to sell the grapes to multiple wineries to reduce dependence on the one customer or to diversify grape varieties, as the price
effects of supply and demand do not impact on every variety at the same time. These strategies can reduce dependency in times when the market favours wine-grape buyers.

**Power**

Power resides in the ability of one firm to make another do what it would not have done otherwise (Gaski 1984). According to French and Raven (1959), power is derived from the more dependent firm’s perception of the dominant firm’s ability to mediate rewards, mediate punishment, its legitimate right to prescribe behaviour, some specific knowledge or expertise and the extent to which the more dependent firm identifies with the dominant firm.

Nevertheless, a dominant partner can use their power either collaboratively or coercively (Ford et al. 2003). Collaborative firms exercise their power to coordinate through influence strategies such as information exchange to demonstrate the benefits of the required actions and recommendations (Dwyer 1993, Anderson and Narus 1999). A willingness to share important market information and know-how can elevate the level of relational coordination between the firms. Recommendations for the specific purpose of increasing the other partner’s success require a measure of trust and can build commitment in the relationship (Dwyer 1993).

In circumstances where coercive power is used, there is likely to be less reliance on relational behaviours to achieve the desired outcomes for the dominant party. Frequently, the firm will dictate the actions of the other party through strict, one-sided contracts and place high reliance on threats, requests and legalistic pleas (Anderson and Narus 1999). High power parties are motivated by the goals of greater decision-making control, efficiency and often have the legitimate authority to act. Nevertheless, a firm that sees the relationship in its own terms and only as a way of solving its own problems will fail to identify with the motivations and the problems of others (Ford et al. 2003). Overt attempts to directly influence weaker parties through the use of coercive power are generally viewed with considerable disfavour. Not only will this lead to conflict, but the relative attractiveness of alternative trading partners will increase (Frazier and Summers 1984).

**Conflict resolution**

Conflict refers to the general level of disagreement between customers and suppliers (Anderson and Narus 1999). Although some level of conflict is normal in every relationship, if the conflict gets out of hand it may be harmful to the relationship or even cause its demise. Conflict is either attitudinal or structural (Leonidou 2004). Attitudinal conflict may be due to ill defined and poorly performed roles, different expectations about potential outcomes, different opinions about the relationship or the capabilities of the parties involved. Structural conflict usually occurs due to the pursuit of different or even opposite goals by participants, the need to protect and maintain autonomy in the relationship and competition between the two parties for the same resources (Etgar 1979).
Firms in cooperative relationships are motivated to engage in joint problem solving since integrative outcomes satisfy more fully the needs and concerns of both parties (Mohr and Spekman 1994). Partners may attempt to persuade each other to adopt particular solutions. This approach is generally more constructive than the use of coercion or domination. In some partnerships, the method of conflict resolution is institutionalised and third party arbitration is sought (Anderson and Narus 1999). Other conflict resolutions are at odds with the cooperative approach such as smoothing over, ignoring/avoiding the issue and harsh words.

According to Ganesan (1994), when two parties have successfully resolved critical problems in the relationship, then mutual trust will strengthen. Furthermore, firms that lower the overall level of conflict in their relationship experience greater satisfaction (Anderson and Narus 1990).

**CONCLUSION**

The nine relational attributes in the model provide a theoretically sound means of examining the relationship value that is created between Australian wineries and their wine-grape suppliers. The model reflects the value-driven relationship marketing strategy that is currently being adopted in the Australian wine industry. In this value-based approach, wineries and their wine-grape suppliers must shift the emphasis for profit reporting off the product, to one where the relationships are the unit of analysis. Then, each relationship can be managed for clearly defined costs and benefits.

Mutual knowledge of the partner's value expectations is crucial. Although the information provided by the study is not intended to replace effective inter-organisational communication on these issues, the findings will give a valuable insight into the perceived value for both customers and suppliers in the Australian wine-grape industry and guidelines for improvement in current relationship management practice.

**References**


