

# Looking For Good International Partnerships: Bodegas Pirineos Ltd., A Case Study Within The Spanish Context

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## ABSTRACT

*In an economic context increasingly more dynamic, complex, and globalized, those companies which are able to find first-rate business partnerships and to manage efficient relationships with them have a greater guarantee of success and profitability in their activity. Their products will get the desired standards of quality and firms will be able to distribute and to sell these products adequately. For local and national markets firms use to have enough knowledge, but their position will be more complicated if they decide to expand their business abroad. Capability and unawareness of the market structures, language... are some of the most important limits for international expansion. In this context firms must dedicate resources to look for capable partnerships. Although trust or partnership image could be understood as key-factor for election, decisions involve greater risk and uncertainty. If selection is satisfactory firms will desire to build relationships with these partnerships and cooperation and commitment will arise. In other case, firms will look for other alternatives, when available. Furthermore, the smallest firms have fewer resources than bigger firms and, therefore, the management these situations could be more complicated: power-dependence relationships are unfavorable. Now wine is a fashionable product. Once local and national markets are mature, international markets are fundamental for the wineries' expansion. But international distribution seems pretty complicated. While production must be near vineyards, consumption could be localized wherever consumers are. Firms do not have enough resources to distribute their production directly, and peculiarities of each country or region must to be considered: legal aspects, language... Big international wine distribution use to be controlled by few and powerful enterprises in each country, while small and specialized distributors have fewer scope. Therefore, dependence relationships for wineries could arise. This paper, by analyzing a specific Spanish case, Bodega Pirineos Ltd., identifies those factors that a Small and Medium Enterprise (SME) company assesses when choosing and deciding on building up a relationship with a specific international partnership that distributes its products. Sometimes distributors are understood as suppliers of services. Image, trust, communication, and cooperation are considered as prior elements, while commitment arises when relationships are satisfactory. When partnerships do not satisfy our firm, new alternatives are looked for. But if there is no more alternatives and Bodega Pirineos depends on this partnership it uses to maintain the relationship hopping new options arise. Some implications for other wineries or other SMEs firms could be derived from this paper.*

## 1.0 INTRODUCTION

*I*n an economic context which is ever more dynamic and competitive, managing positive and profitable relationships with suppliers, distributors, and customers determines a company's success and survival in the market. That is the reason why there are more and more companies which focus on building relationships rather than carrying out mere business transactions (Sheth and Sharma 1997; Lewin and Johnston 1997; Brennan and Turnbull 1999; Leek *et al.* 2003). But this approach involves changes in the different strategies and marketing policies which may even imply a change in concept.

The current market makes it advisable for companies to manage correct distribution relationships in order to contact their potential and real consumers. In this context, for SMEs, the establishment and maintenance of lasting relationships with adequate distributors acquires great importance (Grönroos 2000; Rexha 2000). They not always have enough resources to manage adequate firm-distributor relations. Even more so in the context of food markets, as their special characteristics, a determined effort towards the relationship approach is suggested for producers: because big distribution is pretty concentrated, if we take as reference a dyadic perspective, distributors represent the most powerful agents. Small but specialized distributors use to offer less scope. Therefore, wineries need to solve this dilemma: scope and dependence versus specialization.

Although distributors have to analyze products and brands to be distributed, for producers, a lot of economic resources and time are necessary in order to select adequate distributors. This situation generates a substantial level of uncertainty and risk (Metcalf *et al.* 1992; Brennan and Turnbull 1999; Kalafatis 2002). Nevertheless, thanks to relationship marketing (Perrien and Ricard 1995), companies can mitigate partly those circumstances and at the same time they capitalize from the effort made in looking for those distributors. That's why the links created between firms and distributors are so strong and they originate the so called dyadic relationships (Anderson and Narus 1990; Morgan and Hunt 1994; Lewin and Johnston 1997; Kim 2000; Rexha 2000; Friman *et al.* 2002). Other authors analyze these situations from the strategic alliances point of view (Elg and Johanson, 2001; Sarkar *et al.*, 2001; Murray, 2001; Hunt *et al.*, 2002).

This perspective, the strategic alliances, could be used by firms to develop new products or new technologies, to distribute products and to introduce themselves in unknown markets.

SMEs can not reach worldwide. Therefore, in order to export their products they need international partners. In this sense, distributors could be understood as suppliers of services. But distributors do not use to commercialize only products of one specific firm. In this way conflicts could arise and the most powerful agent, the distributor, could develop opportunistic behaviors.

In this way, there are a lot of relevant papers that analyze how firms develop successful relationships with both, suppliers and distributors. Ford (1980), Dwyer *et al.* (1987), Wilson (1995) and Jap and Ganesan (2000) take as reference the relationship life-cycle concept. Elg and Johanson (2001) consider elements related to the firms' characteristics, to the relationship between them and to other enterprises. Sarkar *et al.* (2001) believe that these relationships are defined by possible complementarities, compatibility, and operability of their resources and capabilities. Hunt *et al.* (2002) consider the relational capital approach, defined by 3 main elements: trust, commitment, and cooperation.

Therefore, in order to analyze distribution relationships, we could focus on the concepts of commitment and trust (Moorman *et al.* 1992; Morgan and Hunt 1994; Donney and Cannon 1997; Friman *et al.* 2002) as well as some other more specific concepts such as: number of available alternatives, uncertainty (Achrol and Stern 1988), experience, opportunity (John 1984; Morgan and Hunt 1994; Brown *et al.* 2000), cooperation (Morgan and Hunt 1994; Kim 2000), communication (Mohr *et al.* 1996), power and dependence relationships (Frazier 1983; Kim 2000), conflict management (Rosemberg and Stern 1971; Wathne and Heide 2000), specific investment and links (Hallen *et al.* 1993), and common objectives (Wilson 1995; Kim 2000), amongst other factors.

We have also to consider that international markets are more complex than the national ones because sometimes firms unknown important characteristics of those markets. Therefore, to look for good international partnerships is an arduous and complex task. But, in spite of this, firms need to dedicate effort to find them in order to guarantee their business success.

Traditionally, research papers in this field have been related to big enterprises and technological industries. But SMEs represent an important percentage of the economy. However owners and managers could be the same person and they could not have enough knowledge to administer these situations. For these reasons this paper, taking as reference a representative and efficient firm, tries to identify those factors that SMEs considered when they are looking for distributors for international markets. We also pretend to analyze what elements are taken in mind when

international distributors are assessed, how they value the different alternatives they have and why they decide on a relationship. Therefore, we have considered the producer's point of view approach for our analysis. The lack of papers related to this specific topic, in the SMEs context concretely, and its importance for managers justify our research. Conclusions will help managers of SMEs once they be aware of what factors must to be assessed. But results are also interesting for those potential distributors: they can discover what elements producers really valued when they are assessing different alternatives for international distribution.

## **2.0 THE FIRM-DISTRIBUTOR RELATIONSHIP**

Adequate distribution relationships management is essential to enterprises. They need to assure their products will be sold in those markets that firms have taken as objective, national or international ones. Sometimes distribution relationships could be analyzed considering a relational approach, where distributors can be analyzed from a double role: real distributors of products and suppliers of the distribution services. It would be possible when both agents, firms and suppliers, decide to extend these relationships trough the long term. Anyway, sometimes firms use only transactional tools to analyze different alternatives.

Once contacts take place, when satisfaction is present, it is possible that relational approaches would be considered. They are a lot of factors which interact and determine the conditions and consequences of the relationship: satisfaction, trust, commitment, cooperation, communication, adaptation, and shared values, among others (Anderson *et al.* 1994; Morgan and Hunt 1994; Brennan and Turnbull 1999; Kalafatis 2002). But these factors develop in time (Ford 1980; Dwyer *et al.* 1987; Wilson 1995; Johnson 1999; Jap and Ganesan 2000) due to changes from external stimuli and the agents' situation.

In order to facilitate the analysis and understanding of the mechanisms which govern a firm-distributor relationship, it would be possible to divide it into smaller units and register how the results of each one of the subdivisions influence the global result of the relationship (Ford, 1980; Wilson, 1995; Grönroos, 2000). Sporadic events may modify the general relationship (Grönroos 2000). Every specific stage is determined by the set of rules and procedures which govern the relationship, by the cooperation climate (Mohr *et al.* 1996; Kim 2000; Rexha 2000) and by conflict management (Morgan and Hunt 1994; Brown *et al.* 2000).

Nevertheless, the establishment and evolution of the relationship will depend on the market structure, on the type of product to be distributed, on the characteristics of the companies having the relationship: size, structure, activity and aims, and the frequency and volume of the exchange (Cunningham 1980; Wilson 1995; Leuthesser 1997; Brennan and Turnbull 1999), as well as on the management of the rest of the factors which we have deemed relevant for analysis.

## **3.0 ANALYSIS METHOD**

### **3.1 Aim**

We have to take in mind that big distribution of food products is so concentrated. The most specialized distribution is not as concentrated as the big one but its scope is minor. Furthermore, sometimes SMEs are not able to value all alternatives they have because managers do not have enough time or they lack of specific knowledge to assess them. But in this case, our focal firm recognizes how important distributors are for their business and it dedicates resources to look for good international distributors. Its objective is to build up profitable relationships for both, the firm and their distributors.

Therefore, in this context we want to know which elements shape the valuation and choice of specific distributors in the international context, how the development of the relationships is assessed, and finally, the reasons which would determine its termination. Finally, during the discussion epigraph we will also compare these situations against those relationships built up with its national distribution system. We should notice that wine distribution has 2 different options: big food distributors, where concentration is pretty high, and specialised distributors. Because within

food distribution situation and negotiation processes are similar to the Spanish context – e.g. scope, volume but no-specialization and dependence – we analyse specialised distributors.

### **3.2 Design And Methodology**

#### **3.2.1 The Case Study Research Method**

The analysis method we are going to use is the case study research method. This method allows us to study a phenomenon in relation to its actual context, taking into account each and all of the elements which may influence it (Eisenhardt 1989; McCutcheon and Meredith 1993; Yin, 1994; Johnston *et al.* 1999).

This method offers us an unrivalled framework for our study and it is generally regarded as the best method for similar studies (Yin 1993, 1994; Lewin and Johnston 1997; Brennan and Turnbull, 1999; Johnston *et al.* 1999). It also allows us to reach adequate levels of internal and external validity, reliability and objectivity (Eisenhardt 1989; McCutcheon and Meredith 1993; Yin 1994; Johnston *et al.* 1999).

With regard to internal validity, we may ensure that we get the right cause-effect relationship through triangulating information, by using several sources of evidence. External validity is achieved by generalising the conclusions of the study to different situations and contexts where the logic of replication is applicable. Reliability comes from establishing a protocol of the case and a comprehensive database. And finally, objectivity is accomplished by using external examiners and initial assessment by the people in charge of the companies which are being analysed. Thus, these techniques will endorse the conclusions of our study.

Therefore the case study approach adopted employed what Yin (1994) has described as a single case, embedded design. Case study were developed in the winery sector choosing one of the most representative and analysed firms into the Spanish context: Bodegas Pirineos, Ltd. It has been considered as reference of management into the SMEs Spanish context by several economic faculties, business schools and public administrations which desired to show how firms can be managed. We analyse 8 different firm-distributor relations and the global national policy for distribution. In all cases, as we will explain later, our focal firm depends on their distributors. Although in the Spanish market its knowledge is higher and it has more alternatives, Bodega Pirineos can not control all conditions for its distributions agreements. Anyway, initial and intermediate assessments confirm its present distributors as the best options for its specific international markets.

#### **3.2.2 Bodega Pirineos, Ltd.: Our Focal Firm**

The choice of Bodegas Pirineos as a case study responds to additional criteria we would like to highlight. Firstly, we must point out that wine production is one of the most dynamic activities in today's Spanish farming and foodstuffs industry and contributes to generate some added value of extraordinary importance in the countryside. It contributes to settle the population, encourages technological renewal and innovation and fosters public investment in specific infrastructures. But some factors such as the small size of the companies, the excessive dependence on local and regional markets, and the lack of suitable commercial networks hinder its development are also present. Bodegas Pirineos, Ltd. elaborated wine under the "Protected Geographical Indication" *Somontano*. It is a wine producing region formed by 43 municipalities located in the North-east of Spain.

Its Regulating Authority has registered 17 wineries, 450 wine farmers and 2,913.37 hectares of vineyards. In terms of size and production it is one of the smallest wine producing areas in Spain. However, its wines enjoy a high level of recognition in both the Spanish and international market, placing them amongst the most well known wines in Spain, together with *Rioja*, *Ribera del Duero*, *Navarra*, *Priorato* and *La-Mancha* PDOs, amongst others.

In addition, the PDO (Protected Designation of Origin) *Somontano* is vitally important for the area's economy and society. It employs a large number of the inhabitants in the area, increasing the number of employees at harvest. It is an incentive for the vineyard owners to invest in renewing farming technology and equipment, it attracts a large number of visitors which results in the improvement of the service sector and infrastructure, all of which help

to increase added value in the area and settle the population in a time when rural depopulation is a real concern in Spain.

Bodegas Pirineos, Ltd. was one of the enterprises that promoted the creation of the *Somontano PDO*, and consequently was one of the first wineries to register in the protected designation of origin *Somontano* in the year 1984. Founded in 1964, its new legal composition of Bodegas Pirineos was established in 1993. Its ownership structure is mixed, as it is shared by the partners of the former cooperative, the Government of *Aragón*, financial institutions, *Compañía Vitivinícola Aragonesa*, *Viñedos y Crianzas del Alto Aragón*, (the latter 2 are also wineries which belong to the *Somontano PDO*), and to a lesser extent by one farmers association. This situation leads to a blend of traditional elements typical of the countryside and a friendly way of company management with elements of the latest business management trends.

The winery owns 200 hectares of vineyards and can also rely on the vineyards which belong to the partners of the cooperative, who are under an agreement to sell their production to the winery. Globally this firm is the responsible of more than 1.000 hectares (around 35% of the total PDO) Its workforce is made up by 53 staff distributed into the different areas in which the company is divided: vineyards (13), production and bottling (25), marketing (1), distribution and sales (8), and others (6). The company has a distribution department and a marketing one, which are both independent from the management.

With regard to the company's production and sales, in the year 2003, the company sold 2,520,000 bottles out of the total production of the *Somontano PDO* wine for that year which was 9,197,145 bottles and which represents 27.4 % of the sales of the PDO. (Data provided by the *PDO Somontano Regulating Authority* and Bodegas Pirineos Ltd.). For this reason Bodegas Pirineos is considered one of the motor wineries of the PDO *Somontano*.

All of the abovementioned characteristics make Bodegas Pirineos a very attractive choice for a case study as it provides us with a large number of variables to be studied. But we also considered that, it sells its wines in both national and international markets. Spain represents around the 75% of their market, while the remaining 25% is sold in international markets (e.g. - United Kingdom, Germany, Sweden, Switzerland, U.S.A. or Japan, mainly).

For national markets Bodega Pirineos has 66 independent distributors. It has, at least, one in each of the 50 provinces of Spain. But for the *Aragón*, *Barcelona* and *Madrid* areas it has 5 more in each one of them. In *Alicante* it has 2 distributors. Therefore its wines are can be found in the whole national geography. For international markets it uses to select one main distributor. Sometimes, when possible, it works with a second partnership in order to decrease its dependence.

### **3.3 Procedure**

Contacts within the managers were developed in order to ask for their collaboration and to establish the schedule for the research. As a result of informal visits 3 key informants were identified (George and Torger 1982; Kumar *et al.* 1993): the managing director, the marketing manager and the distribution manager, with whom to carry out in-depth interviews.

Respondents were interviewed regarding the nature of both, the national and international markets, about the assessment processes to select distributors, and respect to the factor they value when possible relationships may arise. We developed the Spanish market as one global and independent unit. 8 different international distributors were also analysed: one for each one of its main international markets (United Kingdom, Germany, Sweden, USA, Switzerland, Japan, Norway and Finland). Although we were not allowed to include their real names, distributors' main characteristics are shown in Appendix 1. Semi-structured interviews were used as the primary method of data collection, with a general guide indicating the concepts to be investigated. The interviews lasted approximately 45 minutes. Additionally, these informants filled in a questionnaire with questions about specific characteristics of the company: size, ownership structure and internal organization. These interviews were recorded and transcribed (the sentences we include in this version have been literally translated from the Spanish version). Further evidence was obtained through direct observation and internal documents. Our presence during one meeting between firm's managers

and two international distributors was also allowed but we weren't authorized to record them or reproduce the sentences and remarks said in it. Therefore, we ensure the internal validity of our study by triangulating data. We have used several primary sources of information: in-depth personal interviews, observation and visits to the company; and secondary sources: internal documents of the company and the PDO *Somontano* Regulating Authority.

Assuring the reliability of our research a protocol of the case and a comprehensive database have been established, where the following have been registered: the recordings and transcriptions of the interviews, the notes taken during the meeting held by the company and its distributor, the notes regarding some internal documents of the company, the questionnaires which have been answered, and several newspaper cuttings and articles related to the topic, so that other researchers may revise the evidence in a direct way. Finally, as means of validating the information generated and guarantying objectivity, notes of each qualitative interview were sent to the respondents for a comment them after the meeting. After discussions respondents were sent a main report summarizing the results of the complete set of interviews, and again invited to comment. This kind of process, sending interview notes and findings to respondents, is advocated by Miles and Huberman (1994), Yin (1994) and Brennan and Turnbull (1999). In this study, some useful information was received and the process of engaging respondents in a dialogue improved our relationship. But our notes and conclusions also were analysed by colleagues from Faculty of Economics from the University of Zaragoza, which favours the quality and validity of our study.

**Table 1: Technical Data Of The Field Work**

<p><b>ANALYSIS UNIT:</b> Bodegas Pirineos, Ltd. (Somontano PDO) <b>GEOGRAPHICAL LOCATION:</b> Barbastro, province of Huesca (North-east of Spain) <b>ACTIVITY:</b> Production and commercialization of quality wines <b>SIZE and RANGE:</b> Staff: 53 <b>PRODUCTION (2003):</b> 2,520,000 bottles (27.4% of the total Somontano PDO) <b>MARKETS:</b> 75% national, 25% international (Germany, United Kingdom, Sweden, USA, Japan and Switzerland, mainly) <b>KEY INFORMANTS:</b> 3 (managing director, supply, and production manager, marketing director) <b>ANALYZED DISTRIBUTION RELATIONSHIPS:</b> 8 <b>INFORMATION SOURCES:</b>     <b>Primary:</b> observation, in-depth interviews, informal visits.     <b>Secondary:</b> revision of internal documents, revision of bibliography, reports from official bodies/organisms (MAPA, Farming Department of the Government of Aragón, Somontano PDO Regulating Authority), press articles/notes. <b>DATE OF REALIZATION:</b> From October 2003 to October 2004</p>
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### 3.4 Theoretical Starting Model

Eisenhardt (1989) proposes an initial formulation of the case study, as well as the specification of some variables which have been deemed important by previous studies. However, McCutcheon and Meredith (1993) point out that the starting theory should be relatively simple and as a reference of what information to gather and how to process it. Thus, through the case study research method and using a very simple theoretical frame as a starting point, and through direct observation, we may construct an inductive model which will be submitted to the usual processes of analytic generalization.

Therefore, in order to design our starting model we have consulted some of the most relevant bibliography about this topic. In this way, through a series of very simple propositions we state that distribution relationships are complex and dynamic. Notwithstanding their simplicity, these propositions guide our study without distorting its course.

#### **4.0 LOOKING FOR POTENTIAL INTERNATIONAL DISTRIBUTORS**

In a first stage, prior to the beginning of the relationship, firms must to decide if their prefer specialization or scope. Therefore, the firm carries out an initial analysis of potential distributors, considering several elements. Normally SMEs adopt transactional approaches and the number of alternatives and the market structure (Leuthesser 1997; Cannon and Perrault 1999) are elements which influence the process of the initial valuation. Characteristics of distributors: size, market scope and image are pretty valued. Considering the proposals of Sarkar *et al.* (2001), potential compatibilities and complementarities within the distributors' portfolios are also taken into consideration. But producers do not desire their products be "another product more" for distributors. Therefore, if possible, they try to select good partnerships with distributors that value their products. In this way, mutual interest arises.

On many occasions the company is unaware of its possible suppliers, that is more so with regard to emerging markets where the lack of information and of mutual knowledge is greater (Achrol and Stern 1988; Geykens *et al.* 1998; Kim 2000). In this context, building an atmosphere of trust (Ganesan 1994; Donney and Cannon 1997; Atuathene-Gi and Li 2002; Friman *et al.* 2002) may lead to the firm's positive initial valuation of distributors. Therefore, we may establish the following propositions:

- Proposition 1:** In an initial stage the number of alternatives and the market structure influence the valuation of distributors.
- Proposition 2:** In an initial stage the objectives of producers influences the valuation of distributors.
- Proposition 3:** In an initial stage the trust in a distributor influences assessment.

#### **4.1 Intermediate Situation**

The process of selecting distributors is considered a critical step for any company as very frequently results take a while to show up. A lot of economic resources and time have gone into the process. In the initial stage a prediction is made about the value which is expected to be obtained judging from past experiences and the credibility and reputation of the different distribution alternatives (Wilson 1995; Jap and Ganesan 2000), by comparing the different alternatives available.

The degree of satisfaction (Geykens *et al.* 1998; Li 1998; Jap and Ganesan 2000) depends on the distributor's ability to fulfil the expectations generated (Dwyer *et al.* 1987; Wilson 1995). Producers use to measure their results depending on sales. But distributors can use other registers: growth of brand knowledge or potential scopes as interesting elements to be valued during initial steps. Perceptions play a very important role (Hogan 2001; Lemon *et al.* 2002) therefore we must pay attention not just to tangible, objective aspects, but also to those of a subjective nature (Crosby *et al.* 1990; Andaleeb 1996; Mohr *et al.* 1996). Anyway, if satisfaction is present relationships could be developed.

Respect to this stage, we do not include formal propositions but we understand we need to consider it in order to have a global idea of the evolution of these relationships.

Therefore, once the distribution relationship has been established, the proposal of Hunt *et al.* (2002) could be considered: trust, cooperation and commitment form the relational capital and they will reinforce the relationship. But communication must to be also taken in mind. Therefore, we should attend to elements as the level of commitment (Anderson and Weitz 1990; Mohr and Nevin, 1990; Morgan and Hunt, 1994; Gundlach *et al.* 1995; Wilson 1995; Andaleeb, 1996; Geykens *et al.* 1996; Jap and Ganesan 2000), cooperation (Anderson and Narus 1990; Crosby *et al.* 1990; Geykens *et al.* 1998; Cannon and Perrault 1999), communication (Dwyer *et al.* 1987; Anderson y Narus 1990; Geykens *et al.* 1998; Kalafatis 2002), and tested trust (Anderson y Narus 1990; Ganesan 1994; Dalhlstrom y Nygaard 1995; Siguaw *et al.* 1998; Atuathene-Gima y Li 2002; Handfield y Bechtel 2002) are considered the most important elements in that context. Therefore, taking as reference these articles we can understand the relationships development process. All of the previously cited papers recognize positive and direct effects of this element on the producer, understood as services customer, satisfaction. In this way, we can understand how distribution relationships are developed.

**4.2 Possible End Of Relationship**

If dissatisfaction is present we would encounter a negative relationship, where the level of trust would diminish. The following situations might arise:

- Firms realize that satisfaction is negative or lesser than expected, and decide to terminate the relationship.
- Firms decide that although the outcome is not satisfactory enough, there may exist a future chance of improvement, and therefore new expectations are formed. The relationship continues.
- Although the situation is not favourable, the drawbacks of walking away are so important. To continue the relationship is decided, in the hope that it will improve in the future.

When satisfaction is present the relationship gets stronger and a relationship of trust will be established. However, even though the relationship might be satisfactory, its termination might be decided should new needs or alternatives arise.

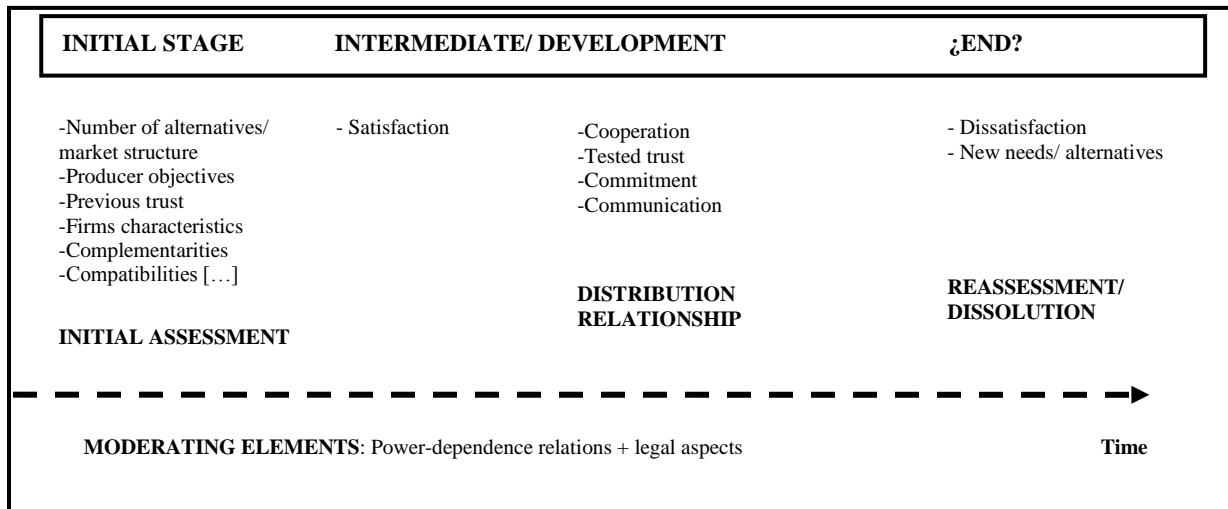
But if a relational approach has been developed we can not expect that supply relationships end directly (Ping, 1994; Giller and Matear, 2001; Havila and Wilkinson, 2002). We propose that reassessment process will arise.

Therefore, we suggest that a distribution relationship will ends when it is unsatisfactory or new alternatives arise, but firms could reassess their distributors:

**Proposition 4:** The relationship ends when it becomes unsatisfactory or better alternatives arise.

**Proposition 5:** Reassessment processes of distributors are present before end of the supply relationships.

**Figure 1: Evolution Of A Firm-Distributor Relationship: Theoretical Starting Model**



**4.3 Potential Moderating Effects**

However, although we have considered that the characteristics of both, producers and distributors (Elg and Johansson, 2001), potential complementarities and compatibilities (Sarkar *et al.*, 2001) and the market structure could define the establishment and development of distribution relationships, we have not considered neither possible power-dependence situations nor legal aspects yet. Therefore, we consider both elements, power-dependence



relationships and legal aspects as potential moderating elements because these factors seem important to analyze distribution alternatives and to understand how these relationships could be managed.

Our global theoretical starting model can be observed in Figure 1.

## **5.0 RESULTS**

All of the obtained information was processed and codified with the QSR NVivo software. The use of specialist software for the analysis of qualitative data has been discussed by Weitzman and Miles (1995) and Brennan and Turnbull (1999). Such software only facilitates the traditional qualitative analytical process of developing an appropriate coding structure and applying the codes to the data, it cannot do the analysis. Therefore, this tool allows us to put together all manner of qualitative information in a single project and can show the similarities of the documents which form the project. Following the recommendation of Miles and Huberman (1994) and Brennan and Turnbull (1999) for the development of qualitative scatterplot displays, this basis are shown in Appendix 2. Definitions of the variables constructed from the case study data are also provided. In an intrinsically qualitative study the purpose of the analysis is to identify patterns in the data. The displays must to be considered only in the context of the case analyses. Therefore, throughout the following section of this article, in which the results are discussed, there is a constant interplay between the convenient, but highly simplified scatterplot displays, and the original qualitative data.

Once our information have been analysed we can understand how SMEs manage their distribution relationships. Because this study is qualitative, the next used figures are based on data and sentences collected during the in-depth interviews all information we have obtained are organized in a complete database. However, because of the establishment limits, we think it would be more interesting to analyze the research context, the research method and, of course, the main results and their main managerial implication. Be sure they are the consequence of a conscious and objective analysis, following the recommendations made by Yin (1994) related to the “*pattern-matching*” concept.

### **5.1 Looking For Potential International Distributors**

Managers of Bodegas Pirineos do not want to depend on any distributors. Bodega Pirineos also has different objectives for both national and international markets. In Spain its wines are well-know and because the Spanish market represents its main objective managers bet by several distributors around the country. Scope is their option, controlling placement and attending also to specialised distributors. However, because its products have good image, possible dependence respect to big national distributors is attenuated.

In international markets its strategic context is pretty different. Wine is perceived as quality and sometimes “luxury” product. In this way, managers understand that specialised distributors or specialised shops are the best alternatives. Sales are determined by proximity to customer and final decisions depend on the specific market-country characteristics:

- In Sweden, as in Norway and Finland, wine distribution is controlled by a governmental monopoly. Producers’ dependence respect to governments is total. Therefore Bodega Pirineos needs to accept conditions established by government.
- In United Kingdom distribution seems an oligopoly. It works with a big wine distributor. After analysing its characteristics trust on this distributor became higher than trust on the other 2 options. But in order to decrease dependence and increase the distributor’s interest on its wines, Bodegas Pirineos has developed R+D projects collaborating with this distributor.
- In Germany and Switzerland situations are pretty similar to Spain. Bodegas Pirineos has several distributors, depending on geographical areas. Scope is its objective. But although it analyses all options, managers are not able to know all market specific characteristics. Thus, trust became also the key element to select distributors in these countries.
- In Japan and the United States situations seem more complicated. Dependence also arises. Wine distribution is controlled by whisky producers –e.g. Suntori- and distributors consider wines as complements for their

product-portfolios. But although Bodegas Pirineos has different options all of these alternatives seem similar. It has not power to negotiate and it needs to trust on its selection.

The results show that in this stage trust becomes decisive to establish a suitable system of distributor selection because on many occasions the firm has not enough information.

Figure 2 presents scatterplot displays of the association between different markets structures and trust, considering its distributors. We notice that all distributors represent the best option in terms of trust, comparing to other potential alternatives.

In all cases Bodegas Pirineos considers its objectives for each country and for each market structure. As we can observe in figure 2, the importance of trust depends on the increasing alternatives of the company and on the competitiveness of the market. This is because producers can not perceive all characteristics of each alternative and they can not value all distributors. Results will not be able to be analyzed before relationships have started. In monopolistic contexts because producers only have these option they trust is not relevant.

**Figure 2: Market Structure And Trust**

<b>TRUST</b>				
			<b>J.D. UK.D.</b>	<b>G.D SW.D</b>
H				
M				<b>A.D</b>
B	<b>S.D. N.D. F.D.</b>			
		<b>M</b>	<b>O</b>	<b>C</b>
		<b>MARKET STRUCTURE</b>		

**5.2 Intermediate Situation**

We suggested that the relationship continues whenever it is satisfactory.

*'If the relationship is positive for us, the immediate sign is that we continue the relationship'*

Bodegas Pirineos uses to check that the distributors comply with its objectives and the terms agreed in the initial stage. In these cases they continue the relationship. In addition, the data obtained allows us to know some elements which influence directly the creation of positive value for the company: sales, mainly, but also communication and collaboration.

*“Our main objective is related to sales. But communication is pretty interesting for us because in this way we can increase the knowledge of international markets.”*

Respect to collaboration, Bodegas Pirineos uses this variable to balance the real interest of distributors. It tries to increase their interest by collaborating and by developing common R+D projects. If distributors cooperate their interest is probed and Bodegas Pirineos' wines will be more interesting for those distributors.

*“This is the case we have with the British distributor. We have developed a new wine they distribute on exclusive worldwide. We have collaborate also with one supplier and we are assuring interest of this supplier and this distributor on our business. We will not be ‘another producer more’.”*

Finally, in order to decrease possible dependence on international distributors and to increase its knowledge, Bodegas Pirineos has incorporated also its own agents for the most important markets. These agents, considered as firm's employees, must to be native. Their purposes are: help and advice distributors on wine characteristic and, of course, control objectives are fulfilled – e.g. United Kingdom, Germany and Switzerland. Through this decision Bodegas Pirineos discovered that the scope objective has not been fulfilled and it renegotiated with distributors in order to ask for increase these scopes or to include new distributors.

Therefore, producer satisfaction becomes the key element in the long term orientation of a distribution relationship. Otherwise dissolution could arise

#### **4.3 Possible End Of Relationship**

In the starting model we suggested that the end of the relationship would come when the satisfaction was negative or lesser than expected (Bigné *et al.*, 2000). In addition, we must bear in mind that the company's needs may change and new distributors may be sought.

Bodegas Pirineos Ltd., seeks to achieve *“worldwide consumer satisfaction, and that of its staff, its shareholders' profits, and its main suppliers and key partners satisfaction as well as that of the grape producers”*.

In general, the relationships that the company has established with its distributors are lasting and it seems unlikely that a relationship might be discontinued. However, the company is very clear about the reasons that would imply a change of distributor, national or international:

*“That we perceive a faulty distribution situations and we don't get a quick response from the distributors, that they don't solve the problem for us, problems with sales and scope mainly, but also with quality, attention to specialised shops... That is to say, that they don't fulfil the agreements regularly, that they stop distribution without notice, ...in short, when they cause us troubles. In those cases we are going to reevaluate our current distributor. But we will try to be more exigent. Probably we will not trust as before. We will consider other alternatives'. 'In that case we would assess that distributor but we would be harder. We would already know the distributor's strengths and weaknesses. We may have some prejudices. We would be more demanding indeed.”*

The company carries out a reassessment of its distributors in more demanding terms. If the company believes that they can still obtain satisfaction in the future, the relationship will continue.

When dissatisfaction is not present but new alternatives arise, situations are pretty different:

*“When there is other alternative that has a much better alternative we contact our current distributor. Because dissatisfaction is not present, probably we will maintain our relationship. Distributors use to balance conditions to new alternatives.”*

But this is only possible if dependence is not high or if monopolies are not present. In these cases Bodegas Pirineos does not have other alternatives. Change is not possible.

## **6.0 Conclusions: Discussion And Managerial Implications**

Our research results are interesting for both SMEs managers and distributors. Although general conclusions serve for both national and international markets, some aspects need to be considered for the international context. Producers can discover what elements they have to keep in mind when they decide to export their products. And potential distributors will find out what elements producers value when different distribution alternatives are assessed.

Therefore, those in charge of managing these relationships must to know which elements they should pay more attention to, according to the specific stage in which the relation is (Wilson 1995; Tomas *et al.* 1996; Jap and Ganesan 2000) and to the economic and legal framework in which the relationship take place. In this way, they will be able to optimise their resources in every situation. The producer should anticipate their current and potential distributors' reactions and vice versa.

The data in our investigation confirm our initial propositions and allow us to build up an inductive model that illustrates one firm-distributor life-cycle model for SMEs, considering all extremes: when producers are looking for adequate national and international distributors, when agents decide to develop these relationships and when possible dissolution arises.

Depending on the relative influence which the market may have on the sales objectives of the producer, the company will make a greater effort to obtain information about each alternative and reduce the risk associated to the choice. However, despite such effort, there are situations in which the result of the decision is not noticeable until several time after the start of the relationship. In those cases, previous trust in the distributor becomes key elements. When there are not many alternatives producers depend on distributors.

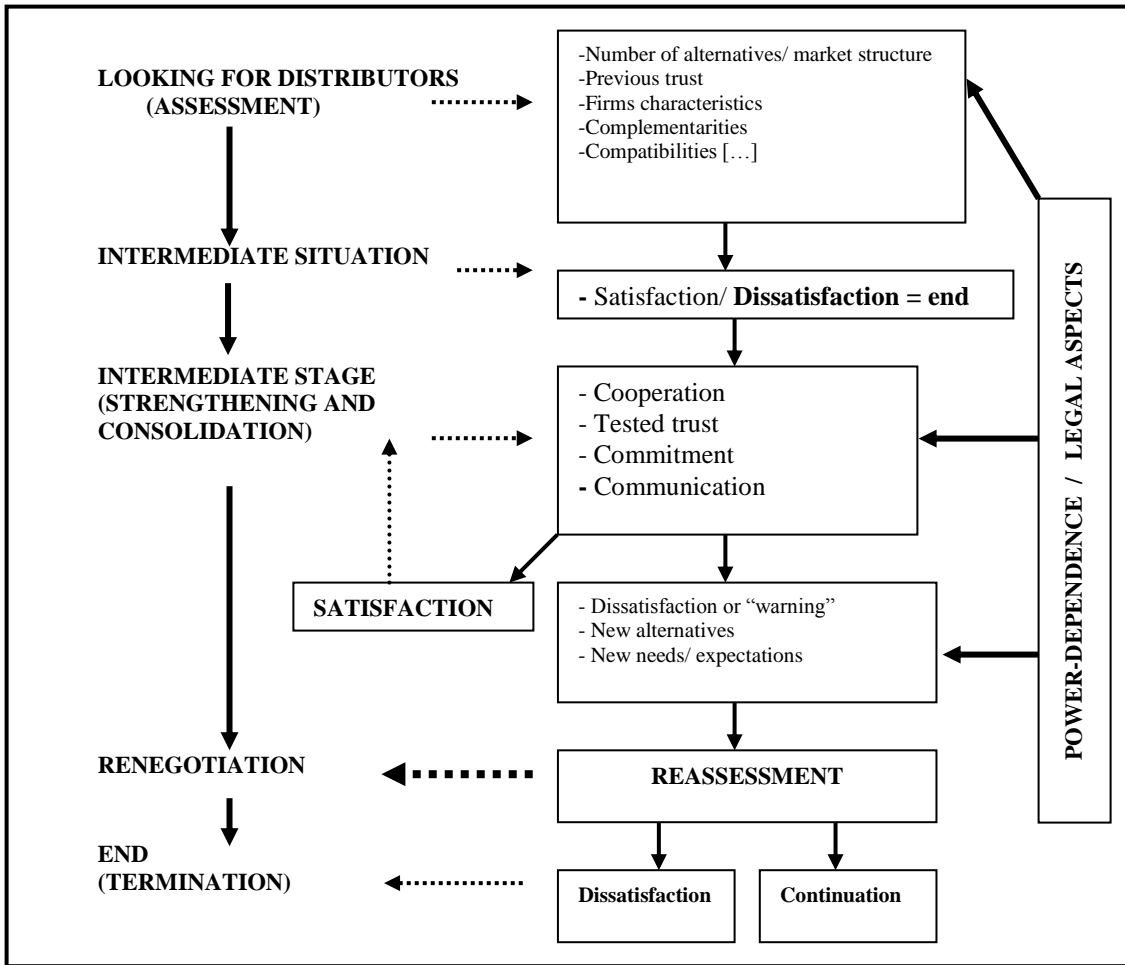
The relationship carries on when it is satisfactory and its evolution depends on such elements as communication and cooperation. In addition, these factors have a positive influence on the commitment creating relationship process and the trust in the distributing company, all of which strengthens the relationship.

Finally, it is in order to point out that producer dissatisfaction and the existence of new needs and alternatives are elements which may lead to the termination of a relationship. But new alternatives are necessary. Otherwise producers must to maintain present relationships.

The models that explain the lifecycle of a relationship (Ford 1980; Dwyer *et al.* 1987; Wilson 1995; Jap and Ganesan 2000) would have as starting point a situation in which both the producer and the distributor carry out an initial valuation. Afterwards, and once the relationship has started, it is maintained if the outcome is satisfactory. The relationship gradually matures and resources may be put into the relationship to maintain and strengthen it, until the outcome is not satisfactory for one of the agents and it decides to end it. As a previous step to the termination of the relationship, the agents may renegotiate the relational terms. But, they do not consider any previous reassessment. Giller and Matear (2001) analyse the termination of interfirm relationships considering both, direct and other-oriented termination strategies. Havila and Wilkinson (2002) differentiate depending on the reasons to finish relationships. But they do not compare how firms would reassess their distributors respect to the initial valuations.

However, our data allow us to compare both extremes: the initial stage against the final one. The results of our research suggest that in the analysed case these valuations are pretty similar respect to the initial ones. But we can appreciate some differences. In our case we can see that before deciding to finish a relationship, the company would carry out a revaluation of its distributors. Distributors would be revaluated, focusing on the aspects which have been deemed inefficient or worse than other potential alternatives and taking into account the experience generated by the development of the relationship. When dissatisfaction is present the company is more demanding. It is translated into a more intense renegotiation where the firm could be in a more powerful position. But if both agents foresee a future positive outcome, the relationship will continue.

Figure 4: Producer - Distributor Life-Cycle Relationships; Induced Model



Therefore, we would like to highlight that if one distribution relationship is satisfactory but new alternatives arise, producers will renegotiate with distributors considering relational tools. If conflict is well managed this relationship will be reinforced and trust will increase. But when dissatisfaction is present producers can be more demanding with distributors. It is possible to get new agreements but, in general, trust will decrease. In all situations we have to consider power-dependence situations. If producer depends on distributors renegotiation processes could be complicated. And legal aspects must to be also considered.

For these reasons, knowledge about these situations is vital for both, producers and distributors. Their corporate image before the start of the relationship must be positive: producers would desire to export their products through good international partnerships and distributors would wish to distribute good products.

If we compare national versus international markets we have to consider that, often, producers have more alternatives and specific knowledge within national markets. Thus, it is logical suppose that although big distribution of food products is also concentrated, producers could show more power than when international markets are considered. Adding some legal restrictions to food or alcoholic products in the international context, capacity of producers decreases. Therefore, international commerce seems more complicated than the national one. Dependence on distributors increases and producers are more limited to select between different alternatives. All producers desire

to establish profitable relationships with the best distributors. But because within their products portfolios use to be competitive products, its attractiveness could decrease. Both extremes must to be considered by producers: big distributors with large market scope versus small distributors more interested in our products. Markets structure, power or dependence, complementarities and compatibilities and satisfaction are the keys for the establishment and development of lasting and profitable relationships. Sometimes, when both producers and distributors foresee important potential profits these relationships could evolve to strategic alliances.

Nevertheless, as in any other piece of research, our study is confronted by some limitations. The main problem might arise from the fact that analysing just one case, representative as might be, the margin for generalization of conclusions might not be very wide. However, we are aware of the fact that the aim of achieving a statistical generalization is not possible. If we use the case study research method, we must use the analytical approach and study case by case. Nevertheless, our model can be used as an analysis guide for studying the evolution of several dyadic relationships and understanding supply assessments in different moments.

With regard to the possibility of a biased interpretation in our study on our part, we have tried to reduce it to the minimum through establishing a protocol of the case and using several evidence sources: in-depth interviews, close-ended questionnaires, observation, internal documents and files, and press articles, in an attempt to increase the representative prowess of the model, its reliability and robustness.

Finally, we have considered only the perspective of producers. The distributors' point of view is necessary to complete the dyadic framework.

### **7.0 Suggestions For Future Research**

The data obtained allows us to create a starting framework for future research in this area, widening the scope of our study to a specific industry or different economic contexts. In this way, we will be able to submit the conclusions in this paper to the rules of the logic of replication (McCutcheon and Meredith 1993; Yin 1994), analysing different behaviour patterns in other sectors and industries and reinforcing the external validity of the model.

How power and dependence moderate these relationships will be possible analysing bigger firms. Taking as reference other countries the influence of legal aspects could be also analysed.

It would be really interesting to complete the dyadic framework contacting distributors. Although this task seems more difficult, results will be really illustrative.

After finishing this paper, we reassert the usefulness that this model has for those companies who are interested in establish and managing efficiently and competently lasting successful distribution relationships: the main elements to be considered have been identified. In this way, results are also useful for those distributors interested in the establishment and development of profitable relationships with SMEs. If these elements are adequately measured resources would be managed more efficiently, risk will decrease and profits will arise easier.

## **APPENDIX 1: DISTRIBUTOR MAIN CHARACTERISTICS**

- UK.D:** Distributor for the United Kingdom. Big size and high experience, within an oligopolistic context
- G.D.:** One of the distributors for Germany. Medium size and high experience, within a competitive context.
- S.D.:** Sweden. Monopoly controlled by the State.
- A.D.:** Distributor for the United States. Big size and high experience, within a competitive context. Whisky producer and distributor.
- SW.D.:** One of the distributors for Switzerland. Medium size and high experience, within a competitive context.
- J.D.:** Distributor for Japan. Big size and high experience, within an oligopolistic context. Whisky producer and distributor.
- N.D.:** Norway. Monopoly controlled by the State.
- F.D.:** Finland. Monopoly controlled by the State.

## **APPENDIX 2: BASIS FOR THE CROSS-CASE MATRIX ANALYSIS; DEFINITION OF TERMS**

### **Trust's relevancy:**

- H = Highly important.** Final decision of selecting this distributor was highly influenced by trust.
- M = Moderately important.** Final decision of selecting this distributor was influenced by trust, but it was not one of the most important ones.
- B = Barely important.** Trust was not considered as relevant element to decide of selecting this distributor.

### **Market structure:**

- M = Monopoly;** distributing process is controlled by one distribution, public or private.
- O = Oligopoly;** distributing process is controlled by few distributors.
- C = Competence;** distributing process is characterized by many alternatives. It is hoped dependence decreases.

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**NOTES**