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# Prevailing challenges in rural food SMEs in Finland: the promise of a relationship marketing approach

## ABSTRACT

*Small-scale food processing is one of the main rural industries in Finland and small and medium-sized enterprises (SMEs) are extremely important for rural areas as promoters of employment and social well-being. It has been forecasted that a new form of competition will dominate in the near future in food markets: chain versus chain, rather than individual competing enterprises. However, it is far from clear what will actually happen in practise. The developments in the supply chain (SC) environment are resulting in an increasingly competitive business environment. The focus of this paper is on identifying factors, with the help of a Delphi technique, influencing the operation and development of food SCs as they relate to food SMEs in Finland. The impact of these factors on SMEs and their marketing activities is considered. The findings suggest that horizontal networking among food SMEs could be the way to survive in the concentrated food markets and gain more bargaining power in vertical relationships. According to the analysis of the Delphi results, the usefulness of relationship marketing (RM) for SMEs should be further investigated.*

**Key words:** *relationship marketing; small and medium-sized enterprises; rural areas; food supply chain; Delphi technique.*

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## 1. INTRODUCTION: THE FOOD SUPPLY CHAIN ENVIRONMENT IN FINLAND

The globalisation of competition is affecting all the industries, also the food processing industry. Increasing competition and differing markets offer both opportunities and threats for food businesses. Major challenges facing food supply chains (SCs) include, for example, attaining concrete benefits through differentiation, networking and creating partnerships, understanding mutual benefits, and controlling changing markets (Isosaari 1999, Lääperi and Tohmo 2000, Manning and Baines 2004). However, at the same time with the development of global economy, there is a growing interest in local products in the food sector (see e.g. Ilbery et al. 2006). Nowadays many consumers are seeking safe and traceable products that are produced by ethically responsible businesses (Lobb and Mazzocchi 2007). These characteristics are usually connected with locally processed food products. The production of local foods offers opportunities especially for small food businesses located in rural areas.

Finnish food processing has traditionally been a domestic industry. Before Finland's membership in the European Union (EU), the food industry was protected against imported goods. Since then, it has had to face ever tightening competition, and the businesses have been forced to develop new competitive strategies. Other factors influencing the changing environment of the Finnish food industry have been, for example, the fall of the Russian economy in 1998, the Common Agricultural Policy (CAP), severe domestic competition from both Finnish and international firms, and changing consumers needs and demands (Ihmisten maaseutu 2000, Wiklund and Brännback 2001). Approximately half of the food processing firms in Finland are located in rural areas. As small-scale food processing is one of the main rural industries, small and medium-sized enterprises (SMEs) are important for rural areas as providers of opportunities for employment and agents of social well-being. Rural SMEs, though, have an immensely important role in maintaining the economic viability of rural areas (Kangasharju 1998, Anderson and McAuley 1999, Forsman 2000). However, as small actors in food chains, the SMEs' position may often be complex, and therefore a careful analysis of both external and internal demands and aspects concerning their position is important.

The small size of businesses and the lack of adequate knowledge are tightly linked together. If SMEs want to survive in an ever hardening competitive environment, they have to adapt themselves to continuously changing markets. In general, SMEs do not have enough resources for the development of new products or for marketing, and their competence in these fields is rather restricted (Pelham and Wilson 1996, Anderson and McAuley 1999, Zontanos and Anderson 2004, Viitaharju et al. 2005). Current and future changes call for strategic decision-making at the managerial level in food SMEs. There already exists well-established development work carried out

by the authorities in the field of small-scale food processing at the regional level in Finland, but it is rarely based on scientific knowledge and may be too shortsighted. In order to mend this weakness, more visionary aspects of the future should direct the development work. In this study future visions and trends will be examined with the help of the Delphi technique as the other type of data, for example statistics or other research results, is virtually non-existing in this case. The Delphi results are further discussed from the SME point of view.

The purpose of the study is to identify the factors influencing the Finnish food industry, especially from SCs' and SMEs' perspectives, and the demands and potential for theoretical approaches to understand the companies' opportunities for success in this new situation. Two objectives are set for this article. The first objective is to identify factors that influence the operation and development of food SCs and analyse their significance especially for rural food SMEs in Finland. The first objective is attained by using the Delphi method. An application possibility of the Delphi method is the identification of a theoretical perspective for the research purposes (Okoli and Pawlowski 2004). The second objective is to show the relevance of network and relationship marketing (RM) theories for advancing research concerning the role of food SMEs in food SCs. Thus, in addition to enhancing the understanding of the situation of rural food SMEs in food SCs in Finland, the theoretical contribution of this article is the specification of application potential of network and RM theories for researching co-operation, competitive strategies and food SC relationships.

## 2. RESEARCH METHOD AND DESIGN

The Delphi method was selected as an appropriate methodology for this study because its validity both as a forecasting tool and as a means to refine the opinion and expertise of a panel of experts has been proven, and it has also been successfully used in forecasting changes in the food industry and as a tool in management decisions (Johnson 1976, Dietz 1987, Young 1987, Russo and McLaughlin 1992, Holmes 1995, Rodriguez-Diaz 2000, Mili and Rodríguez Zúñiga 2001). Delphi is a qualitative forecasting technique that employs a team approach to decision-making (Feret and Marcinek 1999, Rowe and Wright 1999). It involves anonymous forecasts made on two or more rounds by a group of independent experts who receive feedback between rounds. Round 1 usually contains a number of open-ended questions, whereas Round 2 or any subsequent rounds involve more closed questions. (Shon and Swatman 1998, Rowe and Wright 1999). It is particularly useful when accurate information is unavailable or expensive to obtain (Linstone and Turoff 1975, Shon and Swatman 1998). Rowe et al. (1991) claim that the main criterion for Delphi's employment is the indispensability of judgement information, which may arise in cases where no historical data exist, or where such data are inappropriate, as was the case with the present study.

In April and May 2001, altogether 19 panellists<sup>1</sup> were recruited for the Delphi study by a two-stage process. First appropriate institutions, companies or groups were selected, secondly the appropriate person from the selected institution, company or group was selected. It is important to get the commitment of experts before Round 1 (Johnson 1976, Marr and Prendergast 1993), as the success of a Delphi study depends on continued and dedicated participation by panel members. The goal was to obtain members from a wide variety of backgrounds and positions in the subject area (see Johnson 1976 or Rowe and Wright 1999). The recruited panellists included representatives from members of food SCs (5), representative organisations/associations (3), support institutions (10), and academic institutions (1). In order to help to harness the tacit knowledge into collective expert opinion, the panellists were asked to consider events in three and six years time, i.e. for 2004 and 2007. The use of the two time periods allowed for some estimation of trends and of the rate of change over time. There were three strands to be considered in this Delphi study: food SCs and SMEs in these chains, information and communication technology (ICT) in food SCs, and rural development. The panellists needed only to be expert in one of the three strands. However, as they were required to answer all questions, some prior knowledge of all strands was required. The focus of this paper is on the first strand. Table 1 indicates the response rate for each round.

**TABLE 1. Summary of responses to three rounds of Delphi.**

Round No.	Date issued	No. issued	No. of responses
1	May 7 <sup>th</sup> 2001	19	16
2	May 29 <sup>th</sup> 2001	16	16
3	June 28 <sup>th</sup> 2001	16	14

The questionnaire was developed on the basis of the review of existing literature on SC management, food-related marketing and rural development, the point of view being in the operation of food SCs. It was piloted with three experts having considerable knowledge and experience of consumer market research, rural development and strategic marketing. The questionnaire comprised three sections. The section 1 was concerned with the unprompted identification of the most important factors influencing the SC environment of food SMEs in lagging rural regions. This was to allow for the specification of factors not previously identified by the directors of this research. The section 2 was concerned with the likelihood and importance of some events in the food SC, derived from the literature, occurring in the future. The section 3 was concerned with

<sup>1</sup> There are differing opinions about the ideal panel size by different experts, varying from less than ten to several hundred people. For further information, see e.g. Kuusi 2002, Loo 2002 or Mullen 2003.

assessing how some factors will evolve in the near future, i.e. become more or less important. Following some minor modifications, the Round 1 pack, which contained the questionnaire, guidelines for completing the questionnaire, a short document on the Delphi methodology and an introductory letter was mailed on May 7<sup>th</sup>, 2001. Some follow-up e-mails were required to ensure that the attrition rate did not result in a 'skewed' panel of experts. The responses were analysed, and a results document and questionnaire developed for Round 2. The Round 2 pack, including a summary of results from Round 1, a questionnaire, instructions for completing the second questionnaire and a letter, was issued on May 29<sup>th</sup>, 2001. Additional statements were introduced on Round 2. New statements were prompted from responses to Round 1 questions, to gain further information and to reduce the experts' boredom and fatigue. The panellists were required to read the results of Round 1 before completing the Round 2 questionnaire. Following analysis of the returned Round 2 questionnaires, the final Round 3 pack was issued on June 28<sup>th</sup>, 2001. The Round 3 questionnaire contained the same statements as on Round 2. The analysis of data was done after each round. Simple statistical techniques were used in analysing the results, i.e. median and inter-quartile range (IQR). The open-ended questions were analysed by using a qualitative content analysis in order to find congruencies and themes in the data (see e.g. Koskinen et. al 2005 or Patton 2002). The following chapter presents the results of the Delphi study which are further discussed from the SME point of view in the final chapter.

### **3. FOOD SUPPLY CHAINS IN RURAL REGIONS: DELPHI STUDY FINDINGS**

The following results are presented according to the three rounds of the Delphi and highlight changes (or no change) in views over time. The original survey included a wide range of food chain related issues. The focus of this article is on factors influencing the food SC environment in lagging regions in Finland, from the point of view of food SMEs, and the likelihood of events occurring in the subsequent six years.

#### **3.1 Factors influencing the supply chain environment**

The panellists were asked to outline important factors likely to influence the SC environment of food SMEs in lagging regions by 2007. This unprompted, open-ended question acted as a 'scene setter' and gave respondents the opportunity to outline key SC issues emergent in lagging regions. Table 2 summarises the main results which are grouped according to different 'nodes' of the SC. The factors can have both positive and negative impacts on the future development of food SMEs.

In the case of a macro environment the impact of factors on food SMEs were seen as rather diverse according to the Delphi panellists. Migration from rural to urban areas propels, for exam-

**TABLE 2. Main factors influencing the supply chain environment for food SMEs in Finland by 2007.**

<b>'Node' in the SC</b>	<b>Main influencing factors</b>
<b>Macro environment</b>	<ul style="list-style-type: none"> <li>– migration from rural to urban areas</li> <li>– growth of imports</li> <li>– e-commerce</li> <li>– regulatory environment</li> </ul>
<b>Consumers</b>	<ul style="list-style-type: none"> <li>– smaller households</li> <li>– ageing of population</li> </ul>
<b>Primary producers</b>	<ul style="list-style-type: none"> <li>– retention of domestic primary production</li> <li>– shortage of skilled labour force</li> </ul>
<b>Processors</b>	<ul style="list-style-type: none"> <li>– regional foods</li> <li>– networking among SMEs</li> <li>– shortage of skilled labour force</li> </ul>
<b>Intermediaries</b>	<ul style="list-style-type: none"> <li>– increasing competition</li> </ul>
<b>Customers/Retailers</b>	<ul style="list-style-type: none"> <li>– development of retail trade</li> <li>– increase of disposable income</li> </ul>

ple, the centralisation of the wholesale and retail trade, which in turn increases the cost of transportation of goods for the processing businesses. The resources of SMEs are fairly limited and increasing cost levels may seriously impede their business operations. The growing popularity of e-commerce was seen to have both positive and negative impacts on food SMEs. E-commerce can offer new forms of doing business in the future, even though in the case of foodstuffs the future of e-commerce in consumer markets is still obscure. In business-to-business operations the use of ICT was seen as a prerequisite for all sizes of business in the near future, including SMEs.

Changes in consumer tastes and lifestyles will create opportunities for food SMEs, but SMEs are also forced to pay attention to all the demographic changes that are happening. The ever increasing number of smaller households and the ageing of consumers put new demands on, for example, product development or category management in SMEs. Smaller package sizes and speciality food products must also be developed in SMEs for the future needs of consumers, to maintain or strengthen market position. As processors, the SMEs may greatly benefit from the growing interest among consumers in local foods, as the common belief is that local food products are usually manufactured by reliable small businesses in the immediate area. The Delphi panellists were also convinced that enhanced networking among rural food SMEs could offer them more possibilities to enter markets than operating alone. Networking among businesses should cover various sectors of business operations, as well as raw material acquisition, as the shared usage of factors of production maximise the businesses' capacities. With the help of networking, the scarce resources of SMEs would be best used to attain greater market share.

The Delphi panellists argued that in the case of primary producers the retention of domestic primary production would be the most important factor for SMEs as most of them use purely domestic raw material in their produce. If food SMEs are able to get domestic raw material for their production needs, the maintenance of a high image for local foods can continue. The shortage of skilled labour alongside the diminishing number of farms and increasing imports of foreign raw material threaten the future of domestic primary production, and thus affects the success of rural food SMEs.

The increasing competition among food SC intermediaries (e.g. transport businesses and specialist wholesalers) was considered to greatly affect the food SMEs. The tightening competitive situation among the logistics service providers is forcing them to develop new and more efficient services, but usually on the large businesses' terms. More suitable logistical solutions for SMEs are thus also needed. In the case of customers, especially retailers, the structures are changing and are usually leading to more centralised operations. This may possibly hinder market entry for small businesses as the volume demands are massive from the SME point of view. However, the structural changes among customers are forcing SMEs to rethink their business operations, for example logistical systems, which may offer various possibilities: 'To reduce costs, small businesses should unite their product deliveries and operate as one chain. (...) Chains have to specialise and gain their competitive advantage through that' (*Delphi Round 1*).

The panellists remarked on the *opportunities* the above factors presented for rural development. The retention of consumer confidence in domestic food production having high quality and a good image was regarded as guaranteeing that migration from rural to urban areas would slow down and the appreciation of domestic production would continue. Some key issues considered to help promote the development of small-scale food production locally were, for example, an increasing interest in local foods among consumers, processor networks, partnership thinking, efficient marketing activities and product differentiation. Most of the panellists remarked on the various *threats* to rural development posed by the factors mentioned. The declining number of retail outlets in rural regions adds to the region's vulnerability at least to some extent, as services are slipping further and further. Increasing raw material imports make it even harder for domestic primary production to survive and this drastically hinders the economic development of rural areas. Due to migration, the shortage of skilled labour in rural areas makes it hard for food SMEs to recruit the people they need.

### **3.2 The likelihood of events**

For each of the three rounds, panellists were asked to indicate the extent to which particular events were likely to occur in the near future in the food industry in Finland on a scale of 1 to 9 (1 = extremely unlikely, 9 = extremely likely). A series of 20 event statements (S), derived from

the literature, were presented for the panellists, who were also asked to indicate the importance of these statements in terms of their influence on food SMEs located in Finland on a scale of 1 to 9 (1 = totally unimportant, 9 = of critical importance). The panellists were asked to provide more details on the three statements they gave the highest or lowest rating to. The median and IQR for most and least likely statements are presented in table 3 for each round.

**TABLE 3. Likelihood of various event statements.**

	Round 1		Round 2		Round 3	
	Median	IQR	Median	IQR	Median	IQR
(S1) The majority of primary producers will increasingly co-operate with other primary producers to form producer groups.	7	6–8	8	6.5–8	8	6.5–8
(S5) The majority of food SMEs will be involved in at least one network with other processors.	7	7–9	7.5	6.5–8.5	8	6.5–9
(S19) The food SC will become more integrated due the concept of competition between companies will change to competition between chains for all products.	7	5–8	7	5–8	7	5–8
(S12) The majority of food SMEs will develop cross-organisational teams with their food service customers to develop new products.	6.5	4–8	7	5–8	7	5–8
(S18) The majority of food SMEs and logistical service providers will co-operate to establish and share uniform objectives.	6.5	5–8	7	5–7.5	7	5–8
(S15) SCs dedicated to regional and speciality food products will become markedly more common.	6	5–8	7	5.5–8	7	6–8
(S11) The majority of food SMEs will develop cross-organisational teams with their retail customers to develop new products.	6.5	5–8	6.5	5–7.5	7	5–7
(S8) The majority of food SMEs and their food service customers will share assets and technology.	4	2–6	4	2–6	4	2–6
(S7) The majority of food SMEs and their retail customers will share assets and technology.	4	3–6	4	2.5–5.5	4	2.5–6
(S16) Direct sales from primary food producers to consumers will become increasingly important.	3	3–6	3	3–5	3	2.5–4.5
(S17) Direct sales from food SMEs to consumers will become increasingly important.	3	2–6	3	2–4	3	2–4.5
(S4) The majority of food SMEs will take ownership of primary producer enterprises for at least some of their raw material requirement.	3	2–4	3	2–4	3	2–3

The predictions that the majority of primary producers will co-operate with other primary producers to form producer groups (S1) and that the majority of food SMEs will be involved in at least one network with other processors (S5) were regarded as being highly likely, as the panellists believed that the high quality of raw material must be guaranteed for the purposes of domestic production. According to the panel, it will be almost impossible to manage without any partners because the competitive environment is becoming more and more demanding all the time, especially for small businesses. The benefits of co-operation were seen to offer rather diverse synergy benefits, for both SMEs and rural regions. Joint investments offer many new possibilities, resources and skills for carrying out various business activities which generate cost savings and thus lead to higher contribution margins and profits. As co-operation between primary producers or rural food SMEs was seen as extremely important for the businesses themselves, it was seen almost as a lifeline for the survival and vitality of the rural areas too.

Food SC integration (S19) aroused rather diverse and even contradictory opinions among the panellists. Some regarded that many requirements in the food sector to be more demanding due to increasing concentration in the wholesale and retail trade, and therefore close co-operation between different chain members would be a must as well. Chain integration was also seen as a backlash against foreign competitors entering the Finnish markets. Others saw the integration as causing some chain members to lose at least part of their independence. Regional specialities (S15) were estimated to interest consumers as an alternative to mass production, and to guarantee the sufficient visibility of such products the creation and development of specialised SCs was believed to occur.

The panellists predicted that the food SMEs will increase the co-operation with their intermediaries (such as logistics providers, S18) and commercial customers (S12 and S11). In particular, the enhanced co-operation with the food service sector aroused very encouraging comments: 'This is an excellent idea! This could bring more jobs to rural areas' (*Delphi Round 1*). However, many panellists considered that most of the food SMEs have no skills for co-operating with the food service sector. Through co-operation, the customers' needs are simply better met as the customisation of new products gets easier in close co-operation. The panellists stated that there are already clear indications about co-operation between food SMEs and retailers, although usually in the case of private labels. In any case, extensive co-operation between food SMEs and retailers was seen as a good opportunity for a small business to enter larger and possibly more profitable markets and thus increase turnover. As well, the structural changes and consumer-based way of thinking and operating were estimated to necessitate co-operation with logistics service providers. This was regarded as a basic prerequisite for businesses in lagging rural regions.

The majority of the Delphi panellists did not believe that food SMEs would share any assets or technology either with the food service customers (S8) or retailers (S7). A common rationale

for the former statement was that very few SMEs even know how to co-operate with the food service sector. The panellists also highlighted the fact that each node of the chain must concentrate on its core competencies, and that for example the retailers are not interested in sharing the assets with their SME suppliers. Neither does it pay to own the primary production (S4), because raw material is easily available for the production purposes of food SMEs. This kind of ownership was not seen to drive the efficiency of the sector. Competitive advantage must be found somewhere else.

In the case of direct sales (S16 and S17), the majority of the panellists argued that it is highly unlikely. Long distances in sparsely populated rural regions was in itself seen as blocking all attempts at direct sales, as this cannot be economically profitable, or in the best cases only seasonally. The safety risks were also considered to be too high. The consumers of today were seen to avoid any inconveniences; they do not have any interest in buying their groceries decentralised; it has to be easy and quick, as free time is precious.

A new set of statements was prompted from the panellists' open-ended comments on Round 1 answers. On Rounds 2 and 3, the panellists were asked to indicate the extent to which particular events are likely to occur in the near future for the food industry in Finland, on a scale of 1 to 9 (1 = extremely unlikely, 9 = extremely likely). They were also asked to indicate the importance of these statements in terms of their influence on food SMEs located in Finland, on a scale of 1 to 9 (1 = totally unimportant, 9 = of critical importance). The panellists were asked to give more details on the three statements they gave the highest or lowest rating to. The median and IQR for most and least likely statements are presented in table 4.

The Delphi panellists believed that the demand for organic produce is growing and that the growth in consumption will offer new markets for SMEs (S24). The increase in the standard of living as well as food crises, for example, offers organic products a possibility, because in general they have a good and clean image in consumers' minds. However, greater research and development inputs are needed which naturally is difficult for SMEs. The production of speciality foods (S26) was also forecasted to be more suitable for food SMEs than large businesses. The panellists argued that the market is difficult, but as small businesses have more flexible operating methods compared to large businesses, and because there is a need for small production lots in speciality foods, their production is more profitable for SMEs.

The growing trend in Finland to eat out has been noted in various studies (see e.g. Mäkelä 2002). Based partly on this visible trend, the Delphi forecasts showed that the panellists believed in the growing importance of the food service sector as a marketing channel for food SMEs (S29). The food service sector was said to be an excellent customer group for SMEs, but on the other hand, also highly demanding. Locally operating food SMEs have mainly been used for co-operating with the retail sector, and sometimes the operating methods are totally different in the food

TABLE 4. Most and least likely event statements.

	Round 2		Round 3	
	Median	IQR	Median	IQR
(S24) The growing demand for organic produce will open new profitable markets for food SMEs.	8	7.5–8.5	8	8–8
(S26) The production of speciality food products according to consumers' needs is more easily implemented by food SMEs than large food companies.	7	5.5–8.5	7	7–8
(S29) Increase in eating out will increase the importance of the food service sector as a local marketing channel for food SMEs.	7	5–8	7	5.5–8
(S32) As a result of food scandals, consumers' confidence in food SMEs is higher than the confidence in large food companies.	7	4.5–8	7	5–7
(S28) Market penetration of international food SCs into Finnish markets will offer better opportunities for food SMEs to gain market access.	4	2.5–6.5	4	2.5–6
(S23) ICT applications will be faster adopted by food SMEs than large food companies.	4	2–5	3.5	2–5
(S27) The ever concentrating retail trade makes market access easier for food SMEs.	3	2–7.5	3	2–6.5

service sector in comparison with the retail sector. This means learning completely new operating methods in food SMEs.

The traceability issues were seen as extremely important now and in the future in the Delphi exercise as a whole. In the case of consumer confidence in food scandal situations (S32) the panellists considered that consumers trust small businesses more than large businesses. The median of forecasts was seven, which can be regarded as a surprisingly high score. However, deviating opinions were also presented: 'This may happen at the local level in places, but in reality the readiness of a large business to react is better' (*Delphi Round 3*).

The market penetration of international food SCs into Finnish markets (S28) or the increasing concentration of the retail trade (S27) were not seen as being positive for SMEs. The panellists considered that for SMEs it is not any easier to get into a foreign retail chain selection compared to Finnish chains, and it may even be the other way around: 'Even now the market access for food SMEs is extremely difficult' (*Delphi Round 2*). Even large SC actors were considered to be scared by the arrival of foreign competitors. But on the other hand, the possibilities, at least in theory, increase for SMEs. The increasing concentration of the retail sector was regarded as making market penetration even harder for food SMEs due to their low capacity. It is worth noting that the deviation of forecasts was great, but the comments given were uniformly negative.

ICT and its adoption was one of the statements presented for the Delphi panellists (S23). The panellists mainly disagreed that food SMEs would adopt ICT applications faster than large businesses. Nevertheless, ICT adoption was seen as a lifeline for food SMEs as well, but the panellists argued that it may often be rather difficult for them, as there generally is a lack of skilled personnel and financial resources in smaller businesses. ICT was concluded to be of the utmost importance in various business activities: 'ICT is needed especially for cost management, monitoring and for networking' (*Delphi Round 2*).

### **3.3 Changes in the food supply chain**

On each of the three rounds of the Delphi study, panellists were asked to forecast the degree of change in ten events, derived from the literature, by 2004 (Period 1) and 2007 (Period 2), taking 100 as an indicator of the current situation (year 2001). The panellists were requested to outline the logic on which they based their forecasts. The median and IQR for several of these factors is presented in table 5. The factors in the table are the ones that evoked the most open-ended comments on all three rounds of the Delphi. They are listed according to the range of change in median on Round 3 between period 1 (P1) and 2 (P2).

According to the Delphi panellists consumers highlight food safety issues and the receiving of more specific information. This was seen as the main reason why the Finnish food processing industry is enhancing the traceability systems in raw materials. For example, previous animal diseases in Europe, such as BSE and FMD, have expedited the demand for traceability (Niemi et al. 2006, Verbeke and Ward 2006, Kelepouris et al. 2007, Lobb and Mazzocchi 2007). The maintenance of consumer confidence was regarded as the only way to guarantee a continuous high demand for domestic food products and the maintenance of their good reputation. A considerable increase in investing in traceability was forecasted to happen by 2007 as it was seen as a good marketing measure for the producer. New legislation was believed to demand more exact traceability for all raw material used for food processing.

The panellists considered that the food SMEs are effectively forced by their customers to adopt the use of electronic data interchange (EDI). Many respondents saw EDI as the only way for an SME to get its products into the future retail selection. The main hindrance for the adoption of EDI was considered to be the shortage of financial resources. The inter-quartile range for 2007 was perceptibly great, especially in the first round. Internet trading was generally predicted to increase greatly from P1 to P2. The increase in e-procurement has similar trends to that of EDI. 'Increases efficiency in working practises, lowers costs and saves time' (*Delphi Round 2*). The panellists forecasted that the different applications will develop very fast and the adoption will begin to get easier and easier for SMEs by P2.

TABLE 5. Forecasted change of various events by P1 and P2.

Factor	Period	Round 1		Round 2		Round 3	
		Median	IQR	Median	IQR	Median	IQR
1. Importance of raw materials traceability system.	P1	145	130–200	140	130–200	140	131.25–237.5
	P2	200	150–200	200	160–350	200	190–300
2. Number of food SMEs using on-line procurement.	P1	145	120–200	145	120–175	147.5	125–175
	P2	200	150–300	200	167.5–325	200	172.5–310
3. Number of food SMEs with EDI capabilities.	P1	125	120–200	120	120–150	127.5	120–150
	P2	150	130–300	150	135–250	155	137.5–225
4. Level of centralised procurement in the food service sector.	P1	125	110–150	122.5	115–150	127.5	120–150
	P2	150	120–200	150	130–200	150	132.5–200
5. Level of centralised distribution facilities in food service sector.	P1	110	105–150	110	107.5–145	115	110–145
	P2	120	105–200	120	112.5–150	135	117.5–150
6. Outsourcing by food SMEs.	P1	110	105–150	110	110–150	110	107.5–150
	P2	120	110–150	125	120–145	127.5	117.5–147.5
7. Level of centralised distribution facilities in retail.	P1	125	110–200	125	115–175	135	117.5–150
	P2	150	120–200	150	130–200	150	127.5–200
8. Number of consumers that shop on line.	P1	110	105–120	110	105–120	110	105–120
	P2	125	120–140	125	120–140	122.5	120–140
9. Food SME profit margins.	P1	110	100–120	110	100–135	115	102.5–122.5
	P2	120	108–150	120	110–150	120	110–150

The panellists believed that the ongoing centralisation of retail trade in Finland also expedites the centralisation of distribution. As one panellist put it: ‘...if the competitive advantage is to be maintained there is no other chance’ (*Delphi Round 1*). An interesting assumption was presented by two other panellists: ‘...the centralisation of distribution will still continue for some time, though it will not be the final solution; but the retail sector will evidently enhance the direct deliveries from producers in the future’ (*Delphi Round 1*). Almost all the panellists agreed that central procurement will increase in the future because food service sector has to seek economies of scale in order to cut costs and improve profit margins. On the other hand, one panellist highlighted the need to favour local small-scale production in the food service sector too, because ‘it saves time and money, it’s efficient, and leads to cost leadership’ (*Delphi Round 1*).

The Delphi panellists believed that the major product flows will continue to concentrate, as the demand for efficiency continues to increase. An exception among the concentrating product

flows, according to the panellists, is the distribution of regional foods. One panellist made the following remark: '...centralised distribution is not suitable for highly differentiated quality products' (*Delphi Round 1*). It was evident though, that centralised distribution means cost reductions. However, no major changes were forecasted to happen by P2.

Good profitability was considered a basic prerequisite for the continuous and sustainable development of a business. One panellist argued that 'networking among SMEs would bring financial benefits for all in a network' (*Delphi Round 1*). If a business really wants to succeed, it has to grow and make bigger profits. For example, specialisation was seen as a means to make a business operation more effective, which can then be seen in profits. However, no significant profit increases were forecasted to occur in the SME sector either by P1 or P2, though maybe later. As it was not considered useful for a business to do everything by oneself, the outsourcing was seen to give businesses an opportunity to concentrate on core competence. However, some panellists felt that it is often almost impossible to let somebody else handle certain stages of production, because quality or food safety was seen as being compromised by this. Therefore only a slight increase in outsourcing was forecasted to happen between P1 and P2. Mutual trust was seen as the key driver in outsourcing. Trust increases the likelihood of risk taking in relationship, which is the behavioural manifestation of trust (Mayer et al. 1995). Trustful collaboration between businesses can be achieved through a greater transparency of relationships through the sharing of information (Christopher and Jüttner 2000). Previous studies have shown that the main reasons for SMEs not outsourcing or co-operating are the lack of suitable partners, lack of will and commitment, fear of losing the autonomy, and fear of disclosing sensitive business information to competitors, i.e. lack of trust (Vihtonen and Forsman 2001, European Commission 2003, Viitaharju et al. 2005).

The panellists did not believe drastic changes would happen in the behaviour of Finnish consumers concerning on-line shopping for food products in the near future. They were sure that it will be a tempting and wise alternative for some people, for example those people working long hours as well as 'pioneers' in the adoption of technological applications. The younger generations may also be fertile ground for on-line food shopping, since they are used to using ICT in their everyday life. However, the majority of consumers are not seen as wanting to buy their food products on-line in the future either, because freshness of food is usually highly important and consumers want to ensure this themselves. Some panellists pointed out that this type of trend in food retailing could be crucial for the existence of rural SMEs, because in conventional retail stores customers buy many goods without giving it any further consideration, but when shopping on-line, there are much less temptations present and well-known brands easily dominate.

A new set of statements was prompted based on the Round 1 answers. For Rounds 2 and 3, the Delphi panellists were asked to consider the degree of change of 12 factors by P1 and P2,

taking 100 as an indicator of the current situation. The median and IQR for 10 of these factors is presented in table 6. As before, the factors in the table are the ones that evoked the most open-ended comments by the panellists on each round when outlining the logic for their opinions. They are listed according to the range of change in median on Round 3 between P1 and P2. As it is not interesting to present those events that generated only some or no comments by the panellists, they are not included in the table.

**TABLE 6. Forecasted change of selected events by P1 and P2.**

Factor	Period	Round 2		Round 3	
		Median	IQR	Median	IQR
1. Expenditure by food SMEs on marketing activities.	P1	130	110–140	130	112.5–140
	P2	150	115–190	160	120–190
2. Exploit of quality assurance schemes in food SMEs.	P1	127.5	120–145	130	120–142.5
	P2	150	145–190	155	150–185
3. Extent of networking among SMEs.	P1	120	120–145	125	120–135
	P2	145	135–190	150	140–190
4. Level of consumer orientation in food SMEs.	P1	140	120–175	140	125–175
	P2	160	140–275	165	150–275
5. Share of speciality products.	P1	130	120–145	127.5	120–145
	P2	150	135–200	150	140–200
6. Customers' confidence in the quality of Finnish food.	P1	120	105–135	120	105–127.5
	P2	140	120–175	135	120–187.5
7. Continuity of supply among food SMEs.	P1	115	110–122.5	117.5	110–120
	P2	130	120–150	130	120–150
8. Effect of internal migration on the profit margins.	P1	105	105–120	107.5	100–120
	P2	120	100–140	120	110–140
9. Importance of food SMEs as employers in rural areas.	P1	110	100–120	107.5	100–120
	P2	120	102.5–140	120	105–140
10. Share of distribution costs in the retail selling price.	P1	100	92.5–110	100	92.5–110
	P2	94	85–110	90	82.5–105

According to the Delphi panellists, the only way for a business to achieve more visibility and gain new markets is to increase marketing activities, and this also applies to small businesses. Marketing was considered to be the only way to create a name or brand value for a product. This is hindered, for example, by the lack of financial resources and marketing knowhow in rural SMEs.

One respondent highlighted also the importance of export markets for food SMEs, but of course the basic issues in business operations and marketing must be taken care of. According to the panellists, SMEs should realise that they exist because of their customers and they should serve them as well as they can. One panellist repeated the old saying: 'The customer is king!' (*Delphi Round 2*). Knowing what the customers want should not be seen as a problem impossible to overcome. Respondents argued that even SMEs should do at least some marketing research, for example at food fairs, to strengthen their consumer orientation.

Consumers' confidence in Finnish food was seen as fairly good at present, but the panellists were afraid that the various animal diseases in other parts of Europe would reach Finland too. This kind of development was seen to have an effect on consumer confidence. However, this confidence was predicted to increase from P1 to P2. On the other hand, the panellists highlighted that the appreciation of domestic food production is high because of past problems in foreign countries, and therefore: 'The popularity of regional foods will increase' (*Delphi Round 2*). The retention of consumers' confidence was seen to rest on clean and traceable raw materials, prevention of diseases and rigorous control. The use of quality labels was also viewed as rather important for food SMEs currently and especially in the future, because it is one way to control the production, and quality is increasingly becoming one of the most important food choice factors for consumers. 'A quality label is one way to differentiate a product from the mass market products' (*Delphi Round 2*). It was seen as an image-wise factor.

Networking was considered a good support for core business operations. One panellist indicated networking to bring various benefits in the form of 'marketing, learning, new ideas' (*Delphi Round 2*). However, most of the respondents argued that currently entrepreneurs are not used to very extensive co-operation, and thus much 'practising' is still needed to attain good co-operation relationships. The following benefits of networking were mentioned by the panellists: lower costs, the possibility of concentrating on core competencies, and better efficiency of operations. The panellists argued that the tendency is to reduce the amount of distribution costs in total costs in the food sector as a whole, but they considered that this is not always possible in SMEs as volumes may be low and delivery lots fairly small. Also in this case the increased networking among SMEs was offered as a means to attain lower costs. The distribution costs statement was the only one in which the index was lower in P2 than in P1.

The continuity of supply was considered to be one of the most important factors that, for example, retail and wholesale sectors demand of their suppliers, regardless of their size. The panellists were sure that only those SMEs that are able to guarantee continuity of supply will eventually survive, meaning that it is a basic demand: 'Increasing competition forces food SMEs to concentrate on the development of guaranteeing the supply' (*Delphi Round 2*). In another words, it is a clear strength and competitive advantage for the business. Further, ICT adoption was

believed to expedite it. Some panellists believed that the manufacturing of speciality products is just what SMEs should do, because they lack resources to compete with large enterprises in mass production with high-volume products. However, also contradictory views were presented: 'the resources directed towards R&D are far too small in SMEs and that restricts their ability to find their niche in the markets' (*Delphi Round 2*).

Migration was seen as one of the most severe factors currently shaping the SMEs' competitive environment. Almost all comments concerning migration and its impacts were negative. The solidity of rural enterprises is believed to be decreasing because people are moving to population centres and as a result the transportation costs for rural SMEs are increasing. However, rural enterprises were seen as extremely important for the rural economy as employers, but any major changes in the current situation were not expected to happen in the near future. Technological developments were seen to further the unemployment of uneducated and employment of professionally educated labour forces.

### **3.4 Assessing the quality of the research**

The quality of this research can be assessed from many different viewpoints. In this chapter both the method used, the implementation of the method, the findings and the study as a whole are shortly discussed.

A lot of attention was directed towards the implementation of the Delphi method as there are many critical points. The recruitment of panellists was carefully executed and commitment of panellists was confirmed before the start of the study. Also the process was carefully explained to the recruited panellists. The time-period from start to finish can be rather long in many Delphi panels, and therefore a boredom or fatigue can drop the response rates. In this study all three rounds were carried out approximately in two months and only very few panellists were dropped out, i.e. commitment was high. To ensure the validity of issues asked, the questionnaire was piloted and some minor modifications were done after that. The analysis of results was interwoven with the data gathering as the analysis was done after each round with a methodological rigour. The panellists got the initial results of the previous round before each new round. Some additional questions prompted by the panellists' comments were also included in last two rounds to ensure the good coverage of important issues and to avoid the panellists' boredom. The anonymity of the panellists was guaranteed and kept throughout the process to ensure both the freedom to express one's thoughts and the fair implementation of the method. To increase the transparency of the results for the reader, quotes by the panellists are also presented.

Although the accuracy of the current study has yet to be fully confirmed, indicators are that its main outlines are broadly correct and the research has actually succeeded to catch the future trends well. For example, the forecasted changes in the macro environment, as continuing inter-

nal migration from rural to urban areas and increasing imports of foodstuffs, have proved to be rather accurate. Also the lack of educated labour force was rightly predicted to occur. However, some forecasts, for example, concerning the increase in the number or intensity of different kinds of networks or co-operation forms between various SC partners, were too optimistic. Though the general climate for networking is rather positive, the level of co-operation in food chains is relatively lower compared to other industries, and for example the co-operation between food SMEs include only basic level activities as common advertising and delivery or outsourcing (Välimäki 2006). Consumer interest in e-commerce of food products was not believed to increase much, but a slight growth was predicted to happen towards the end of the forecasting period. The panellists were astonishingly correct in their prediction, even though at the time of the forecast, the future of the e-commerce in food products seemed rather uncertain. Today there is a growing trend that consumers are slowly getting more and more interested in buying food from e-shops. All in all, the use of Delphi method can be evaluated as having been a success as many forecasts for P1 were relatively accurate. Therefore, the results represent a useful starting point from which future research might be developed.

The accuracy of forecasts for P2 are still to be seen by 2010 or so, as the outcomes and trends in the macro environment are visible only after a longer period of time, and for example research results are generally lagging behind for several years. National traditions, tastes and food cultures have been and still are rather strong and unique, but there is evidence from many European countries that the changes and trends related to food chains are similar (e.g. Nygård and Storstad 1998, McDonagh and Commins 1999, Ilbery et al. 2004). Therefore the results of this study may also have relevance in a wider context, i.e. outside Finland, for other researchers too. The findings reported here should provide a useful basis for other studies seeking to improve understanding of the food SCs now and in the future.

## **4. CONCLUSIONS AND DISCUSSION: THE POTENTIAL OF RELATIONSHIP MARKETING THEORY FOR RURAL FOOD SME RESEARCH**

### **4.1 Elaboration of main results**

The purpose of the study was to identify the factors influencing the Finnish food industry, especially from SCs' and SMEs' perspectives. The purpose was to identify also the demands and potential for theoretical approaches to understand the companies' opportunities for success in this new situation. The results of Delphi study showed that many issues are affecting the operational environment of the food sector and will continue to do so. The main influencing factors can be grouped into the following categories (see table 7): 1) location, 2) competitive strategies, 3) social

and policy issues, 4) co-operation, and 5) relationships in chains. Based on the findings, it seems evident that enhanced co-operation between food SMEs, or especially between SMEs and other chain members is the key to more profitable business operations in rural areas in the future. The right hand column of table 7 presents the potential that network and RM theories can offer to rural food SME research in a rapidly changing marketing environment. Based on the Delphi results and the literature review, the theories possess relatively low potential in the categories of location, and social and policy issues. In the categories of competitive strategies, co-operation and relationships in chains, the network and RM theories are useable theoretical tools which offer various application possibilities for research in an SME context. Only the categories of high potential are discussed here, which does not mean that the other categories would be totally irrelevant for rural food SME research from the relational perspective, but the focus of this paper is on categories of competitive strategies, co-operation and relationships in chains.

**TABLE 7. Main factors influencing the rural food SME environment and the potential application of network and relationship marketing theories.**

Main influencing factors	Potential application of network and RM theories in rural food SME research
<b>Location</b> <ul style="list-style-type: none"> <li>- share of transportation costs</li> <li>- use of regional image in marketing of products</li> <li>- local foods</li> </ul>	LOW POTENTIAL
<b>Competitive strategies</b> <ul style="list-style-type: none"> <li>- identification of core competence</li> <li>- distribution strategy</li> <li>- use of ICT</li> <li>- reliability as a business partner</li> <li>- increased marketing communication</li> </ul>	<b>HIGH POTENTIAL</b> e.g. increased competitiveness, integrated infrastructure, improved marketplace position
<b>Social and policy issues</b> <ul style="list-style-type: none"> <li>- demographic population changes</li> <li>- migration</li> <li>- changes in consumer tastes and values</li> <li>- globalisation of food trends</li> <li>- increase of eating out</li> <li>- rural policy developments</li> </ul>	LOW POTENTIAL
<b>Co-operation</b> <ul style="list-style-type: none"> <li>- intensity of co-operation</li> <li>- benefits of co-operation in various business areas</li> </ul>	<b>HIGH POTENTIAL</b> e.g. non-opportunistic partnership, shared values, decreased search costs
<b>Relationships in chains</b> <ul style="list-style-type: none"> <li>- relationships with suppliers and customers</li> <li>- power distribution in chains</li> <li>- knowledge management</li> </ul>	<b>HIGH POTENTIAL</b> e.g. strategic alliances, high trust in relationships, relationships = resources, increased communication, improved financial performance

*Competitive strategies.* In building a competitive strategy a business must make many important decisions. SMEs should identify their own businesses' core competences as well as resources available. Concentration in well-identified core competences can lead to more effective business and, in the end, higher profits. Low production volumes easily result in a lack of continuity of supply and higher costs per unit, which e.g. hinders the possibility of gaining a retail trade access or diminish the reliability as a business partner. The trust aspect has become one of the mostly demanded features of present-day food chains (Hingley and Lindgreen 2002, Lindgreen 2003), and therefore the retention of the reliability is very important for SMEs too. An improved position in the marketplace often means getting more visibility and gaining more markets which in turn calls for increased marketing activities. As both financial and human resources are scarce in SMEs, co-operation with other SMEs could be the answer in most cases mentioned above.

*Co-operation.* SMEs have much leaner resource bases than large businesses, and also the lack of market power is a common characteristic in SMEs. Flexibility and 'virtual' scale can be gained through co-operation networks so that co-operating SMEs can together meet even the demands of large customers (Lechner and Dowling 2003). If co-operating partners gain mutual benefits, the creation of a truly valuable partnership has succeeded (Sheth and Sharma 1997). As organizational cultures may differ between businesses, the co-operation is not always simple. If businesses share values, they are more committed to the relationship (Morgan and Hunt 1994). The creation of a language of their own between co-operating partners happens gradually over time, which finally results that partners can immediately understand each other in a communication situation (Lechner and Dowling 2003). The co-operating businesses actively pursue common goals as each partner's individual success is tied to the success of the overall network (Hunt et al. 2006). Rural food SMEs could benefit of co-operation, for example, in areas of marketing, production, finance, purchasing, and research and development.

*Relationships in chains.* The rise of RM approach in SMEs can significantly affect the creation of valuable strategic alliances between SMEs, or SMEs and other SC members, and thus the competitiveness of a single business. As the marketing practised by SMEs typically has the relational emphasis, the SME entrepreneurs should focus on understanding, establishing, and facilitating relationships such that a network of viable contacts would be developed (Coviello et al. 2000). Close relationships with SC partners allows SMEs to use information to make better informed marketing decisions (Zontanos and Anderson 2004), which positively affects their position in the marketplace and increases the competitiveness. To ensure a lean communication process, an integration of all marketing communication messages and activities is required in RM (Grönroos 2004) in order to support the dyadic communication between SC partners. Communication has been described as glue that holds together a channel of distribution (Mohr and Nevin 1990).

RM offers a lot of possibilities for rural food SME to enhance the creation of sustainable competitive strategy.

## **4.2 Theoretical discussion and future research directions**

The field of SME networking has become very popular since the 1990s among both researchers and practitioners. The term 'networks' refers to two or more organisations involved in long-term, purposeful relationships. Networks allow the firms involved to gain or sustain competitive advantage vis-à-vis their competitors outside the network (Jarillo 1988). The entire economy can be viewed as a network of organisations with a vast hierarchy of subordinate, criss-crossing networks. Möller and Halinen (1999) distinguish four levels in the complexity of managing business networks and relationships, i.e. industries of networks, firms in a network, relationship portfolios, and exchange relationships. From a process perspective, attention is given to both the forces influencing a relationship, and the subprocesses constituting the exchange process itself. The capability to create, manage and conclude important relationships is a core resource for a firm. Networks may be tight or loose, depending on the quantity, quality, and type of interactions between the network actors, and marketing is at the core of network management (Thorelli 1986). Based on both the Delphi study findings and review on marketing and management literature, networking and relationship management can have a key importance in attaining more profitable business in rural food SMEs. However, more empirically informed research is needed that takes on board these preliminary findings.

The management of supplier and buyer relationships is by no means a new issue in marketing. It has been a 'hot topic' in both academia and business, when examined from a network perspective, and has attracted research since the early 1980s, intensifying during the 1990s with the RM approach (Sheth and Sharma 1997, Gummesson 1999, Möller and Halinen 1999). RM refers to all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges (e.g. Morgan and Hunt 1994), and it is seen first and foremost as an interacting process (Sheth and Parvatiyar 2002, Grönroos 2004). When RM is successfully implemented, it should lead to higher profits and lower costs, i.e. to strengthen the economy of a business. The objective of RM is thus to increase customer's commitment to the organisation through the process of offering better value on a continuous basis at a reduced cost (Sheth and Parvatiyar 2002). However, even today there is little agreement as to what RM is, how it is defined, how it is formed, and to what extent it is useful.

Supplier relationships increase competitiveness by locking in good suppliers. Those relationships with suppliers will be sustained that are valuable to attaining a sustainable competitive advantage (Sheth and Sharma 1997). The findings of previous studies (e.g. Lechner and Dowling 2003) suggest that the most important ties of entrepreneurs are characterized by a relatively long

duration as trust develops over time and through interaction. Therefore, trust influences relationship commitment and an essential ingredient for successful relationships (Dwyer et al. 1987, Morgan and Hunt 1994). Trust occurs between two parties of a transaction and refers to the confidence expectation, based upon the predictability of another party's behaviour, that one's interests will not be harmed or put at risk by the other (Zucker 1986). Trust concerns the confidence expectation, based upon the other party's goodwill, that one's interests will be protected (Ring and Van de Ven 1994). It helps relationships to become important resources for a business (Hunt et al. 2006). The Delphi findings also pointed out the importance of building trust between business partners in order to enhance the sustainability of relationships.

It is a global trend that competition occurs increasingly between networks of firms rather than individual businesses competing (Achrol and Kotler 1999), as rapidly changing competitive environments are forcing businesses to seek more creative and flexible means to meet competition. Thus, RM can be considered a useful concept to study, while many businesses have responded to these challenges by building collaborative relationships with customers and suppliers, which rely on relational forms of exchange characterised by high levels of trust (Morgan and Hunt 1994). By far only few researchers (Coviello et al. 2000, Zontanos and Anderson 2004) have studied the RM approach in an SME context. They argue that RM could be more suitable than traditional '4Ps' (product, price, place and promotion) as, according to various studies, close relationships between entrepreneur and customers are the core element of business operations in SMEs (e.g. Forsman 2000, Zontanos and Anderson 2004, Viitaharju et al. 2005). Especially for rural SMEs, the '4Ps' marketing is claimed to be too superficial and almost irrelevant (Anderson and McAuley 1999). Adopting RM practices offers a good possibility for SMEs to further develop the management of relational ties in order to improve their financial performance. Also large, globally operating businesses and market leaders have started to pay careful attention to relationships (Sheth and Parvatiyar 2002). If even they cannot survive without close ties with SC partners, how could SMEs? Thus, RM in an SME context should be further investigated.

Marketing is a discipline which is constantly evolving. Most of the theory building is done in a large business context (see e.g. Appiah-Adu 1997, Anderson and McAuley 1999). Consequently this raises a further research issue of how relevant, in a practical sense, all the concepts are for SMEs. The aim of this study was to serve as a stimulant to additional research in an SME context. Based on the findings of this study a lot of future research proposals in the context of food SMEs arise. The food SC environment from the SME perspective, emphasis being on relationships, should be explored more closely. Future research in this area might begin by examining the usefulness of RM for food SMEs, e.g. how relationships are managed in rural SMEs, what advantages can RM offer for rural SMEs and how can it be effectively implemented in an SME context. Another research direction deserving attention involves identifying the role of trust in

building and developing successful business relationships between rural SMEs and other chain members. Trust could be studied emphasis being on relationship enhancing issues, for example, in a marketing relationship dyad between a food SME and its downstream customers. Research along these lines would likely provide greater insights into the position of SMEs in food SCs.

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