INTERNATIONAL
HELLENIC
UNIVERSITY

Performance Based Contracts in Supply Chains

Dimitrios Mitios

SCHOOL OF ECONOMICS, BUSINESS ADMINISTRATION & LEGAL STUDIES

A thesis submitted for the degree of

Master of Science (MSc) in Strategic Product Design

December 2018
Thessaloniki – Greece

Student Name:	Dimitrios Mitios
SID:	ID1106170018
Supervisor:	Prof. Kostas Selviaridis

I hereby declare that the work submitted is mine and that where I have made use of another's work, I have attributed the source(s) according to the Regulations set in the Student's Handbook.

December 2018
Thessaloniki – Greece

Abstract

This dissertation was written as part of the MSc in Strategic Product Design at the International Hellenic University. The study investigates performance-based contracting in retail sector. Evidence in the context of supply in highly competitive market such as FMCG involving manufacturers and retailers indicates that the performance that companies buy and sell can be analyzed as specific combinations of effectiveness, efficiency and risk. Firms engage in a complex and time-consuming process to design and agree upon performance targets, payment mechanisms of buying and selling future performance. The conventional procedure of buying and selling products or services change to an environment of buying and sell performances that are necessary to gain competitive advantage. The research focuses on retail sector and the relationship between purchasing managers and suppliers. The research is not focused on the sub-contractors' companies e.g. transport companies, logistics centres etc.) between supplier and the retail company. The study investigates performance-based contracting in long term-supply relationships. Evidence in the context of supply relationships involving suppliers of consumer B2B companies. This study aims to provide a review and synthesis of the performance-based contracting (PBC) literature across academic disciplines. The theoretical framework used to provide a theoretical assumption for the analysis of empirical evidence.

Keywords: performance-based contracting; retail contracting; FMCG; supply chain; supply chain contracts; operations and supply management

Dimitrios Mitios

28/12/2018

Acknowledgments

I would like to express my sincere gratitude to my advisor Prof. Kostas Selviaridis for the support and related research, for his motivation in lectures, and immense knowledge.

Last but not the least, I would like to thank Lamprini the most important person for me in this MSc Program, for supporting me spiritually throughout writing this thesis and my life in general.

Table of Contents

Table of Illustrations

1. Introduction

Highly competitive markets as Fast Moving Consumer Goods try to find new approaches to engage performance and increase value in the supply chain. Retailers identify the need of new contract agreements with suppliers. Because of the characteristics of the products both sides agree also in other terms to increase flexibility to the supply chain. (Tsay and Lovejoy, 1999). According to Mouzas Performance-based contracting is about buying and selling solutions. Long-term supply relationships between suppliers and retailers creates strategic relationship. The conventional procedure of buying and selling products or services change to an environment of buying and sell performances that are necessary to gain competitive advantage (Lariviere,2005). Many contracting mechanisms has been explored in theoretical level but not tested in real world. There are three well known contracting mechanisms in supply chain: the wholesale price contract, buyback contract and the revenue-sharing contract (Katok and Wu, 2009). Contracting parties face the contractual process as an opportunity to renegotiate when external or internal factors occurs (Macaulay, 2004). Classical contractual agreements are not sustainable because they do not focus on the creation of maximum potential value Performance-based contracts set relational and absolute norms that included in contract agreements. They codify the both sides knowledge about a) efficiency b) effectiveness and c) economical ways to buy solutions to business needs (Mouzas, 2016). The purchasing departments in supply chains is at the forefront of the success in one organisation. Purchasing managers and suppliers create the value in organisations, to produce and distribute a specific product to the final customer. The study investigates performance-based contracting in long term-supply relationships. Evidence in the context of supply relationships involving suppliers of consumer B2B companies and FMCG retailers indicates that the performance that companies buy, and sell can be examined and analysed as specific combinations of effectiveness, efficiency and risk. The previous literature review based on buyer-supplier exchanges that services or service elements, implemented the model of (PBC) performance-based. Also, based performance contracting have gained increasing popularity in services or services supply chains. This paper aims to fill this gap in contracting and agreements between purchasing departments and suppliers in highly competitive markets such as FMCG and to provide a model that will be useful for the organisations to create savings between purchasing department and suppliers.

The objectives of the study are to explain in detail supply chains and supply chains type of contracts, performance-based contracts, study of the FMCG and retail sector and to assess the benefits and challenges of the performance based contracting behaviour. Although there is a substantial amount of academic work on barriers to assuming future performance (Cachon & Lariviere, 2001, Williamson, 2008), there is a research gap about how firms attempt to overcome these barriers by developing a performance-based contracting.

Methodology of the study based on secondary and primary research. The primary research conducted in purchasing department perspective. The research split to two basic areas first a detailed study of the relationship between the purchasing department and a strategic supplier of one product category then after the findings of the performance targets between strategic supplier and retailer try to find the incentives between other suppliers of the same product category. A questionnaire is used to identify key performance indicators with in depth interview process. After the first evaluation of the findings a feedback from assist the whole study to identify performance targets in retail sector. For example, the framework of contractual performance a) contractual effectiveness, b) contractual efficiency (Mouzas, 2016) and contractual risk was a result to identify the gaps in the literature and the theoretical ideas with the empirical study. The study provides also an empirical classification of the supplier from the angle of the retailer see the cooperation with the suppliers and the rating system.

Purchasing managers and suppliers in retail sector should meditate performance-based principles when try to design or negotiating a performance-based contract. It is too difficult to replace the ‘traditional’ trade agreement with performance based contract because of the complexity and analysis of the shared data It is necessary to have a closer look at relevant contractual agreements to analyze the impact of that strategy in the industrial and manufacturing context. (Malhotra & Van Alstyne, 2014).

The paper contributes to performance based contract literature by identifying performance factors influencing maximization of the value of supply chain between supplier and retailer.

The company that will be analysed and create a case is a global discount supermarket chain that operates around 10,000 stores across Europe and USA. It is one of the top five retailers across the world with sales around 83 billion dollars 2015. The company specialised in private label products as a backbone of the business. The strategic supplier that will be analysed is one of the biggest suppliers in processed meat products in Greece. The turnover of the supplier is 135 million 2017.

The rest of the paper is structured as follows: Section 2 reviews the existing literature, Section 3 discusses the research methodology and how the data collected and evaluated, Section 4 presents the empirical findings and present the process of contracting between retailer and supplier also, provide the short answers from the interview between purchasing department and strategic supplier and the method of supplier evaluation. Section 5 discusses the cross-case findings and develops the research propositions. Section 6 concludes by pointing out managerial implication as well as limitations and future research avenues.

2. Literature Review

In this chapter will be analysed existing literature on supply chains, performance-based contracts and the theory that supply chain composed of independent handlers, who acting with their own business interests and achieve systemwide efficiency though the differences that faced in local and global optimization problem. The main objective is to set rules for materials or products accountability and pricing that will assist independent entities approaching the desirable outcome (Lariviere, 1999).

2.1 Supply Chains

Supply chains are composed of independent units such as suppliers, distributors, retailers and customers. The units linked by financial, material, information and decisional flows. Every unit has individual preferences, that try to optimise his own preference. From global point of view supply chains have inefficiencies. Many companies around the world try to overcome these inefficiencies through long term contracts and cooperation’s that can improve the efficiency of supply chains and provide better competitive advantage (Fiala, 2004).

Recently there are growing interest among practitioners and academics in the field of supply chain management and there are a lot of researches that represent supply chain contracts. Few products are so simple that one organisation can handle the entire process of the goods. Most supply chains coordinate the independent entities in a way such to maximise their own profit. The control of the decision lead companies most of times to decentralised operations. For example, outsourcing of various elements of the production is common business model in many industries (Farlow et al., 1995, Iyer and Bergen, 1997). Global business environments often operate in multiple sites worldwide and reporting to different organizational function in the corporation. Operational control of these sites may be decentralized managed.

2.2 Supply Chain Contracts

Contracting in supply chain split into two theories the first takes a particular contract and determines the optimal actions are assuming that the contract terms are fixed. Also, there are some parameters to take in consideration in this theory such as costs or profits. The second theory take optimal policies under a contract as give and consider whether the terms of trade can be adjusted to at least improve or coordinate the supply chain. For example, there are a firm who propose specific terms through contractual form and ask the what contract it would be offered. (Lariviere, 1999)

The contracting mechanisms has been explored in theoretical level but not tested in real world. There are three well known contracting mechanisms in supply chain: the wholesale price contract, buyback contract and the revenue-sharing contract (Katok and Wu, 2009). Previous researches focused on contracting arrangement to eliminate inefficiencies through the supply chains. (Cachon, 2003). The coordination of the supply chain may differ from one organization to another. In simple business environment a contract must provide to the retailer the optimum order that will be the same amount when the initial or centralized setting was given. (Cachon, 2003). The arrangement between the risk of the supplier and the retailer make the supplier’s profit depend on realized sales. According to Cachon and Lariviere risk-sharing, buy-back and revenue-sharing contract, provide different outcome for both sides (supplier and retailer). Risk-sharing generates equivalent identical outcome for both sides. In buy-back contracts supplier must pay to the retailer a negotiated rebate for all unsold units, assuming the risk that associated with over-orders. Buyback contracts are common in pharmaceuticals, computer software and electronics companies (Padmanabhan and Png, 1995). In revenue-sharing contract, a retailer pays a supplier a wholesale price for each unit purchased, plus a percentage of the gross revenue the retailer generates. Also, the supplier set a higher order to the retailer in return for a percentage in gross revenue of the retailer. For any buy-back contract there exists a revenue-sharing contract that generates the same cash flows for any realization of demand (Cachon and Lariviere, 2005)

2.3 Performance based contracts

Previews studies in performance-based contacts provide the defining of the agreement between two negotiated parts in a supply chain. According to Mouzas performance-based contracting is buying and selling at the same time performance. Contracting parties sometimes see the contract and the contract terms as an opportunity to renegotiate when external or internal factors occurs from the economic environment even though the negotiated parties have defined properly all the possible obligations to perform (Macaulay, 2004). Additionally, performance based contracting deal with 'outcomes' or 'outputs' that is aligned with the business goals of the contracting parties. Also, emphasizes the risk of the supplier if not achieve the desirable performance and as a result there is a system of reward or punishment. Despite these characteristics in performance-based contracts described the payment mechanism and the achievement of key performance indicators (KPIs) that is tied and aligned to supplier incentives to buyer's contractual agreement and sometimes is unable to transfer the risk to sub-suppliers (e.g. transport companies) (Kleemann and Essig 2013).

Recently researches describe the performance outcomes of buying and selling can be assessed with specific terms: effectiveness, efficiency and risk (Mouzas, 2016). Contractual effectiveness deal with the theory that the end-customer completely cover the needs between the process of the counterparts. An effective performance-based contracting can create accounts that relevant constituencies find acceptable (Mouzas, 2016). In fast-moving consumer goods (FMCG) suppliers and retailers create accounts measuring 'brand awareness', 'loyalty', 'brand equity', 'price sensitivity', and 'promotion effect' to measure final sales at the end (Srinivasan, Park and Chang, 2005). Manufacturers and retailers negotiate other terms that not restricted only to buying and selling products. For example, payment deadlines are highly effective in financing businesses growth by contracting with suppliers and using them as creditors, this is very common in FMCG big retailers such as (Walmart, Aldi, LIDL etc.)

Contractual efficiency linked to performance outcome which connected with operational excellence or productivity. Contractual efficiency provides the solution to end-customers

(Roehrich & Caldwell, 2012). Contractual efficiency is more improvement of operational margins and cost minimization. For example, occurs tangible and intangible assets such as knowhow and it is not possible to reflect the real value of the resource (Mouzas and Ford, 2012). This might relate to specific contractual outcomes or business opportunities.

Contractual risk combined with the probability that an unwanted situation or event happened and has and adverse impact of the performance that have defined in the contract. Risk exposure is highly relevant in assessing future performance. This cost is like systematic risk and the opportunity cost of capital varies from contract to contract (Mouzas and Ford, 2011).

2.4 FMCG and Retail

Fast-Moving Consumer Goods (FMCG) relates to modern retail, products that are sold quickly and at low cost, such as packaged foods, beverages, OTC drugs and other consumables that customers using every day. The profit margin for both manufacturers and retailers are relatively small but they generate large quantities and create cumulative profit that can be substantial. A retailer is a merchant or a business enterprise, whose main business is selling directly to final consumers. Activities that the retailers perform is buying, selling, marketing grading and risk trading. (McKinsey & Company, 2018).

The major issue of the retail sector is the demand. Retailers cannot predict the demand accurately and that leads to inefficiencies through the supply chain. Significant losses or extra costs due to under-stocking or overstocking (Cai, W. et al., 2015). One of the practices attempt to solve this effect is to have both parties a minimum order commitment. The supplier set quotas for how many products will sell and the retailer agree to charge the supplier for unsold units. Because of the characteristics of the products both sides agree also in other terms to increase flexibility to the supply chain. (Tsay and Lovejoy, 1999).

2.5 Retail Contracts

The recognition of this situation has initiated study approaches for the supply chain coordination to eliminate the risks of both sides and reduce the inefficiencies. The review of other studies shows a numerous type of contract that create incentives for both sides. These contracts include quantity-discount contracts (Kolayetal., 2004) buy-back contracts (Emmons and Gilbert,1998; Pasternack,2008; Xiongetal.,2011), backup agreements (Eppen andIyer, 1997), revenue-sharing contracts (Cachon and Lariviere,2005; Giannoccaro and Pontrandolfo,2004; Lietal.,2009;Pasternack, 2005), sales-rebate contracts (Taylor, 2002; Wongetal.,2009), and quantity flexible contracts (Lian and Deshmukh, 2009; Tsay, 1999; Tsay and Lovejoy, 1999; Wang and Tsao,2006). The types of contracts that have mentioned only increase flexibility in the supply chain but not solve the problem of performance. Both sides must align their own incentive systems and prioritise objectives that reflect to the performance of the supply chain (Dwayne Whitten, Green and Zelbst, 2012).

2.6 Benefits and challenges of Performance Based Contracts

Performance-based contracts set relational and absolute norms that included in contract agreements. They codify the both sides knowledge about a) efficiency b) effectiveness and c) economical ways to buy solutions to business needs (Mouzas, 2016) and hence become “knowledge repositories” and reference points (Hart and Moore, 2008). Classical contractual agreements are not sustainable because they do not focus on the creation of maximum potential value. Sometimes also, fails to manage tensions such as cooperation versus competition, inflexibility versus flexibility or short-terms versus long terms orientation. For example, instability is very common in retailers of private label products in long term relationships with the suppliers that dominate the market with same quality products and half price from the traditional own product of the supplier. In performance-based contracting both parties create a framework of performance targets that they benefit from this process according to a set of actualized end-results. According to Mouzas this type of contracts reduces the costs of recurrent transaction b) provides a) reduces the costs of running recurrent transactions; b) provides certainty and calculability regarding the conditions under which performance may take place; and, c) reduces information asymmetry. Retailers pass the risks exposure to their suppliers; nonetheless, firms are not immune from external risks, even if the risks are diversified away. The recent crisis in financial institutions has demonstrated this
(Mouzas & Ford, 2011)

2.7 Summary and theoretical framework

According to the above aspects' performance-based contracts theories that analysed focuses in more in services and providers in supply chain. There are not empirically review of contracting mechanism in retail only in theoretical level. Most existing studies focus on side of procurement where performance-based contracts used to target principal agent problems. Moreover, even though the initial research of retail contract mechanism and the flexibility that they provide between the relationship of the supplier and purchasing department of a retailer do not address the problem accurately to maximize efficiency or to reduce risk exposure for both sides. Together with the basic understanding of performance base contracts (emphasis on outcomes and incentives), the contracting process and the perspectives need to define for the retail overview aspect. The empirical study below address what key performance indicators should be used to create a performance-based contracts in retail also how it will be shared this performance targets between retailers and suppliers and how the end customer will benefit through the contracting process in term to increase the value in supply chain.

3 .Research methodology

3.1 Scope of the research

The research focuses on retail sector and the relationship between purchasing managers and suppliers. The research is not focused on the sub-contractors' companies e.g. transport companies, logistics centres etc.) between supplier and the retail company. The research examines how purchasing managers in retail sector and suppliers set performance targets that increase profit, flexibility, elimination of inefficiencies.

3.2 Research Methodology

Secondary research obtained and summarized from existing data collated to increase the overall effectiveness of research. Secondary research includes research material published in valid resources such as ScienceDirect, Emerald insight and other educational institutions. Primary research conducted through semi-structured in-depth interviews. The use of interviews helps to gather valid and reliable data that are relevant to research question(s) and objectives. (Saunders, Lewis and Thornhill, 2012).

The research initiated between September and November 2018. In the first stage, only two counterparts analysed the purchasing department and supplier. The purchasing department of the company included 4 senior purchasing managers (team leaders), 4 purchasing managers responsible for various product categories in assortment and 4 assistants that manage every-day issues with the suppliers. The analysis based in buying organisation and not focused in supplier. In the second stage of the research 10 more suppliers from the same product category analysed to see how they respond according to the performance targets that have discussed with the strategic supplier. Interviewees included Sales Directors, Key Account Managers, Category Managers, Purchasing Managers and Financial Managers. Each interview was face-to-face interview and lasted about 30 min. The purpose of executing a second stage of data collection was to obtain copies of contracts. Finally, the research concludes with a simple case study for deeper going analysis (Gibbert, Ruigrok, & Wicki, 2008), using also theoretical tools and sampling (Pagell and Wu, 2009).

3.3 Company short profile

The company that have analysed is a global discount supermarket chain that operates around 10,000 stores across Europe. It is one of the top five retailers across the world with sales around 83 billion dollars. The company specialised in private label products as a backbone of the business. The company has great control over manufacturing costs and set its own price.
The strategy that the company follows is every day low price strategy with special promotions per week. That create more demand for products and sometimes lead the suppliers to over-orders than the usual orders.

3.4 Data Collection

The research initiated in September 2018, it was clear that there was a need to engage and capture data collection from exchanges and overcome the reluctance of the companies to reveal sensitive information about their contractual agreements. In the first stage was the engagement of the purchasing department of the retail company and one strategic supplier of one product category. The purpose of this initial stage of engagement is to gain access to sensitive information about negotiation processes and key characteristics of relevant resources.

In the second stage of the research, carried out between October and November 2018, expand the research to 10 suppliers of the same product category. The choose of the product category was very important for the retail firm, that means that also this category is strategically important for the firm in terms of value, loyalty, frequency, and profitability. The purpose of these final interviews is to understand if the other suppliers that are not strategic for the retail firm set the same performance target to increase profitability. Each interview at this final stage lasted about 30 minutes and sometimes extra questions made to understand if the suppliers understood the process of performance targeting.

Obtaining contracts was a method to move beyond subjective views obtained through interviews and examine objectified manifestations between the retail firm and the suppliers. The second stage of data collection emphasized on obtaining procedures, archival records, reports prepared for key accounts. The implementation of data collection based on multiple sources of evidence was necessary in the way of explanation effort to understood how companies overcome problems or inefficiencies to performance-based contracts. It was essential the collection of primary data to make more detailed examination the previous and current contracts.

3.5 Data Analysis

This section provides the process from data collection to data analysis. Critical examination of data and evaluation of every aspect and recombination of every finding to identify the mechanism that used in this sector to provide information about performance-based contracts. The data represented visually using tables and figures and will presented in the next chapter. Cross-case analysis also performed to discern patterns that can be existed in the relate bibliography and contract mechanisms that already used.

To identify performance targets in retail sector come out from the data. For example, the framework of contractual performance a) contractual effectiveness, b) contractual efficiency and contractual risk was a result to identify the gaps in the literature and the theoretical ideas with the empirical study. The simplicity of the sample to one simple buying procedure helped to understand in detail the importance of performance-based contracts in highly competitive markets where the strategic advantages is important. The literature and the contractual behaviour that the companies use focuses on barriers to predict future performance and take under consideration behaviours or situation such as transaction costs, missing orders costs, moral hazard and trust between firms.

The process of data analysis included quite systematically circles, moving theoretical concepts of performance results and empirical evidence of consent to the execution targets. This interaction between theoretical and empirical tools data differ from one-way inductive or deductive methods. For this reason, it was essential to engage analytical experimentation, with this method covered three major challenges complexity of the contracts, time and comparison. Performance-based contracts are often very long because of the combination between the variety of contract clauses on related performance targets, requirements, risks and liabilities. The retail firms set every year different targets because of the form of FMCG and the high competition. They change the performance and maybe it will be a limitation for the future. The morphology of the market also set new incentives for supplier and business. The focus on one product category give the opportunity to have not so many changes because competition cannot differentiate from year to year. Focused also in strategic supplier and the purchasing department of the retailer analysed the agreed performance targets and specific contract clauses to generate reliable comparisons. Finally, a feedback of the proved work is extremely important to fine tuning our interpretation and testing the validity and trustworthiness of the findings.

4 . Empirical Findings

This paper investigates performance-based contracting in business relationship between retailer and supplier. In the next chapters analyzed properly all the information gathered from internal information of the company. Because of the information sensitivity the company did not permit to reveal the name or other data that could reveal the identity of the company. For this reason, will presented some information about the company background.

4.1 Retailer Background

It is in the top 5 retailers in the world with sales of $83 billion in 2015. Today the company has around 11,000 stores around the world including United States. The permanent assortment is around 1700 products. The company retail philosophy centres on simplicity and maximum efficiency at every stage of the business, from supplier to customer, enabling the company to sell high quality products from a limited range of exclusive own brand and well-known labels at the lowest prices Stores sell a limited range of carefully selected product lines and can offer these high-quality products at low prices due to a pan European bulk purchasing policy; The company own several their key supply chains and so are able to control cost and efficiency throughout the chain. Offering this limited range gives the company immense buying power and allows to keep low prices whilst maintaining the quality of range; and a common misconception is that the company will have an adverse impact upon existing town centres but in fact a recent Competition Commission report confirms that the company provides a different retail offer in comparison to the main food retailers in Greece. The company market capitalization in 2017 was 1,3 billion euros.

The department that will analyse in detail in this assignment is the purchasing department and the strategy that follows to achieve the company's goals and how. The company achieve to eliminating any additional costs from a supplier. Another interesting point to analyse is how the inventory of the company works and how the purchasing department makes cost reduction through the company growth and how it is possible to minimise operational costs and make aware costumer interest.

The purchasing department is the heart of the company and has four divisions. Two divisions dealing everyday with private label brands, one division with most common brands in Greece and the third division with the promotion activities such as planning and creation of the leaflet with the promotions and sale offs of the company. Because of the complexity of the divisions of the company it will be analysed only the company purchasing strategy and how the private label brands division working to reduce costs to the company.

Every private label brand division split to assortments and to purchasing managers that manage product lines or product assortments. The product assortment contains several hundred different products and that means a management of around five to ten suppliers. Private label products are the backbone of the company and have the key role to the strategical decisions of the company. The main goals of the private label divisions are the diversity of the

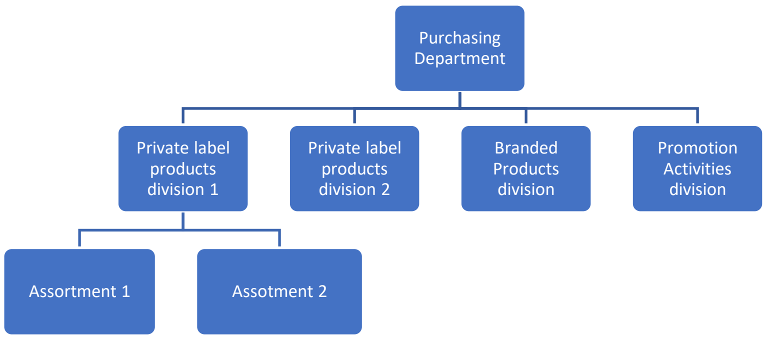

Figure 1(Organization chart of purchasing department) assortment, competitive buying prices, minimalization of operational costs through the company activities and product innovations or patents.

4.2 Strategic supplier background

The supplier is one of the biggest suppliers in processed meat products in Greece. The turnover of the supplier is 135 million 2017. The factory exists private facilities in 15.000 sqm and employed 300 people. Also, the company is a Greek group of companies of processed and other foods. As a group, it holds a leading position in cold cuts market, with a growing presence in the pizza market, ready-made meals, chicken, burgers, salad, vegetables and feta as well as growing international sales with exports to many countries. The beginning was in 1980 and today the products of the Group have conquered the Greek market and 25 countries worldwide. The international presence of the company around the world is

1) 2 Factories in EU
2) 2 Factory in Greece for processed meat

Today, the Group produces over 500 high quality products and operates in five sectors. In processed meat products, frozen foods (frozen vegetables, hamburgers, pizzas, prepared meals and much more), Greek traditional salads, feta cheese, extra virgin olive oil. The Group has succeeded in creating products that have become popular around the world. This success is due to the high level of quality, our staff, our know-how and the excellent relationship that we have with the people who trust our products over the years.

4.3 Product category analysis

In this section will analyse shortly the product category that we have focused. The total market value of processed meat category according to IRI is 241 million euros. The market divided in two sectors self-service products and counter. The total value of processed meat (self-service) products is approximately 97 million euros.

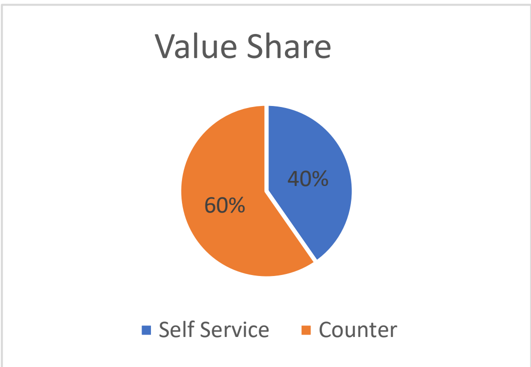

Figure 2: (ICAP, 2017)

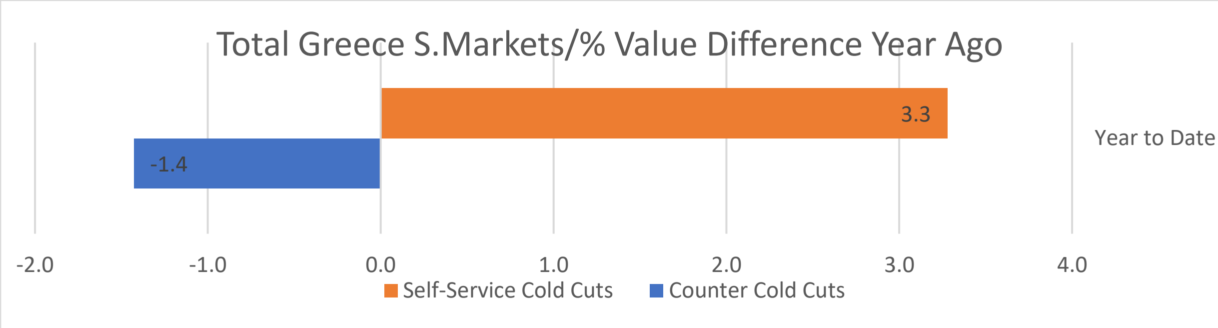

Figure 3(ICAP,2017)

The price and promotion war in 2016 – 2017 of the retailers driven the market in growth (+1.9%). But with big losses in profits. (ICAP 2017)The turnover of the category in the retail company is 37 million euros only in self-service products. This turnover place the retailer in leading position with 40% market share in self-service products. Also, the category for the company has 3% participation in general turnover of the company and is very important in terms of frequency, impulse consumer buying behaviour and spending per trip.

4.4 Industry background

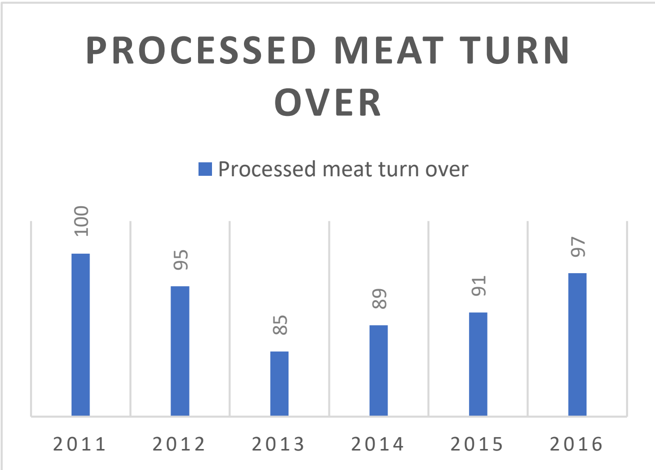

Figure 4(ICAP,2017)

Domestic consumption of cold cuts followed an upwards trend period 2000-2009 with an average annual rate of change of 3.4%. Subsequently but the course of the market was generally declining because of its economic crisis that has affected the available consumer income. Especially about sales of processed meat through supermarkets (covering a high share in the overall market), various measurements show significant decline in sales volume last, event intensified by the problems that led to the cessation of business the largest supermarket chain, which was "deprived" of importance sales volume. This decline also affected private products label, despite their lower price than brand names.

From the analysis of the consolidated balance sheet on a sample of 17 industries in the industry, with available balance sheets 2014-2015, the following results: Turnover and gross profits of companies increased by 4.1% and 5.4% respectively in 2015. The operating result remained negative over the last two years. As a result, the final net result of the sample companies remained loss-making in 2015, however losses declined by almost 51%. EBITDA earnings increased by approximately 55%. (ICAP 2017).

4.5 Contracting process

Meetings for the supplier and purchasing department is periodical and divided in three quarters. These three periods have different meaning from the two contracting parties. The first period is the planning period. In this period supplier review together with the purchasing department check business reviews that assist to the next period. The second period is the planning period the planning period take place for three months before. This process assists the retailer to make a future of activities such as promotion activities, setting of price point of the products and the self-strategy to increase impulse buying and spend per trips from customer. In this period also agreed the new products that will be launched for the next year. The third period is the annual trade negotiations that take place between January and March. This process allows to enhance certainty and calculability of contractual performance and reduces the potential of opportunistic behaviour through the negotiation period. the manufacturers' key account managers contact retailers' purchasing managers to review the annual performance of their business relationship.

The two sides recognize also the importance of their long-term supply relationship and try to identify novelties and innovations to combine insufficient resources to create joint gains. In practice the contracting process driven by: 1) Specific interests (e.g. property right for private labels or brands position, exclusivity issues or trade allowance of products in other chains to reduce potential risks. 2) the actual performance of replicated transactions as monitored through management information systems such as Electronic Data Interchange or Vendor Managed Inventory. Moreover, fair sharing data from companies such as IRI, Nielsen and GfK from both sides. 3) internal business review to purpose retailer’s specific performance targets regarding planograms, shelf space, promotion activities and new product launches. Another factor is the considerable risk and the costs of handling, administrative, promotional costs combined with working capital. The retailer demand from the supplier ‘trade allowances’ which set a fee or payment blocks as compensation for bearing risks in the supply chain. Retailer set high trade allowances in the following situations:

1) New products development
2) Plan for intensive promotions

3) Performance targets when the sharing of private label in product portfolio is high

Sometimes strategic supplier rejects the performance in private label product portfolio. In this study the supplier agrees to these performance targets and participate in private label product portfolio and generate incremental sales that assist the monetary flow of the supplier activities.

4.6 Supplier Evaluation

Supplier evaluation process is very important for the strategic sourcing of the company. The main target of the evaluation process is the minimization of purchasing risk and the maximization of the overall value to the purchaser (Monczka & Handfield & Giunipero & Pattersson 2011, 240). A formal qualification process is used when selecting a supplier for cost-one-time contract that is established in long term partnership (Sollish & Semanik 2011, 101). A supplier process begins when there is a need for new supplier most of the time supplier.

The supplier evaluation and selection process according to Monczka et al. (2011, 241) consists of seven steps:

a) recognition the need for supplier selection,
b) identification of key sourcing requirements,
c) determine a sourcing strategy,
d) identifying potential supply sources,
e) limit the suppliers in a selection pool,
f) determine a method of supplier evaluation and selection,
g) select the supplier and reaching an agreement. Monczka et al. (2011, 250)

The supplier evaluation is simple to scale according the needs and the requirements of each product category

The retailer uses also the following criteria to evaluate a supplier:

1) The turnover that the supplier generates with the retail and how big is this percentage in total turnover of the supplier
2) The intensity of the cooperation through product innovation, product portfolio
3) The probability to change the supplier

The retailer evaluates these criteria with the following rating system the following figure explain the process of evaluation with example

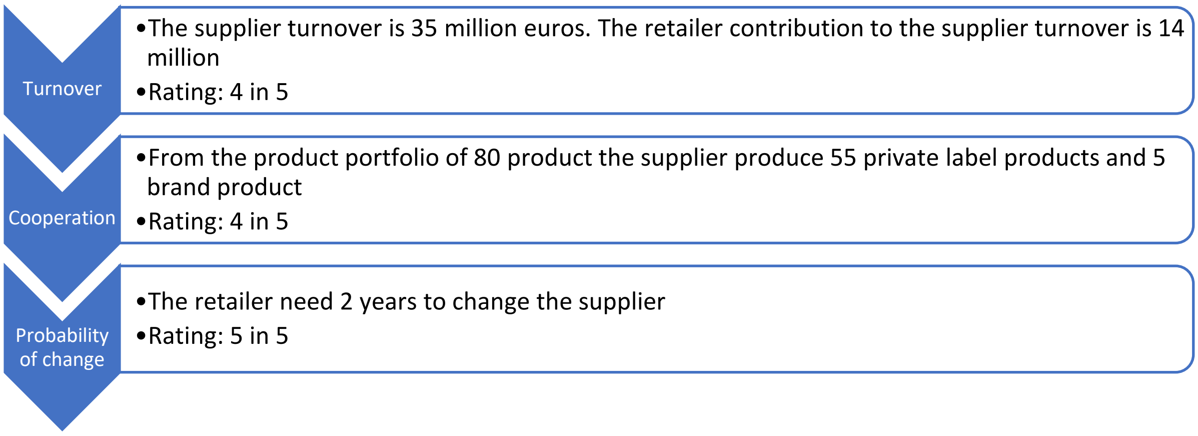

Figure 5 (Strategic Supplier Evaluation Example)

In this case the retailer contribution in turnover is 40% in supplier total turnover. That makes negotiation power of the retailer very strong and the supplier need to find alternate ways to be more flexible and efficient. The product portfolio contribution of the supplier to the retailer assortment is 68% in private labels together with branded products 75% that makes supplier very important to the retailer. In case of replacement of the supplier the retailer needs two years to change this cooperation with another supplier.

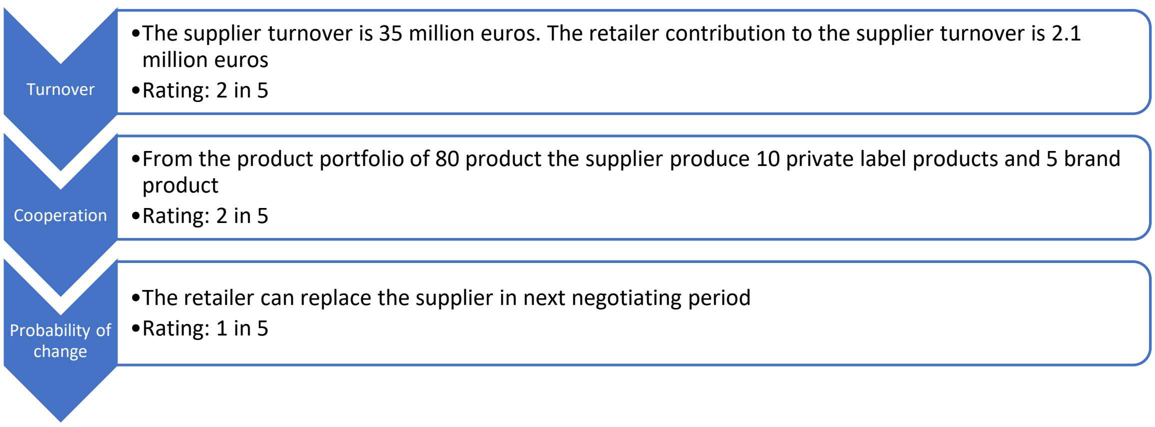

Figure 6(Base Supplier Evaluation Example)

In this case the supplier has small contribution in product portfolio of the company also there is small dependence between the supplier and the supplier. The supplier product turnover comes from other cooperation and may be this cooperation is more opportunistic.

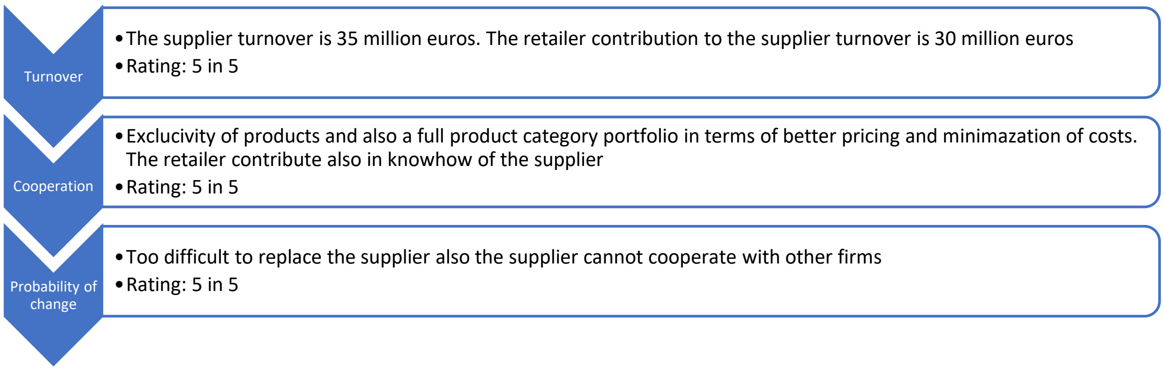

Figure 7(Partner Evaluation Example)

In this case the supplier is a partner for the retailer and the retailer for the supplier. 85% of the total turnover of the supplier comes from the cooperation with the retailer. The retailer share knowhow, information and innovation with the supplier. In this case sometimes retailers acquire the factories from the suppliers. This is also popular in business like Unilever, P&G etc. that have large product portfolios in different product categories. Also, the probability of change is too difficult.

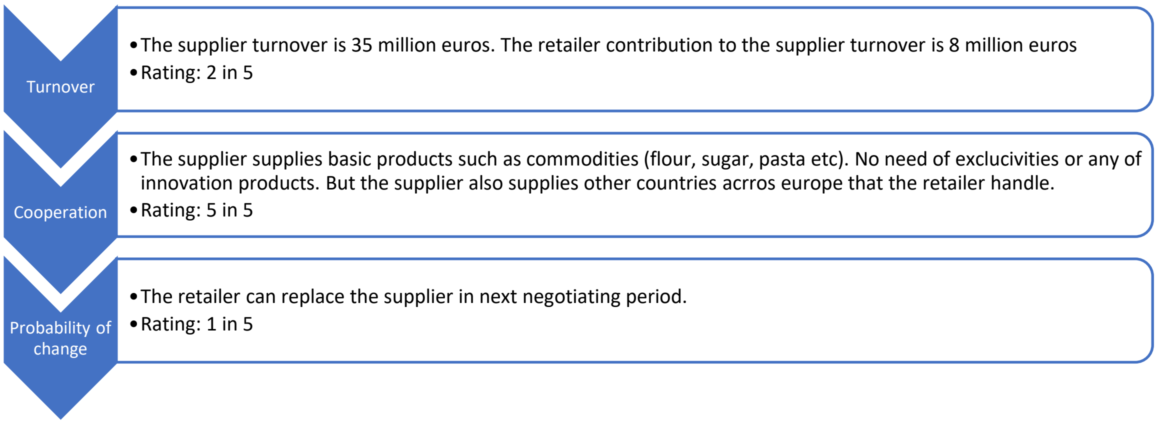

Figure 8(Synergy Supplier Evaluation Example)

In this case the supplier is important in terms of cooperation and the number of products that have in product portfolio but the product categories such as commodities is not assist the supplier to make a partnership with the retailer. The retailer can replace the supplier in the next negotiation round. Only one issue is that the supplier supplies other countries that the retailer operates and increase the risk that a new supplier cannot supply other countries through the complexity of the environment when a supplier export goods in other countries. That risk is not so easy to handle from the side of the retailer.

4.7 Classification of suppliers

The classification of the suppliers is very important for the retail company according to these 4 evaluations of the suppliers the company classify the suppliers in 4 categories.

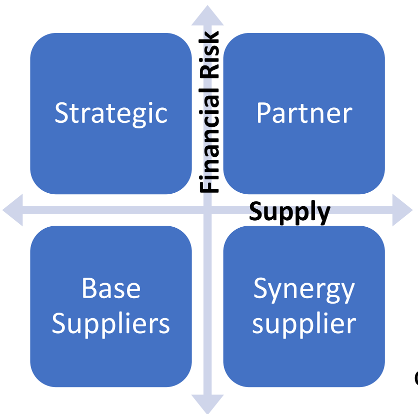

Figure 9 (Retailer supplier classification)

Strategic supplier: is the supplier that company generate volumes and turnover for the company the importance of the cooperation is important, and the replacement of the supplier is difficult and takes years

Partner supplier: is a **tailored business relationship** based on trust, openness, and shared risk and reward that yields a competitive advantage. Partners participate in new product development process. Partnerships are flexible relationships that depend on honesty and integrity to succeed.

Synergy supplier: is the supplier that the cooperate with the retailer in low price products such commodities, create value through big volumes and the retailer can easily replace the supplier in annual contracting process but there is a side effect when a purchasing manager choose a supplier of this class gives quantities and create a synergy with other countries to have better prices.

Base supplier: is the supplier for routine products, promotion activities and small project that can assist the retailer to increase volumes through the introduction of new SKU's the relationship between supplier and the purchasing manager of the company is more opportunistic. The model that the retailer uses based on Kraljic model with modifications from the angle that the retailer classifies the suppliers.

4.8 Responses

In this section will be analysed the responses from the interview between the purchasing department and the strategic supplier.

4.8.1 Introduction

1) What are the responsibilities that you have in terms of contract agreement?

   Purchasing Manager: "*The contract agreement that we have with the supplier is an agreement after the negotiations. The responsibilities of the purchasing department are net-net price guarantee for an annual time frame, payment deadline, delivery terms according to Incoterms in our contracts we have carriage-free delivered duty paid, agreed minimum best before date (BBD), product quality specification, pallet specification, penalties in term of no deliveries and divergence of the quality specification, property rights of the product and fees for management and handling costs"*

   Senior Purchasing Manager: *"The contract agreement with the supplier is the most important issue for our department. Terms like price, deliveries, product specification and delivery described in the contract agreement. The responsibility of the contract agreement is by the side of the purchasing department. Any contract violation affects directly the supplier."*

   Sales Director (Supplier): "*The contract agreement with the retailer is very important from our side. The retailer create the contract and we agree to this contract. Our responsibility is to carry out every contract term of the retailer. Some of the terms are negotiated with the purchasing manager other terms is fixed and there is no chance to change"*

2) Could you describe the issues that occur with the traditional trade agreement?

   Purchasing Manager: "*The trade agreements that our purchasing department create, and design are fixed. Net-net price guarantee for any quantity (high price guarantee). There are agreements that the first set is the quantity and it is fixed and then the net-net price. The issues that occur with the agreements are sometimes the high demand or the low demand of a product can affect directly the supplier. Another issue is when the* *prices of raw materials change affect directly the supplier and sometimes the performance of our agreement. For example, we deal a price for one product in 1 euro and at the middle of the year the prices of the raw materials go -20%. Most of the time we do not change the initial agreement and that is the issue also when prices from raw materials increase affect the supplier, as a result we cannot stabilized the final quality of the product because the supplier tries to find ways to reduce the expenses.*

Senior Purchasing Manager: *"The issues that occur with the traditional agreements are when something from the external environment affect directly the prices. Sometimes it is difficult sometimes to monitoring other things such as standard quality and deliveries issues that happened because of the speed of the procedures"*

Sales Director (Supplier): *"The issues of the agreement that we have with the supplier are most of the time with the daily business things. Of course, we make a prediction for the raw materials but sometimes something may change radically. Other problems are the monitoring of the daily issues, because of the complexity of the business the retailer cannot predict efficient the demand of the products and sometimes running out of stock or want extra deliveries that costs are not included in the agreement."*

4.8.2 Contract details

3) Why do you think that the performance-based contract will be more efficient?

Purchasing Manager: *"The idea of the performance-based contracts is to make contracts more efficient, by optimizing incentives and allocating risks. Properly designed, a performance–based contract can achieve better results. The advantage comes from a better alignment of incentives with output objectives and encourage efficiency. The whole idea is to have a real win-win contract with the supplier"*

Senior Purchasing Manager: *"If a contract is well designed then the efficient is definitely assured. The theory of the performance-based contract will be implemented when the right KPI's will defined and monitored. Then the contract agreement will be more efficient"*

Sales Director (Supplier): *"It is obligated to change because the FMCG sector changes year by year. The type of this contract will help industries to create better* *relationships with the purchasing department. Definitely it will be an innovation but there is a need to define every aspect in the right way"*

4) What performance targets do you think is it possible to set in this agreement?

Purchasing Manager: *"For sure monetary, supply and information targets. It is essential to have the right information at the right time because affect directly the performance"*

Senior Purchasing Manager: *"It is better first to deal with KPI's and then with the targets. The targets may be supply, information and financial targets"*

Sales Director (Supplier): *"First financial targets, then delivery targets and of course information targets"*

5) What key performance indicators is ideal for such a contract?

Purchasing Manager: *"Net-net price, payment deadlines, profitability, discount buying pricing in promotions, right distribution, stock replenishment, number of deliveries, shopper insights, customer complains."*

Senior Purchasing Manager: *"Pricing, profitability, dynamic system of payment, shipments per week, monitoring"*

Sales Director (Supplier): *"Price, profitability, demand management, distribution of products, flexible payments, data insights"*

6) How do you imagine the punishment and award system?

Purchasing Manager: "*It is difficult to create punishment and award system but if the specifications are setted at the beginning of the cooperation there is no worries. If inefficiencies minimized and the risk exposure reduced both sides will be benefited. I think that the award and punishment system will be provided in contract clauses better".*

Senior Purchasing Manager: *"The system will be provided on contract clauses better I think that the traditional agreement has this type of clauses if there is any violation the supplier penalized"*

Sales Director (Supplier*):* *"It is obligated to identify all the aspects first and then we create penalties or awards for both sides"*

7) What is the optimal time for renewal the agreement of these type of contract?

Purchasing Manager: *"Depends on product category for commodities annually, for near foods or low-price products every two years"*
Senior Purchasing Manager: *"Better annually to set new performance specifications after the evaluation of the process"*
Sales Director (Supplier): *"It will be a risk if the contract not evaluated, I suggest annually after evaluation"*

4.8.3 Performance Measurement

8) Is there any external factor that affect performance?

Purchasing Manager: *"Competitors, macroeconomic environment, end-customer"*
Senior Purchasing Manager: *"Competition, and the macroeconomic environment"*
Sales Director (Supplier): *"Retailers, other manufactures, resources and macroeconomic environment"*

9) Is it possible the KPI's that you have mentioned formulated in the contract?

Purchasing Manager: *"When the contract will be designed the contract clauses must have all the information needed to assist both sides"*
Senior Purchasing Manager: "*I think that is not difficult to formulate this KPI's in final contract the only thing is to monitor all the KPI's that we have set"*
Sales Director (Supplier): *"The purchasing department of the retailer will design the contract.*

10) How do you imagine the collaboration between the two counterparts?

Purchasing Manager: *"I think that the collaboration will not change dramatically but some issues will be solved automatically. I think more solutions will have with this type of contract."*

Senior Purchasing Manager: *"The collaboration will be closed but probably more solutions in daily issues that occur in terms of transactions pricing etc. will solved"*

Sales Director (Supplier): *"The collaboration will not change but from the supplier side I think will be more benefits and will increase the relationship between supplier and purchasing department."*

4.9 Performance targets

The purchasing manager and the strategic supplier agreed to set performance targets that adds value to supply chain and the relationship between both sides. There was a categorization between these targets in 3 major categories a) Financial Targets b) Supply Targets c) Informational Targets. After consideration with the strategic supplier 10 more supplier from the same product category requested to check if the KPI's could increase efficiency in compare with the contract that the retailer provide. In the following table will compare the results with the strategic supplier

Table 1(Performance targets and suppliers)

Performance Targets / KPI's	**Measure**	**SS1**	**S2**	**S3**	**S4**	**S5**	**S6**	**S7**	**S8**	**S9**	**S10**
Financial											
Net-Net Price	**value/unit**	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Discount Net-Net Price	**value/unit/per time of use**	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Payment Deadline	**days**	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Profitability %	**value/per net selling price**	✓	×	✓	×	×	×	✓	✓	✓	×

Management fees %	**value/turn over per year**	✓	×	×	✓	×	×	✓	×	✓	✓
Supply											
Number of deliveries per week	**Numeric**	✓	✓	×	✓	✓	✓	✓	×	×	✓
Warehouse cost%	**Missing pallets/Per m2**	✓	×	×	✓	×	✓	✓	×	×	×
Stock replenishment	**EUR-Pallet**	✓	✓	×	✓	✓	✓	✓	×	✓	✓
Transport fees %	**per delivery**	✓	✓	✓	✓	✓	×	×	✓	✓	×
Product damages %	**selling value/unit**	✓	✓	✓	✓	✓	✓	×	✓	✓	✓
Informational Targets											
EDI system	**Units (SKU)**	✓	×	×	✓	✓	✓	×	×	×	×
Customer complain system	**savings/time**	✓	✓	✓	✓	✓	✓	✓	✓	✓	×
Payment deadline discount	**invoice value/per days**	✓	✓	×	✓	✓	✓	✓	×	×	×
Shopper Data	**value**	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

In the relationship between suppliers and the retailer, the supplier was concerned with the performance targets that the purchasing department and the strategic supplier have set. They discussed a lot with performance targets related to financial measurements such as pricing payment from the other two categories concerned about performance targets such as operational capacities, number of shipments and stock replenishment. The supplier that focused in performance targets such as the supply focus on distribution level and the demand that need to cover only by branded products. From the other side the retailer focused in performance indicators such as cost saving and minimization of out of stock risks. The retailer provides a solution in payment deadlines like a discounting system. For example, the supplier has an invoice of 10,000 euros and will be paid in 90 days. The supplier can use this system to withdraw the money of the transaction earlier and the supplier paid a small fee to the retailer 3-4%. There is scale between days that connected with calculations and financial perspectives of the retailer.

4.10 Contract Clauses

The contract agreement clause states that the written terms of the two counterparts represent the whole agreement and any oral agreement have been consolidated into the written document. (Translegal). Financial, supply and informational performance targets established by creating performance-based contract clauses. This analytical framework of binding rules and principles assist to enhance certainty of contractual performance. These principles emphasize in the importance of the informational aspects and the required terms of the contract. The following contract clauses focuses only in strategical cooperation and eliminate opportunistic cooperation with other suppliers. The strategic supplier or the partner will have more benefits than a supplier that uses the traditional contract agreement of the retailer.

Table 2(Contract Clauses)

Performance Targets / KPI's	**Measure**	**Contract Clauses**
Financial		
Net-Net Price	**value/unit**	Volume and prices will be agreed annually
Discount Net-Net Price	**value/unit/per time of use**	The plan of promotion activities will be setted from the retailer
Payment Deadline	**days**	90 days of payment/ Delivery costs 50-50
Profitability %	**value/per net selling price**	Retailer margin 50% > supplier saving 10% Retailer margin 40% > supplier saving 5% Retailer margin 30% > supplier saving 2,5% Retailer margin 20% > supplier saving 0%.
Management fees %	**value/turn over per year**	Turnover of supplier 1,000,000 euro - supplier fee 0,25% Turnover of supplier 5,000,000 - supplier fee 0,20%

		Turnover of supplier 10,000,000 - supplier fee 0,15% Turnover of supplier up to 20,000,000 - supplier fee 0,10%
Supply		
Number of deliveries per week	**Numeric**	Depends on the BBD of the product/ Fresh products daily
Warehouse cost%	**Missing pallets/Per m2**	Fee cost 5 euro/per m2 that warehouse count to place the EUR-Pall
Stock replenishment	**EUR-Pallet**	No extra fees for stock replenishment
Transport fees %	**per delivery**	5% per extra delivery that the supplier makes
Product damages %	**selling value/unit**	Selling value charge/per unit -no returns to the supplier
Informational Targets		
EDI system	**Units (SKU)**	1% Saving for the supplier for minimization of invoices income
Customer complain system	**savings/time**	CCS system will be installed to QA department of the supplier and retailer. Supplier will handle the incidents in term reduction of consumer fee.
Payment deadline discount	**invoice value/per days**	Creation of scale system that the supplier can be paid earlier than the payment day. The supplier will pay a fee to the retailer
Shopper Data	**value**	Continuous monitoring by a 3rd parties (IRI GfK, ACNielsen). Costs 50-50.

The retailer and the supplier agreed of the terms that have mentioned previous with the performance indicators that have set through the discussion. Both counterparts believe that the contractual behavior will be more efficient.

4.11 Case Analysis

Table 3 (Case Analysis versus previous contract clauses)

Performance Targets / KPI's	Measure	Contract Clauses	Previous Contract Clauses
Financial			
Net-Net Price	**value/unit**	Volume and prices will be agreed annually	Volume and prices will be agreed annually
Discount Net-Net Price	**value/unit/per time of use**	The plan of promotion activities will be setted from the retailer	The plan of promotion activities will be setted from the retailer
Payment Deadline	**days**	90 days of payment/ Delivery costs 50-50	90 days payments/Delivery costs to the supplier
Profitability %	**value/per net selling price**	Retailer margin 50% > supplier saving 10% Retailer margin 40% > supplier saving 5% Retailer margin 30% > supplier saving 2,5% Retailer margin 20% > supplier saving 0%.	--
Management fees %	**value/turn over per year**	Turnover of supplier 1,000,000 euro - supplier fee 0,25% in total turnover Turnover of supplier 5,000,000 - supplier fee 0,20% in total turnover Turnover of supplier 10,000,000 - supplier fee 0,15% in total turnover Turnover of supplier up to 20,000,000 - supplier fee 0,10% in total turnover	0.30% in total turnover of the supplier
Supply			
Number of deliveries per week	**Numeric**	Depends on the BBD of the product/ Fresh products daily	4 times a week

Warehouse cost%	**Missing pallets/Per m2**	Fee cost 5 euro/per m2 that warehouse count to place the EUR-Pall	no cost for missing pallets/ Fix Penalty fee to the supplier
Stock replenishment	**EUR-Pallet**	No extra fees for stock replenishment	No extra fees for stock replenishment
Transport fees %	**per delivery**	5% per extra delivery that the supplier makes	No charge for extra deliveries
Product damages %	**selling value/unit**	Selling value charge/per unit -no returns to the supplier	Returns of damaged products
Informational Targets			
EDI system	**Units (SKU)**	1% Saving for the supplier for minimization of invoices income	Installation and implementation from the retailer
Customer complain system	**savings/time**	CCS system will be installed to QA department of the supplier and retailer	Customer complains managed by e-mail from retailer
Payment deadline discount	**invoice value/per days**	Creation of scale system that the supplier can be paid earlier than the payment day. The supplier will pay a fee to the retailer	No payment discount system
Shopper Data	**value**	Continuous monitoring by a 3rd parties (IRI GfK, ACNielsen)	Fair sharing data from 3rd parties

From the analysis of the previous situation the performance agreement is more efficient in point by point analysis. The case helps to understand better the current situation and the findings from the research to the retail company and the strategic supplier made in terms of contractual effectiveness, contractual efficiency and contractual risk (Kotler et al., 2002; Mouzas, 2006).

5. Analysis and Discussion

The theoretical framework used to provide a theoretical assumption for the analysis of empirical evidence. According to Mouzas the contractual performance specified as a combination for contractual effectiveness, contractual efficiency and contractual risks. The framework assists to deeper analysis and make a first approach how strategic cooperation in retail sector could anticipate future performance. The literature review addresses the theoretical parts of what means performance in supply chain and allow to connect all the parts of the contractual behavior between two counterparts the supplier and the retailer in based performance contracting behavior. Holistic research on existent retail contracts such as), revenue-sharing contracts (Cachon andLariviere,2005; Giannoccaro and Pontrandolfo,2004; Lietal.,2009; Pasternack, 2005), sales-rebate contracts (Taylor, 2002; Wongetal.,2009), and quantity flexible contracts (Lian and Deshmukh, 2009; Tsay, 1999; Tsay and Lovejoy, 1999; Wang and Tsao,2006). The types of these contract address specific situations and they cannot provide a solution to both counterparts. The empirical evidence shows that there are many barriers between the relationship of the supplier and the retailer and because of the changing environment of FMCG sector both sides agree in terms to increase flexibility to the supply chain (Tsay and Lovejoy, 1999) and not performance. Contracting parties were able to be cooperating with the contract clauses and demonstrate specific combination of effectiveness efficiency and risk. Counterparts avoided performance targets that related to final prices and volumes and agreed on daily business performance problems. Also, they agree to cut cost from 3rd parties such as IRI, GfK and AC Nielsen to provide data of the category and shopper insights. Agreed also in payments of 60 days and use of the new endeavour of payment system that can be paid in fewer days than the contract in return of a small fee to the supplier. Continuous stock replenishment was an imperative from retailer side to generate saving that enhance the operating margins and assist the contractual efficiency.

6. Conclusions

The study presents the firm supply relationships with strategic suppliers and overcome the barriers of traditional retail agreement to anticipate future performance and create and design from scratch a theoretical framework of performance-based contracting. The counterparts are able to negotiate and agree upon performance targets with specific contract clauses and incentives to achieve specific agreed performance targets. Performance-based contracting enable suppliers and retailers to implement a value-based performance based on specific key performance indicators. Also enable the two sides to realized performance levels such as incremental revenues, cost saving and avoidance of contractual risk. Two parties codify the knowledge that have in daily business and as result have a) efficient b) effective and c) reasonable solutions between the contracting parties. The sharing knowledge have mentioned in previous researches (Hart & Moore, 2008). These studies do not predetermine decisions in contract behavior but provide a useful framework (Weber & Mayer, 2011). The frequent instabilities of those strategic business partnership and contractual arrangement fail to manage terms such as "cooperation versus competition" (Mouzas, 2016). The findings suggest a process to the contracting design if the retailer want to achieve better performance in one product category should find the way for optimum performance for all supplier categories. The empirical evidence theory suggests that current contractual arrangement is not sustainable and do not create the maximum potential value from the procedures

Supplier and retailer must create a framework of performance targets and should set objectives that approach the business targets and the final outcomes. Performance based contracting a) reduces the costs of recurrent transaction b) provide calculability and certainty c) reduces asymmetries in information flows (Mouzas, 2016). Finally, the findings of this research are a first approach in retail and FMCG and tries to fill the gap in performance based contracts in retail sector.

6.1 Managerial implications

Purchasing managers in retail sector should meditate the following principles when try to design or negotiating a performance-based contract.

1) **Share the knowledge with the supplier or align the objectives and incentives through contractive process.**
   a) Define performance target
   b) Monitor performance

   The process of performance-based contracts in retail is new endeavor, it is work-in-progress
2) **Formulate the performance targets to specific contract clauses**

   Purchasing managers need to be aware that the contract clauses need to be complemented by legally enforceable contracts. The performance targets should be analytical in the design of the contract clauses. Shared principles energize counterparts to achieve the agreed performance for example the elimination of the missing pallets in warehouse and the extra ordering fee makes also the supplier and the retailer to make better predictions for the demand.

3) **The purchasing department and suppliers need balanced performance-based contracts**

   The biggest challenge to this contractual behavior is to achieve balance. Sometimes the negotiating power comes from the supplier side, especially in Greece in Europe the retailers have stronger negotiating power. If the contract is not designed properly then the risk of termination of the cooperation is possible. To achieve balance should carry a) effectiveness b) efficiency and prudent ways of contracting (Mouzas, 2016)

4) **The replacement process of the past contracting and the future performance-based contracts**

   Another challenge because of the morphology of the FMCG sector, sometimes because of the speed of the transaction there are trade agreements that the two counterparts do not have contracts. It is challenging to change the contracting process through businesses.

6.2 Limitations and future research

The study outcome is a research of the based performance contracts in retail sector and how it could be achieved this theory combined with the empirical findings Although, the study study offers some initial insights into the interaction between retailer and supplier and the incentive of contracting process, further research is needed to develop to understand better the interaction between the two counterparts. The lack of time for research limit the findings between different typology of supplier and supply chain performance. Also, the limited access to the purchasing department of the retailer limit the findings from the purchasing perspective. The findings are more general and based on a case scenario between the contractual process. Survey research across industries could help understand and refine the theoretical and the case scenario. Further, research in different types of supplier should be investigated to find more performance targets that will be aligned in relation with performance-based contracts.

7. References

Cachon, G., & Lariviere, M. (2001a). Turning the supply chain into a revenue chain. Harvard Business Review (March), 20–21.

Dwayne Whitten, G., Green, K. and Zelbst, P. (2012). Triple-A supply chain performance. *International Journal of Operations & Production Management*, 32(1), pp.28-48.

Emmons, H., Gilbert, S.M.,(1998).Note.The role of returns policies in pricing and inventory decisions for catalogue goods. Manag.Sci.44,276–283.

Essig, M., Glas, A., Selviaridis, K. and Roehrich, J. (2016). Performance-based contracting in business markets. *Industrial Marketing Management*, 59, pp.5-11.

Fiala, P. (2004). Information sharing in supply chains. *Omega*, 33(5), pp.419-423.

Ford, D., & Mouzas, S. (2010). Networking under uncertainty: Concepts and research agenda. Industrial Marketing Management, 39(6), 956–962.

Ford, D., & Mouzas, S. (2013). Service and value in the interactive business landscape. Industrial Marketing Management, 42(2), 9–17.

Giannoccaro, I., Pontrandolfo, P., (2004).Supply chain coordination by revenue sharing contracts. Int.J.Prod.Econ.89,131–139.

Hart, O. and Moore, J. (2008). Contracts as Reference Points. *SSRN Electronic Journal*.

Katok, E. and Wu, D. (2009). Contracting in Supply Chains: A Laboratory Investigation. *Management Science*, 55(12), pp.1953-1968.

Kleemann, F. and Essig, M. (2013). A providers' perspective on supplier relationships in performance-based contracting. *Journal of Purchasing and Supply Management*, 19(3), pp.185-198.

Kolay,S.,Shaffer,G.,Ordover,J.A.,2004.All-units discounts in retail contracts.J. Econ. Manag.Strategy13,429–459.

Kotler, P., Jain, D., & Maesincee, S. (2002). Marketing moves: A new approach to profits, growth, and renewal. Harvard Business Press.

Lariviere, M. (1999). Supply Chain Contracting and Coordination with Stochastic Demand. *International Series in Operations Research & Management Science*, pp.233-268.

Macaulay, S. (2004). The Real and the Paper Deal: Empirical Pictures of Relationships, Complexity and the Urge for Transparent Simple Rules. *Modern Law Review*, 66(1), pp.44-79.

Malhotra, A. and Van Alstyne, M. (2014). The dark side of the sharing economy … and how to lighten it. *Communications of the ACM*, 57(11), pp.24-27.

Monczka, R. and Giunipero, L. (1985). International purchaasing: characteristics and implementation. *The International Executive*, 27(1), pp.11-12.

Mouzas, S. (2006). Negotiating Umbrella Agreements. *Negotiation Journal*, 22(3), pp.279-301.

Mouzas, S. (2018). *Performance based contracting in long-term supply relationships*.

M. Gibbert, W. Ruigrok and B. Wicki, "Research Notes and Commentaries: What Passes as a Rigorous Case Study," Strategic Management Journal, Vol. 29, No. 13, 2008, pp. 1465-1474

Padmanabhan, V. and Png, I. (1995). Manufacturer's Return Policies and Retail Competition. *Marketing Science*, 16(1), pp.81-94.

Pasternack., (2005). Using revenue sharing to achieve channel coordination for a news boy type inventory model ,Supply Chain Management: Models, Applications, and Research Directions.Springer,pp.117–136.

PAGELL, M. and WU, Z. (2009). BUILDING A MORE COMPLETE THEORY OF SUSTAINABLE SUPPLY CHAIN MANAGEMENT USING CASE STUDIES OF 10 EXEMPLARS. *Journal of Supply Chain Management*, 45(2), pp.37-56.

Roehrich, J. and Caldwell, N. (2012). Delivering integrated solutions in the public sector: The unbundling paradox. *Industrial Marketing Management*, 41(6), pp.995-1007.

Saunders, M., Lewis, P. and Thornhill, A. (2012). *Research methods for business students*. Harlow [etc.]: Pearson Education Limited.

Srinivasan, V., Park, C. and Chang, D. (2005). An Approach to the Measurement, Analysis, and Prediction of Brand Equity and Its Sources. *Management Science*, 51(9), pp.1433-1448.

Tsay, A. and Lovejoy, W. (1999). Quantity Flexibility Contracts and Supply Chain Performance. *Manufacturing & Service Operations Management*, 1(2), pp.89-111.

Wang, Q. and Tsao, D. (2006). Supply contract with bidirectional options: The buyer's perspective. *International Journal of Production Economics*, 101(1), pp.30-52.

Weber, L. and Mayer, K. (2011). Designing Effective Contracts: Exploring the Influence of Framing and Expectations. *Academy of Management Review*, 36(1), pp.53-75.

Williamson, O. (2008). Transaction Cost Economics: An Introduction. *SSRN Electronic Journal*.

Xiong, H., Chen, B., Xie, J., (2011). A composite contract based on buyback and quantity flexibility contracts.Eur.J.Oper.Res.210,559–567.

Websites:

Icap.gr. (2018). *ICAP GROUP - Sector Study: Cold cuts - Meat products*. [online] Available at: https://www.icap.gr/Default.aspx?id=8435&nt=146&lang=2 [Accessed 13 Dec. 2018].

McKinsey & Company. (2018). *McKinsey & Company*. [online] Available at: https://www.mckinsey.com/ [Accessed 10 Dec. 2018].

TransLegal. (2018). *TransLegal - Legal English for Lawyers*. [online] Available at: https://www.translegal.com/ [Accessed 1 Dec. 2018].