Trade practices of retail chains as far as the transaction cost analysis in the relationships manufacturer – retailer are concerned in the milk industry

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Abstract: The primary purpose of this article is to discuss the trade practices used by retail chains from the point of view of the possible solutions of conflicts between the members of the distribution channel, which have an influence on selling prices for the end users. It is based on the knowledge of the theory of the transaction cost analysis, which makes it possible for the members of the distribution channel to make decisions on the number of forms of the organization in order to realize their activities successfully. In this framework and using the example of milk, the article shows the trade practices of retail chains to improve the relationships manufacturer – retailer in the Slovak consumer market.

Key words: manufacturer-retailer relationship, retail chain, purchasing department, transaction cost analysis, milk products, Slovak food market, milk industry

The present situation of the relations between the Slovak producers of food products and retailers can be characterized from two points of view. The first one is related to the situation of farmers in the Slovak economy, which is connected with the decline of the share of agriculture in GDP, the intensive competition in this sector, the low efficiency of enterprises, the obsolete technical equipment, the problematic allocation of subsidies, the non-functioning of the market with soil, the unsettled ownership relations, and the like (Grznár et al. 2009). The second one is connected to the first one and it describes the situation of the retailers in negotiating the purchase of milk with their suppliers in more detail. The retailers face the surplus of food products as the farmers are not able to export their products production and at the same time they face the offer of cheaper products by foreign producers which results in an extensive import. Moreover, their situation is complicated by such factors as rapid changes in weather, a low trust in the future of agricultural policy in the European Union, the irregularities in consumption of agricultural products by consumers as well as the growth of costs, which results in market instability. These obstacles make the retail chains in their negotiations with their suppliers to use different practices with the aim of ensuring the functioning of the distribution channel. This is connected with the generally known problem of service charges, which the retailer aks from the supplier (e.g. listing prices, backbuying of the unsold goods at the same price, high penalties in the case of delayed deliveries, growth rebates, and the like), or sharing the costs and risks needed to develop new products and markets (e.g. leaflet promotion and the like) This results in the conflict between the members of the distribution channel, i.e. the producer and retailer, as the additional payments or the contractual penalties make the creation of the supplier's margin less transparent. This problem has not been properly analyzed so far.

OBJECTIVES AND METHODOLOGY

Most of the empirical literature using the transaction costs theory to examine the motives for vertical integration typically focus on manufacturing (Anderson and Schmittlein 1984). This is an important omission, as the vertical integration as a business strategy has become increasingly important in agriculture and only few empirical studies have been conducted compared with other sectors (Bhuyan 2005). Further, transaction costs are rarely measured because they refer to all costs other than the costs of the physical production (Lai 1994). According to E.G. Furubotn and R. Richter, transaction costs have a significant heuristic value (Buitelaar 2004). From this perspective, the paper explains the functioning of the relations on the basis of the transaction costs theory and helps to understand how the retail chain makes its decisions with the aim of lowering the costs resulting from its activity with regard to its own strategic goals in the context of the cooperation with the milk producer. The article is targeted at milk which is at present the main component of healthy catering and healthy nutrition. This fact is also taken into account by e.g. the retail chain Tesco by promoting the milk sale in the milk vending machine network. We can say that in their strategies, the retail chains are increasing their interest in milk with the aim of extending the possibilities of the milk offer, which makes this product a strategic priority within their assortment for many retail chains and at the same time, they are trying to improve their market position within the healthy nutrition and support the local producers of milk (Sedlák and Kucejová 2010).

Using the example of milk being sold by the retail chains, the article shows the groundwork of the retail chains practices from the point of view of the transaction cost analysis with the aim of improving the relations producer – retailer. The subject matter of the research is as follows:

– the theoretical aspects of transaction costs,
– the place of the purchasing department within the relations retailer-supplier from the point of view of transaction;
– the need to make use of the transaction costs theory in creation of the new theoretical knowledge on the basis of analysis of the present situation of the producer – retailer relations.

RESULTS AND DISCUSSION

Theoretical aspects of the transaction costs

On the basis of different environmental factors which influence the relations between the producer and retailer in the purchase sphere, the retail chains carry out the activities for their better managing. These activities can be explained on the basis of the approach based on the transaction cost theory and the vertical integration of R. Coase (Rindfleisch and Heide 1997). This theory is the subject matter of many applications with the aim of explaining the existence of different organizational forms related to two places of the activity regulation: free market or hierarchical relation. The decision maker must make a compromise between the transactions which he/she makes and find a balance between those which give more advantages to prefer the market and those which give more advantages to prefer the integrated organization (hierarchical relations). There is a hierarchical relation because the orientation at the market can be costly for the decision maker and it causes transaction costs (costs connected with forming the adequate prices, costs connected with business negotiations, with concluding an agreement with other participants of the distribution channel, with the control of agreements and the like). In other words, every activity exists due to the failure of another activity. The market and the hierarchical relation as two places of the regulation of activities are connected with the mechanisms of coordination. The coordination function of the market is carried out by the price mechanism and within the hierarchical relation (Wiliamson 1979) it is the retail chain coordinator's authority which may be replenished by partnership and trust.

The works of O.E. Williamson (Heide 1994) have elaborated the R. Coase's proposals which are taking into consideration the costs in the relationship management and the possibility of rise of the occasional costs resulting from the wrong decisions made. The O.E. Williamson's approach is specified by the microanalytical framework based on the interplay between two presumptions of human behavior, i.e. the limited rationality and the behavior targeted at seeking the opportunities, and the two main characteristics of transaction, i.e. the information asymmetry and the socio-economic environment (Rosenbloom 1999).

The theory of transaction costs tries to explain the choice of the right partner of the distribution channel on the basis of the main principle, i.e. the minimization of costs which arise in the exchange within the retail chain. From this point of view, the specific activities of the purchasing department of the relevant chain within cooperation with the producer point at different forms of distribution channels active in the Slovak consumer market. This makes us to consider the retailer's power in his/her relation with the producer, which results in the conflict and the protection strategies of producers in the distribution channel in creating and accommodating the value in their offer that results from the frequency of the transaction realizations. The above also explains the development of approaches such as the management of product groups (category marketing) and trade marketing of producer (trade marketing) that emphasize the need of searching the cooperation aspect within the distribution channel, while the retailer's success is presented as being dependent on his/her suppliers because their marketing activities depend on the partner's contribution with the aim of creating a long-term relationship whilst the power is being substituted by trust and partnership. In the same way, the efficiency of the relevant distribution channel will depend on the abilities of the producer and retailer to equally share the costs of each activity connected with managing the distribution channel (Stalk 2008). This way the distribution can be defined as a source of lowering the costs by the means of a common orientation at the consumer's requirements and at the same time the main approach to the creation of the normative organization.

The Figure 1 illustrates the organization of relations in the distribution channel, either on the basis of market, i.e. the market exchange, or on the basis of the hierarchical relation which is represented by the vertical integration.

The Figure 1 shows three situations of the producer-retailer relationship. The first situation presents the traditional model when a producer supplies a retailer with a product and decides the features and price of the product. This traditional model is characterized by the changing level of sale and it creates conflicts between the producer and retailer as for the charges paid by the producer to the retailer. The second situation illustrates the model of cooperation relations between a retailer and a producer. In this case, i.e. in the case of hybrid integration between a retailer and producer, the concept of product is a result of cooperation between the producer and the retailer and it indirectly influences also the basic producer. The producer accepts the requirements of the retailer concerning the product and allows the retailer to be in charge of the sales (Bavorová 2010). The third situation presents the case of vertical integration within which a retailer asks a producer to supply him/her with the goods according to his/her requirements whilst the transfer of information is made in the vertical way. Such a connection between the producer and retailer corresponds with the cooperation in the strict sense when the producer only meets the requirements of the retailer.

The basic attributes of transaction costs

Following the analysis of R. Coase, on the basis of considering the transaction costs, O.E. Williamson is trying to answer the question: in what cases the company prefers the market (agreement relations) and in what cases it prefers the hierarchical relation (integrated organization).

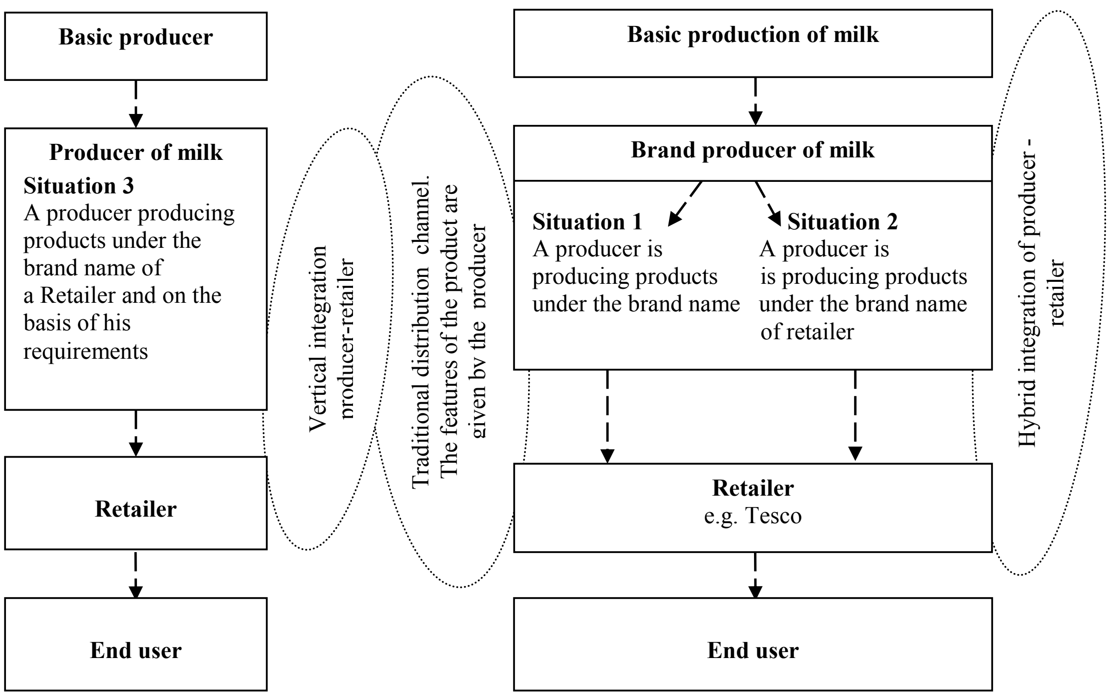

Figure 1. Different situations of organization of the distribution channel between the producer and retailer

Source: own processing

He differentiates between the following attributes of transaction between a producer and retailer: a conditional transaction attribute, which is given by the existence of a hierarchical relation and unconditional transaction attributes which are related to the specific assets, the environment uncertainty and the uncertainty in behavior.

The hierarchical relation is such an organization of activities which replaces the price system by a set of rules which are decreasing the risks connected with the human behavior. The task of the internalization of activities within the hierarchical relation is not to eliminate the influence of the market but rather to modify its boundaries. The market and the contractual transactions are being transformed to the managed transactions on the basis of the system of agreements between the members of the integrated organization which leads e.g. to a consensus in creating the deliveries. The transaction organization costs within the hierarchical relation (control, coordination, supervision and the like) are lower than the profit which is caused by the internalization of activities within the chain.

Specific assets are related to the transferable and non-transferable assets, the vicinity of production, specific human resources, the brand name, the customer loyalty, and the like (Baudry 1995). The owners of these assets are interested in continuing the relations for as long as possible because in the majority of cases they can be applied only to a small extent. The contractual parties can take the post- contractual behavior oriented at seeking the opportunities, and in some transactions they are able to profit from the given situation.

Environmental uncertainty in the sphere of transaction cost analysis is related to the unexpected changes in the circumstances connected with the exchange. As for measuring, the environmental uncertainty seems to be the most problematic aspect of all attributes. There are two mutually competing points of view of management of the activities. The most general one is the attitude of hold up, which emphasizes the unpredictability of the character of external environment whilst the second one analyzes two aspects – the unpredictability and the complexity of environment. This is connected with the environmental turbulence, i. e. its complexity and volatility as well as the threats in the business sphere in the individual markets. The term environmental uncertainty is also connected with the technological lagging behind or an unexpected technological development. The environmental uncertainty cannot be understood only in a negative way because it also contributes to the creation of more perfect contractual relations between the producer and retailer (Wiliamson (1998). This effect is characterized by its dynamism and the complexity in the creation of different relation structures as far as the perception of environmental uncertainty by the managers of retailers and producers is concerned. The further indicators of environmental uncertainty are also the stock return and the classification of the risk of the country as a symptom of the unpredictability of situations in the market.

Williamson proves that these are independent attributes, i.e. a limited rationality and the behavior of the market participants oriented at seeking the opportunities, which are affecting the contractual relation due to the uncertainty and complexity of market situations, the information asymmetry and the existence of specific activities. Managing the agreements between the members of the distribution channel can lead managers to the endeavour to limit the effects of the imperfectness of the market and they get inclined to a more advantageous organization of transactions within the more hierarchical context. As a result, such a relation can be internalized to be protected against the possible negative impacts of the unconditional attributes of transaction.

The transaction cost analysis perceives the behavior uncertainty because it originates from the problems connected with monitoring the effectiveness of the contractual parties of the exchange. The term behavior uncertainty is the level of the difficulty connected with the evaluation of effectiveness of a transaction realized by the partners. The behavior uncertainty results from:
– limited rationality,
– behavior focused on seeking opportunities,
– information asymmetry.

Limited rationality presumes that the decision makers do not have the sufficient consideration abilities (neuropsychological limits), or they are limited in their considering on the basis of the limited information sources whilst not necessarily having even the sufficient communication abilities (communication limits). The resulting reaction to the environmental uncertainty is conforming to the problem, i.e. the amendment of agreements with regard to the change of the situation in the market. For example, a retailer, due to his/her position in a price competitive fight with another retailer, must modify the prices of the products he/she sells. Then the agreement between him/her and his/her retailer must specify the afore required product features and the relating sale conditions which must be respected by the producer, and at the same time, it must foresee the important transaction costs connected with the continuation of the agreement (Arumugan et al. 2010). Due to the influence of the behavior uncertainty, there is a problem of the evaluation of the agreement which means the problem of control whether the contractual parties have kept it.

The behavior focused on seeking opportunities is characterized by the lack of honesty of the managers who can make use of a specific situation in their favor. It results in the difficulty to recognize which partner is honest and which is not. The behavior focused on seeking opportunities emphasizes the importance of specific assets which create the contractual diversity of the subjects of the distribution channel. Their influence should create a protection against such behavior as the market competition is not sufficient to limit the behavior of this type.

In the information asymmetry, a retailer cannot differentiate the growth of costs connected with the unpredictable changes during the existence of the agreement (e.g. the increase in prices of raw materials input, wages, and the like) and decreasing the costs due to the supplier's effort and growth of his/her productivity. In connection with this, there is a moral risk which relates to the retailer's problems to recognize the development of the total producer's costs at the time of negotiating the prices. According to the transaction cost theory, it is necessary to avoid some transaction costs with the aim of their internalization within the hierarchical relationship.

The purchasing department as a place of origin and development of the relations between a retailer and his/her supplier as regards the transaction costs

The first purchasing departments were started by retailers in the cooperation with the farmers growing fruits and vegetables in the 90s of the 20. Century. Since then, the purchasing departments have become an important part of organization which maintains the power relations in the distribution channel (Lessassy 2007), while in the case of some retail chains they ensure as much as 90% of products for the large surface outlets and the remaining 10% is left for the regional purchasing departments with the aim of conforming the offer to the characteristics of the region which the retail outlet is located in. The value of the volume of purchase which they ensure represents several billion Euro. For the producers with a limited budget, they are the partners with an agreement on a preliminary listing in the supply chain.

On one hand, the rise of purchasing departments is connected with the approach aimed at a higher accessibility of a product in the market and on the other hand, it is connected with the transformation of the food wholesale trade which has focused on reviewing the costs related to the coordination of activity, but also on the flexibility of its accommodating to the character of distribution under the

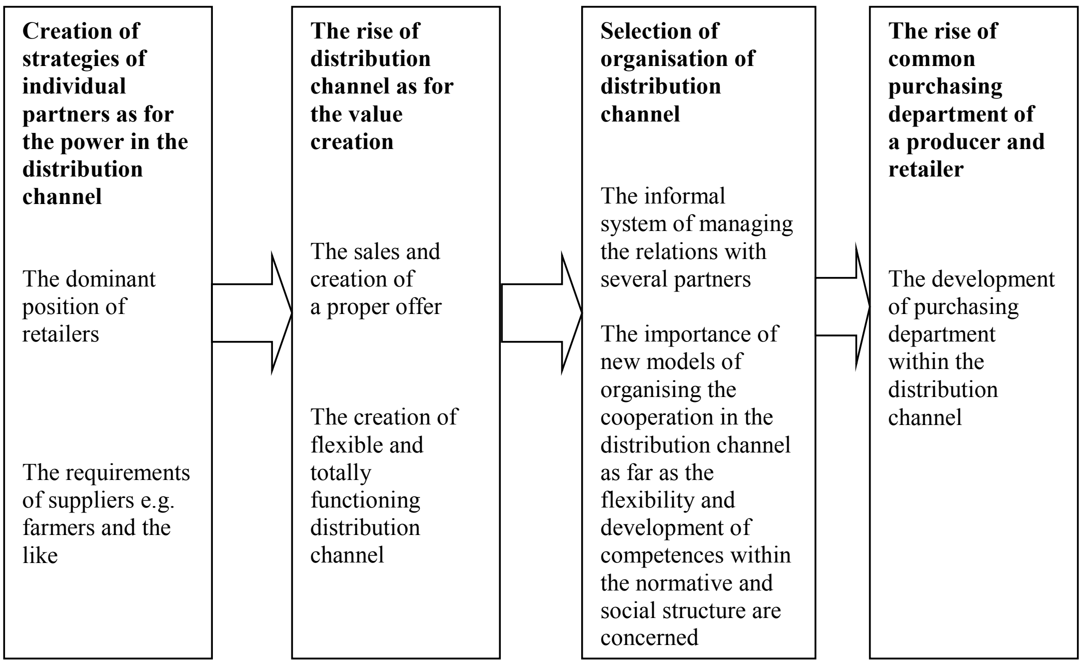

Figure 2. The transaction cost theory and its role in creating the purchasing department within the distribution channel

Resource: Lessassy (2007) and own processing

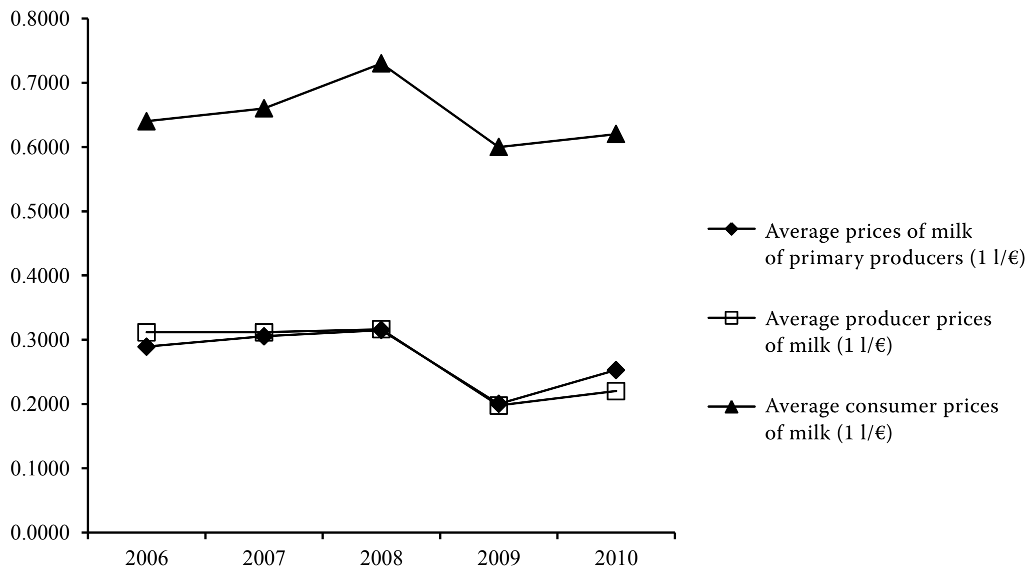

Figure 3. The development of the average prices of milk during 2006–2010

Source: own processing

conditions of the saturated market and an intensive competition, where the customer is characterized by an unpredictable behavior. In these conditions, the perspectives which exceed the goal of lowering the costs and concentrate on the issue of cooperation in the distribution channel must be taken into consideration (Figure 2).

The diagram says that the distribution channel depends more and more on the system of common values, in which the hierarchical system of relationship can be replenished or substituted by partnership between the producer and retailer. It results from a mutual reciprocity and responsibility of the individual members of distribution for the roles fulfilled by them. This perspective is strengthened by a suggestion to create channels taking into consideration the creation of value for customers. At the same time, there are the processes of specialization, learning and development of the inter-organisational competences which help to understand these transaction costs from the point of view of the dynamics of cooperation within the distribution of consumer goods.

The retrospective analysis of the cases of the retail chain Tesco, which is the strongest retail chain having almost 16% of the market (Sedlák and Kucejová 2010), makes it possible to illustrate the producer – retailer relations. The above mentioned retail chain is an example of a retailer whose relations with the producers in the Slovak market belong to the most monitored and acute ones The basis for an analysis is also the published information on the communication of the chain Tesco with the public, the resources of the Ministry of Agriculture of the Slovak Republic, the Slovak Agricultural and Food Chamber, which are oriented on the context of the producer-retailer relations.

The selection of the application to the case of milk can be reasoned by the specific situation in the Slovak market characterized by the surplus of this product. This fact have affected the development of the average prices of milk in the period 2006–2010 in the distribution process (Figure 3).

For example, the average price of fresh cow milk by the manufacturer from the primary producer in February 2010 was 0.27 €/l excluding VAT (Májek 2010). The average price in the year 2009 was 0.209 €/l excluding VAT (Kakulík 2009), being the lowest in the European Union, which adds to the conflicts between the primary producers, producers of milk and retailers. The development of the milk price in the near future is presumed to stagnate.

The use of the transaction cost theory in creation of the new theoretical knowledge on the basis of the analysis of the present situation in the producer – retailer relations

The transaction cost theory is a suitable instrument for explaining the retailer – producer relations in the consumer goods market. On one hand, the transaction costs result from the human factor (opportunism in transactions, information asymmetry and limited rationality) and on the other hand, they are connected with the market environment of an enterprise (uncertainty, specific character of assets, frequency of transactions).

The risks resulting from the environment of transactions between the milk producers and retail chains

The overproduction and instability of the market cause the repeated crisis situations between the local milk producers and retailers. The oligopolistic character of the Slovak consumer market, where there is only a small number of institutions, i.e. retail chains, creates a risk of non-competitiveness of the milk market. The small producers who have a bad experience in delivering to the large outlets are protesting aginst the high rebates they have to commit themselves to. This results in a minimum margin on the sales of milk by the primary producer to the milk processor, which is reflected either in his/her refusal to produce milk or to sell it at the price not reaching the effectiveness threshold. The records on the sales of milk in the period of February and March 2010 (Májek 2010) show that the large outlets sell milk to the end user at the price of e.g. 0.50 €, which is, as far as the basic consumer is concerned, 2.39 times higher than the price of the milk sold to the milk manufacturer, i.e. 0.209 €. As far as the milk manufacturer is concerned, the situation becomes even more complicated, because if the first delivery is realized at the price agreed on, as e.g. 0.36 €, further deliveries are realized under the conditions when the purchasing departments are repeatedly trying to negotiate lower prices due to the requirements to pay the growth or logistic bonuses and the like. At the same time, in the situation when milk does not sell as anticipated or in the quantities stated, the retail chains do not hesitate to turn to the supplier to recompense them for the lost profit on the quantity of products unsold (Sedlák and Kucejová 2010). This means that they are automatically pushed to lower the price of their products. These risks can be seen mainly in the cooperation with the producers who do not sell their products under the brand name of the retailer.

Similarly, the agreements between the roducer and retailer do not allow to foresee all possible situations which may occur, such as an unexpected increase of demand, cheaper imports, the season, and the like. Similarly a retailer may be surprised by the willful decisions of a producer which contradict their mutual agreement. This concerns especially the producers who sell the product known and popular among the end users. E.g. there is a conflict between the Tesco and the Coca-Cola, as the products of a known producer were excluded from the assortment of the chain, as the chain Tesco was buying more expensive products of a well-known drink producer than the chain Carrefour products (Team 2006). This fact results in other consequences for both partners, such as the problems in communication, a lower trust, the differences between the requirements for the product quality and the real features of the product, breaking agreements which may lead to tremendous changes in prices and finally to the fear of placing another order by the retailer (Seják 2009).

Making the purchasing department taking part in the negotiations with the producer aimed at lowering the chain costs trying to reach the minimum price

The knowledge of the milk production process makes it possible for the retailers to decrease the distribution costs. At the same time, the transaction costs connected with the creating and control of agreements with the producer are getting lower (Figure 4).

If the process of forming the price of milk is analyzed from the point of view of accounting, all facts which have an influence on the total selling price must be taken into consideration. As far as the producer is concerned, milk represents the inventory of his/her own production which is created by his/her own activity in the process of production. It means that on the basis of the Act No. 431/2002 Coll. as amended, the producer must price the inventory of his/her own production by a specific evaluating value – his/her own costs. Thus the result of evaluating is the inventory evaluating itself, i.e. the quantification of the value of inventory. In addition to the profit, the price of milk includes the production costs of the milk producer which is a monetary form of the expression of consumption of the production factors needed to produce milk.

Example 1 documents that the transaction costs are not included in the selling price of the end user, as they arise in the process of other activities of both partners. In the same way, we can follow the producer's distribution costs which he/she carries as the costs related to his/her sales activity. These are the costs which are needed to sell his/her products or for the retail chain to be able to sell them to the end user at competitive prices Even when a milk producer buys fresh milk from the primary producer at 0.209 €, he/she is made to sell his/her products at the minimum prices. That is why the milk producers who cooperate with the purchasing department of the chain require the selling price to be adequate to the value of the product.

When calculating the price of milk, the producer must take into account all direct costs, indirect costs and profit. Calculating the cost this way, it is possible to monitor the costs from different aspects as e.g. by the categories, by the items of the calculating formula, by the place of origin, by the responsibility. For a correct and complete calculating of the cost of

Distribution costs of the chain

The buying price of 1l of milk is 0.28 € by the producer
The operating costs of the outlet: utilities, cleaning, supplementing the goods 0.12 €
Gross margin 0.092 €
VAT of 19% is 0.008 €

+

Distribution costs of producer
The transport costs to the warehouses of the retail chain 0.008 €
The costs of taking over the goods to the warehouse, warehousing and transfer to the outlet 0.006 €
The charges of placement in the department: taking over and placement in the department 0.02 €
Contributions to the operation of the outlet: electricity, cleaning, supplementing the goods are 0.12 €
The charges of non-saled goods after expiration 0.007 €

Transaction costs arising for both partners
Creating values between a producer and retailer, i.e. the time and means related to the negotiation
Checking the agreements

=

Selling price per 1l of milk to the end users in the chain outlets

0.50 €

Figure 4. The illustration example of forming the price per 1 l of milk for the end user

Source: own processing

milk production, the cost accounting uses a calculation formula which consists of several items: direct costs (direct material, direct wages, other direct costs) and overhead costs (production overheads, administration overheads, sales overheads). Adding the profit, the accounting entity can calculate the selling price per unit of milk.

The costs of the accounting entity arising in connection with the production of milk are of the character of variable costs or fixed costs. Fixed costs are relatively permanent even when the volume of milk production is changing (i.e. they are remaining at the absolute value – e.g. the depreciation of buildings and production equipment is the same regardless of the number of the units of milk produced). Variable costs are changing with regard to the volume of the milk produced as their accounting entity can calculate them per milk unit. The higher the volume of milk, the higher the amount of variable costs (direct material, direct wages) of the accounting entity.

The following shows some more facts which the milk producer must take into account when forming the selling price of milk:

(1) Direct costs of milk production must be included in the selling price. The direct costs are the packaging material and other material (food hydrogen peroxide, oil units and the like). It would not be possible to produce milk without these basic preconditions;
(2) direct wages of employees;
(3) other direct costs such as the costs of chemical analyses and the analyses of the samples of the milk produced, and the like. These costs arise for the milk producer in connection with the process of milk production, therefore it is necessary to take them into account in the calculating formula;
(4) production overheads which are the costs necessary for a producer to be able to ensure the conditions suitable for the production process.

There is a question, why a producer calculates the selling price which is under the level of his/her own costs?

One solution may be the subsidy by the government to cover the part of the costs which will result in the fact that the producer will not require the compensation of these costs by his/her buyers. Another possibility is that the producer has not deliberately included all his/her cost in the selling price and he/she deliberately gives up its compensation by the buyers. However, from the long-term aspect this approach is economically liquidating (provided the milk producer does not use illegal financial sources). At the same time, the producer does not keep the law on accounting which gives an exact defection of the cost. This means that the evaluating the inventory of own production at the level of the cost is the right procedure which cannot be challenged by any arguments.

Another fact which must be taken into account is financing the milk producers´ activities. It is a fact that most producers finance their activities using external resources. The interest on credit is not included in the cost evaluation of the milk produced, even though in principle it represents the cost caused directly by the production process (a producer would not draw the credit if he/she did not need to finance the milk production). Thus if the retail chains are active in influencing the level of selling price of milk, it is really a symptom of a bad and unsound business environment which has nothing to do with the market economy.

At the same time, the milk producer must take into account the situation in the market – the demand for milk, the development of prices, and the like. He/she must also take this information in consideration in accounting to make his/her financial situation real. There may be a question how the accounting entity can express an anticipated decline of the consumers´ demand for milk that may have an enormous influence upon the financial situation of the milk producer. In accounting, the accounting entity carries the decline of the use value of the equity in the form of provisions debiting the cost account. A decreased demand for milk has an influence upon the change of price – it causes a temporary decline of the price of milk produced. Thus the accounting entity carries the costs which directly influence the financial result – this being a negative influence. If, in the next period, the price of milk is increased, the accounting entity can stop the provision, which means that the influence upon the financial result will be positive.

As far as the present producer – retailer relations are concerned, the retailer is trying to pay an excess value, which would recompense the price movement and the endeavour of a producer to make a high quality product that, with regard to the yearly volume of purchase, would be always profitable keeping the prices agreed upon. And this is possible due to the control of transactions.

Keeping the minimum price for the end user makes it possible for the retailer also to decrease the maintenance costs of the contractual producers, who offer the possibility of realizing the activities necessary for the management of such an assortment as e.g. the sales promotion, merchandising, the education of consumers, and the like with the aim of better accommodating to the local specific features of the market.

The Table 1 presents some solutions provided by the purchasing departments with regard to the market risks.

Obstacles resulting from transaction costs

The global competition and the maturity of the Slovak market are substantially increasing the competitive conditions in the food market. Even though in the 90s of the 20. century, when creating the purchasing departments, the main interests of retailers were focused on the quantity of products and optimizing the logistic costs, at present other interests are being pushed forward which seem to be much more important in solving the problem of the stagnation in the sales of food products. These interests can also be seen regarding competitors as far as the price and the concentration of leaders in the distribution are concerned. New strategies have been reflected in the differentiation of a retailer, the development of distribution channels of discounters, and the like. In this market context, it is the price level as the criterion of

Table 1. The solutions provided by the purchasing departments with regard to the market risks

The risk existing in the market	Purchasing departments of retail chains are providing solutions of risks
Difficulty in forming the market price	Process of allocation of internalized resources. The retailer is making a remedy via control
Costs to manage a dynamic relation resulting from its centralization as far as the retailer is concerned	Rise of a structured system of communication and a hierarchical system in the price decision making
Opportunistic behavior of producers	Guarantee of a minimum price
Risk of manipulation the information: deceiving, loss of competitiveness, loss of value	Optimizing the product flows Decentralization of supplying Regional product management Reducing the large number of intermediaries with the aim of switching from several independent suppliers (long indirect distribution channels) to a group of contractual producers with a retailer (short indirect distribution channels)
Limited rationality	Arranging exchange of information and trust between the partners

Source: Rindfleisch and Heide (1997), Siguaw et al. (1998) and own processing selecting the place of purchase by the final user which the retailer is trying to show his/her distinction by.

Another important phenomenon of the relations between the producer and retailer is also the Act No. 172/2008 Coll. on the inadequate conditions in business relations and on the amendment of the Act of the Slovak National Council No. 30/1992 Coll. on the Slovak Agricultural and Food Chamber, as amended, which is trying to modify the conditions of the business relation between the supplier and his/her buyer while they are economically dependent on each other. Its inaccuracy is causing conflicts in the interpretations of the individual contractual parties as far as the financial settlements and explanation of the inadequate conditions are concerned. This results in the fact that the retailer knows the ways how to manage deliveries with the aim of avoiding unpleasant conditions not to offend his/her suppliers cooperating with the purchasing department. In the case of milk it is a situation when cheap fresh milk is purchased e.g. in Poland and then processed in Slovakia.

The duration of the life of agreements on partnership of a chain and a milk producer and the guarantee of the minimum price for the end user

The problems connected with the present global economic crisis and the gradual revival of the economies of the countries in the world are also influencing the duration of the life of the retailer – milk producer cooperation. The permanent character of production and the composition of milk are also creating an obstacle in seeking a long-term relationship between a purchasing department of the chain and a producer as there is a possibility of an easy replacement of a supplier. The exact keeping of the contractual commitments resulting from an agreement signed emphasizes the maturity of a producer in his/her cooperation with the retail chain. A producer that does not sell the products under the retailer's own brand name is a risk for the short-term cooperation and he/she is also out of the retailer's control.

The market variations make it difficult to keep the minimum selling price for the end user while respecting the minimum production price of the milk producer which is connected with maintaining the effectiveness of the producer. In the case of a sudden fall of price for the end user, if there is a mutual competition fight of retailers, they do not hesitate to ask their suppliers to decrease the selling prices, which may lead to lowering the quality by producers. This situation evokes the considerations about the real value of agricultural products which is often a source of conflicts between the individual members of the distribution channels. Even though the retailer has an argument of acceptability of the market price by the end user, according to the consequences resulting for the basic producers and processors of milk, such a reasoning of a low price is not considered useful. If there exists a milk producer – retailer partnership, the retailer is aware of the fact that he/she is buying a product with a guarantee of the minimum price, while both partners remain competitive and the end users benefit from buying the milk for a sustainable minimum price.

CONCLUSION

Thanks to the transaction cost theory, the endeavour to minimize costs makes it possible to understand the role of retail chains and their purchasing departments using different practices which, at the first sight, seem to be hostile toward the primary producers or milk producers, but they have their grounds in the competition fight in the saturated milk market. Purchasing departments of retailers create institutional methods which help the reduction of costs with the aim of making the offer to the end user more attractive using the means of long-term agreements with their suppliers, thus making them to create an offer on the basis of value. This is a new approach to making the producer's offer to his/her customer giving the end user a total benefit from the distribution channel.

The present development of the milk market environment makes the producer and retailer to seek the ual advantage resulting from their cooperation which is reflected in the activity of purchasing departments. This means that the processes learning, specialization and development of skills are the direction which makes the organizations understand the role of the purchasing department in the milk distribution. The activity of the purchasing department created this way has its meaning only if it respects the social context of the retailer- supplier relations and if their cooperation is based on agreements preferring the guarantee of the minimum price.

Thus the selling price of milk is unequivocally limited by the bottom value and it cannot and should be not lower than that. To secure the economic stability of milk producer, the selling price must cover all producers' costs. It is of course logical (with regard to the fact that milk producers are business people whose aim is to reach profit on their business activity) that the profit should be included in the selling price. This means that an ideal level of the selling price of milk is above the cost level.

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