

# Creating Relational Capabilities for Cooperative Channel Management: The Recent History of “Planning Meetings” in a Japanese Snack Company

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This study examines the recent history of channel management in Calbee, Inc., the leading company in the Japanese packaged potato snack foods market. We will be focusing on the practice of “Planning Meetings (PM)”, which began in 2001, and will be analysing the implications of these unique meetings from the relational capability perspective, based on the framework proposed by Dyer and Singh (1998), Dyer and Nabeoka (2000), and Dyer & Hatch (2006). The resource-based view of the firm (RVB) had previously been established in the field of strategic management (Barney 1991, Wernerfelt 1984, Peteraf 1993), and the relational capability perspective is one of the key features of RVB. This perspective recognizes that a significant proportion of a firm’s activities which increasingly occur between, not within organizations (Czakon 2009, p. 48). As this perspective focuses on inter-organizational issues, this framework appears useful for analyzing relationships between manufacturers and retailers. This study will be focused around a case study that reveals how Calbee has built up favourable relational capabilities with retailers through the practice of PM.

We interviewed several Calbee executives, sales managers and sales staff, and a Seven-Eleven Japan merchandising project manager who are involved in PM. Moreover, we gathered archival and survey data to corroborate the data from the interviews. We also referred to earlier studies related to the history of Calbee’s channel management and PM. Through these investigations, we have been able to build up an accurate picture of the value of strategy meetings.

Calbee was established as a food and confectionery manufacturer in Hiroshima in 1955. The firm introduced the shrimp-flavored crackers called Kappa Ebisen in 1964. This product was a massive hit and its introduction resulted in a doubling of the firm’s sales by 1969. The brand name of Kappa Ebisen became well known across Japan, and Calbee came to be a successful nationwide manufacturer. In 1972, Sapporo Potato, a packaged potato snack was put on the market and the firm’s first potato chips were introduced in 1975. The firm’s first priority was always the quality of its products. Calbee had set up exclusive contracts with farmers in Hokkaido, and these contract farmers have provided potatoes of the highest quality since the late 1970s. In 1976, Calbee became the first Japanese snack food manufacturer to show the date of production and to indicate the limit for freshness on the package. The company has long been regarded as a product-oriented company and has heavily invested in research and development. Calbee is now the industry’s leading company with a share of approximately 40% of the snack foods market.

In 1995, Calbee launched a new strategy called “Fresh Calbee 45” which was intended to achieve quality control of products stocked and displayed in retail stores. The company required retailers to remove potato chips and snacks that had been kept for over 45 days on retailers’ shelves, even though they had not reached the best before date (120 days after they were produced). The aim of “Fresh Calbee 45” was to ensure that their products in retail stores were always very fresh. This strategy symbolized the company’s high standards in their quality control policy. This was an unprecedented phenomenon in the manufacture and distribution of snack foods, which was particularly significant because processed foods like potato chips and snacks keep longer than perishable foods.

The accomplishment of the “Fresh Calbee 45” campaign required the cooperation of retailers. However, the strategy did not initially succeed, as many retailers did not accept the requirements. Typically, retailers sell many kinds of manufacturers’ branded merchandise and have no incentive to

treat Calbee's products exclusively. Furthermore, it can be laborious and time-consuming work for retailers to replace the older products with the newer ones, as they are quite busy with their daily operations. Therefore, retailers did not feel that it was worthwhile changing the products before the best before date. Furthermore, they tended to have excessive stock in their stores to avoid stockout and sometimes held sales to reduce their inventory. As a result, they tended to keep older products in their stores. This hindered progress in the "Fresh Calbee 45" campaign.

In order to change this situation, Calbee's Kyushu Company<sup>10</sup> began taking action. The Kyushu Company offered suggestions to retailers such as regional supermarket chain stores that strategy meetings could be held separately from the monthly trade negotiations. Previously, only about 20 minutes had been allotted for the monthly trade negotiations with retailers, and thus, in-depth discussions with retailers had not been possible. The strategy meetings aimed to share the long-term strategy of Calbee with retailers, to provide information about the present situation of each retailer, and to suggest ways of improving performance. The new strategy aimed to ensure that retailers come to understand the purpose of the "Fresh Calbee 45" campaign more clearly, so that they would then feel more disposed to collaborate with Calbee. Because of Kyushu Company's actions, a number of retailers expressed approval for Calbee's offer and agreed to attend the meetings. Calbee required some retailers to inform the company of the dates and periods allotted to special sales (as well as the amount of merchandise being put on sale) at least four days in advance. It was demonstrated that the fundamental cause of problems with excess stock was that retailers tended to impulsively conduct special sales without proper planning. As a result, they kept too much stock to avoid missing sales opportunity. Once retailers answered the request, Calbee adjusted their production schedules and shipped a far more accurate and appropriate amount of their products to retailers for special sales. The company's factories became warehouses for retailers. Calbee shifted from a "speculative production system" to a "production to order system." This just-in-time system led to a considerable reduction in unintended inventory build-ups at retail stores, and contributed to cutting the inventory costs of retailers. It also achieved a faster turnover rate and improved the efficiency of retailers. This new practice was also very effective in eliminating the older products and controlling the freshness of products in retail stores. Thus, the Kyushu Company of Calbee contributed greatly to the overall success of the "Fresh Calbee 45" strategy.

The success of the Kyushu Company's strategy helped to spread similar working methods to companies in other areas. In 2001, the Calbee head office, in the process of evaluating the Kyushu Company's achievement, named the meetings with retailers "Planning Meetings". They then encouraged all their other Calbee's area companies to adopt these methods. PMs were officially started in the same year in order to establish a cooperative relationship between Calbee and other channel members such as wholesalers and retailers. The attendees consisted of a sales manager and a director of one of the Calbee's area companies, a buyer, a retail director and a wholesale manager. In the meeting, which was held twice a year, current problems were discussed and information was shared about products and the market. Attendees were briefed about the sales performance of Calbee products in retail stores over the last 6 months and the particular tendencies of local markets. Furthermore, they presented figures about the percentage of products that were displayed at the retail stores for more than 45 days and offered a rebate if retailers could achieve a lower figure. They then displayed examples of the new products that were due to be introduced within 13 weeks or 26 weeks and explained the details of these products. They also outlined mid-term plans and sales targets and suggested the most desirable times for the special sales of Calbee products. The outline of an action plan for the next six months was given. Calbee often advised retailers on specific measures to improve their whole sales and proposed new plans for store advertisements and in-store displays. Such measures served as a type of retail support. When working in PM with convenience store chains such as Seven-Eleven Japan, this led to a pooling of ideas about new products and the joint development of special private brand products exclusively sold at the Seven-Eleven's convenience stores within limited areas. Through such practices, Calbee successfully created bilateral and win-win relationships with retailers.

The practice of PM is a good example of how relational capabilities between the manufacturers and retailers can be successfully constructed. Dyer and Singh (1998) identify four potential sources of inter-organizational competitive advantage: (1) relation-specific assets, (2) knowledge-sharing

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<sup>10</sup> Calbee adopted the in-house company system at that time. The company was organized into fewer key areas and had nine companies divided by their sales area. Each company had its headquarters in the area. However, the system was abolished in 2009. Kyushu is the southernmost of the four main islands of Japan.

routines, (3) complementary resources/capabilities, and (4) effective governance. Calbee established favourable relationships with retailers and developed relation-specific assets through PM. And it did use knowledge-sharing routines and developed complementary resources and capabilities with retailers. This showed that PM could facilitate effective communication between Calbee and retailers and encourage them to work in close cooperation. Thus, the strategy meetings served as an effective governance for creating relational capabilities. Dyer and Nobeoka (2006) adapted this relational capability framework to the business relationship between an automobile company (Toyota) and its suppliers, but we discovered this framework was also applicable to the context of other manufacture-retailer relationships. Through our investigation of the recent history of Calbee's PMs, we could conclude that this framework also has considerable explanatory power regarding the issues being dealt with here.

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