Relational Exchange and Partnerships: the Ipanema Coffee Case

Abstract: The case studied, Ipanema coffee, illustrates how market demand for high quality coffee conducted the company to build long term relationship with its coffee suppliers, the farmers, in order to guarantee access to high value international consumer markets. Data was collected through in-depth interviews with the major company shareholder and also with the marketing director along with desk research for coffee sector panorama. The long term contract appeared as a prosperous alliance strategy in the measure that a) reduces the risk related to the coffee quality attributes, b) creates a competitive advantage though the appropriability of specific assets related to the coffee growing and processing, c) permits the creation of a brand name capital. The relational exchange has been successful once permitted the firm exports 1 million bags for 25 countries. In the other hand, as expected in partnerships, the other party, the farmers, has incentives to continue the relationship, once it permits: a) international market access, b) premium prices, c) risk minimization with hedge operation, and d) no investment in coffee processing structure.

Key words: strategy, partnerships, coffee sector

1 Research Problem and Motivations

The gourmet coffee market has grown at rates higher than those of the traditional coffee consumption, especially in developed markets, and more recently in producing countries. Traditionally, Colombian coffee is associated with quality, while Brazilian coffee, with volume and low quality. In recent years, this perception has been changing and there has been a growing interest in Brazilian quality coffee. The main international buyers of Brazilian coffee are: a) United States (6 million bags), b) Germany (5.4 million bags) and c) Italy (2.5 million bags), d) Japan (1.9 million bags), and this consumption has grown steadily, increasing by 16% between 1994 and 2014 (Cecafé, 2014).

The setting is favorable for global coffee consumption, which doubled the volume consumed from 80 million bags in the 70 to 160 million in 2012. A new way to consume coffee is spread out all over the world: the coffee capsules. In developed market the consumption at home using coffee machines for capsules represented around 15% of the total home consume of coffee. In Holland, for example, it corresponded to 35%. Around the world, this market is increasing 20% per year since 2004 (P&A International Marketing, 2013).

Faced with this opportunity and the increasing demand for a singular product containing primness compared to the production of a wine, and despite the traditional relationship between exporters and buyers based mainly on the purchase of commodity coffee, a group of companies have acted differently through a personalized service to attend their clients offering unique blends. However, meeting this demand has posed challenges to exporters in order to adapt its supply chain to the requirements of their industry clients.

This study seeks to answer the following question: how the specific demand of the coffee industry might impact in transactions between exporters and coffee farmers. Specifically, *this paper aims to discuss the building of long-term relationship based on formal contracts as well on reputation in order to respond to external competitive dynamic at the light of the strategies crafted by a Brazilian coffee grower and exporter*.

The case studied presented aims to illustrate how relational exchanges are built to minimize transactions costs and obtain competitive advantages through the access of specific assets and also attend the client demand for quality and consistence.

Ipanema Agricola was founded in Minas Gerais state, actual the major coffee Brazilian producer. Possessing the largest coffee farm in the world, and foreseeing the commercial opportunities for quality coffee in the international market, after the world and Brazilian coffee sector deregulation and the end of restrictions on exports in 1991, the company begins to operate as an exporter. Since then it has been exported more than 1 million bags of specialty coffee direct from the farm for more than 25 countries (IPANEMA, 2014).

This article has six sessions including this introduction. Next session presents the methodological approach based on qualitative techniques. In the third session, the theoretical framework is delineated emphasizing the relational exchanges as source of competitive advantage. The fourth session highlights the main facts of the coffee production and consumption panorama in the world. The fifth session presents and discuss the Ipanema case followed by the conclusion and references.

2 Method

The research was conducted in qualitative basis sourced by desk research and field interviews. In order to understand the world panorama for coffee production and consumption, data from associations such as ABIC (Brazilian Association for Coffee Industry), CECAFE (Association of Brazilian of Coffee Exporters) and also ICO (International Coffee Organization) were gathered. Trends and facts of consumer behavior for coffee products were accessed from international market research companies as Nielsen and Kantar Panel. For the purpose of building the study case, interviews were conducted using structured script with a member of Ipanema´s board and one of the major shareholders of the company and the marketing director. The main categories of analysis inserted in the script were: a) characterization of the transaction with the clients and suppliers (coffee farmers), b) the client´s main demands and the transaction attributes and, c) the characterization of the suppliers relationship (coffee farmers) with the company.

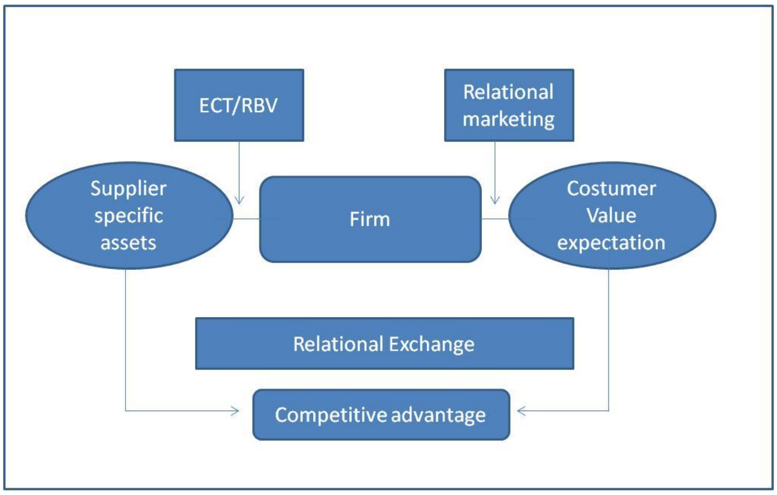
3 Theoretical Framework

Dwyer *et al* (1987) assert the buyer and seller interaction might be characterized by the level of commitment and transaction complexity, which can basically be of two types: a) discrete transaction and b) relational exchange. The first concerns transactions involving the exchange of money and readily observable commodity, with a very limited communications and content narrow. In the relational exchange, moreover, the transactions occur over time and demand trust and planning. In this relationship parties expend much effort toward carefully defining and measuring the items transacted (Dwyer *et al*, 1987).

Considering buyers and suppliers downstream or upstream, the relational exchanges can provide a competitive advantage in the measure that contribute to product differentiation and creates barriers to switching. The Figure 1 illustrates the theoretical framework adopted in this paper.

The RBV and ECT literature contributed to explain the alliances and partnerships as way to achieve competences needed to expand the firm´s profits, through exchange of tangible and non tangible resources hold by the parties (Teece, 1997, Dyer and Singh, 1998) and it preserves autonomy, there is a bilateral dependence, and also a flexibility to adapt to the other firm (Menard, 2004). Although TCE economizing view explains the alliances through formal contracts to minimize *ex post* and *ex ante* costs, trust appears as a consequence of repeat alliances among firms, which imposes partners to behave loyally (Gulati, 1995).

Figure 1. Theoretical Framework



Source: Elaborated by the authors

For the consumer side, the relational marketing can be overlooked through the lens of several theoretical frameworks that studies the long-term relationship as way by profiting by means of consumer loyalty and by commitment and trust developed (Williamson, 1996; Morgan and Hunt, 1994; Day, 1968; Reichheld,1996; Dwyer,1989; Dwyer *et al*, 1987).

3.1 Strategic Alliances and Long Term Relationships

The formation of partnerships in the supply chains are common strategies in global agribusiness (Zylberzstajn, 2012; Bitzer, 2012; Menard, 1996) as specifically on the Brazilian coffee chain (SAES, FARINA, 1999). For the TCE assumptions, the central incentives are based on the pursuit of minimizing transaction costs, which can come from three sources, according to Williamson (1996): a) specific assets, b) uncertainty c) frequency. The higher the strength of these three conditions present in the transaction, the more likely the strategic choice of vertical integration will be chosen. The hybrid or contractual form emerges as a mode of governance that seeks to balance autonomy from the other party (spot market) and the acquisition of the partner (vertical integration). As stated by Menard (2004, p. 357): "*Hybrid organizations develop because of the advantages partners find in linking some of their investments. In doing so, they accept mutual dependence"*.

The author also points out the mechanisms for minimize risks due to the high level of interdependence such as: a) once the parties remain legally autonomous, monitoring turns to be an important task in the agreement, b) once the alliance generates gains, rents must be protected, and c) designing of adequate mechanisms for solving disputes particularly related to appropriability problems.

In the coffee market, one can observe the presence of both contracts and spot market, the latter being widely used by roasters in order to buy coffee without differentiation for sale in the domestic market as roast and ground coffee, known by the high number of defects and therefore poor quality. Besides, contracts are applied in order to obtain the quality or gourmet coffee, produced with 100% of Arabic beans (Saes *et al*, 2006). The Italian roaster Illy Cafe is recognized as the pioneer in the use of contracts in Brazilian coffee chain through the launch of a quality prize since 1991 (Zylbersztajn, 1994; Almeida, 2014).

In RBV perspective, the partnerships are a logical and strategic response to capture rents from scarce, firm-specific assets that is less redeployable compared to ordinary assets. For Teece et al (1997) in this perspective the competitive advantage comes from firm´s idiosyncratic and difficult-to-imitate resources that might be owned (vertical integration) or shared through alliances. The concept of dynamic capabilities reinforces the main power of exchange knowledge inter and intra-firm and as pointed out by the authors: *"partnerships can be a vehicle for new organizational learning, helping firms to recognize dysfunctional routines, and preventing strategic blindspots"* (Teece et al, 1987, p.520).

Still, partnerships might be source of competitive advantage, as demonstrated by Dyer and Sigh (1998), when four conditions are attended:

1. investments in relation-specific assets are conducted for both parties;
2. joint learning that arises from substantial knowledge exchange;
3. combine of capabilities that results in the joint creation of unique new products, services, or technologies; and
4. lower transaction costs than competitor alliances, owing to more effective governance mechanisms.

In summary, the higher the exchange or investment in idiosyncratic assets, knowledge, and capabilities combined with effective governance mechanisms, the higher will be the relational rents for the partnership.

Although formal contract are respected for the possibility to be enforced of a third party, in some inter firms relationships, reputation might represent also a central element (Baker et al, 1997). Repeated transactions overtime might cause "*the emergence of interfirm trust which obliges partners to behave loyally and can play an important role in their choice of governance structure for future alliances with each other*" (Gulati, 1995, p. 91).

In other words, partners might encounter some key elements to define the future of relationship, choosing whether the other party is trustable enough to worth the relationship continuity or whether there is a cloud of doubt. In this sense, Nielson (1989) states that closeness between parties and consequently commitment and trust comes from the permanent exchange of important technical information, joint problem solving, and the personal contact continuity between managers and executives of the both parties.

3.2 Relational marketing

The contemporary view of marketing perceives the firm as bundle of resources and competences to be employed by a market oriented strategy. Therefore, more recent authors had being indicated a change in this vision through a more consumer centered firm (Kotler, 1992; Grönroos, 1994; Kumar, 2015). In this sense, the firm can be denominated as a bundle of internal and external resources, combined into competences, in order to maximize the customer profitability, and moreover, makes the end of the exchange unattractive.

In this respect, an extensive literature has been dedicated to dealing with relational marketing, and in accordance with Dwyer et al (1987), it is anchored in the relational exchanges between buyers and sellers, whose main attribute relies on the consistent delivery of economic and psychosocial benefits associated with structural disincentives for relational disruption.

In accordance with Groonos (1994) the relationship marketing has two key elements: a) promise concept and b) trust. The first deals with client´s expectations vis-à-vis the firm´s real offer. Once the promises are not kept, the costumer might be no longer interest in build or enhance a relationship with the seller. Trust, for the costumer point of view, means the identification of the seller´s intention to fulfill the customer´s expectations and also *"in the belief in the other partner's trustworthiness that results from the expertise, reliability or intentionality of that partner"* (Groonos, 1994, p. 9).

Aaker (1991) notes the loyalty as one of the most valuable assets of a firm. Beyond the traditional marketing mind set, the customer relationship management (CRM) poses a challenge for marketing managers in the mass product industry: how to convert indifferent consumers into heavy users and brand lovers? Morgan and Hunt (1994) indicate the importance of build long last relationships and two words are key to achieve this goal: trust and commitment.

Brazilian roast coffee market was known by its low quality in the late 60´s and 70´s. Through a label created by a sector association called ABIC in 1973, the consumers could have the certain that the coffee they bought was free of strange elements as little stones or wood. The label exists until today and it is called the purity label. Therefore, the trust would be tested whether or not the coffee company had stamped the label in its packages. Since this time, not much has changed in the communication with roast coffee buyers.

Loyalty deals with the consumer objectives, implicit or explicit, related to purchasing process. The companies should adapt their marketing strategies, which means, product, price, service, communication and distribution to achieve costumer´s objectives (Groonos,1994). Once the consumer perceives the value behind the marketing efforts to delivery an offer closer to what it expects, the loyalty processes may start. Otherwise, consumer will be lost for the best offer or for none of them.

A misleading marketing strategy might alienate the target and damage the brand reputation. In this path, trust and commitment will be far away to be rebuilt. In this sense as well posted by Morgan and Hunt (1994), the firm that incur in an opportunist behavior, and the other party perceived it, such perception will lead to decreased trust. Several transaction cost will emerge in order to monitor or avoid the opportunistic behavior from the other party (Williamson, 1996). Consumers are not willing to pay for this.

In next session, a panorama of the coffee production and consumption over the world is presented.

4 Coffee market: production and consumption overview

4.1 Coffee Production and Roasting

The coffee production grew 100% in volume for past 30 years accounting for 30 million coffee bags consumed every year in the world. Brazil responds to 35% of this production along with Vietnam (16%), Indonesia (7%), Colombia (5%) and Ethiopia (5%). Following this pace, the consumption expanded not only in traditional markets as United States (4,2 kg/year), Germany (6,9 kg/year) e France (5,7 kg/year), but also in tea-driven markets as Japan, Korea, Russia and China (CECAFE, 2013).

In Brazil, the production is concentrated in three states: Minas Gerais, Espirito Santo and Sao Paulo, that united account for 86% of the total production in the country. Minas Gerais alone is responsible for 52,75% and it is also the major arabic coffee producer (69,3%). Espirito Santo and Rondonia are together the major conilon coffee producers with 88,8% participation (CONAB, 2014). The activity is run mostly by small farmers, approximately 287 thousand, spread in 1800 cities in the country. Most of these are affiliated to cooperatives or association, such as Cooxupe, the world largest cooperative of coffee producers, with more than 5,000 associates (MAPA, 2014; COOXUPE, 2014).

In the processing side, the market structure is quite concentrated with 10 companies holding together 74,4% of the volume produced, even though more than 1.400 firms are acting in this market (ABIC, 2014).

Brazil is also known as the world major coffee exporter accounting for 24% in 2012, followed by Vietnam (22%) and Indonesia (8,8%). The production in Vietnam had grown

74% since 2010 and in the same period, Brazilian coffee exportation diminished 16%, although it had overcome the 2010 level in 2014 with 36 million bags (ICO, 2015).

The Brazilian coffee exporting sector is also concentrated with the 5 major firms accounting to 36% of the total volume exported in green coffee and roasted coffee. This competitive scenario has not changed in the last 14 years after the sector de-regulation occurred in the 90 decade (CECAFE, 2015). Table 1 presents the rank in the coffee exporting sector in Brazil in 2014.

Table 1. The 5 major coffee roasters in Brazil

Rank	Firm
1	COOP REGIONAL DE CAFEIC EM GUAXUPE LTDA (Cooxupé)
2	OUTSPAN BRASIL IMPORTAÇÃO E EXPORTAÇÃO
3	TERRA FORTE / GRANDE LESTE
4	LOUIS DREYFUS
5	STOCKLER COMERCIAL E EXPORTADORA LTDA

Source: CECAFE, 2015

Two companies had played a seminal role in Brazil for the expansion of the quality driven production inside the farm: Cooxupe Cooperative and Illy.

The first one, world largest cooperative of coffee producers, in the 80´s began operating as an exporter, reaching directly the international buyers. This strategy was motivated for the value capture opportunity, meaning increasing yields for the cooperative and its members. High quality or special coffees sales imply in higher prices comparing to the commodity ones. In turn, more sophisticated and inter-dependent relationship had to be formed in order to attend the buyer´s coffee specificities. SAES (2008, p.113) indicated the Cooxupe case as *"the major producer´s gain is related to the scale and scope of the coffee commercialization, the agrochemical conjoint purchasing and Access to technical and managerial knowledge through the cooperative support, and in counterpart, it established partnerships with quality seeker buyers."*. More recently Cooxupe became a premier supplier for Nestle, attending the Nespresso´s demand for special coffees and to achieve that they had crafted a strategic partnership under Nestlé's AAA Program[1].

Facing problems to acquire high quality coffee for the volume needed for your company, Ernersto Illy employed an innovative governance mode in Brazil, thanks to the development opportunities brought to light through the sector deregulation in the country. In 1991, it was set the first coffee contest paying a premium price for the finalists. It works as an economic incentive to keeping Brazilian producers supplying quality coffee beans every year for the firm. Nowadays, the Brazilian Arabic coffee forms more than 60% of Illy´s blend. This initiative demonstrated for producers as well for other exporters and industries, that Brazil has the capabilities to supply excellence in coffee production. Since 2012, Illy operates an integrated operation, buying directly from the coffee producer, pursuing its own trading and laboratory for coffee quality analysis (Almeida, 2014).

4.2 Coffee Consumption: a quality driven consumer

The setting is favorable for global coffee consumption, which doubled the volume consumed from 80 million bags in the 70 to 160 million in 2012. Moreover, even in traditional markets per capita consumption has grown as in Finland (12.3 kg / year), United States (4.2 kg / year), Germany (6.9 kg / year) and France (5.7 kg / year). New markets such as Australia (3.9 kg / year) and Algeria (3.3 kg / year) already exceed the per capita consumption of countries like the United Kingdom (3.3 kg / year) and Japan has grown 3,5% annually over the past 10 years and is the third largest importer (IOC, 2012). It is expected the same for China and Korea.

The domestic market of the coffee producers, typically major consumers of ordinary quality roast coffee and soluble coffee, is shifting its demand for more sophisticated coffee beverages and seeking for quality. In Brazil, 850 thousand single doses coffee makers are placed in 3,6% of the Brazilian homes (NIELSEN, 2013). In a recent research, consumers of lower income pointed out the coffee machines as a desired appliance for their homes along with computers, cars and laundry machines (KANTAR WORLDPANEL, 2013). Already, the single dose packs accounted to 1,1% of the total retail sales of the category, with a growth of 33% compared to the previous year (2011-2012) (NIELSEN, 2013).

Nowadays, Brazil is the second largest consumer of beverage in the world and each Brazilian consumes on average 80 liters of the coffee per year. This means that 40% of the crop stays in country, corresponding to about 21 million bags. Only the United States are ahead, with an internal participation of 23 million to 24 million bags (ABIC, 2014).

The Starbuck´s phenomenon inserted a new trend in this scenario, carrying the coffee consumption into a pleasant atmosphere with social appealing. Therefore, Brazilian medium class families consume 10 coffee cups from 3 outside home (KANTAR WORLDPANEL, 2013), which indicates a huge opportunity for the coffee shops in turn. In Colombia, Starbucks opened its first store in 2014 and plans to open more 50 until 2019.

Nestle, a traditional coffee player that launched its Nespresso brand in 1986 in Europe just entered in Brazil in 2006, pursuing in 2014 more than 15 stores in the country and premiered in Shanghai, China in 2010 (NESTLE, 2014).

Next session will present the Ipanema case and its strategic efforts to establish an effective transactional arrangement with mutual benefits for the firm and its suppliers, targeting a long lasting relationship with their high quality coffee.

5 The case

5.1 Ipanema Coffee

Ipanema Agricola was founded in Minas Gerais state, actual the major coffee Brazilian producer. In the beginning the land was purchased visualizing the market opportunities for orange exportation. Considering the gift land for coffee, they also considered install a large scale operation for this crop. The phase of land purchases, implantation of coffee and citrus trees and installation of agro industrial infrastructure lasted from 1970 to 1986, by which time the company had reached 3,000 hectares of coffee and 3,000 hectares of citrus trees (IPANEMA, 2014).

Possessing the largest coffee farm in the world, and foreseeing the commercial opportunities for quality coffee in the international market, after the world and Brazilian coffee sector deregulation and the end of restrictions on exports, in 1991 the company begins to operate as an exporter. Since then it has been exported more than 1 million bags of specialty coffee direct from the farm for more than 25 countries.

In order to rapidly respond to demanding clients for quality, sustainability, origin specificities and special blends, the company had created singular labels and products. By applying the “terroir” concept[2], those 13 labels have different and complementary taste characteristics. These preparations are classified as Estate Coffees, Varietals, Special Preparations and Equal Partners Blends (Table 2).

Table 2. Ipanema´s coffee special blends

Estate Coffee	Coffee prepared from fully ripe cherries and processed as washed, pulped naturals or natural coffee.
Varietal	Coffee produced from a single bothanical variety such as Bouron, Icatu and Catuai.
Special Preparations	Coffee with a unique and special characteristics of washed, pulped and natural coffees.
Equal Partners Blends	Exclusive blends based on Ipanema´s labels.

Source: IPANEMA (2014)

The company had born to be a led exported firm and a pool of competences emerged as way to reach high value markets and capturing value. Those set of competences were arranged in firm-specific assets such as site, human and dedicated assets and more recently brand name capital creating a singular competitive advantage for the firm. The successful strategy attracted investors and exporters. In 2006, a Brazilian investment fund, Grupo Gávea Investiments and Paraguaçu Group entered with the goal to prepare the company to internationalization, culminating in the entry of Norwegian group Friele in 2008 buying Gavea´s stakes. This operation permitted Ipanema specialty coffees reach high value markets as China and Korean and become the first Brazilian supplier of the American roaster Starbucks.

More recently, in 2012, two important world coffee players acquired Ipanema´s shares and joined the management of the company: Mitsubishi Coffee and Tchibo GmbH, Germany's biggest coffee roaster.

5.2 Relational marketing: specificities for the special coffee clients

According to the actual Board Chairman, Ipanema has a vigorous demand, increasing each year. In turn, the company had found constraints to attend this demand by its own production units, which today sums 3 farms with a total area of 6 thousand hectares: 60% of productive area and 40% accounting for reserved and reforest zone, coffee processing, offices and warehouses. Only 35% of the total production stays in the domestic market, thus the international market represents the main yield for the company.

Buyers are located 5% in the USA, 55% in Asia and 40% in Europe, and the more important buyers are in Asia, especially in Japan. Once the local competition in those markets is powerful, the clients require exclusivity in their blends, which might be used in promotional campaigns driven to the final consumer.

Besides the uniqueness, the international clients demands: a) consistence in quality, b) competitive price and c) delivery accuracy. There is a formal contract applied to all clients that besides the specific clauses designated between buyer and client, the contractual rules of the European Contract for coffee (ECC) are also considered. The ECC states general conditions in the coffee trade adopted and accepted by the European Coffee Federation (ECF) parameters such as a) quantity shipped, b) coffee weight accuracy shipped and delivered, c) packing and tare, d) quality observable, e) sample analysis, d) freight, e) insurance, f) payment, g) default and arbitration and others, accounting 27 articles (ECF, 2007).

Formal agreements are made primarily for the crop year, but may occur contracts lasting up to four years. This temporal condition depends on the buyer's business model: if it is a roaster, there is likelihood the contract is longer, otherwise, being a trader, for example, contracts may be only crop year and might not repeat over time.

A questão da repetição dos contratos insere um importante elemento nas transações conforme prescrito por Gulati (1995), a confiança. Uma vez que as transações se repetem e a Ipanema consegue manter regularidade nas entregas seja no prazo quanto na qualidade, a empresa ganha a reputação do comprador, que por esse motivo, paga um premio a mais no preço pela seguridade nesta parceria.

The issue of repeat contracts inserts an important element in the transactions as prescribed by Gulati (1995): trust. Once the transactions are repeated and Ipanema can maintain regularity in deliveries whether in quality or in time, the buyer might pay a premium over the price based on Ipanema´s reputation.

The oldest client of the company is the largest roaster German coffee, Thcibo group, which in 2007 became a partner at Ipanema. It´s a German holding with more than 700 coffee bars in Germany and 300 outside in countries as Austria, Czech Republic, Hungary, Poland, Slovakia, Switzerland and Turkey. It also sells their coffee brands in retailers and online.

Ipanema doesn’t have a specific or planned marketing loyalty program; nevertheless they adopted the “first refusal” resource, which means that the most important clients might exercise the first purchase option. Considering the volatility of prices in the coffee market, this resource appears as important economic incentive to keep the partnership.

In these 24 years exportation for international clients, Ipanema never had to enter in a contract dispute or was object of international arbitrage. The major 23 clients represented 77% of the total revenue in 2014.

The next session describes the long term arrangements conceived between Ipanema and the coffee farmers and the due mutual benefits.

5.3 Partnerships: formal contracts and long term relationship with coffee farmers

In order to expand its production filed, in 2002, Ipanema created a program entitled Equal Partners as a business unit for purchasing and selling other´s farmers coffee production. It works basically as a showroom of specialty coffees, helping farmers to reach the international market and better prices for your coffee bags. This strategy works as an incentive for the producers keep harvesting quality coffees, which requires a high turnover capital, qualified labor, knowledge and modern farm management. In turn, Ipanema has guaranteed its supply to attend the international market demand.

In order to enter the program, a pre-selection process checks whether the coffee producer is enabled to deliver the product under Ipanema´s quality specification besides management requirements as labor and environment norms conformity.

After 7 years of testing, the firm had encountered which is considered an efficient contract for both parts, focusing in a long lasting commercial relationship. The formal contract permits the producer to access some premium commercial conditions and in turn it has to deliver the committed amount of cherry coffee[3] for that year. It is a forward contract with the possibility of fixing price during one year. After the farmer delivery the quantity settled in the contract, he receives the payment in five days, which is considered a advantage in this arrangement.

The formal contract can last for the minimum of 4 years, renewable before the end since the parties pronounce the interest six months before the final date of the contract. The agreements are based mainly on the consistence in quality and delivery accuracy. To be part of the program, the coffee farm was tested in prior repeated transactions, which will determine its reputation. The larger the producer's commitment to quality and delivery, the higher the price received for the coffee

Actually, 20 farmers are members of the program accounting for 70% of the firm´s total coffee procurement. Those farmers are in general medium producers (between 50 to 200 hectares) of Arabic coffee and in average, 60 to 70% of their production is sold under Equal Patterns Program.

The partnership process includes technical support with a close crop monitoring, experiences and technical exchanges. The benefits for the program member can be pointed as: a) international market access, b) premium prices, c) risk minimization with hedge operation, and d) no investment in coffee processing structure. The firm has its own laboratory for quality coffee analysis and each producer deliver is tested to guarantee the attributes conformity with the international clients demand.

In accordance with the supply chain manager, they receive annually a great number of farmers requesting to be part of the program, which means that the partnership itself gain reputation in the coffee market.

The program can be characterized as a semi-integration mode, in the measure that Ipanema operates as agricultural technology partner for the farmers maintain the specific asset strategy conjoined and controlled. As SAES (2012) attested the interdependence is embedded in this transaction as form to capture value for both parts.

Reputation matters as in the relationship with the international clients, once to keep the latter, the supply should be partnering not only in physical assets but also in trust.

Another modality embraces more 50 small producers. In this case, the contract and commitment are more flexible. The producer decides the volume to deliver and the commercial conditions is renewed each year, if there is interest to go business. For Ipanema, these trasactions serve as mechanism to test the farmer´s ability to comply with the rules in repeated deals. Some actual equal partners started their relationship with Ipanema through this initial type of contracting.

The both contracts respond to 20-30% of the total volume exported by Ipanema, which in 2014 accounted to 120 thousands coffee bags per year.

5.4 Relational exchanges: is it sustainable?

The case illustrates how relational exchanges upstream through marketing efforts to lock out the client might incur in sophisticated alliances in order to achieve specific assets using long term contracts to assure volume, quality and consistent.

The Table 3 combines the relational exchange main assumptions, Ipanema´s context and the benefits for clients and suppliers.

It´s arbitrary state whether Ipanema´s competitive advantage originated by those upstream and downstream relational exchanges will last. Differentiate blend of other growers might perform superior reputation for coffee clients that are seeking for uniqueness combined with delivery guarantee and quality persistence. Nevertheless, the blends crafted by Ipanema and long term partnerships based on contracts and trust with local coffee farmers are not replicable assets as long as the parties will continue profit from the alliance.

Table 3. Summarizing Ipanema´s case

Contractual elements of relational exchange (Dwyer et al, 1987)	Ipanema´s context	Client´s benefits	Farmer´s benefits
Timing of exchange	Minimum of one year contract, ongoing process	Consistence in quality and delivery accuracy	Rent security and risk minimization
Expectations for relations	Relations based on trust	Stability, consistence and trustworthiness	Stability, risk minimization
Obligations	Formal contracts customized and detailed within the relation w/ clients and farmers	Prevent seller´s opportunism (*ex ante* and *ex post*), risk minimization	Protect specific investments
Cooperation	Joint efforts to enhance coffee quality (farmers) and blend specification (clients)	Uniqueness that might turn in competitive advantage	Technical assistance, problem solving and modernization
Measurement and Specificity	Specifying coffee attributes and lab tests (farmers and clients)	Predictability and trustworthiness	High prices based on quality consistence (reputation)

Source: the authors

6 Conclusion

The way Ipanema had arranged its competences to sustain a competitive advantage and continuously obtain gains from a high value coffee chain, encompasses relational exchanges upstream and downstream.

In the supply side, the Ipanema case highlights the growing importance of hybrid mode as an economizing strategy to attend the market demand, access high quality markets and also to build new capabilities. Differentially of the market mode, which is the traditional mode used in this industry, the hybrid mode provides long-term relationships that rely in mutual benefits. The major benefit for the industry relates to the opportunity to acquire competitive advantages through unique competences that respond to the consumer markets needs and expectations, and reinforce the commitment and trust with the industry coffee client.

Nowadays, 85% of their partners production is exported to 25 countries spread 5% in USA, 55% in Asia and 40% in Europe. Actually, 20 farmers are members of the program accounting for 70% of the firm´s total coffee procurement. Those farmers are in general medium producers (between 50 to 200 hectares) of Arabic coffee and in average, 60 to 70% of their production is sold under Equal Patterns Program, which is based on formal contracts of four or more years.

The partnership includes technical support with a close crop monitoring, experiences and technical exchanges. The benefits for the program member can be pointed as: a) international market access, b) premium prices, c) risk minimization with hedge operation, and d) no investment in coffee processing structure. For the company, it has the access to a significant amount of coffee for which it doesn't carry the agricultural risk, and more importantly, increase the quality coffee to produce their special blends sold at a higher price.

The industry client requirements are basically high quality coffee with differentiated blend, consistency and trust in the product delivery. For some clients, they might require a unique coffee blend in order to obtain high differentiation from local competitors. Most of the clients spend time and efforts to define and monitor the coffee specificities. The blend customization consists on long-term contracts and has been used by coffee shop chains in the USA and Korea, as well as clients in Japan and China.

As stated by Morgan and Hunt (1994) although there can be opportunistic behavior from any side of the transaction, the relationship will last over time whether commitment and trust were clearly established.

For future work, the authors intend to test the theoretical framework presented in the paper developing hypothesis to be tested in the coffee sector. This investigation might elucidate evolutionary changes in the sector towards a more collaborative network to enhance the product quality and customer experience.

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Endnotes:

[1]The AAA Program promotes a code of conduct along with Nestlé's suppliers in order to make them adopting best practices that respects social and environmental sustainability.

[2] "Terroir" means the set of characteristics conferred by a certain geographical location to a certain product, especially wine and coffee. These elements include not only the location, but above all the climate, type of soil, soil geology, altitude, sunlight, production practices and post-harvest processing.(IPANEMA, 2014)

[3]Cheery coffee means the red color coffee bean, which is in a particular conditions to be prepared and results in a quality beverage.