

# Collaborative Relationships – Real Commercial Benefits



Improving Scotland's food and drink businesses through collaboration

**SCOTLAND**  
OF FOOD & DRINK

**It makes sense to share information which is of mutual interest, as it assists all parties to work together more effectively towards the development of a shared vision and mutual goals. For example, sales information shared with processors and producers will aid production planning, development and forecasting; information on production life cycles, costs and capacity also aids supply chain understanding, planning and marketing in a similar way.**

**As mutual trust between the organisations develops and it becomes clear that the information shared is not being revealed to any third party who may cause damage, the proportion of information that the partners are willing to share tends to increase. Truly collaborative supply chains may go further and start to share other resources, such as space and staff, and may even jointly invest in one part of the chain's operation for the benefit of all.**

As it approaches its bicentenary, the **David Sands** retail business is an excellent example of how collaboration in action can bring real commercial benefits to a supply chain and high quality, value for money products to consumers. Established in 1812, this family firm has gone through two decades of expansion, growing from its original store in Kinross to 27 shops in Fife and Perthshire. The current Chief Executive, David Sands, has been the driving force behind this growth, and his company is now based at a £1.5m warehouse and office complex in Kinross. Part of the Sands' success story is its commitment to sourcing local produce, where possible.

A shining example of this philosophy in practice is the relationship between **David Sands** and **Stephens Bakery**, a Dunfermline-based family business which has a pedigree almost as long as Sands – it's been trading for 136 years. It is certainly a win-win for both parties – after 12 years, the relationship now accounts for almost 30 per cent of Stephens' sales and eight per cent of **David Sands'** turnover.



The in-store bakeries are run by Sands' staff, which is trained by Stephens. The Stephens Director in charge of the in-store bakeries is treated as part of the **David Sands'** management team and has full authority for the staff, which means that any issues can be dealt with swiftly. At managerial level, the two firms meet on a quarterly basis to review progress and sales are analysed on a weekly basis. The quarterly meetings also afford them the opportunity to discuss strategy and business planning. They look forward at a five year timescale for both businesses and share business issues and learning.

Of the relationship in general, both parties agree that there have not been any major relationship issues. There are normal business tensions around negotiating prices, for example, but these are resolved. They are very open about profit margins as both businesses are, to an extent, dependent on each other for building profit.

**Key Points from this case study:**

- **Finding a niche market can help distinguish a business from competitors**
- **A similar pedigree and values can be very important to a collaborative relationship**
- **Both parties must be able to see a clear opportunity for growth**
- **A willingness to learn from each other is important**
- **Trust and openness are essential to maximising the opportunity**

**Salmac Sales Limited** was founded in 1985, selling farmed salmon on a commission basis. Andrew Walker took over as Managing Director in 1992 and the company evolved into a distributor, trading a wide range of Scottish seafood. The objective was to increase sales volume in order to grow the company's margin income.

Salmac's core products now include prawns and scallop meat as well as salmon, and the company has offices in Aberdeen and Boulogne-sur-Mer, France. Salmac employs 15 people and turns over approximately £20 million per year. The success of the company is due largely to the approach it has taken with its suppliers and the open and transparent relationships among them all. The company remits payments of actual sales values less costs and a standard Salmac margin percentage.

**Salmac** takes approximately a 3% margin – around 6p if the salmon sells for £2 per

kilogram, 9p if it makes £3. This ensures Salmac has secure access to large volumes of salmon of consistent quality and, because of the volume, means it can afford to restrict the margin it takes.

**Salmac** is supplied by four farmers who produce around 2500 tonnes. Over and above that, the company buys on the open market to meet customer demand. The farms are all large, independent enterprises whose product is approved under either the RSPCA's Freedom Food scheme or the Soil Association's organic scheme.

The suppliers are happy with these arrangements because they make more than other farmers. They are also part of an open and transparent chain where each party knows exactly what the other is gaining.



For **Salmac**, it is the security of supply and guaranteed access to quality produce which makes it worthwhile. Also, if the produce is sold for around £4 per kilo, **Salmac** makes around 12p, which is much better than the typical salmon distributor margins. At the same time, the salmon farmer retains the majority of the premium above, for example, £3 per kilo sales price.

**Salmac** also began trading in prawns and now buys from more than a dozen producers around Scotland, all of whom buy directly from the boats and pack the prawns ready for selling on. The company has access to many overseas markets, particularly southern Europe where trade is brisk and has quality customers and excellent logistics and

distribution. The quantity of prawns for trade is much less than salmon, so **Salmac** needs a margin of around 10% for the company.

But, again, to secure supply, it looked for a new approach. **Salmac** has set up a joint venture in partnership with a main supplier. The new company, Select Shellfish, buys directly from the boats and supplies all its produce to **Salmac**. This maintains volume for **Salmac** and the margin agreement ensures everything over a 10% Salmac margin is returned to Select Shellfish.

**Key points from this case study:**

- **fair pricing means stability of supply and security for the producer**
- **feedback to the supplier ensures quality**

**Further information is available at:**

**David Sands Ltd**

[www.david-sands.co.uk](http://www.david-sands.co.uk)

**Wm. Stephen (Bakers) Ltd**

[www.steakbridie.com](http://www.steakbridie.com)

**Salmac Sales Ltd –**

[www.salmac.co.uk](http://www.salmac.co.uk)

**For further information about the Cultivating Collaboration project please go to**

[www.ctwo.org.uk](http://www.ctwo.org.uk)