Competition or cooperation?

Alternative purchasing strategies for leverage products: an empirical study

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Abstract

This paper explores the differences in buyer-supplier relationships based on competition and relations based on cooperation for a typical leverage product: electricity. These differences are investigated through a comparative analysis of two sets of four case studies. In contrast to insights from earlier studies, the observed differences were unrelated to the expected benefits and to power and dependence in the buyer-supplier relationship. The study did reveal differences with respect to a number of relationship and transaction attributes, corroborating earlier studies. Compared to the competitive buyer-supplier relationships, the cooperative relationships were characterised by a more flexible division of labour, more mutual objectives and values, more trust in the supplier, more information exchange, and more tailor-made contracts. The respondents all expressed their concern for the extreme price fluctuations on the electricity market. The preference for either competition or cooperation seems to be based on the believes that either tough negotiation or a more relational approach would be the best solution for managing price risks. A (supposed) lack of competition between suppliers in the electricity market has been mentioned too as a factor, which may result in a preference for 'cooperation' with a supplier.

Keywords: competition, cooperation, buyer-supplier relationships, leverage items, purchasing portfolio

Introduction

Leverage items are of a high profit impact in combination with a low supply risk, allowing purchasers to pursue an aggressive approach to the supply market: exploitation of buying power (Kraljic 1983). Since leverage items can be obtained from various suppliers, competitive bidding is a possibility for getting better deals with interchangeable suppliers (e.g. Van Weele 2002). With an easy supply market purchasers can afford to take risks, using *competition* between potential suppliers (Forker and Stannack 2000; Steele and Court 1996). Other researchers posited that *cooperation* and partnerships sourcing is superior to adversarial competition, because it leads to long-term collaboration based on trust (e.g. MacBeth and Ferguson 1994). It can be argued that companies need a variety of relationships, each providing its different benefits, where no general 'best' type of relationship exists (e.g. Gadde and Snehota 2000; Young and Wilkinson 1997). Therefore, it is conceivable that different companies prefer different supplier relationships for the same leverage product.

In an empirical study Gelderman and Van Weele (2003) found that companies most commonly used *competition* as the dominant approach for the procurement of leverage items. However, exceptionally companies pursued a more strategic and collaborative partnership with a supplier of a leverage product. The empirical evidence however, is based on a small number of case studies, which provides only limited insights in the process of developing purchasing and supplier strategies. The aim of this paper is to find tentative answers to the following problem statement: what are the differences between buyer-supplier relationships that are based on *competition* and relationships that are based on *cooperation* in case of the procurement of leverage products?

The organisation of the paper is as follows. First, we will give a brief introduction to the Kraljic portfolio matrix and the strategic recommendations which are provided for the procurement leverage items (in the Kraljic matrix). Next, on the basis of a literature study, we will identify expected differences between competition and cooperation. After the presentation of the research design, the empirical results of the study will be presented. The paper is completed by a section which provides conclusions, implications and suggestions for further research.

Purchasing strategies for leverage items

Kraljic (1983) introduced a comprehensive *portfolio approach* for the use in purchasing and supply management. The general idea of Kraljic's model is to minimize supply risk and make the most of buying power. Kraljic's approach includes the construction of a portfolio matrix that classifies purchased products and services on the basis of two dimensions: profit impact and supply risk ('low' and 'high'). The result is a 2x2 matrix and a classification in four categories: bottleneck, non-critical, leverage and strategic items, see figure 1. Each of the four categories requires a distinctive approach towards suppliers. Routine items are of low value and low supply risk. Because of their infrequent use, routine items cause high transaction costs and logistic and administrative complexity. Therefore, strategies are aimed at efficient processing, for instance by systems contracting, product standardization, e-procurement, order volume and inventory optimization. Bottleneck items cause significant problems and risks which should be handled by volume assurance, safety stocks, vendor control and backup plans. In some cases a search for alternative suppliers or products is needed. Strategic items require a more collaborative strategy between both buyer and seller. Leverage items allow the buying company to exploit its full purchasing power, for instance through tendering, target pricing and product substitution.

Profit impact	Supply risk	
	Low	High
High	*leverage items* exploitation of purchasing power	*strategic items* diversify, balance, or exploit
Low	*non-critical items* efficient processing	*bottleneck items* volume assurance

Figure 1: The Kraljic model (modified from Kraljic 1983, p. 111)

Leverage items are called turnover-increasing or key items also, because of their supposed relative high negotiation space. Leverage item's purchasing risk is low, and products often are procured from several suppliers. Because of their impact on the company's total costs these products will influence the company's strategic vulnerability. A small change in price can affect strongly in the end product's cost price. Examples of leverage products are bulk chemicals and standard semi-finished products.

For leverage products an aggressive purchasing approach is to expect. The main target of this strategy is to close the best deal in the market on short term, using full competition with respect to maintain quality and certainty of delivery. Since suppliers and products are interchangeable, there is no need for long-term supply contracts. A purchasing strategy based on the principles of *competitive bidding* can be pursued (Van Weele 2002). The buying power is actively used as a means for getting better deals with interchangeable suppliers.

However, some find the common recommendations for leverage items counterproductive, providing recommendations either to exploit power (Olsen and Ellram 1997), or to avoid risk associated with the supplier exercising power (Dubois and Pedersen 2002). Even in case of leverage items, "a good, two-way relationship should be establishes", according to Olsen and Ellram (1997 p. 105). In an empirical study to the supplier relationships of Japanese and U.S. automobile manufacturers Bensaou (1999) found a classification which has much in common with the Kraljic matrix (Gelderman 2003). The 'captive supplier relationship' is characterized by low buyer's specific investments and high supplier's specific investments, indicating a dominant power position of the buyer. The appropriate management profile, on the dimension climate and process characteristics is described as "high mutual trust, but limited to direct joint action and co-operation" (Bensaou 1999, p. 39). Again, instead of competitive bidding, more collaborative supplier relationships have been identified for leverage items. This dichotomy closely resembles the classification of Matthyssens and Van den Bulte (1994) which identifies a 'power strategy' respectively a 'tuning strategy'. It also parallels the difference between a relationship orientation and a transactional orientation on buyer-supplier relationships (e.g. Pillai and Sharma 2003).
Based on explorative case studies Gelderman and Van Weele (2003) found that, exceptionally, the leverage position is abandoned in search for a more strategic partnership with a supplier. Such a cooperative strategy is only pursued, if the supplier involved is willing and capable of contributing to the competitive advantage of the company. Their study explicitly identified an alternative purchasing strategy in Kraljic's leverage quadrant. In a related survey study of manufacturing companies in the Netherlands, it was found that "the main condition for engaging in a partnership with a supplier is related to already higher levels of supplier's dependence and especially buyer's dependence. In addition, "there is more (affective and calculative) commitment towards the future partner" (Gelderman 2003, p. 244). The identification of the two different purchasing strategies for leverage items, has resulted in the problem statement of this study: what are the differences between buyer-supplier relationships that are based on *competition* and relationships that are based on *cooperation* in case of the procurement of leverage products?

Competition versus cooperation

In buyer-supplier relationships cooperation includes the coordination of tasks which are undertaken jointly in pursuit of pursue common and/or compatible goals and activities, including attitudes, perceptions and sentiments. In the social sciences literature non-cooperation has been conceptualised as competition (Young and Wilkinson 1997). Although it is recognised that cooperative and competitive norms and behaviour could be considered as properties (dimensions) within every buyer-supplier relationship, this study departed from the contention that cooperation and competition are mutually exclusive purchasing strategies for the procurement of leverage items.

Literature suggests the following factors that can be used to characterize the main differences between competition and cooperation:
- power and dependence,
- transaction attributes,
- relationship attributes and
- expected benefits.

Kraljic's recommendation to 'exploit the full purchasing power' obviously assumes that the buyer is in a more powerful position than the supplier (Van Weele 2002). A competitive purchasing strategy might only be feasible when the buying company has not made substantial relationship specific investments, when the buyer has many alternatives, and subsequently dominates the relationship (Bensaou 1999; Forker and Stannack 2000; Van Weele 2002). A more cooperative approach could be expected in cases of more balanced, symmetrical relationships, characterized by a relatively high mutual dependence (Parker and Hartley 1997; Young and Wilkinson 1997).
The transactions in case of a cooperative supplier approach are expected to entail more coordination and adaptation, more flexible division of work, more mutual consent, all compared to a competitive approach of suppliers (e.g. Matthyssens and Van den Bulte 1994). In addition, in case of cooperation the buyer is likely to aim at a reduction of performance uncertainties, which will not be a matter at issue in case of competition (Heide and John 1990; Heide 1994). Relationship attributes of cooperation are: a relatively open exchange of information (in the offering and the specification phase of the purchasing cycle), the pursuit of mutual objectives (Matthyssens and Van den Bulte 1994), mutual trust, socialisation and friendship (Bensaou 1999; Forker and Stannack 2000; Gelderman 2003), and mutual commitment (Heide and John 1990; Young and Wilkinson 1997).

The differences in expected benefits are related to the main selection criteria and the time span. In case of competition buyers select their suppliers on the base of the lowest prices in the short run (Bensaou 1999; Parker and Hartley 1997; Young and Wilkinson 1997), while cooperative buyers aim at the lowest total cost of ownership in the medium run (Forker and Stannack 2000; Heide 1994; Matthyssens and Van den Bulte 1994). In addition, competitive bidding usually implies that the contractual terms are fully negotiated in a process of hard bargaining (Bensaou 1999; Matthyssens and Van den Bulte 1994). In a cooperative setting terms are determined in consent (Heide 1994; Parker and Hartley 1997; Young and Wilkinson 1997), allowing for a more flexible relationship with the supplier and the opportunity for relationship development over time.
The expected differences between competition and cooperation are summarised in figure 2.

	Competition	Cooperation
Power and dependence		
Relationship specific investment	None	Occasionally (product modifications)
Alternative suppliers/prod.	Many alternatives, easily available	Few, only at high switching costs
Balance of power	Buyer dominance	Mutual dependence
Transaction attributes		
Reduction of uncertainties	Unimportant	Reduction of performance risks (quality, price)
Division of tasks	Independent division of tasks, settled in a contract	More flexible division of tasks, by mutual consent
Coordination, adaptation	Not or limited	Highly
Type of product/process	Standard product/process	Modified product/process, added value through tailoring
Transaction frequency	Infrequent, once-only	More frequent, recurrent
Relationship attributes		
Exchange of information	Only in the offering phase of the purchase process. No exchange of confidential information	In the offering phase and in specification phase. Exchange of confidential information
Cooperative norms	Individual objectives.	Individual and mutual objectives
Trust	Trust in the suppliers' continuity	Mutual trust, also socialisation and friendship
Commitment	No significant role	Affective and calculative
Expected benefits		
Price and costs	Lowest price, in the short run (1 year)	Lowest total cost of ownership, in the longer run (3-5 years)
Contractual terms	Fully bargained	By mutual consent
Supplier relationship	Rigid, according to contract	Flexible, relationship development
Competitive advantage	In the short run	In the medium run

Figure 2: Expected differences between 'competition' and 'cooperation'

Methodology

In general, little is known about the selection of purchasing strategies for leverage items. A case study method is a logical choice, since this study is aimed at illuminating and clarifying a decision which is not well understood: why it was taken, how it was implemented, and with what result (Remenyi et al. 1998; Yin 1994). Case study research is appropriate when the research focuses mainly on 'how' and 'why' questions.

The sample consists of a selection of Dutch companies for whom *electricity* is a typical leverage product. The purchasing value is relatively high (between 0.6 and 3 million euro per year), while the supply risks are relatively low: there are many alternative suppliers with a licence to supply and there is legal assured assurance of supply when the supplier should become bankrupt. A total of 8 case companies have been selected on their *explicit preference* for either competition or cooperation for their procurement of electricity at a specific power company (2x4). The assessment of preferences has been supported by internal information of the power company: account plans, requests for quotations, and contracts. The research design is aimed at a systematic, comparative analysis of the case studies: comparative case studies.

Data were collected primarily through interviews and secondary resources, such as Internet web sites, annual reports, and internal reports. The informants of the companies were chosen not on a random basis, but because they were considered to have specialized knowledge of and experience with the procurement of electricity. This approach is appropriate for exploratory studies. In all case studies the respondents were either senior buyers or purchasing managers. Respondents were interviewed on the basis of a semi-structured questionnaire, allowing for elucidation, elaboration and clarification. The use of a semi-structured interview is in line with the nature of the exploratory research objectives. The respondents were interviewed in July and August 2004.

In-depth semi-structured interviews were conducted by means of face-to-face contact. Whenever necessary, additional rounds of interviews were conducted with the respondents. Draft reports were sent to the respondents, reporting back the tentative analysis and conclusions from the interviews, which provided them with the opportunity:

- to improve the match with the intended information, and
- to explore issues in more detail.

Obviously, this case study does not allow for any statistical generalization. The case study aims to generate a particular set of results to some broader theory (theoretical generalization). This theory concerns the differences between ‘competition’ and ‘cooperation’ as modes of buyer-supplier relationship governance, focused on the procurement of leverage products. An analytical generalization, however should be based on replications of the findings (Yin 1994).

Empirical results

In this section we will first compare the 4 ‘competition’ cases with each other, in order to find common characteristics and points of difference. Next, we will follow the same procedure, by comparing the 4 ‘cooperation’ cases with each other. Finally, we will present the most important empirical findings of this study, trough a comparative case analysis of the ‘competition’ and the ‘cooperative’ case studies.

The ‘competition’ cases

In this section we will compare the 4 ‘competition’ cases on the attributes which were found in literature. From the cases it became clear that the expected characteristics of competitive buyer-supplier relationships were largely recognised and confirmed by the respondents as being important for the selection and development of the purchasing strategy. Unambiguously, confirmation was found for the expected state of power and dependence in the buyer-supplier relationships: both parties were hardly involved in relationship specific investments. The buyers expected that alternative suppliers could be easily found, without incurring significant switching costs. As a result, the mutual dependence is believed to be extremely low. In 2 of the 4 cases, it was indicated that the buyer might have a slightly better power position, when compared to the supplier. In numbers, the distribution of power was estimated as 60:40.

For the transaction attributes too, the observed findings matched the expected values. The commercial risk, due to extreme price fluctuations, was considered to be as the main uncertainty by all respondents. The extreme price fluctuations in the electricity market were generally considered at the most important issue in the procurement of electricity: up to 40% difference in price between the most favourable and the most unfavourable moment. Except for this price risk, no other uncertainties were recognised by the respondents. The division of labor and the contractual agreements are perceived as 'very clear', no real coordination and adaptation of working processes has taken place. At the most, it was mentioned that the once-only arrangement of the handling of administrative processes and the mutual exchange of information were settled in advance. The product type is 'standard', for which no tailor-made contracts were believed to be necessary. The usage of standard contracts was not considered to be problematic.

An exception to the above-mentioned confirmations, concerns the transaction frequency. In only 1 case company contracts were closed on a five-yearly basis, in the other companies the transaction frequency is two-yearly on average. Because we are dealing with repeating purchases, this attribute would be related to a preference for 'collaboration'.

The findings for the relationship attributes all point at a preference for a competitive buyer-supplier relationships. The exchange of information is limited to the offering phase of the purchasing process, where no confidential or sensitive information is being exchanged between buyers and suppliers. Affective and calculative commitment do not play a significant role in the question whether or not to continue a certain buyer-supplier relationship. Perhaps remarkably, the investigated companies wanted to pursue (additionally) mutual goals with the suppliers, although all companies gave priority to the achievement of their own objectives. This finding would have been expected for the more 'cooperative' buyer-supplier relationships.

Another remarkable finding refers to the expected benefits. With the exception of a single case company, the respondents confirmed that the awarding procedure of competitive biddings is always based on a comparison of the total cost of ownership (total cost of acquisition). The time frame is, contrary to prior expectations, relative long: 2 to 5 years. The competitive advantage was assesses in the medium turn (with one exception). The case companies did expect more from the supplier than the merely closing and settling contracts. The buyers expect flexibility, problem solving competences, and a pro-active attitude from their supplier.

The respondents indicated that the contractual terms were not all and not always 'fully bargained'. The findings were mixed, the respondents leaned towards a preference for tough negotiations, although flexibility was shown too. Respondents did mention that they appreciate 'stable relationship development', for instance by separating important from less important matters and by looking out for conditions which would be beneficial for both parties.

Generally, it appears from the 'competition' cases, that these companies are reasonably satisfied with the purchasing performance and purchasing results in case of the procurement of electricity. However, due to the extreme price fluctuations in the electricity market, respondents turned out to be less satisfied with the ultimate prices.

For the future, the respondents foresaw a trend towards a more competitive approach to supplier relationships, including more and tougher negotiations. Varying arguments have been put forward to substantiate this forecast: one case company pointed at the internal policy to intensify a process of further supply base reduction and the dire necessity of further cost reductions related to the impending transfer of production to low-wage countries. Another company mentioned the advent of e-procurement (e-auctioning) and further globalisation of markets. A third company pointed at the pendulum of business strategies: a preference for A (i.e. competition) will be replaced by a preference for B (i.e. collaboration). The further 'squeezing' of suppliers then would not produce additional savings. In contrast, a fourth company predicted that companies in the (near) future will prefer cooperative supplier relationships, because the competition in the electricity market has sharply fallen and additionally, because companies will value adequate advices in order to reduce price risks.

The 'cooperation' cases

The observed conditions which would justify a preference for 'cooperation', seemed to be reasonably in line with the prior expectations. A remarkable exception refers to the perception of power and dependence in the buyer-supplier relationship. The market is generally characterized by a sufficient number of alternative suppliers. No significant relationship investment were recognised by the respondents. Two companies confirmed that the switching costs were low, but two other companies indicated that the switching costs were not considered to be 'completely negligible'. The relationship specific investments are limited, mostly for building up of the relationship. One company was less optimistic about the availability of alternative suppliers, the market was rather considered as an

oligopoly than a market with many suppliers. The mutual dependence is generally perceived as being very low, with no party dominating the relationship.
Referring to the transaction attribute, the findings match largely the prior expectations. The price is seen as the main source of uncertainty in the procurement of electricity. That is why the ‘cooperation’ companies prefer a timely and spread out procurement of electricity, in order to get a better grip on prices and price risks. Sometimes standing contract are being used for this purpose.
With the exception of one case company, buyer and supplier come to term on the coordination of work, the division of work and the contractual obligations. However, the scope of the operational adaptation is very limited in all cases, because the procurement of electricity has no further consequences than the monthly processing and paying of bills. Placing orders is not applicable, at the most companies exchange information with respect to the actual versus the projected consumption of electricity. Systems do not require adaptations in case a company would decide to switch to another supplier.
Electricity is a standard product, however, most commonly the ‘cooperation’ companies required a tailor-made contract. In all cases, these efforts were been made in order to reduce and/or get more grip on the price risks. The exchange of information and the provision of management information by the supplier have to be tailored to the needs and requirements of the buying companies. Respondents pointed at the extreme price fluctuations in the electricity market: again, up to 40% difference in price between the most favourable and the most unfavourable moment. The ‘cooperation’ companies therefore used contracts, in particular tailor-made to the specific conditions and fluctuations on the electricity market. The respondents felt that by collaborating with the supplier, they gained more insight in the price risks and could better anticipate what is coming by deciding whether or not to hedge and/or spread out the risks.
The relationship attributes ‘early exchange of information’, ‘cooperative norms’ and ‘mutual trust’ were all in line with the prior expectations which were derived from the literature study. However, there are differences in the way companies assess and adjust their relationship with the supplier. One company uses vendor rating, while another company prefers contract management, including quality control. The other two companies did not use an univocal quality system.
In some case the exchange of information is of a very open nature, although no exchange of confidential information takes place. The exchange of information is not limited to the offering phase of the purchasing process, information is exchanged as well in the pre-qualification phase. Although trust in the continuity and the competence of the supplier are important, control is believed to be indispensable. Regarding the transaction frequency, in two cases the buyer-supplier relationship is governed by a standing contract, including interim evaluations. The other companies. used two-yearly contracts.
The expected benefits turned out to be the same for all of the investigated companies. Respondents indicate that the selection and contracting of a supplier is based on the total cost of ownership (total cost of acquisition) in the medium run. The supplier is expressly supposed to display flexible and problem solving behaviour. Suppliers should have a expert input of knowledge and a willingness to set and aim for mutual objectives. There are differences with respect to the way contractual terms are settled: some tend to prefer ‘a fully bargained contract’, while others prefer to give priority to a ‘stable relationship development’ based on the joint determination of objectives.
The ‘cooperation’ companies are broadly speaking satisfied with their relationship with their electricity supplier, although all agree on the price problems and the unfavourable price developments.
Three out of the four companies foresaw that the collaboration with the supplier will take more shape in the future. The arguments for this predicted trend diverge, however. One company is convinced that ultimately the buyer and the supplier will benefit most from a system of competitive bidding: the supplier is faced with high costs in order to attract new customers and the buyers do not take full advantage of the possibilities in the market. Another company posited that the constant change of supply markets requires a more sophisticated purchasing function, for which an aggressive, competitive approaches of supplies is not believed to be appropriate purchasing strategy. The third company feels that cooperation generally is the best strategy, because the company strives for process optimalisation in order to stay ahead of the competition. The company aims at the procurement of strategic products and/or a strategic partnership with suppliers, although it was recognised that collaboration is not useful in all cases. The fourth company thought that buyers would be inclined to use competitive supplier strategies in case of economic down-turn. At the same time, in economic hard times, creativity and flexibility of supplier can be of a matter of the highest importance.

Comparison of cases

The study resulted in mixed findings: some, but not all expected differences were confirmed by the empirical data, see figure 3. The results indicate that respondents hold identical perceptions on *power and dependence* in their supplier relationship: sufficient alternative suppliers, relatively low switching costs and low mutual dependence in all cases. The same conclusion was found for the *expected benefits*: the case companies all reported that the main concern was to minimize the total cost of ownership. Most of the conditions that lead to a preference for either 'competition' or 'cooperation' were found in differences with respect to the transaction attributes and the relationship attributes. Compared to the 'competition'-companies, the buyer-supplier relationships in case of 'cooperation' were characterised by:
- more flexible division of labour
- more mutual objectives (cooperative norms)
- more trust in the supplier
- more exchange of information
- more tailor made contracts.

The respondents all expressed their main concern for the extreme price fluctuations in the electricity market: up to 40% difference in price between the most favourable and the most unfavourable moment. Purchasers with a preference for competition believe that a strategy of sharp and tough negotiating is the best guarantee for the best purchasing results. In contrast, purchasers with a preference for cooperation are convinced that by cooperating with suppliers, they will gain more insights and are in a better position to manage price risks. However, some respondents have their doubts about the level of actual competition in the electricity production market (problems of collusion and lack of market transparency), which may have caused a preference for 'cooperation' with a supplier.

	Competition	Cooperation
Power and dependence		
Relationship specific investment	Limited to building up the relationship	Limited to the building up of the relationship, occasionally non-recurring investments
Alternative suppliers/ products	Many alternatives, no substantial switching costs	Many alternatives, no substantial switching costs
Balance of power	Very low mutual dependence, no real buyer dominance	Limited mutual dependence, no party dominates the relationship
Transaction attributes		
Reduction of uncertainties	Negligible risks of disruptions of supply. Insufficient grip on the impact of price fluctuations	Negligible risks of disruptions of supply. Grip on price risks by timely and spread out procurement and/or standing contracts
Division of tasks	Division of tasks is hardly an issue, agreements are always put down in writing	Diverges from 'not applicable' and 'innovative', agreements are always put down in writing
Coordination, adaptation	Hardly, no complex ordering, no complex administrative processes	Most commonly with respect to the exchange of information, the reporting and process control
Type of product/process	Standard product, standard contract	Standard product, usually a tailor-made contract, exchange of information and price making model
Transaction frequency	On average two-yearly, exceptionally five-yearly	Two-yearly or standing contracts
Relationship attributes		
Exchange of information	Only in the offering phase of the purchase process No exchange of confidential information	In the offering phase and in the pre-qualification phase No exchange of confidential information

Cooperative norms	Individual objectives come first, next come mutual objectives	There is a believe in and a desire for the achievement of mutual objectives
Trust	Trust in the continuity of supply is important, this is not necessarily true for the supplier's continuity	Trust in the continuity and competence trust are important, although control is imperative
Commitment	No significant role	Occasionally, affective commitment is important
Expected benefits		
Price and costs	Mostly Total Cost of Ownership	Only Total Cost of Ownership
Contractual terms	Diverges from 'fully bargained' to 'a preference for a stable relationship development'	Diverges from 'fully bargained' to 'a preference for a stable relationship development'
Supplier relationship	Buyers expect flexibility, problem solving competences and a pro-active attitude from their supplier	In addition to flexibility, problem solving and pro-activity, buyers expect thorough and sound advice
Competitive advantage	In the medium run, exceptionally in the long run	In the medium run

Figure 3: Observed differences between 'competition' and 'cooperation'

Conclusions and implications

Leverage items are of a high profit impact in combination with a low supply risk (Kraljic, 1983). In many publications (e.g. Van Weele, 2002; Steele and Court, 1996) the common recommendation for the procurement of leverage items is 'competition': buying companies are advised to exploit their full purchasing power, for instance through tendering, competitive bidding and tough negotiating. However, in other studies it has been reported that companies prefer a strategy of 'cooperation', even in case of leverage items (e.g. Gelderman, 2003). The identification of the two different purchasing strategies for leverage items, has resulted in the problem statement of this study: what are the differences between buyer-supplier relationships that are based on *competition* ánd relationships that are based on *cooperation* in case of the procurement of leverage products?
This study reported on an explorative study to the differences in buyer-supplier relationships based on competition and relationships based on cooperation for a typical leverage product: electricity. These differences are investigated through a comparative analysis of two sets of four case studies. The results of this study indicate that the main differences between competition and cooperation (as governance modes) for the procurement of leverage items are not related to the expected benefits or issues of power and dependence. Instead, differences were found with respect to a number of relationship and transaction attributes, which was to be expected from the literature study. Compared to the competitive buyer-supplier relationships, the cooperative relationships were characterised by a more flexible division of labour, more mutual objectives and values, more trust in the supplier, more information exchange, and more tailor-made contracts.
Obviously, we should bear in mind that the case studies were focussed on the procurement of electricity as a typical leverage product. In this particular supply market purchasers appeared to be very concerned with the negative effects of extreme price fluctuations. Reducing and controlling price risks turned out to be the main purchasing task in the specific case of electricity. The (supposed) lack of competition between producers in the electricity market has been mentioned as a factor that could contribute to a preference for 'cooperation' with a supplier. Future research could shed more light on the differences that might be found between the buyer-supplier relationships in different markets for different leverage items. In addition, another interesting line of research would be to include psychological factors that might promote a disposition towards either competition or cooperation as the most appropriate governance mode. Future research could be aimed at uncovering buyer attitudes towards and prejudices against competition and cooperation (e.g. Ramsay and Jackson 2005). Some of the preferences could be explained by company specific-factors, such as organisational structure, company size, technology, and organisational culture, others might be related to relationship attributes such as relationship development and relationship duration. Perhaps more challenging would be research focussed on the impact of an alternative strategy choice: what might be the long term results of competition, compared to those of cooperation for the purchasing of leverage products?

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