

## **How do Key customers link cooperation and calls for competition (tenders) with suppliers? The CSC (Correction- Strengthening- Commuting) model**

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### **Abstract:**

For the past 10 years we have seen the purchasing department of leading and major companies restructuring their purchasing approaches and moving towards more formalised and global purchase processes. The question arises whether the Relationship Marketing paradigm which has been developing for over 20 years now, focussing on shared relational benefits based on trust and commitment, is not being turned by Key Account customers, under the influence of their purchase structures, into a «transactional/relational hybrid» relationship management paradigm.

This research is an empirical and qualitative one to define new forms of a “hybrid” relationship between key Accounts and their network of suppliers, mixing features from transactional and relational exchanges and analysed from the key Account (customer) perspective.

We study why and how Key Accounts use this new form of customer–supplier relationship and define new pivotal mechanisms mixing opposite forms of exchange with the model “CSC” for “ Correcting – Strengthening – Commuting”. Our study should help to better understand Key customers relational strategies with their suppliers.

*Keywords: Relationship Marketing, “hybrid” relationship, cooperation, price competition*

## INTRODUCTION AND PURPOSE OF THE RESEARCH

Within the Relationship Marketing paradigm, we find a conceptual approach that opposes two types of Marketing: Transactional and Relational marketing are mutually exclusive at both ends of a continuum (Day 2000). On the one hand, the emphasis is on the short-term transaction to attract new customers with price-related benefits (price competitive transactions). On the other hand, we have the search for cooperation to gain mutual benefits (Dunn & Thomas 1994). A lot of scholars have shown that a relational and collaborative orientation is key in customer-seller relationships to improve value creation and customer's competitive advantage (Anderson & Narus 1991; Cardozzo et al.1992; Dunn et Thomas 1994; Morgan & Hunt 1994; Grönroos 1997; Dyer & Singh 1998; Jap 1999; Day 2000, Ford 2001). There has been little academic interest, so far, in studying the "grey area" when transactional and relational features are supposed to be intertwined in the middle of the continuum. Although managerial practice show that "pure" transactional or relational exchanges are seldom to be found and most B to B vertical relationships are "hybrid" forms of relationships, mixing transactional and relational features. The paradox of linking these two exclusive forms of relationships has been recognised within the academic community: some scholars from the IMP Group\*, who study both the Marketing and Procurement perspective agree that buyer-supplier relationships are made of both cooperation and conflict (Hakansson & Snehota, 1998), but the area, where Transactional and Relationship Marketing merge, remains a no man's land.

Furthermore, the polarisation of transactional and relational features are to be found in Marketing literature, hence taking mostly into account the supplier's point of view, but how appropriate can it be to consider the supplier's and not the customer's point of view? (Blois 1996) Is it not the customer who organises a paradoxical tension between capturing value from relational benefits provided by key suppliers (Ulaga 2003; Ulaga & Eggert 2006) and takes advantage, at the same time, of price-competitive market transactions (Gummesson 1997), organising tenders?

From a conceptual viewpoint, we need to understand how customers create this "hybrid" form of relationship with their suppliers, as no one has yet looked at such customers' reasons to manage their relationship with suppliers, mixing cooperation and calls for competition.

I will first review the literature on hybrid relational forms, before explaining my research methodology and presenting my research findings. I will then present the managerial contribution of this research and further research prospect.

## LITERATURE REVIEW

Within the purchasing literature, Dyer et al. (1998) oppose "arm's length relationships" to "partner model" as a supplier segmentation and we find here the same polarisation (transaction versus relationship) as in the relationship Marketing, except they also introduce the notion of "sustained arm's length relationship", which is later to be found in Palmer (2007) with "sustained transactions". Palmer hints that instead of a relational

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\* *Industrial Marketing and Purchasing Group* - <http://www.impgroup.org>

continuum, three styles of relationships are to be found (transactional, sustained transactional and relational). In both Dyer's and later Palmer's work, "sustained transaction or arm's length relationships" are not a mix of transactional or relational features, they are just repeated transactions.

Already in 1989, Bradach & Eccles had also rejected the notion of continuum, the TCE (Transaction Cost Economics) continuum, with two mutually exclusive poles going from market to hierarchy. They argued that price, authority and trust were three variables, two of which could be combined in different ways to define different control mechanisms.

Moreover, they "emphasize how transactions controlled by one mechanism are profoundly affected by the simultaneous use of an alternative control mechanism".

From this sentence, they hint at an interaction of two mechanisms that are not balanced, but one of them is used to have an effect on the main one, and are defining an hybrid mechanism.

In other areas than Purchasing or Marketing, as in Strategy, Bengtsson & Kock (1999, 2000) have studied in depth cooptation within horizontal alliances in B to B networks and how firms want to combine the advantages of competition and cooperation. They define three forms of cooptation:

- ⇒ When cooperation prevails
- ⇒ When competition prevails
- ⇒ When cooperation and competition are balanced

Today, active scholars in studying hybrid combinations are those doing some research on management control of interfirm transactional relationships (Van de Meer-Koistra & Vosselman, 2000, 2006; Hakansson & Lind, 2004 ; Donada & Nogatchewsky, 2006) : they investigate how vertical interfirm relationships can be drawn up.

Van der Meer-Kooistra and Vosselman (2000) propose a market-based pattern, a bureaucracy-based pattern, and a trust-based to define three patterns of management modes. The first two patterns are based on the TCE conceptual framework whereas the trust-based one is partly based on Macneil (1980) and Granovetter (1985).

Further to those three patterns, Donada & Nogatchewsky (2006:280) study an empirical case where the market-based pattern seem to dominate, but which "also relies, to a lesser extent, on social-based and bureaucracy-based controls. Analyzing this case enables us to go beyond the strict propositions of theoretical frameworks and discuss the complementarities of the three modes. These modes do not appear to be exclusive one from another. In the specific context of a firm in a situation of highly favourable asymmetric dependence (towards the buyer), control modes seem to overlap, forming the most complete system to encompass the goals of the various internal actors involved in interfirm transactional relationships". In that specific case, market-based pattern is blended with bureaucracy-based pattern, and used by the buyer to assert and maintain his power over his suppliers. Grounded in a specific company case, we understand how different relationship modes are intertwined into each other.

This study can be linked to Heide and Wathne's one (2006), as they also refer to different theoretical frameworks: they use the TCE conceptual background, but develop a new conceptual framework of roles in marketing relationships. Those two scholars try then to match firm's governance strategies with relationships roles. They discuss two

prototypical roles, a “friend” (relational approach) and a “business person” (transactional and utilitarian approach). Doing so, they recognise that both roles can co-exist (2006:90) but do not attempt to study this merging of roles.

Thus, finding managerial situations, where relationship roles or types, are mixed is relatively common, but building theories from those situations happen to be more difficult in the Marketing field.

## **RESEARCH METHODOLOGY**

To dissect the whole mechanism of combining polar forms of relationships, I conducted a qualitative research including an exploratory survey involving ten in-depth interviews of senior purchasing managers from ten different manufacturing or service MNCs, followed by four case studies within MNC's.

Two case studies came from the first field study, whereas two others were selected from secondary sources (press articles signalling a change in their supplier relationship management). Within those case studies, different actors from the purchase department and their internal customers were interviewed. For external validity, the Key Account Manager from one or two of their suppliers was also interviewed (Yin, 2003). Interviews last from one to three hours and thematic coding was used for analysis (Miles and Huberman, 2003).

## **FIELD STUDY FINDINGS**

From this field study, I have found that two hybrid forms of vertical relationship are predominant:

When a relationship based on competitive pricing (mostly via tenders) is predominant, but includes some cooperation;

When cooperation is predominant, but includes some calls for competition (competitive bids);

This is consistent with Bengtsson & Kock (1999, 2000), except that in vertical relationships, or at least among the companies I studied, no balance form of relationship between competitive pricing and cooperation was to be found: there is always one predominant form mixed with a secondary weaker one.

I also found some interesting mechanisms linking the two antagonistic forms of relationship. As hinted at by Braddach & Eccles (1989), one form of relationship would “correct” the weaknesses of the other, but could also “strengthen” the qualities of the other form, whereas a mechanism by which one form would “commute” to another is also to be found.

## CASE STUDIES FINDINGS

### ***KEY FINDING N°1: THE PIVOTAL MECHANISMS THAT RELATE A RELATIONSHIP PRIMARILY BASED ON COMPETITIVE PRICING TOGETHER WITH SOME COOPERATIVE FEATURES.***

Some buyers decide to remain in an “adversarial” type of relationship and put a lot of pressure on their suppliers with recurrent (sometimes unexpected) tenders to ensure the best price/offer from the market.

Although that type of relationship is primarily based on the short-term transaction with price as a mediator, rather than the relationship itself (Dwyer, Schurr et Oh 1987 ; Grönroos 1994 ), some relational features “**correct**” the strictly price-competitive approach. This is not merely the fact that the transaction may be sustained (Dyer et al. 1998; Palmer 2007), but the fact that Key Customers want to make up for the “drawback” of the lack of cooperation, especially in case there is a commercial dispute to settle. There may be no commitment from the Key Customer, an element of trust will “correct” the pure price focus to add some relational benefits, mostly information sharing (Ulaga 2003).

Some relational features may also “re-enforce” or “**strengthen**” the price competitive exchange: Sheth and Parvatiyar (1995:399) remind us the major axiom of this price-competitive approach (“transactional marketing”):

« One axiom of transactional marketing is the belief that competition and self-interest are the drivers of value creation. Through competition, buyers can be offered a choice (...).”

To get the best choice in a « bounded rationality » (Simon 1959) the key Customer will maintain a certain rapport with a panel of suppliers, just to « optimize » their information on the market and get the elements that will allow it to organize competitive bids at the right time (when market prices start going up) and with the best players.

Last, but not least, some relational elements may also be introduced, once the Key Customer believes they have reached the limit of the transactional approach: they “**commute**” from the predominant transactional relationship to a more collaborative approach. Pillai & Sharma (2003) have studied how a mature buyer-seller relationship could follow a reversed U curve and move from a relational orientation towards a transactional orientation. This reversed U-curve can be turned into a life cycle: a transactional relationship can follow a relational orientation. When the buyer believes he has gained all advantages linked to a transactional approach (he has gained and maintained the lowest prices on the market), he may then try to get some relational benefits, such as improved quality, innovation, etc. (Ulaga 2003).

Whatever the type of pivot (“Strengthening – Correcting – Commuting”) used to add a relational orientation into a price competitive relationship, this is a form of “incentive”, to get the most competitive market price, but also make sure the supplier is still interested in working with them, the Key Customer will “soften” the relationship, using some relational benefits as incentives for the supplier. Those “incentives” can be information transfer (in the case of joint problem solving) that can help the supplier to gain customer share, the integration into the key Customer’s long term strategy that can

help the supplier to increase profit by reducing their own costs (Kalwani & Narayandas 1995) or increase value sharing (quality or innovation improvement) that can help the supplier to gain company share.

***KEY FINDING N°2: THE PIVOTAL MECHANISMS THAT RELATES A RELATIONSHIP PRIMARILY BASED ON COOPERATION TOGETHER WITH SOME PRICE COMPETITIVE FEATURES.***

Although this type of relationship is primarily collaborative and based on the search for mutual relational benefits within a long term relationship, rather than the short term transaction to get the best price from the market (Dwyer, Schurr et Oh 1987 ; Grönroos 1994 ), some transactional features (Ivens & Pardo 2005) are “**correcting**” the relational approach. The major reason is the key Customer’s fight against suppliers’ opportunistic behaviour (Wathne & Heide 2000). Buyers want to be sure that, even when they have contractually, or not, committed with a supplier for a long term supply, they will still get the most competitive price throughout the length of the contract.

Another reason, which has not been treated in the academic literature, turned out to be a major driving force within my sample: the competitive price approach is a way for buyers to assert their role and credibility within their own company. They find it very difficult to turn some relational benefits into economic data, whereas a tender will help them to prove the cost reductions they are bringing to their company more easily.

Calls for competition are also the symbol of the buyers’ power, whereas some relational benefits (product development, quality improvement) are within the power of other Key Customer’s department (R & D or production).

Although it may look paradoxical, some “price competitive” features will help to “re-enforce or **strengthen**” the predominant relational approach. The key Customer wants to be re-assured that the supplier is not developing some opportunistic behaviour while the Key Customer have developed a high level of trust and commitment. Some call for competition may be organized, but not as drastic as a tender on all supplier share, only on a few products or a “benchmark”. The supplier or a consulting company may be requested to benchmark a strategic product against a similar product from competition. Whatever the outcome, the supplier will not be at risk of losing the business but may be asked by the Key Customer to re-align their prices versus market prices. The aim of the Key Customer is to strengthen the relationship without being considered by the supplier as a “captive” customer. The control on prices is mainly there as a mechanism to re-enforce trust in the supplier.

The Key Customer may also “**commute**” from a predominant relational approach into a formalised transactional episode. Some Key Customers will be on a relational mode during the length of a contract and will systematically renew the contract or sign a contract for a new project using a tender process. They may also launch a competitive bid when the supplier’s turnover with a specific product has reached a fixed limit. This time, the supplier’s turnover may be at risk, but if they win the tender, the relational approach will move forward.

Again, whatever the mechanism or pivot (“Strengthening – Correcting – Commuting”) used to add a transactional orientation into a collaborative relationship, this mechanism is a form of “control”: the call for competition is used by the Key Customer to “control”

their relationship with the supplier. Next to this inter-firm control, there is an intra-firm control, when the Key Customer buyer uses this transactional approach with suppliers to control his own internal environment.

### **MANAGERIAL IMPLICATIONS AND DISCUSSION**

As far as my research has revealed, this is the first time that attempts have been made to conceptualise “hybrid” forms of relationships, grounded in managerial practice. Thus, my research contributes to a better understanding of the Key customers relational strategies and the “CSC” for “Correcting – Strengthening – Commuting” model should help Key Account Managers from the supplying side to better understand how their Key Customers are mixing their price competitive approach and search for cooperation. On the one hand, it should help them to take away some of the pressure off the price by focussing on the level of cooperation expected by their Key customers; on the other hand, it should help them to acknowledge that there is always a certain level of “transactionalisation” within a cooperative relationship and that they should be careful to remain aligned with market prices, even when they bring significant non-economic relational benefits.

We could relate this theoretical model to managerial implications for Key Account’s suppliers as follows in figure 1:

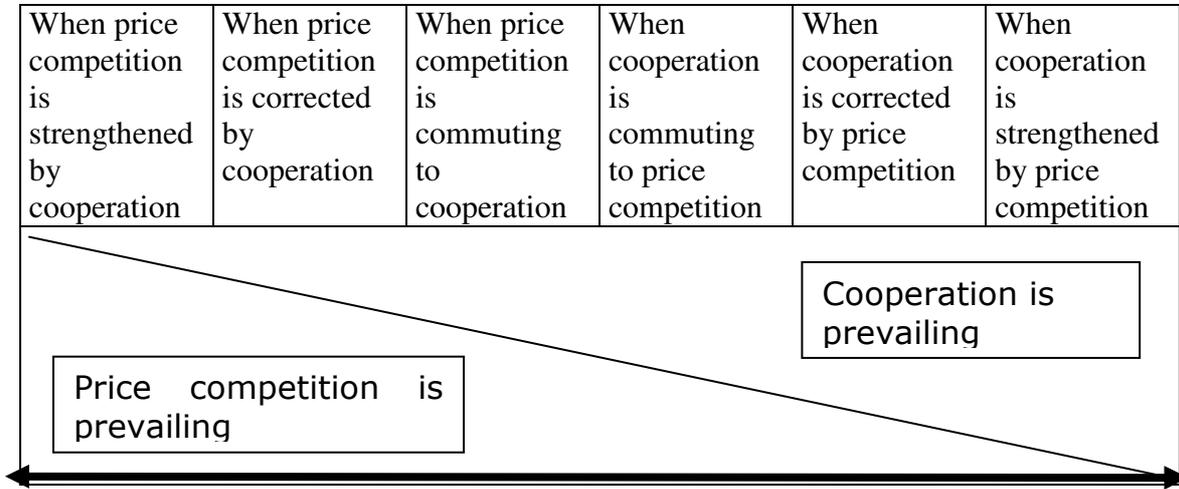
| “CSC model”   | Managerial implications for Key Account Managers   |
|---|--|
| “Correction” of the price competitive approach with some degree of cooperation  | Opportunities for the supplier to get information from the Key Customer that will allow him to become Key supplier or to demonstrate such an ability                         |
| “Strengthening” of the price competition with cooperation (mostly information)  | If the supplier is not in a cost domination approach, should revise his customer segmentation and not necessarily grant a KA status to that account.                         |
| “Commuting” from price competition to cooperation                               | The supplier has succeeded in becoming “key supplier” for the Key Account.   |
| “Correction” of the cooperative approach with a transactional episode (tender)  | May affect the inter-personal relationship, but not the inter-organisational one.<br>If supplier prices are within market range, the episode may reinforce the relationship. |
| “Strengthening” of the cooperation with price competition (mostly benchmarking) | The comparison of the supplier’s prices with the market, if prices are aligned, may lead to a greater level of cooperation and increase of the wallet share.                 |
| “Commuting” from cooperation to a price competition approach.                   | Loss of wallet share and change of supplier status from “key” to “challenger”: the Key Account turns out to find less value in the relationship.                             |

*Figure 1- Managerial implications*

From a theoretical point of view, our research shows how the “middle” of the relationship continuum (Grönroos, 1994; Day, 2000), which has not been yet investigated, can be conceptualised by linking the two polar relational forms, transactional and relational (cooperative) with the CSC model. The implicit

consequence of our research is also that we are no longer on a continuum but on a dynamic relationship that can move in both directions.

We can represent this new relationship model as follows (Figure 2).



*Figure 2 – the relationship model*

As this research has remained focused on the Key Account, it will be interesting, for further research, to move now from the point of view of the supplier and to study how they can build their own relational strategy from this “CSC model” and how they could also use it as an input to prepare their negotiations with Key customers.

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