Buyer's Negative Experience Affecting the Buyer-Seller Relationship Development

Work-In-Progress Paper

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ABSTRACT

This study examines the ways in which dissolved and unsuccessful earlier business relationships shape the buyer-seller relationship atmosphere. A re-buy situation after negative experiences in earlier purchases is challenging for both the buyer and the supplier. The negative experiences shape the buyer's purchase strategy and also influence the suppliers' actions and the resulting relationship atmosphere. The findings are based on an in-depth analysis of a revelatory case, in which the buyer re-buys a highly important IT system after two failed projects with previous suppliers. We examine the case from multiple perspectives by combining interview data from the customer, the first (failed) supplier, the second (failed) supplier and the third supplier entering a relationship with the buyer and taking responsibility over the project. The findings suggest that previous negative experiences shape the relationship development and may lead to totally different power and dependence relations due to exceptionally high uncertainty, which increases the buyer's need for formal agreement and strict specifications.

KEYWORDS

Relationship atmosphere, buyer-seller relationship development, network effects

INTRODUCTION

According to a myth among marketers, the most demanding buyers are the ones who have in the past failed in buying a product, service or a project. We propose that the effect of the negative experience on the new relationship development is even stronger when the upcoming buying situation resembles the previous case that had failed. The literature on business relationships and networks is limited in providing understanding about how prior relationships shape the buyer-seller relationship development and atmosphere. In addition, practitioners are missing guidance on how to operate in situations in which the buyer has previously failed in buying process. This paper addresses this gap by exploring how the buyer's previous negative experiences affect the buyer-seller relationship development.

The purpose of the present study is to explore the influences of dissolved and unsuccessful prior business relationships on the actions of the buyer and the supplier and the resulting relationship atmosphere. We examine a revelatory case, in which the buyer re-buys a highly important IT system after two failed projects with previous suppliers. We examine the case from multiple perspectives by combining interview data from the customer, the first (failed) supplier, the second (failed) supplier and the third supplier to take over the process. We explore how the buyer's negative experiences in buying a project influence the buyer's actions and strategy in the re-buy situation. The study aims at answering the following research questions:

1. *How do dissolved and unsuccessful earlier business relationships influence on the buyer's behaviour in a similar re-buy with another supplier?*

2. *How do dissolved and unsuccessful earlier business relationships shape the relationship atmosphere in a similar re-buy with another supplier?*

The findings contribute to the literature about buyer-seller relationship development (e.g. Håkanson 1982; Ritter et al. 2004) and the relationship atmosphere (e.g. Wong et al. 2010; Håkansson 1982). Our findings suggest that previous negative experiences shape the relationship development and may lead to totally different power and dependence relations due to increased uncertainties that increase the buyer's need for formal agreement and strict specifications. The findings reveal that sellers should revise their strategies while entering a situation in which the buyer has negative experience on buying process and offer guidance on how companies should act in these situations.

This paper is organized as follows. Firstly, we review the prior literature related to organizational memory, relationship atmosphere and interconnectedness of business relationships. Secondly, we will explain the research setting and describe the revelatory case setting. Then, we will analyze the buyer-seller relationship development in our case. Finally, we draw theoretical propositions based on our findings and suggest managerial implications and future research topics.

LITERATURE REVIEW

Interconnectedness of industrial networks

Relationships are not only dyadic and not in isolation, instead a relationship may be influenced by and have influence on other relationships (Ritter 2000; Håkansson and Snehota 1995). Anderson et al. (1998) have drawn a distinction between primary and secondary

functions of relationships. Primary functions comprise positive and negative effects on the two actors (firms) of their interaction in a focal dyadic relationship. The secondary functions capture the indirect positive and negative effects of a relationship because it is directly or indirectly connected to other relationships. The secondary functions are caused by existence of connections between relationships, and the secondary functions concern chains of activities involving more than two firms, constellation of resources controlled by more than two firms, and shared network perceptions by more than two firms. Hertz (1998) has proposed a concept of "domino effects" to describe and analyze how changes in one relationship explain sequential, consecutive changes in other relationships.

Connections between the relationships are *past loaded* through earlier experiences and *future loaded* through anticipated expectations Törnroos (2004). An unsuccessful business activity, such as a delivered but failed project can in the worst-case result in the termination of the business relationship between the supplier and the buyer. Based on time-based perspective Törnroos (2004) has further concluded that ending of business relationships in industrial markets can be seen as an outcome of temporally specific events in time-space affected by preceding events and anticipated future events in a specific situational context. In other words, actors' decisions in a relationship will be affected by their earlier experiences and future expectations.

Relationship atmosphere

Relationships develop as a result of the experience and outcomes of the on-going interactions taking place (Håkanson 1982; Ritter et al. 2004). Actor bonds, activity links, resource ties and schema couplings are shaped by the on-going interactions and prior experiences of the parties (XX). *Atmosphere* provides the basis for action and interaction in a relationship and refers to the types of social and cultural bonds that develop among the actors involved in a relationship (Wong et al. 2010; Håkanson 1982). Relationship atmosphere is the context in which interactions occur and it affects the various types of mutual adaptations taking place (Wong et al. 2010). The atmosphere is co-produced by the participants through their interactions, feelings and intentions. The atmosphere, in turn, reflects firms' expectations of themselves and their counterparts and the relationship overall (Hallén and Sandström 1991). Atmosphere is comprised of six components: power and dependence, cooperativeness and competitiveness, trust and opportunism, understanding and non-understanding, closeness and distance and commitment and non-commitment. The power of one firm over another is directly related to the dependence of one firm over another. Over time the outcomes and experience resulting from the interactions taking place affect the way the atmosphere develops (Wong et al. 2010).

Prior negative experiences

In studies examining the dissolution of business relationships, it is acknowledged that relationship ending is not a straightforward issue but a controversial one, as issues such as relationship energy can continue to exist in social bonds within a personal level (e.g. Havila and Wilkinson 2002; Tähtinen 2001). Prior negative experiences are no novel phenomenon in the business relationship research but one could argue that they forming quite a complex composition in the literature. The composition comprises concepts like conflict, stress, critical incident, and critical events. To great extent the outcome of all of afore listed concepts may be a dissolution of a business relationship.

The concept of conflict has received a lot of attention in interorganizational studies, for example in the field of channels research (e.g. Pearson, 1973; Duarte and Davies, 2003). In the interaction and network approach conflict and cooperation are regarded as co-existing elements of relationship atmosphere (Håkansson, 1982). Vaaland and Håkansson (2003) focus on conflicts in buyer-seller relationships in complex projects. They view the phenomenon of conflict from two perspectives: as a dysfunctional phenomenon with disruptive and negative consequences and as a functional resource tool with positive outcomes. In the present study the focus is on the negative consequences of conflicts.

Holmlund-Rytkönen and Strandvik (2005) have proposed the concept of relationship stress to capture the effect of negatively deviating incidents in business relationships. They view relationship stress as "the perceived cumulative effects of negative experiences in the business relationship" (Holmlund-Rytkönen and Strandvik, 2005). According to them, negative incidents and problems accumulating in the relationship are sources of stress because they may cause tension in the relationship, and may affect its stability. Relationship stress is thus considered as one type of risk factor affecting the strength of the relationship (Holmlund-Rytkönen and Strandvik, 2005).

In the business relationship research, the concept of critical incidents has been used to study the events that have a decisive effect on relationship development. Halinen, Salmi and Havila (1999) characterize different types of critical events and identify entrepreneurial and strategic decisions as especially important. They define critical event as "an incident that triggers radical change in a business dyad and/or network". According to them, the critical event may also be a "final straw" in a series of developments that have created tensions and the potential for instability. They categorize critical events to events emerging from interaction in the dyad and events emerging from the business environment. Thus, they consider the environment as an equally important generator of chance together with the focal dyad (Halinen, Salmi and Havila, 1999). Schurr, Hedaa and Gersbro (2005) define critical events (incidents) as "changes in actor bonds, resource ties, and activity links" and as something relevant to a business relationship that happens at a given place and time. The impact of critical events to customer satisfaction in business relationships has been studied by Backhaus and Bauer (2000), and Schurr (2007) has proposed that critical interaction episodes in a relationship fundamentally strengthen or fatally weaken relationship development. The "criticality" of critical incidents for the development of customer relationships has been questioned. Edvardsson and Strandvik (2000) have suggested that the traditional approach to studying critical incidents originating from (Flanagan, 1954) focuses on a limited set of issues concerning the incidents and does not paid attention to, for example, sequences or clusters of incidents embedded in a customer relationship. They suggest that studies focusing on the relationship should focus on the processes weakening or strengthening a customer relationship.

Risk and uncertainty

The industrial buying process has a long research tradition in the context of industrial marketing. Studies on buying behavior have focused on buying-centre decision-making (Robinson et al. 1967) and have highlighted multi-person involvement in and the multi-stage process of industrial buying (Webster and Wind 1972; Johnston and Bonoma 1981). During the various stages the seller must be able to demonstrate its problem-solving ability in order

to reduce the risks and uncertainties a buyer may experience. In some situations industrial buyers know exactly what they need, and there are a number of recognized and reliable suppliers from which to choose. However, quite often the buying situation is not straightforward and industrial customers may face different types of risks and uncertainties. This is especially the case in industrial contexts, in which the transaction involves the delivery of a complex package of goods and services in the form of a solution or project. Often these solutions form part of the buying firm's technological infrastructure and play an important role in its value production.

Industrial buyers making purchasing decisions and selecting suppliers face several types of uncertainties, typically concerning whether the solution will suit the customer's need, will perform as expected, will be delivered successfully and will produce a return on the investment. Several different categorizations of uncertainties have been developed in the literature (e.g., Håkanson et al. 1976; Cardozo 1980; Sharma 1998). Håkansson et al. (1976) distinguished between need uncertainty, transaction uncertainty and market uncertainty, Cardozo (1980) added technical and acceptance uncertainty, and Sharma (1998) identified goal uncertainty, resource uncertainty and process uncertainty. An industrial customer perceives need uncertainty when it faces difficulties in specifying its requirements in a particular buying situation. This condition is likely to occur in the context of project and solution marketing, when the requirements are complex, and in situations involving new complex technologies. Transaction uncertainty, on the other hand, is perceived when the customer faces concerns related to the performance of the solution, the delivery of the offering, or the financial consequences of the investment (Skarp and Gadde 2008). Due to the related uncertainties, buyers of complex capital goods often find the task highly challenging and therefore rely on third-party organizations such as consultants in their investment decisions (Flowers 2007).

METHOD OF STUDY

Our study consists of two parts. The research questions are answered first, by conducting a literature review and second, through a single case study. The literature review about organizational memory, critical incidents, embeddedness of networks and buyer-seller relationship development combines this research to the previous studies and reveals the multifaceted factors influencing on the buying process. In addition to the literature review, the case study illuminates the role of buyer's negative prior experience on a buyer-supplier relationship development and creates a full understanding of the phenomenon by using a real life example. A single case study design was adopted, as the case is so extreme and unique that it is worth analyzing (Yin 2003, 40).

The data was collected from multiple sources including interviews, project documentation and field notes from the parties that have been involved in the buying processes. Primary source of data are the personal theme interviews which were conducted in two companies, that include the second supplier that had failed and and the third supplier that is supplying the system as we speak. The interviewees include the managing director and the eventual project manager on the marketer's side, the managing director of the buyer, and the consultant working for the buyer. The purpose of the interviews is to provide insights into strategies of all actors and analyze on how the situation has develop and how the negative experiences affected the strategies.

Case description

The customer organization Buyer is a large Scandinavian convenience food manufacturer, which operates in Scandinavia and in the Baltic countries. The competitive situation in the food industry has been affected by the expansion of the EU as multinational food manufacturers have entered the opened European market. In order to be able to keep up with the competition, the case company Buyer has invested heavily in automation systems that are supposed to lower labour costs. The biggest investment was a fully automated massive distribution centre that the case company began to plan in the early 2000's.

Many of Buyer's competitors also considered new automation investments and one could even speak about a boom for the suppliers of such systems. Typically, the large scale of automation investments rules out the smallest suppliers from the competition, and the potential suppliers consist of the market leaders in the field of automation systems. Buyer negotiated with several major automation suppliers about the project. In October 2001 a news release was issued about a 15 M€ contract, which had been signed with case company First Supplier, one of the leading European suppliers for delivering fully automated systems. The system was planned to handle 370 tons of products daily and the capacity was four million kilos of convenience food products. The investment was biggest in Buyer's history, and the company was convinced that it would result in competitive advantages not otherwise achievable. After two years of site activities the distribution centre was officially inaugurated in August 2003 in a festive manner.

Soon after the launch, major problems started to emerge. The supplier and the focal company did not share the view about the success of the project because the performance and reliability requirements of the system were not met. The performance of the distribution centre was only one third of the requested, and the same tendency was governing also the reliability. The supplier took intensive attempts to remedy the defects of the system but the reliability requirements were not achieved and Buyer was not able to accept the delivery. Specialists who evaluated the supplier's solution concluded that the costs to build such a system were underestimated and due to internal reasons it was probable that the whole concept to solve Buyer's distribution problem was not feasible. First Supplier had acquired new businesses at the time of the project implementation and these new businesses had been involved in the implementation without necessary experience about systems of the required magnitude. The parties were unable to solve the problems and the business relationship ended resulting in severe financial damages to both parties. The final settlement of the relationship took place in arbitration, in which one of the leading consultants in logistics was heart as a specialist. His judgement was significant from the perspective of the arbitration. From Buyer's perspective the situation was unbearable, because the biggest investment in its history was dysfunctional and the distribution activities had to be performed manually. The cost of the arrangements was annually several million Euros. For First Supplier, the economical and reputational damages were massive.

In 2006, Buyer signed a contract with a new supplier, Second Supplier, for building a new computer system to the distribution centre. The computer system was considered as the major reason for the failure of the original automation solution delivered by First Supplier. Second Supplier had very little experience in delivering food manufacturing automation systems, but the company CEO had a close relationship with a senior director of Buyer. The operational management of Second Supplier was not involved in assigning the project for Second Supplier. Instead, the management was by-passed almost completely in the process resulting

in strong internal resistance towards the decision. The operational management of Buyer required detailed technical specifications and formal documentation from Second Supplier, which was accustomed to more flexible software designing processes. Second Supplier started the development of the computer system, and the distribution centre was planned to be in operation in 2007.

In winter 2008, Second Supplier was already late with its process to deliver the computer control system to the centre, and Buyer hired a logistics consultant to analyze the situation. The consultant and the managing director of Buyer started to loose their confidence in Second Supplier's capability to complete the project successfully. Hence, during the spring of 2008, the consultant started screening for potential suppliers interested in participating a call for tender about a third computer control system for the distribution centre. Second Supplier was not informed about the situation and the company continued working with the project although a process for finding an alternative supplier was already taking place.

Buyer screened and contacted potential vendors with the help of the consultant. Some of the candidates refused to participate in the process after familiarizing with the situation and the requirements of the buyer. Two of the contacted companies were interested in participating, but the negotiations were characterized by highly suspicious atmosphere. Buyer expected convincing evidence about the suppliers' capabilities for delivering similar systems, and the suppliers on the other hand, were assessing very carefully the risks involved in the project. Learning about the prior failures resulted in suppliers' hesitation to participate the project. Buyer perceived exceptionally high risks and time pressures in the purchase situation, because temporary manual arrangements, which had been in place almost two years, had already resulted in 7 M€ worth of cumulative losses.

During the summer 2008, the negotiations with two interested domestic supplier candidates were in the process, and gradually the selection of the third supplier was approaching. Agreeing on the terms and conditions of the project was complicated, and Second Supplier continued to work on the project without knowledge concerning the Buyer's plan to cancel the contract. In July 2008, a contract was signed between the third supplier Third Supplier and Buyer concerning again a new attempt to develop a computer control system to the distribution centre. The contract with Second Supplier was cancelled and Third Supplier started to work on the project. From Third Supplier's perspective the situation was rather desperate, because the schedule of the delivery was tight and the penalties for failure were severe. Still, Third Supplier was willing to take the risk, because the value of the contract exceeded the company's annual turnover.

DISCUSSION

The two supplier firms (Second Supplier and Third Supplier) entered a relationship with the buyer organization (Buyer), which had highly negative previous experiences from failed purchase from a major supplier in the industry, even though the supplier had been selected in order to minimize the risk and uncertainties related to the project (c.f. Håkanson et al. 1976; Cardozo 1980; Sharma 1998). The buyer had not learned from its past mistakes in its supplier selection process. In the relationship with the third supplier (Third Supplier), overcoming the risk to fail for the third time in the same project is an evident driver in the buyer's actions. The buyer focused only on domestic suppliers due to assuming easier cooperation possibilities with them. The third supplier is generally aware of the earlier experiences of the buyer it is vital for the supplier to be able to come up with a marketing strategy that focuses

on by-passing the past loaded influences of earlier experiences the buyer's side about the supplier's ability to successfully complete the project (c.f. Törnroos 2004). Agreeing on the terms and conditions of the project is challenging because of the negative critical incidents (c.f Halinen, Salmi and Havila 1999; Schurr, Hedaa and Gersbro 2005) experienced by the buyer, and therefore formal contract is used to compensate the lack of trust in suppliers generally The relationship atmosphere between Buyer and the second and third supplier is strongly influenced by Buyer's negative prior experiences but still there are elements included in the relationship between the buyer and the third supplier that were missing form the relationships with the other two suppliers. Cooperation and understanding of the common goal, aim to closeness were born into the relationship. Table 1 depicts the atmosphere dimensions of the three buyer-seller relationships.

Table 1. Relationship atmosphere dimensions between the Buyer and the three suppliers.

ATMOSPHERE DIMENSIONS	**FIRST SUPPLIER**	**SECOND SUPPLIER**	**THIRD SUPPLIER**
Power and dependence	Tendering process, in which major European suppliers participating. Buyer not dependent on the supplier.	The buyer to some extent dependent on the supplier.	The buyer to some extent dependent on the supplier
Cooperativeness and competiveness	The supplier was responsible for the whole scope and tried to develop the solution independently.	Cooperation non-existent. E.g. the buyer was not willing to help in testing the system.	The buyer shared information about the prior problems openly. However, cooperation suffered from buyer's prior negative experiences.
Trust and opportunism	The supplier was one of the leading suppliers in the industry, and the buyer had a strong confidence in the supplier's ability to deliver the system. However, the initial confidence faded as the supplier was not able to solve the problems.	No trust between the buyer and the seller. The operative management had not been involved in the supplier selection and did not trust the supplier. The supplier perceived the buyer as highly opportunistic.	The buyer was open about the difficulties with previous suppliers. However, during the negotiation phase, the buyer demanded strict terms regarding the schedule and high penalty fees. Radical change towards distrust when first major problems occurred.

Understanding and non-understanding	There were difficulties in communication, because foreign suppliers ignored during later stages.	Minimum understanding between the parties.	The parties understood the other's paths of thinking and worked jointly. Non-understanding regarding buyer's intentions.
Closeness and distance	Relatively long distance between the parties.	Very long distance between the supplier and the customer. The software supplier was not in direct contact with the customer.	The buyer wanted to be very closely involved in the decision-making concerning the technical details in implementation.
Commitment and non-commitment	The supplier's commitment was high in the beginning but started to fade during the project due to high economical losses.	The supplier was committed to complete the process. The buyer was not committed to the relationship.	The supplier was strongly committed to the project as is represented a huge risk and accounted for over 100% per cent of the company's annual turnover. The buyer was committed because it could not afford to fail the purchase for a third time in a row.

The power and dependence dimensions in the relationship between the buyer Buyer and its three suppliers (First Supplier, Third Supplier and Second Supplier) shows an interesting trend from a buyer-dominated purchase situation to a seller-dominated one. Shift from a typical tendering situation involving multiple potential suppliers into difficulties in finding any willing and competent suppliers interested in solving the buyer's problem is clear. If the third supplier Second Supplier had been aware of this shift in power and dependence, it would have been able to negotiate much more favourable terms of contract. The buyer was able to keep the competitive situation un-disclosed. Critical incidents (Holmlund-Rytkönen and Strandvik 2005) in the relationships between Buyer, First Supplier and Third Supplier made the new supplier candidates to hesitate entering the business relationship with Buyer. In this respect, the suppliers' behaviour is in line with the myth discussed in the introduction concerning sales managers' perceptions about buyer's with past failed purchases.

With the third supplier, Buyer perceived that it was not possible again to have the kind of relationship that it had with First Supplier and Third Supplier, in which cooperation was nonexistent. Although the new supplier Second Supplier was able to convince Buyer about its commitment to cooperation, Buyer did not allow the supplier to develop the solution on its own. Buyer was looking for cooperation together with closeness. An essential element in the third supplier selection process was mutual understanding between the parties. Buyer was

taking all pre-cautions to avoid risks related to language barriers, and their only viable aim was to find a domestic supplier.

Trust in the supplier's capability to solve the buyer's problem was the key to participate the process. Buyer had had already two bad references and one of the two supplier candidates was rejected after Buyer had familiarized with the supplier's reference. Seeing a bad reference was a critical event that caused an immediate dissolution of the fresh relationship. Not even trust in the Second Supplier's capabilities to solve the buyer's problem could by-pass the formal pre-caution in the contract. On the other hand any negative signals in the implementation of the project caused severe decrease in trust in the supplier's capability to complete the process. The future loaded expectations (c.f. Törnroos 2004) were significantly affected by the incidents.

Buyer wanted to a supplier like Second Supplier that was committed to fulfil the obligations stipulated by the formal contract. From Buyer's perspective the key to guarantee the commitment was to find a supplier fully depending on the outcome of the project.

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