CHAPTER 6

Analysing relationships in the value chain

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- discuss the reasons and motives why firms go into relationships
- describe and understand the concept of the 'value net' model
- explain and discuss how relationships with suppliers and customers can add value in the total vertical chain
- describe the phases in the development of a relationship
- show and explain which factors determine a possible termination of inter-firm relationships
- explain and discuss how horizontal relationships with competitors and complementors can add value to the customers
- explain the difference between B2C and B2B relationships
- explore how internal marketing relationships can add value to the relationships with customers

6.1 INTRODUCTION

It is impossible to make sense of what happens in a firm or how to manage it without taking a relationship view of a company. This means that it is not enough to discuss the activities that a single firm performs. We need to understand how these activities are linked to the activities of the company's suppliers, its customers and indeed to their competitors. Because a firm's activities evolve within its relationships with others, each may have to do things that they do not really like, or they may be unable to do the things that they want. Hence, companies are dependent for their success on their relationships with customers and suppliers and with others. Many of the strategic choices that a company makes will be in response to the actions of these other companies.

In turn, the outcome of a firm's strategy will always depend on the actions of others, and how they react to what the company does. In this way a firm's strategy may be thought of as a kind of game, because there is nothing predetermined about the consequences of the various choices a firm might take. In a market where relationships matter, these games of action and reaction are complex and their results are vital to the firms involved.

Relationships enable firms to develop competitive advantage by leveraging the skills and capabilities of their partners to improve the performance of the total value chain. Firms no longer compete as individual companies; they compete as groups of companies that cooperate to bring value to the ultimate consumer. Across virtually all sectors of the economy, relationships have reshaped the interactions of companies.

In his classic 'From 4Ps to 30Rs' work, Gummesson (1994, 1999) identified 30 types of relationships. The relationships are divided into four levels:

1 *Classic market relationships (R1–R3)* are the *supplier–customer dyad,* the *triad of supplier–customer–competitor,* and the *physical distribution network,* which are treated extensively in general marketing theory.

2 *Special market relationships (R4–R17)* represent certain aspects of the classic relationships, such as *the interaction in the service encounter* or the *customer as member of a loyalty programme.*

3 *Mega relationships (R18–R23)* exist above the market relationships. They provide a platform for market relationships and concern the economy and society in general. Among these are *mega marketing* (lobbying, public opinion and political power), *mega alliances* (such as the NAFTA, setting a new stage for marketing in North America), and *social relationships* (such as friendship and ethnic bonds).

4 **Nano-relationships** *(R24–R30)* are found below the market relationships, that is, relationships inside an organisation (*intra*-organisational relationships). All internal activities influence the externally bound relationships.

Nano-relationships
Relations between internal customers, internal markets, divisions and business areas within organisations.

Micro-environment
A company, its customers and the other economic actors that directly and regularly influence it marketing practices.

Compared to this comprehensive approach to RM, the following analysis of relationships (the value net) is mainly focused on the four closest players in the **micro-environment**, plus relationships to internal employees. (These are the classic market relationships and the nano relationships in the Gummesson terminology.)

The basis for this chapter is the value chain (Figure 6.1).

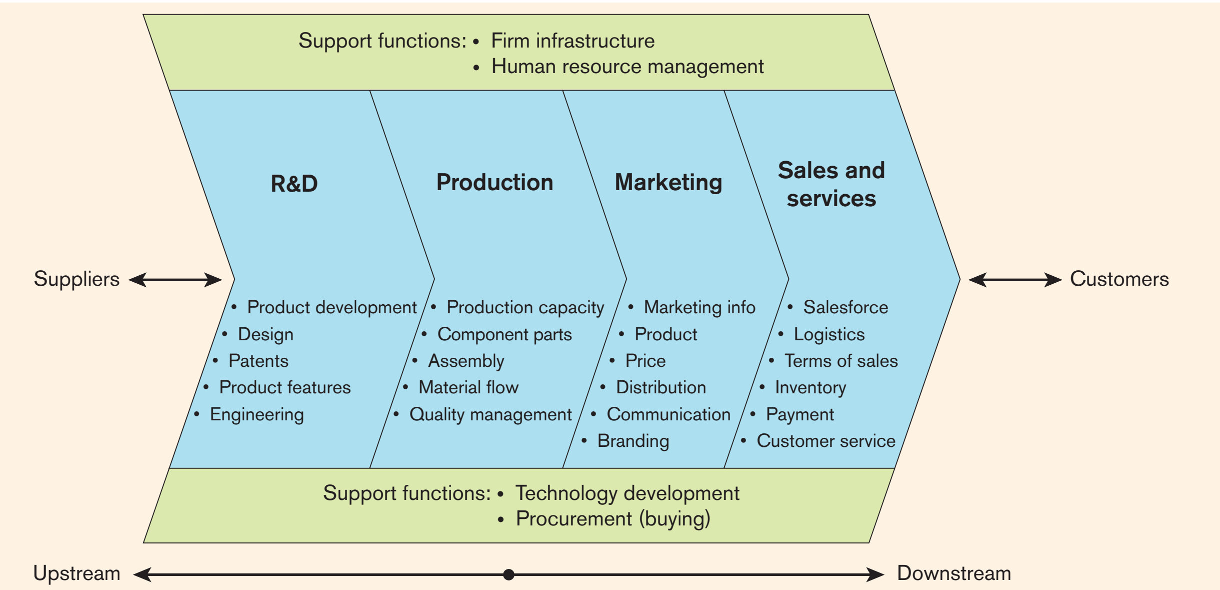


Figure 6.1 Value chain of focal firm

Value chain analysis implies a linear process, ignoring inputs from outside the chain – many firms may input into the process at various stages (Neves, 2007; Lorenzoni and Ferriani, 2008). The reality is, therefore, that the value chain becomes a value network, a group of interrelated entities, which contribute to the overall creation of value through a series of complex relationships, and the result is the so-called value net (see section 6.2).

EXHIBIT 6.1
Value chain of Braun (Oral-B)

Oral-B is the number three oral care brand in the world.

Within oral hygiene, the Oral-B strategy has always focused on the strongly established 'partnership' between the company and the dental profession. The brand highlights the fact that the products are developed using 'Clinical research conducted by leading dental professionals'.

Oral-B was originally only comprised of manual toothbrushes, but it now also encompasses a range of complementary offerings, including power products, floss and oral care products and toothpaste and mouth rinses. Gillette has further segmented sales with products for adults and a Stages product line to meet the changing and developing needs of a growing child. Its premium positioning of the Oral-B brand was enhanced by the development of the Advantage and Advantage Control Grip toothbrushes, and latterly the Cross Action brush in 1998.

The Oral-B brand has also experienced a relatively high level of new product development. This has included the launch of increasingly sophisticated and expensive toothbrushes, such as the Cross Action and Advantage.

Figure 6.2 illustrates the supply chain network, using Braun Oral-B as an example.

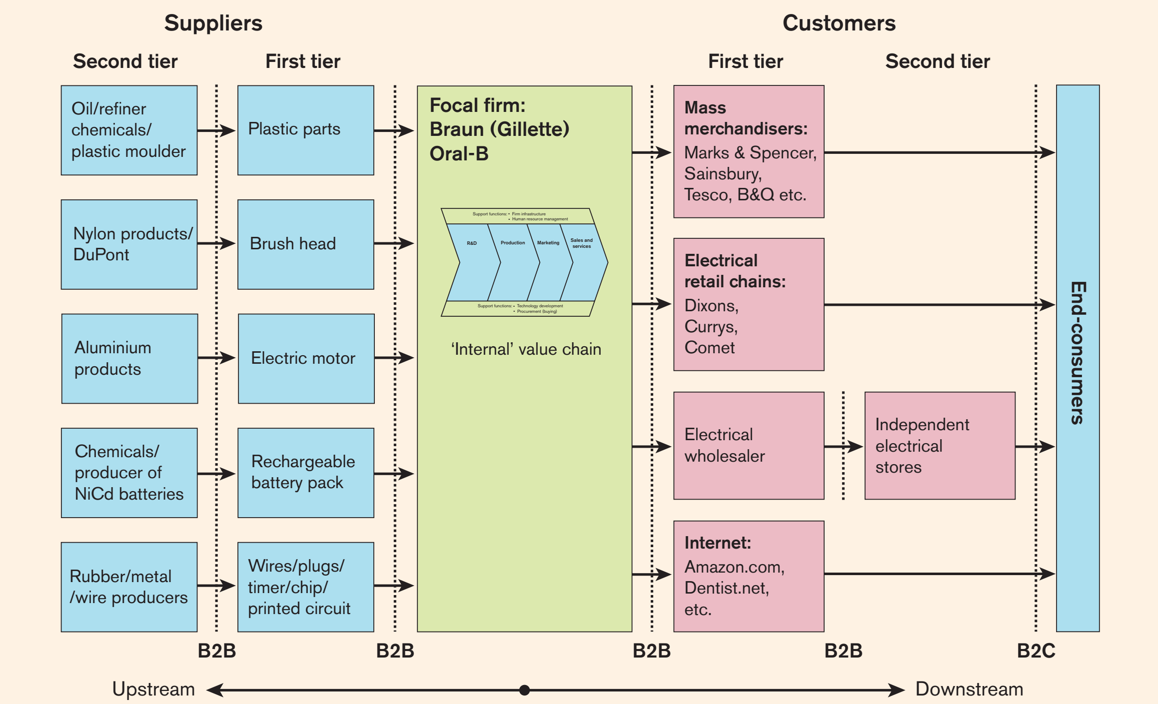


Figure 6.2 Illustration of the supply chain network, using Braun Oral-B as an example

The company has also focused on the children's market, with Gillette developing the Oral-B Stages line, which is designed for the four major phases of a child's development: infancy, pre-school, early school and pre-teen. A variety of toothpastes have been extended with sensitive, and tooth and gum care, and children's variants and in 2004 the company acquired Zooth, a manufacturer of manual and power toothbrushes for children, further expanding its presence in this sector.

EXHIBIT 6.1
Value chain of Braun (Oral-B) (*continued*)

GILLETTE EXTENDS POWER TOOTHBRUSH PORTFOLIO

The year 2001 marked the entry of Gillette into power portable toothbrushes. In 2003 the new Oral-B Cross Action Power battery toothbrush was claimed to be the most technologically advanced battery toothbrush available, combining CrissCross bristle technology (from manual products) with Oral-B's rotating Power Head.

In April 2004, Gillette extended its power toothbrushes range with the launch of the Oral-B Professional Care 8000 and the Oral-B Sonic Complete. Both products are rechargeable and the latter represents the company's entry into the sonic category. Gillette has further extended its range of power toothbrushes in 2005 with the launch of the Oral-B Professional Care 9000 in June 2005.

DOWNSTREAM ACTIVITIES OF THE SUPPLY CHAIN

The retail distribution of domestic electrical appliances, such as power toothbrushes, continued to be characterised by trends away from traditional formats, such as independent specialists and department stores, towards modern, large-format outlets such as hypermarkets, specialist electrical chains, DIY sheds and mass merchandisers.

Multiples increased their domination of retailing in developed markets. Major retailers pursued intensive expansion strategies, while consumer trends continued in the direction of one-stop shopping in the kind of large-scale outlets favoured by the major multiples. Moreover, major multiples' aggressive discounting policies, underpinned by significant economies of scale, have appealed to increasingly price-sensitive consumers in major markets experiencing economic difficulties, including the US, Germany and Japan.

Internet distribution (**e-commerce**) is still in its infancy regarding sales of domestic electrical appliances. Although sales are still relatively low, the Internet is critical to the domestic electrical appliances market as a marketing tool in countries where penetration of the Internet is high.

Source: Adapted from different sources, among others Oral-B (www.oralb.com).

6.2 THE VALUE NET

Since the firm has relationships with different types of interdependence, with different objectives for the development of the relationship, it is important, organisationally, to differentiate between these relationships and how they are handled.

Suppose we regard the environment of the individual relationship as consisting of other relationships. Suppose further that the relationships are connected, directly or indirectly, to each other. Then we can envision the market as a network. Following a sociological definition, networks are sets of interconnected exchange relationships between actors. Exchange in one relationship is conditioned by exchange in other relationships. Instead of the concept 'markets-as-networks', 'industrial networks' and 'business networks' are used, signifying a somewhat different emphasis of the analyses. A relationship between two actors is 'embedded' in a network.

In particular, the relationships and interactions are typically established with the following actors (see Figure 6.3):

- customers (section 6.3)
- suppliers (section 6.4)
- complementors/partners (section 6.5)
- competitors (section 6.6)
- internal relationships (section 6.7).

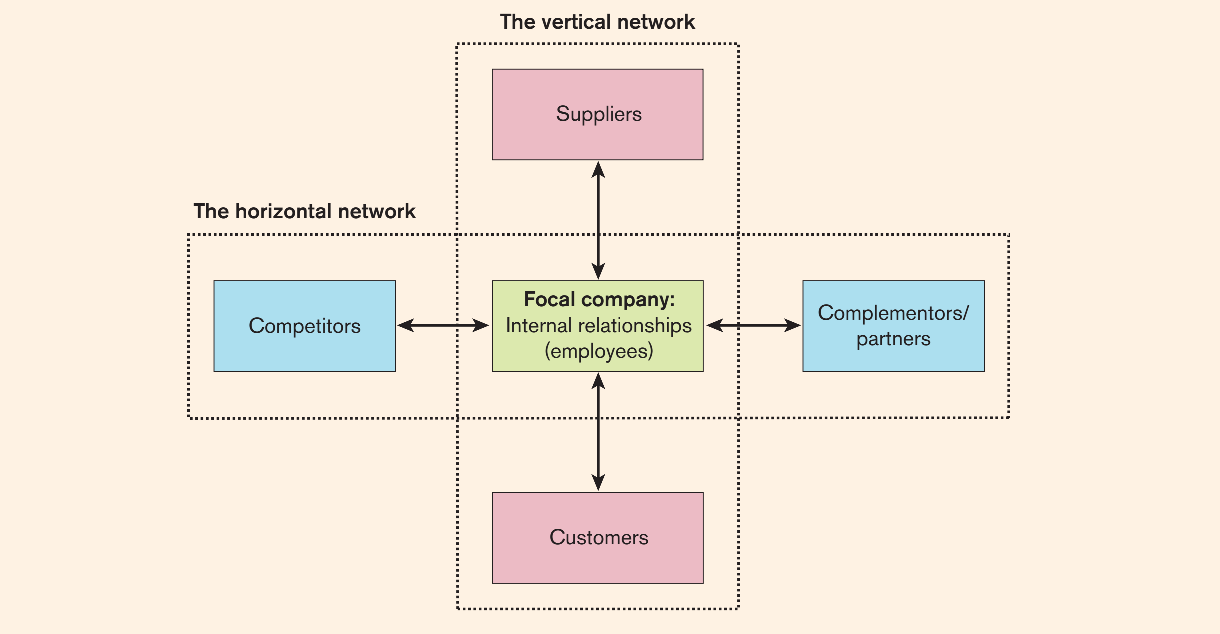


Figure 6.3 Relationships in the value net

Exhibit 6.2 shows Braun's (Oral-B) value net, especially its horizontal relationships.

The value net reveals two fundamental symmetries. Vertically, customers and suppliers are equal partners in creating value. The other symmetry is on the horizontal for competitors and complementors. The mirror image of competitors is complementors. A complement to one product or service is any other product or service that makes the first one more attractive, for example computer hardware and software, hot dogs and mustard, catalogues and overnight delivery service, red wine and dry cleaners. The value net helps you understand your competitors and complementors 'outside in'. Who are the players and what are their roles and the interdependences between them? Re-examine the conventional wisdom of 'Who are your friends and who are your enemies?' The suggestion is to know your business inside out and create a value net with the other players. Increase demand for whatever your customer sells.

The relationships in the value net are further discussed in the following.

EXHIBIT 6.2
Value net of Braun (Oral-B)

The value net of Braun (Oral-B) – the horizontal part – could look like Figure 6.4. The assumption here is that Braun Oral-B's product range only consists of electrical toothbrushes (it is, however, not quite true!) and that they can create further value by cooperating with complementors (such as a manufacturer of manual toothbrushes – Jordan – and a manufacturer of a complementary product – toothpaste – Colgate). Furthermore, Oral-B could also go into a technological cooperation with a company such as Philips. Such a cooperation could, for example, end up with a new technological platform, from which both Braun and Philips could develop new products based on the same basic technology.

Source: Adapted from different sources, among others, Oral-B (www.oralb.com).

EXHIBIT 6.2
Value net of Braun (Oral-B) (*continued*)

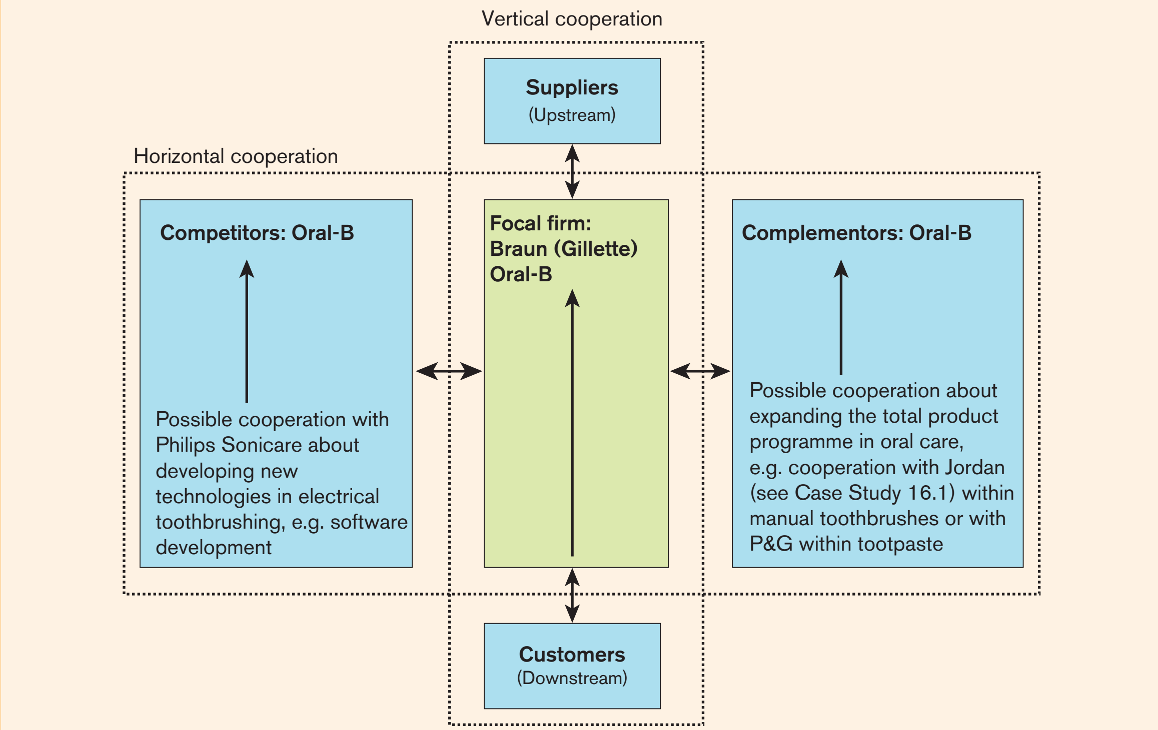


Figure 6.4 Value net of Braun (Oral-B)

6.3 RELATIONSHIPS WITH CUSTOMERS

In the relationship approach, a specific transaction between the focal company and a customer is not an isolated event but takes place within an exchange relationship characterised by mutual dependency and interaction over time between the two parties. An analysis could stop at the individual relationship. However, in the network approach such relationships are seen as interconnected. Thus, the various actors in a market are connected to each other, directly or indirectly. A specific market can then be described and analysed as one or more networks.

An exchange relationship implies that there is an individual specific dependency between the seller and the customer. The relationship develops through interaction over time and signifies a mutual orientation of the two parties towards each other. In the interaction the buyer is equally as active as the seller. The interaction consists of social, business and information exchange and an adaptation of products, processes and routines to better reach the economic objectives of the parties involved.

The simplest reason why firms seek to develop ongoing relationships with their customers is that it is generally much more profitable to retain existing customers than continually seek to recruit new customers to replace lost ones. There have been many exercises to calculate the effects on a company's profits of even a modest improvement in the rate at which customers defect to competitors.

RM signifies that the firm should seek to have close relationships with its customers. Please note that in this section, customers may cover both end buyers and distributors/resellers.

What is meant by a relationship, and how is it developed? As illustrated by the following quote, in essence this new approach means a focus on long-term interactions between a marketer and its customers, instead of a short-term transactional approach:

> Relationship marketing is the process of identifying and establishing, maintaining, enhancing, and when necessary terminating relationships with customers and other stakeholders. (Grönroos, 1996, p. 7)

In the development of relationships, managers have to realise that the customer is no longer interested in buying a product. The product, in fact, is no more than an artefact around which customers have experiences. What's more, customers are not prepared to accept experiences fabricated by companies. Increasingly, they want to shape those experiences themselves, both individually and with experts or other customers.

Prahalad and Ramaswamy (2000) distinguish between personalisation and customisation:

- *Customisation:* this assumes that the manufacturer will design a product to suit a customer's needs. It is particularly pronounced on the Internet, where consumers can customise a host of products and services such as business cards, computers and greeting cards.
- *Personalisation (co-creation):* this, on the other hand, is about the customer becoming a co-creator of the content of experiences. To provide personalised experiences, companies must create opportunities for customers to experiment with and then decide the level of involvement they want in creating a given experience with the company. Since the level of customer engagement cannot be predetermined, companies have to give consumers as much choice and flexibility as possible, both in the channels of distribution and communication and in the design of products. But companies can also help direct their customers' requirements and expectations by guiding public debate about the future technology and its impact on new products on the market (Ramaswamy, 2008; Morgado, 2008; Prahalad and Ramaswamy, 2004).

However, managing the variety of customer experiences is not the same as managing variety in products. It is about managing the interface between a company and its customers – the range of experience transcends the company's products (Sterling, 2008). Managers must develop a product that shapes itself to users' needs, not the other way around. But as noted, customers evolve over time through their experience with a product. The product has to evolve in a way that enables future modifications and extensions based both on a customer's changing needs and on the company's changing capabilities.

Developing buyer–seller relationships – the marriage metaphor

Over the past 15 years the analogy between building business relationships and personal relationships (marriage) has been utilised extensively (Schurr, 2007). Certainly there are some interesting parallels between them, and by considering the personal aspects of relationship development it is possible to arrive at a better understanding of the business issues. Sometimes human relationships and business relationships are quite 'blurring'. Figure 6.5 illustrates that the business relationship can develop from acquaintances.

A theoretical life cycle model of relationships proposed by Dwyer *et al.* (1987) identified five stages of relationship development – awareness, exploration, expansion, commitment and dissolution (see Figure 6.6).

The linking stages seem to be:

- meeting (awareness)
- dating (exploration)
- courting (expansion)
- marriage (commitment), and possibly
- divorce (dissolution of relationship).

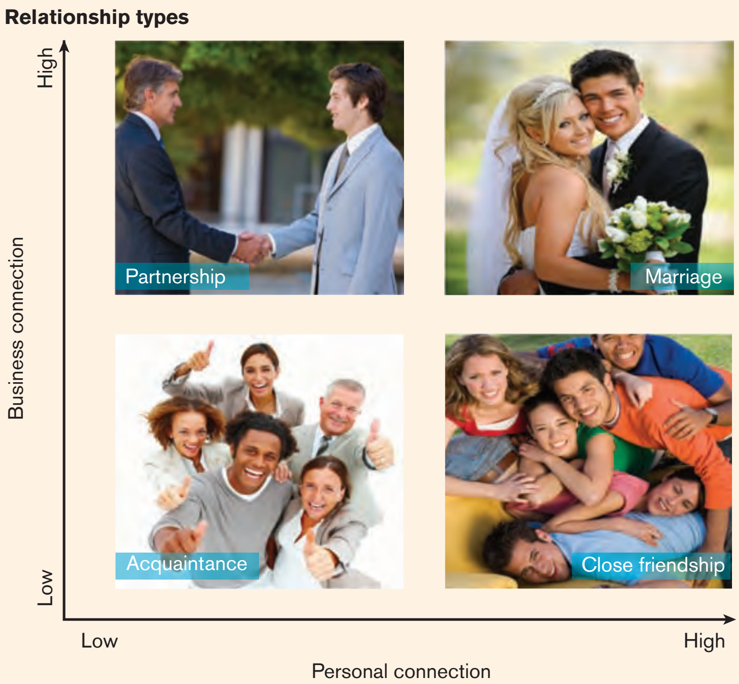


Figure 6.5 Relationship types
Sources: Images from iStockphoto: Neustockimages (top left), grigphoto (top right), Aldomurillo (bottom left) and Yuri Acurs (bottom right).

Their model proposed that a relationship begins to develop significance in the exploration stage when it is characterised by the attempts of the seller to attract the attention of the other party. The exploration stage includes attempts by each party to bargain and to understand the nature of the power, norms and expectations held by the other. If this stage is satisfactorily concluded, an expansion phase follows. Exchange outcomes in the exploratory stage provide evidence as to the suitability of long-term exchange relationships. The commitment phase of

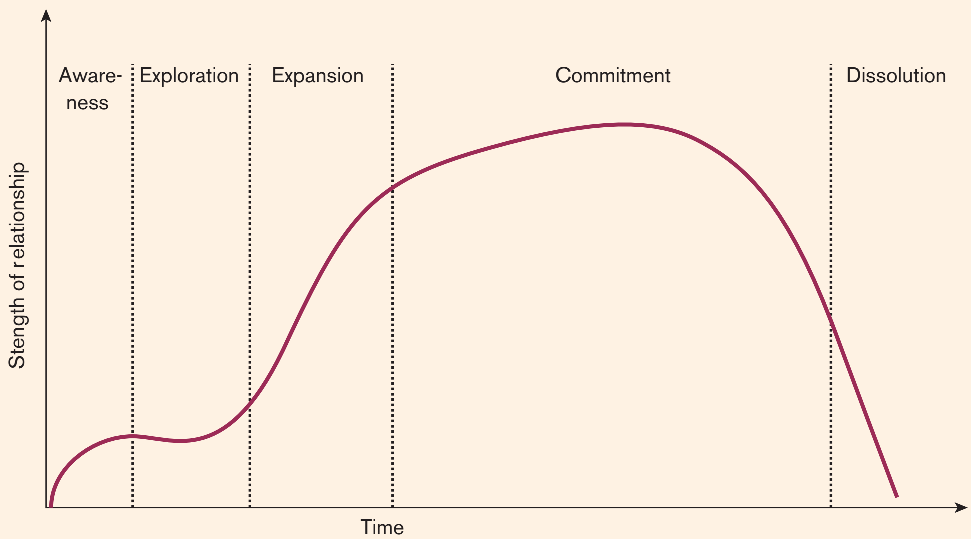


Figure 6.6 Stages in buyer–seller relationship development
Source: Adapted from Dwyer F. R., Schurr, P. H. and Oh, S. (1987) Development buyer and seller relationships, *Journal of Marketing*, 51 (April): 11–27. Reproduced with permission from the American Marketing Association.

a relationship implies some degree of exclusivity between the parties and results in the information search for alternatives – if it occurs at all – being much reduced. The dissolution stage marks the point where buyer and seller recognise that they would be better able to achieve their respective aims outside the relationship.

Buyer–seller relationships in a cross-cultural perspective

International strategic alliances are being used with increasing frequency in order to keep up with rapidly changing technologies, gain access to specific foreign markets and distribution channels and create new products. Strategic alliances are becoming an essential feature of companies' overall organisational structure, and competitive advantage depends not only on the firm's internal capabilities, but also on its types of alliances with other companies.

Formation of international strategic alliances brings together managers from different organisations, different national origins, with differences in the partners' cultural bases. Nationality is the key personal attribute that shapes the interaction among managers. Managers with similar attributes, values and perceptions would be more likely to have strong ties with each other than managers with dissimilar attributes, values and perceptions. Thus a shared nationality is a basis for managers to establish and maintain strong network ties.

Capitalising on an effective understanding of this culture can be used by the seller to achieve a competitive advantage in developing and maintaining long-term buyer–seller relationships. The age of the person in the buyer's organisation with whom the seller interacts can play a major role in establishing relationships. The age factor has cultural consequences of its own. The older the buyer, the more his or her experience is integrated into the decision process.

Thus, it is interesting that companies which do business in an international context can handle the cultural complexity and heterogeneity. Good handling of cultural heterogeneity implies that the company can cope well in different cultural environments.

The success and the possibility of building both national and international cooperative relations depend on the interaction of the persons who want to establish the relation (Axelsson and Agndal, 2000; Mascarenhas and Koza, 2008).

Distance reduction in international strategic alliances

The formation of collaborative alliances among organisations is touted as a significant strategy that organisations can use to cope with the turbulence and complexity of their environments. An international strategic alliance is commonly defined as:

> Relatively enduring inter-firm cooperative agreements, involving cross-border flows and linkages that utilise resources and/or governance structures from autonomous organisations in two or more countries, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm. (Parkhe, 1991, p. 581)

The inter-firm distance is the degree to which the cultural norms, etc., in one country are different from those in another country. Inter-firm distance creates difficulties for managers when they adapt to the different cultures. Thus greater cultural distance may lead to misunderstandings, friction and conflict between managers. The distance is also often referred to as the psychic distance (Brewer, 2007). For international companies trying to use strategic alliances as a competitive weapon, it is crucial to identify the factors that reduce the distance between the partners. Figure 6.7 shows the possible factors that are believed to influence the distance reduction.

The dyadic relationship does not appear as an isolated entity, but as part of a larger context. Any company has to maintain relationships with several other players and some other relationships occur in the development of a certain relationship. Each relationship then appears to be embedded in or connected to some other relationships, and its development and functions cannot be properly understood if these connections are disregarded (Segil, 2005).

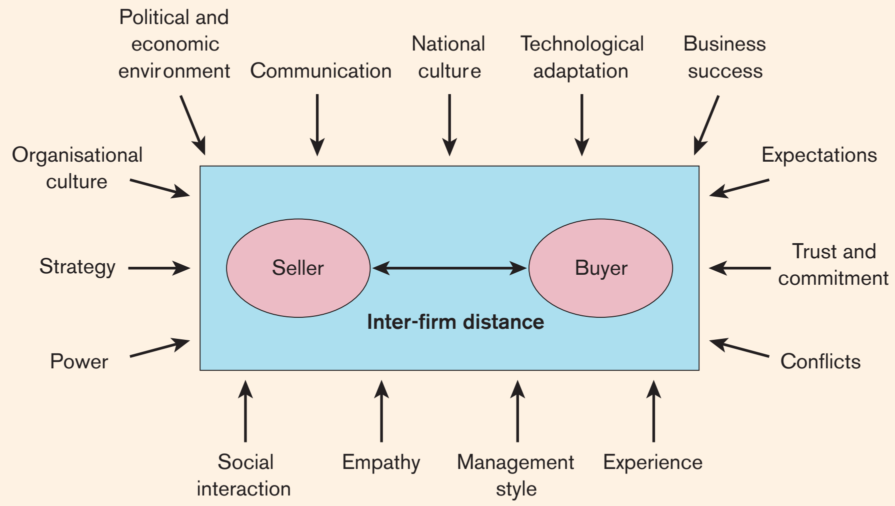


Figure 6.7 Factors influencing the inter-firm distance
Source: Preliminary work by Anna Marie Dyhr Ulrich, PhD Researcher at the University of Southern Denmark.

The interaction approach model takes four basic elements into consideration when assessing the importance and influence of interaction:

1 the *interaction process*, which expresses the exchanges between the two organisations along with their progress and evolution throughout time;
2 the *participants* in the interaction process, meaning the characteristics of the supplier and the customer involved in the interaction process;
3 the *environment* within which the interaction takes place;
4 the *atmosphere* affecting and being affected by the interaction.

The manipulation and control of these variables is of particular importance in international business and is a resource-intensive and time-consuming process. The interaction approach places the emphasis on processes and relationships; buyers and sellers are seen as active participants in long-term relationships that involve complex patterns of interaction (Bee and Kahle, 2006).

Since this section tries to explain the distance reduction by focusing on the atmosphere that has developed it seems relevant to define the concept of atmosphere. The concept of atmosphere is here defined as:

> the emotional setting, in which business is conducted. It constitutes the working environment for the individuals in their interaction with each other. (Hallén and Sandström, 1991, p. 113)

As a result of research on interaction processes five atmosphere criteria are suggested. These are cooperation/conflict, power/dependence, trustworthiness/commitment, expectations and closeness/distance (Håkansson 1982).

While focus in this section is on distance reduction, the following discusses distance in detail.

Psychic distance
Refers to the *perceived* degree of similarity or difference between the business partners in two different markets. Psychic distance is operationalised in terms of both cultural and business distance.

Psychic distance/closeness

Psychic distance is used here to denote the degree of familiarity with regard to mainly cultural, but also social, aspects.

Researchers of psychic distance are not very precise about the exact concept. These are factors that should hinder and hamper the information flow between a company and its market, e.g. differences in language, culture, political systems, level of education, level of development.

A problem with the psychic distance concept is that it relates to individuals' cognitive understanding instead of the whole company's behaviour. There is no objective goal, but a distance that exists in human thought, and the distance perceived depends on how the individual regards the world. The term 'psychic' refers to the individual perception.

In empirical studies, Hofstede (1983,1992) introduced the concept of cultural distance as a measure of the distance between nations. Cultural distance is a potentially powerful determinant of the way relationships can develop.

The cultural distance is often used as a synonym for the psychic inter-firm distance. International business literature shows little consensus regarding an exact definition of the concept of distance. Here the perceived distance is considered as:

> The distance between the home market and a foreign market resulting from the perception and understanding of cultural, business, organisational and personal differences.

The inference is that distance is a consequence of a number of interrelated factors, of which perception is a major determinant. Perception is an interpretation of data and is, therefore, highly subjective in terms of an individual's personal experience and value systems; as value systems are largely a product of cultural background, it could be argued that culture has an influence on perception.

Cultural influence on the perceived distance and the interaction of the alliance partners

If perception is influenced by culture, and perception is used to interpret those factors, which constitute the distance, it is clear that culture has an influence on distance.

The concept of distance is multidimensional in connection with international buyer–seller relationship building. We suggest that the following cultural dimensions affect the distance:

- different understanding of the national and industrial culture;
- different understanding of the organisational culture;
- different personal behaviour because of different mental programming.

The national culture is only one level in the cultural hierarchy that influences the parties' behaviour and perception. The national culture must be seen as the basic, arranging structure for how to handle business activities. Throughout time, many researchers have defined the concept of culture. In this section the perception of culture will be based on Hofstede's definition. He defines culture as: 'The collective programming of the mind which distinguishes the members of one category of people from another' (Hofstede, 1994, p. 1). He has laid down five criteria, based on what the national, cultural differences are thought to be. The five criteria are: power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance and long-term versus short term-orientation (Hofstede, 1994).

A relationship between two firms begins, grows and develops – or fails – in ways similar to relationships between people. The development of a relationship has been mapped out in a five-phase model: awareness, exploration, expansion, commitment and dissolution. The five phases are shown in Figure 6.8.

Figure 6.8 shows, the initial psychic distance 1 between a buyer and a seller (both from different countries and cultures) and it is influenced by the psychological characteristics of the buyer and the seller, the firm's organisational culture, and the national and industrial culture to which the firm belongs. Figure 6.8 also shows that the initial psychic distance 1 at the beginning of the relationship is reduced to physical distance 2 through the interaction process of the two partners. However, relationships do not always last forever. The partners may 'move from each other' and the psychic distance may increase to distance 3. If the problems in the relationship are not solved, it may result in a 'divorce'.

Within such a framework one might easily characterise a marketing relationship as a marriage between a seller and a buyer (the dissolution phase being a 'divorce'). The use of the

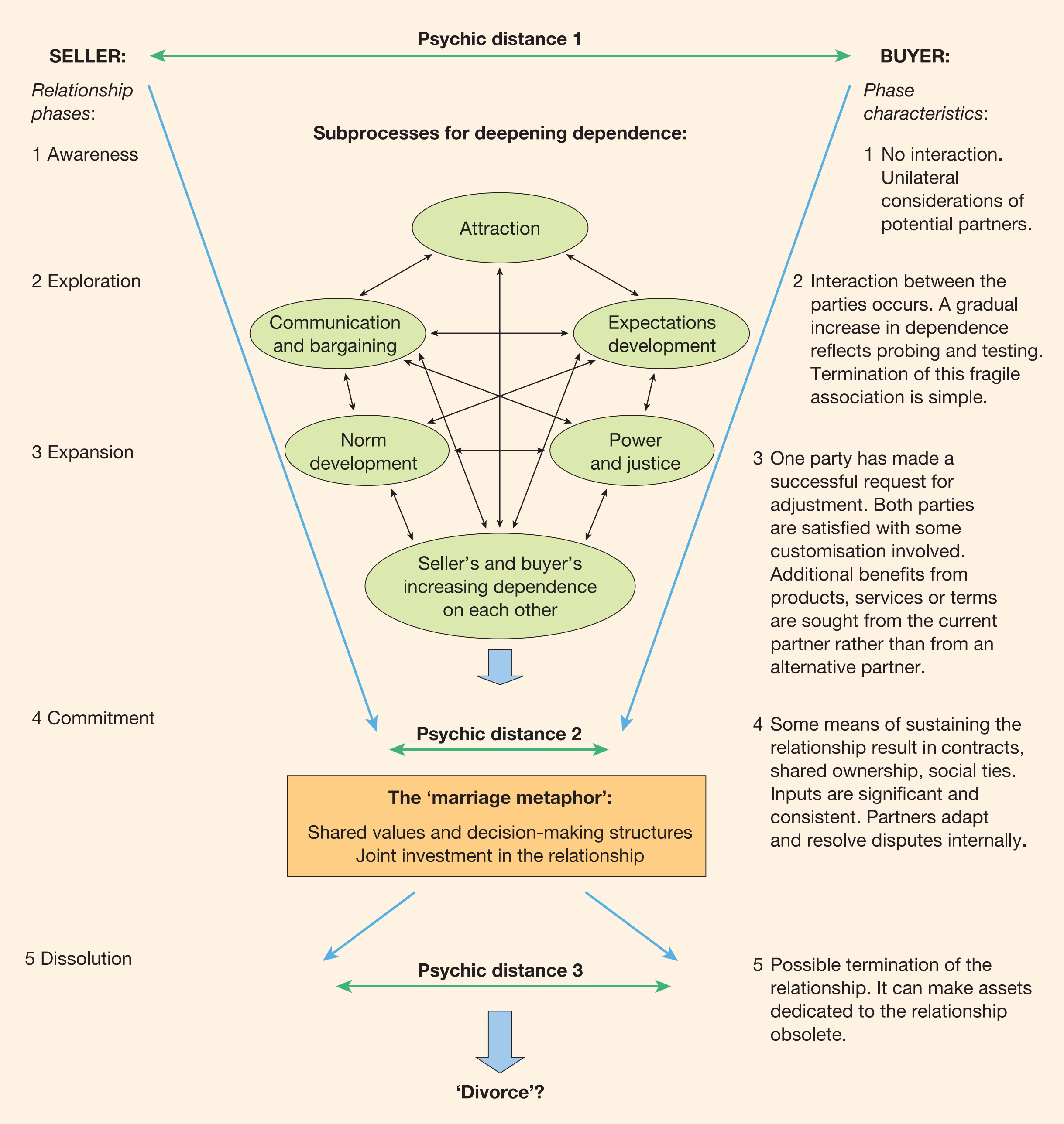


Figure 6.8 The five-phase relationship model

Marriage metaphor
The process of reducing the psychic distance + increasing dependence between buyer and seller = shared values and joint investments in the relationship.

marriage metaphor emphasises the complexity as well as some affective determinants of the quality of the relationship. Dwyer *et al.* (1987) call the first phase in a relationship *awareness*, which means that the partners recognise each other as potential partners. In other words, in their model the decisions made about cooperating and choosing the partner are combined. Both types of decision making can exist at the beginning of cooperation, but it is difficult to state any definite chronological order between them.

In SMEs it is likely that the decision-making process is reactive, in the way that the SME probably first realises the existence of a potential partner (maybe 'love at first sight') and then decides to cooperate. The selection process may, however, be better if companies look for three key criteria (Kanter, 1994):

1 *Self-analysis:* relationships get off to a good start when partners know themselves and their industry, when they have assessed changing industry conditions and decided to seek an alliance. It also helps if executives have experience in evaluating potential partners. They will not be easily attracted by the first good-looking prospect that comes along.
2 *Chemistry:* to highlight the personal side of business relationships is not to deny the importance of sound financial and strategic analysis. But successful relations often depend on the creation and maintenance of a comfortable personal relationship between senior executives. This will include personal and social interests. Signs of managers' interests, commitment and respect are especially important in high-context countries. In China, as well as in Chinese-dominated businesses throughout Asia, the top manager of the Western company should show honour and respect to the potential partner's decision by investing his or her personal time.
3 *Compatibility:* the courtship period tests compatibility on broad historical, philosophical and strategic grounds: common experiences, values and principles, and hopes for the future. While analysts examine financial viability, managers can assess the less tangible aspects of compatibility. What starts out as personal rapport, philosophical and strategic compatibility, and shared vision between two companies' top executives must eventually be institutionalised and made public ('getting engaged'). Other stakeholders get involved, and the relationship begins to become depersonalised. But success in the engagement phase of a new alliance still depends on maintaining a careful balance between the personal and the institutional.

In the *exploration phase* (see Figure 6.8), trial purchases may take place and the exchange outcomes provide a test of the other's ability and willingness to deliver satisfaction. In addition, electronic data interchange can be used to reduce the costly paperwork associated with purchase orders, production schedule releases, invoices and so on.

At the end of the exploration phase it is time to 'meet the family'. The relations between a handful of leaders from the two firms must be supplemented with approval, formal or informal, by other people in the firms and by stakeholders. Each partner has other outside relationships that may need to approve the new relationship.

When a party (as is the case in the *expansion phase*) fulfils perceived exchange obligations in an exemplary fashion, the party's attractiveness to the other increases. Hence motivation to maintain the relationship increases, especially because high-level outcomes reduce the number of alternatives that an exchange partner might use as a replacement.

The romance or courtship quickly gives way to day-to-day reality as the partners begin to live together ('setting up house'). In the *commitment phase* the two partners can achieve a level of satisfaction from the exchange process that actually precludes other primary exchange partners (suppliers) that could provide similar benefits. The buyer has not ceased attending other alternative suppliers, but maintains awareness of alternatives without constant and frequent testing. In a buyer–seller relationship with a high conflict potential (e.g. caused by two very different partners) the partners tend to monitor the relationship more closely because each partner is afraid that its interests are not fully taken into account. However, the relationship is able to sustain its structure and remain an efficient mechanism for inter-firm transactions between buyer and seller, as long as partners' economic benefits exceed potential costs in managing the alliance (Wahyuni *et al.*, 2007).

During the description of the relationship development, the possibility of a withdrawal has been implicit. The **dissolution phase** may be caused by the following problems (Beloucif *et al.*, 2006; Pressey and Qiu, 2007):

Dissolution phase
'Divorce' is the termination of the relationship. It can make the assets dedicated to the relationship obsolete

- Operational and cultural differences emerge after collaboration is under way. They often come as a surprise to those who created the alliance. Differences in authority, reporting and decision-making styles become noticeable at this stage.

- People in other positions may not experience the same attraction as the chief executives. The executives spend a lot of time together both informally and formally. Other employees have not been in touch with one another, however, and in some cases have to be pushed to work with their overseas counterparts.
- Employees at other levels in the organisation may be less visionary and cosmopolitan than top managers and less experienced in working with people from different cultures. They may lack knowledge of the strategic context in which the relationship makes sense and see only the operational ways in which it does not.
- People just one or two tiers from the top might oppose the relationship and fight to undermine it. This is especially true in organisations that have strong independent business units.
- Termination of personal relationships, because managers leave their positions in the companies, is a potential danger to the partnership.

Firms have to be aware of these potential problems before they go into a relationship, because only in that way can they take action to prevent the dissolution phase. By jointly analysing the extent and importance of the attenuating factors, the partners will become more aware of the reasons for continuing the relationship, in spite of the trouble they are already in. Moreover, this awareness increases the parties' willingness to engage in restorative actions, thus trying to save the relationship from dissolution (Tähtinen and Vaaland, 2006)

Managerial implications

Managers may consider relationship termination as a strategic decision. Firms should evaluate which relationships to initiate, which to develop, which to continue to invest in and also which to discontinue (Mittal *et al.*, 2008). Once a firm has made the decision to discontinue or terminate a relationship, it should be aware that there is a range of termination strategies which may be employed. The firm could be looking for strategies that could be labelled 'beautiful exits' (Alajoutsijärvi *et al.*, 2000). A beautiful exit is achieved by a strategy that minimises damage occurring to the disengager, the other party and the connected network.

In fact there is a lot to learn from all types of personal relationships, not just marriage. After all, business relationships are not impersonal; they depend entirely on the people who represent the supplier and the customers. There are interesting parallels with the Chinese concept of guanxi, which involves different levels of personal commitment and connections (Pressey and Qiu, 2007).

The implications for business of the marriage metaphor are:

- choose your partner carefully;
- structure the partnership carefully;
- devote time to developing the relationship;
- maintain open, two-way communication;
- be entirely trustworthy.

It is important to point out that not all personal relationships progress to a marriage, monogamous or polygamous, and it is equally appropriate that not all marketing partnerships have to, or are even able to, develop beyond the friendship stage.

Always-a-share customers
Customers who have low switching costs and do not value long-term relationships with suppliers, making them more suited to transaction marketing.

Lost-for-good customers
Customers who have high switching costs and long-term horizons making them suitable for relationship marketing (RM).

The nature of the customer and the behaviour spectrum

The behaviours of buyers and sellers interact with fundamental characteristics of the exchange environment to define the nature of their relationship. This section will use some basic elements of each sphere to describe a continuum of trading relations.

Jackson (1985) suggests that business marketers should assess 'the time horizon within which a customer makes a commitment to a supplier and also the actual pattern the relationship follows over time'. Figure 6.9 highlights the typical characteristics of customers at the end points of the account behaviour spectrum: **always-a-share customers** (transactional exchange) and **lost-for-good customers** (collaborative exchange).

Always-a-share customer Transaction focus	Lost-for-good customer Relationship focus
• Lower switching costs (suppliers are largely interchangeable)	• High switching costs
• Smaller investment actions	• Substantial investment actions, especially in procedures and lasting assets
• Single sale	• Customer retention
• Discontinuous customer contact	• Continuous contact
• Focus on product featur es	• Focus on product benefits and the technology behind
• Short-term scale	• Long-term scale
• Little emphasis on customer sevicer	• High emphasis on customer service
• Limited commitment to meeting customer expectations	• High commitment to meeting customer expectations
• Quality is the concern of production staff	• Quality is the concern of all staff
• Low transaction costs	• High transaction costs
• Lower importance	• Higher importance: strategic, operational and personal
Examples of products: Print services, office supplies, bulk chemicals, PC supplies	Examples of products: Telecommunication systems, **franchises,** computer systems (e.g. CRM systems)

Figure 6.9 The marketing relationship continuum

Source: Adapted from Jackson, B. B. (1985) Build customer relationships that last, *Harvard Business Review*, 63 (November–December): 120–8. Copyright © 1985 by the Harvard Business School Publishing. All rights reserved. Reproduced with permission.

Franchise
A contractual association between a manufacturer, wholesaler or service organisation (a franchiser) and independent business people (franchisees) who buy the right to own and operate one or more units in the franchise system.

Exit barrier
The barriers to leaving an industry, e.g. cost of closing down plant.

Always-a-share and lost-for-good represent different ends of a continuum of exchange situations. Sellers will retain customers by giving good service and responding to customer needs. Differentiating the offering on dimensions that forge structural ties and create **exit barriers** will tend to move the relationship toward the lost-for-good variety. For example, an always-a-share supplier might move from a fill-in role to become a major supplier by meeting customer criteria for becoming a preferred supplier. The standards for preferred supplier vary from firm to firm, but often include quality programmes, employee safety and training efforts, and delivery specifications.

The always-a-share customers

These customers can allocate their purchases to several vendors. A period of no purchases can be followed by a period of high purchases.

The always-a-share customer purchases repeatedly from some product category, displays less loyalty or commitment to a particular supplier, and can easily switch part or all of the purchases from one vendor to another. Because of low switching costs, these customers may share their patronage over time with multiple vendors and adopt short-term commitments with suppliers.

The lost-for-good customers

Relationships cemented by switching costs are called *lost-for-good relationships* because the prospects of a customer making a costly switch to a competitor followed by a costly return to the first are remote – probably weaker than a cold-call prospect. It is not likely that the customer would pay the switching costs again to return to the first firm.

Customers are tied to a system. They face significant switching costs which may include:

- specific investments
- cancellation penalties

- set-up costs for a new supplier
- retraining
- finding and evaluating a new supplier.

The lost-for-good customer makes a series of purchases over time, and views the commitment to a particular supplier as relatively permanent. Once won, this type of account is likely to remain loyal to a particular supplier for a long time. If lost, however, it is often lost for good.

The behaviour of many customers in the business market is somewhere between a pure transaction focus and a pure relationship focus. The particular position that a customer occupies depends on a host of factors: the characteristics of the product category, the customer's pattern of product usage, and the actions taken by both the supplier and the customer.

Implications for relationship marketing strategies

Business marketers often have a portfolio of customers who span the whole customer behaviour spectrum. Some emphasise low price and a transaction perspective while others place a premium on substantial service and desire a more collaborative relationship. Indeed, some customers fall somewhat in the middle of the account spectrum and represent accounts that might be effectively upgraded to a level that adds value to the relationship for both parties. To develop responsive and profitable relationship marketing strategies, special attention must be given to four areas: selecting accounts, developing account-specific product offerings, implementing relationship strategies, and evaluating relationship strategy outcomes.

A relationship with customers targeted on strong and lasting commitments is especially appropriate for lost-for-good accounts. Business marketers can sensibly invest resources in order to secure commitment and to aid customers with long-term planning. Given the long-term nature and the considerable stakes involved, customers are concerned both with marketers' long-term capabilities and with their immediate performance. Because the customers perceive significant risk, they demand competence and commitment from the selling organisation.

If we transfer this to Figure 6.10, the upper figure ('bow-tie') illustrates the always-a-share and the lower figure ('diamond') illustrates the lost-for-good. In the traditional 'bow-tie' relationship, the purchasing agent and the salesperson assume the primary roles in the exchange process.

Relational exchanges, in contrast, have a structure similar to the 'diamond' where the boundaries between the firms become more opaque. Interactive, cross-functional teams now openly exchange ideas for improving efficiency and effectiveness (see Figure 6.10). The goal is to create new value together (Jones *et al.*, 2005; Philipsen *et al.*, 2008).

Perhaps the most important prerequisite for the 'diamond' model is the need for a high level of 'connectivity' between the firm and its strategic suppliers. This implies not just the exchange of information on demand and inventory levels, but multiple, collaborative working relationships across the organisations at all levels. It is increasingly common today for companies to create supplier development teams that are cross-functional and, as such, are intended to communicate with the equivalent customer management team in the supplying organisation (Kothandaraman and Wilson, 2000).

Behavioural conditions in buyer–seller relationships

The key dimensions in the basic behavioural conditions for establishing and developing buyer–seller relationships are as follows.

Bonding/goal compatibility

Bonding is defined as the part of a business relationship that results in two parties (customer and supplier) acting in a unified manner toward a desired goal.

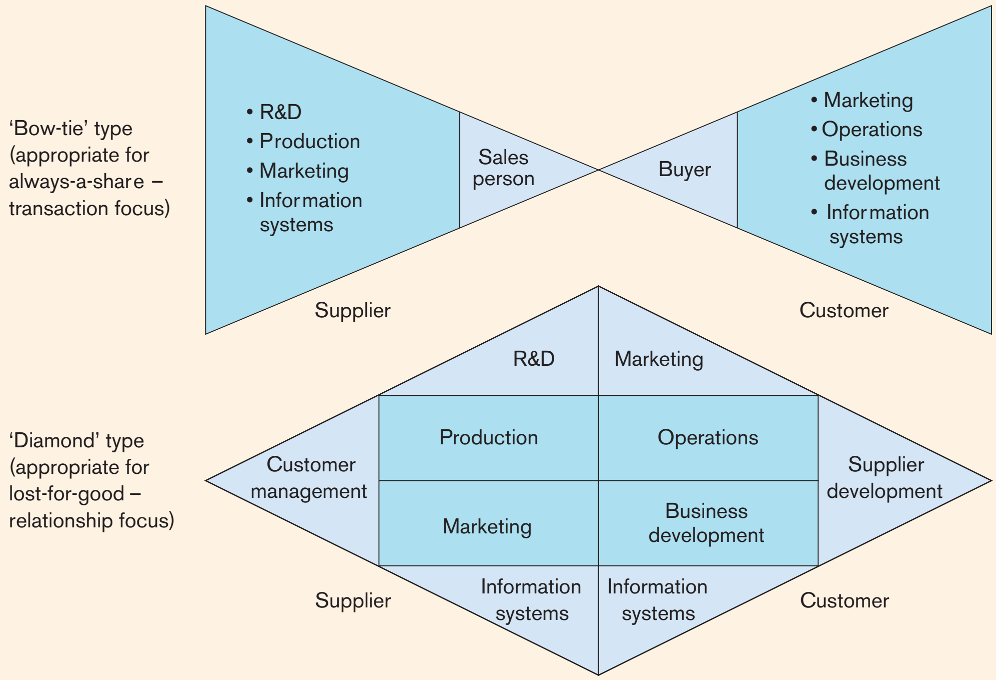


Figure 6.10 Organisation of buyer–seller relationship

Partners in the relationship must share mutually achievable goals although the goals do not have to be the same. It would be unrealistic to expect that partners would share the same goals as each probably has different parts of the value chain, such as to source product exclusively from a certain key supplier. However, it is likely that both share the goal of better meeting the needs of the end customer. Given the economics of the different levels of the supply chain, one partner might focus on reducing the total cost of ownership, whereas the other partner might look at accessing a new market segment as its major goal.

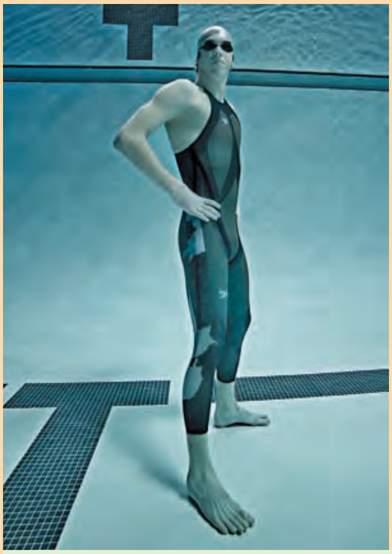
EXHIBIT 6.3
Speedo's relations with its retailers

Speedo is a leading international brand company of professional swimwear, based in the UK. Like many companies today, Speedo has set up different, parallel structures for managing its diverse customer base.

Its current organisation comprises three distinct interface structures: first, a traditional sales organisation with a large and dispersed field salesforce who deal with the small independent sports stores. They have traditionally been the mainstay of the business and represented in the past the main channel of distribution. For Speedo, however, the sports stores are low-volume customers that are spread all over the country and therefore best dealt with by individual salespeople. The company's concern for these relationships is manifested in the strong emphasis they place on an experienced, well-qualified salesforce with a high level of employee retention.

The portion of the business accounted for by the second customer segment, major high street retailers and sports multiples, has gradually increased over the last few years to approximately 50 per cent, with the prospect of a further rise to 80 per cent in the near future. The shifting balance and the concentration within this channel of distribution leverages the relationship value, which in turn justifies the resource-intensive account structure Speedo maintains to deal with these customers. The work between the dedicated account managers and their counterparts on the retailer side is facilitated by the provision of back-up support from other functions within the company.

EXHIBIT 6.3
Speedo's relations with its retailers (*continued*)



Source: Courtesy of Speedo (www.speedo.com)

Finally, Speedo started an even closer cooperation with two potentially high-growth customers in 1999. The relationship project and the corresponding interface structure are still in a trial phase but both parties' commitment is high. One of the clients is Sports Division, Europe's biggest independent sports retailer with approximately 120 high street stores, with additional in-store concessions, as well as a number of superstores. For Speedo, the relationship is crucial because, aside from the high economic relationship value, Sports Division shares its interest, stocking only leading brands and not own-label products. The initiative for the project came from the operations director who is still in charge of the implementation and who assigned an account development team to work exclusively on this one account. The team members have been selected to match the retailer's supply management team and both teams' target is to improve the effectiveness and efficiency of the supply chain.

Source: Adapted from Christopher and Jüttner (2000).

Trust

Trust is the belief that one's alliance partner will act in a predictable manner, will keep his or her word, and will not behave in a way that negatively affects the other. This last point is particularly salient under conditions where one partner might feel vulnerable due to a heightened dependence on the other.

In many alliances, partners are compelled to share information or knowledge that lies near, if not at, the core of their business. Trust diminishes the concern that this knowledge might be expropriated and used later to compete against the partner. This fear is very real among managers of small companies that seek alliances with larger companies. These managers fear that the larger firm is using the relationship to gain knowledge for its own benefit (Mendez *et al.*, 2006).

Empathy

Empathy is the dimension of a business relationship that enables the two parties to see the situation from the other's perspective. It is defined as seeking to understand somebody else's desires and goals. It involves the ability of individual parties to view the situation from the other party's perspective in a truly cognitive sense. The empathy dimension plays a major role in Chinese business relationships (guanxi framework) and is also apparent in Western business relationships (Buttery and Wong, 1999).

Reciprocity

Reciprocity is the part of a business relationship that causes either party to provide favours or make **allowances** for the other in return for similar favours or allowances to be received at a later date. It covers the interdependence for mutual benefit and equality of exchanged values between two individuals.

Allowance
Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.

These behavioural factors emphasise the importance of personal social ties in business relationships. Business relationships are built on friendships, and friendships are built upon a variety of social interactions. The individual's networks are also the enablers and driving forces of many firms' internationalisation. This is a phenomenon well known to marketing practitioners, but has received little attention among academics (Axelsson and Agndal, 2000).

Relationships in B2B markets versus B2C markets

For many years RM was conceived as an approach for the inter-organisational B2B markets. Recently, however, the domain of RM has been extended to incorporate innovative applications in mass consumer markets. Much has changed in a few years. Recent applications of RM in consumer markets have been facilitated by developments in direct and database marketing within an increasingly competitive and fragmented marketplace.

In Table 6.1 the major differences between B2B and B2C relationships are highlighted.

One-to-one marketing relationships

According to Peppers *et al.* (1999), one-to-one marketing means being willing and able to change your behaviour toward an individual customer based on what the customer tells you and what else you know about that customer.

One-to-one relationship marketing is often expressed as being synonymous with relationship marketing, but is treated here as an extension of the initial effort that results from the ever-increasing personalisation of promotional efforts in a variety of industries.

The two obvious approaches are either segmentation or personalisation. Segmentation is information distributed to narrow, well-defined bands of target customers – an approach used for years. Conversely, personalisation is information distributed and designed to be one-to-one. The historical methods for collecting data for either segmented or personalised databases have been direct mail and **telemarketing**. One-to-one relationships can be enhanced today by most firms using the Internet, which gives the opportunity of personal addressed marketing communications. One-to-one marketing goes hand in hand with customisation. It is all about generating feedback so that marketers can learn more about customers' preferences with future offers being tailored to those preferences.

Telemarketing
Using the telephone as the primary means of communicating with prospective customers. Telemarketers often use computers for order taking.

The intention of one-to-one marketing is to increase the value of a customer base by establishing a learning relationship with each customer. The customer tells you of some need, and you customise your product or service to meet it. The theory behind one-to-one marketing is simple, with implementation being another matter. Effectiveness will require differentiating customers and interacting with them.

The emphasis on the customisation of products and services to meet the very specific needs of individual customers is altering the manufacturing requirements of most firms. New technology has emerged that permits such emphasis on individualism in the final

Table 6.1 Comparison of B2C and B2B relationships

Characteristic	Business-to-consumer (B2C)	Business-to-business (B2B)
1 Relationship form	Membership. The individual acknowledges some relationship (though informal affiliation with the organisation).	Working partnership, just-in-time exchange, co-marketing alliance, strategic alliance, distribution channels relationship.
2 Average sale size; potential lifetime value of the customer to the selling firm	Normally small sale size; relatively small and predictable lifetime value of the customer; limit on the amount of investment in relationship on any single customer.	Normally large and consequential; allows for large and **idiosyncratic investments** in a single relationship.
3 Number of customers	Large number; requires large overall investment in relationship management, but low investment per customer.	Relatively fewer customers to spread investment in relationships over.
4 Seller's ability and cost to replace lost customer	Normally can be replaced quickly at relatively low cost.	Large customers can be difficult and time consuming to replace.
5 Seller dependence on buyer	Low for any single customer.	Varies based on customer size; can be devastating.
6 Buyer dependence on seller	Normally has more alternatives, low switching costs, and switching can be made quickly.	Viable alternatives can take time to find, switching costs can be high, and changes impact on multiple people in the organisation.
7 Purchasing time frame, process, and buying centre complexity	Normally a short time frame, simple process, and simple buying centre where one or two individuals fill most buying roles.	Often a long time frame, complex process; may have multiple individuals for a single buying role; may be subject to organisational budget cycles.
8 Personal knowledge of other party	Relatively few contact points with seller even when loyal user; seller's knowledge of buyer often limited to database information.	Multiple personal relationships; multiple inter-organisational linkages.
9 Communication used to build and sustain relationships	Dependence on non-personal means of contact; seller's knowledge generally limited to database information of customers.	Emphasis on personal selling and personal contact; customer knowledge held in multiple forms and places.
10 Relative size	Seller normally larger than buyer.	Relative size may vary.
11 Legal	Consumer protection laws often favour consumers.	Relationships governed by prevailing contract law as well as industry standard regulations and ethics.

Source: Adapted from Gruen, T. W. (1995) The outcome set of relationship marketing in consumer markets, *International Business Review*, 4(4): 449–69.

Idiosyncratic investment
Specific investment in a single relationship.

product. Mass customisation is the term used to describe the ability of manufacturers to make almost instant changes in the production process to individualise output in quantities as small as one. This technology coupled with the emphasis on relationships has permitted the pursuit of relationship marketing on a one-to-one basis. Mass customisation will further drive relationship marketing with its associated demands for greater understanding of each customer within the seller's marketing umbrella. This additional emphasis will spur marketers to find new and better ways of gaining customer information and keeping it current.

Bonding in buyer–seller relationships

The following is mainly developed for the service sector, but the bonds described are applicable to the majority of B2B relationships. Liljander and Strandvik (1995) define bonds as 'exit barriers that tie the customer to the service provider and maintain the relationship'.

The authors propose ten different types of bond between the customer and the seller: legal, economic, technological, geographical, time, knowledge, social, cultural, ideological and psychological bonds. The authors point out that the first five bonds can be managed by a service firm while the remaining five are difficult for a firm to measure and manage:

1. A *legal bond* is a contract between a customer and a service provider. The present study views legal bonds as belonging to the legal factor group.
2. An *economic bond* refers to a situation in which price reductions are used as incentives towards the customers. The economic bond belongs to the economic factor group.
3. A *technological bond* refers to a situation in which the customer is required to use repair/maintenance facilities and/or original spare parts from a manufacturer. The technological bond belongs in the technological factor group.
4. A *geographical bond* describes the limited possibility to buy a service because of distance. The present study views the geographical bond as belonging to the contextual factor group.
5. A *time bond* illustrates the situation where a service provider may be used because of suitable business hours. The present study categorises the time bond as belonging to the procedural factor group.
6. A *knowledge bond* means that a customer gains knowledge about a service provider. The knowledge bond belongs in the information factor group.
7. A *social bond* exists when a customer and a service provider know each other well. Social bonds belong in the social factor group.
8. A *cultural bond* exists when a customer identifies with certain companies or products made in certain countries. The cultural bond belongs in the contextual factor group.
9. An *ideological bond* indicates personal values, for example a preference for 'green' or environmentally sound products. The ideological bond is part of the social factor group.
10. A *psychological bond* refers to a customer being convinced of the superiority of a certain service provider. The present study sees the psychological bond as belonging to the social factor group.

Figure 6.11 presents one suggestion for the relationship of the concepts of bonds and commitment over time. It illustrates the holistic view of bonds, i.e. that their combination dictates the state of commitment and no bond operates in isolation from others. Bond is proposed as a term to be used for ties, and the resulting state would be called 'commitment', i.e. a combination of interrelated bonds that evolve in the bonding process in the course of the relationship. Further, the state of commitment and the combination of bonds are perceived in their own way by both parties in the relationship.

Commitment may be positive or negative. In semantic terms the idea of a negative bond may seem odd – how could a tie be measured on the minus scale? However, the concept helps in assessing the negative situations when bonds act as exit barriers for a customer who wants

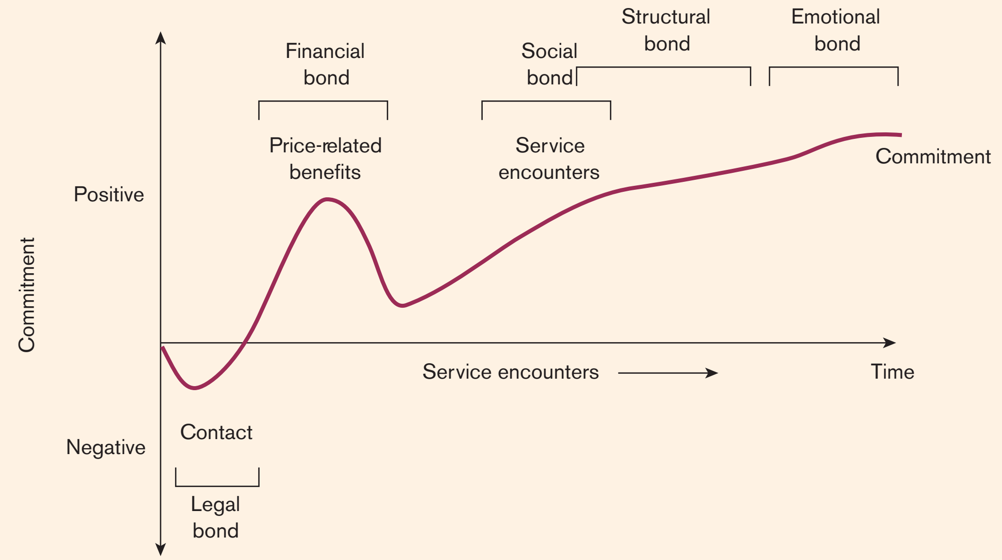


Figure 6.11 Development of bonds and commitment over time

Source: Adapted from Arantola, H. (2000) Buying loyalty or building commitment: an empirical study of customer loyalty programs, Research Report, Swedish School of Economics and Business Administration. Reproduced with permission.

to exit. The customer perceives ties and the situation is perceived as negative. This situation is illustrated in Figure 6.11 with the legal bond, where the customer is bound by a legal agreement that prevents an exit. In Figure 6.11, the financial bond results in positive commitment in the following ways. The customer perceives being tied to the supplier due to relationship investment or special pricing, and perceives the relationship as beneficial and positive. Financial bonds are usually rather short term (as seen in Figure 6.11), but a service encounter may immediately build a positive emotional bond, or it may take a couple of months for the first bonus voucher to arrive and build a positive economic bond. When positive bonds develop, elements of loyalty such as repeat experiences and positive attitude are also present.

The role of encounters in RM

Moments of truth
A critical or decisive time on which much depends; a crucial moment when seller's staff meets the customer.

Encounters can be considered to be the period of time during which a customer directly communicates with a specific product or service. We can see these encounters as '**moments of truth**'. In this approach, an encounter is not limited to personal interaction, but includes customer contact with physical facilities and other tangibles.

Communication is defined as the process of *assigning meaning*. Each perception we have of our environment involves a transactional process between ourselves and the object(s) we perceive. Each participant's perception of the other in an encounter is a transaction between the qualities of this other and the participant's interpretation of these qualities. You form a *relationship* with the other participant in a dyadic encounter when you become aware that this other person is aware of you. Your participation in a specific encounter means that it will have an effect on you, irrespective of whether you are primarily creating or deciphering the message. In any transaction, each participant is simultaneously sending and receiving.

A person is aware that he or she is in a relationship when he or she is aware of being perceived by the other party. A relationship is therefore formed during a specific encounter when the following elements are present:

- you and another are interacting;
- you are aware of the other's behaviour;
- the other is aware of your behaviour;
- as a result, you are aware that the other is aware, and the other is aware that you are aware.

A relationship is formed when two people are aware both of each other and of the other's awareness. But this is only the beginning of a potential relationship. The key to building a relationship and sustaining communicative behaviour is in the way in which each participant adjusts to the other.

The awareness of being perceived by the other party at the start of a relationship is not limited to interpersonal encounters where customers have face-to-face contact with employees, although the potential for creating relationships in such encounters is rather high. The relationship might well be created and maintained during encounters with a mediated human contact, e.g. via phone, fax, e-mail or the Internet, or through encounters involving no human contact, e.g. interaction with a company through an ATM. The complexity of interaction decreases where there is no face-to-face human contact; responses are reduced to verbal or written expressions in the mediated human encounter, while interaction during an encounter with no human contact is limited to automatic predesigned response patterns performed by or through mechanical and electronic equipment.

In Figure 6.12, encounters have been categorised using two factors: *degree of human interaction* and *intensity of the relationship bond*. The latter describes the extent to which a single encounter contributes to relationship bonding. Figure 6.12 distinguishes seven types of encounter and positions them according to these two factors.

Internationalisation of encounter-based strategies

Companies that have been able to establish and maintain lasting relationships with customers in their home markets might be interested in exploring the potential for transferring encounter-based relationship strategies to other markets. Although the ground rules for establishing relationships might be the same all over the world, the prevailing (cultural) conditions underpinning the formation and consolidation of relationships with customers may be different in parts of the world.

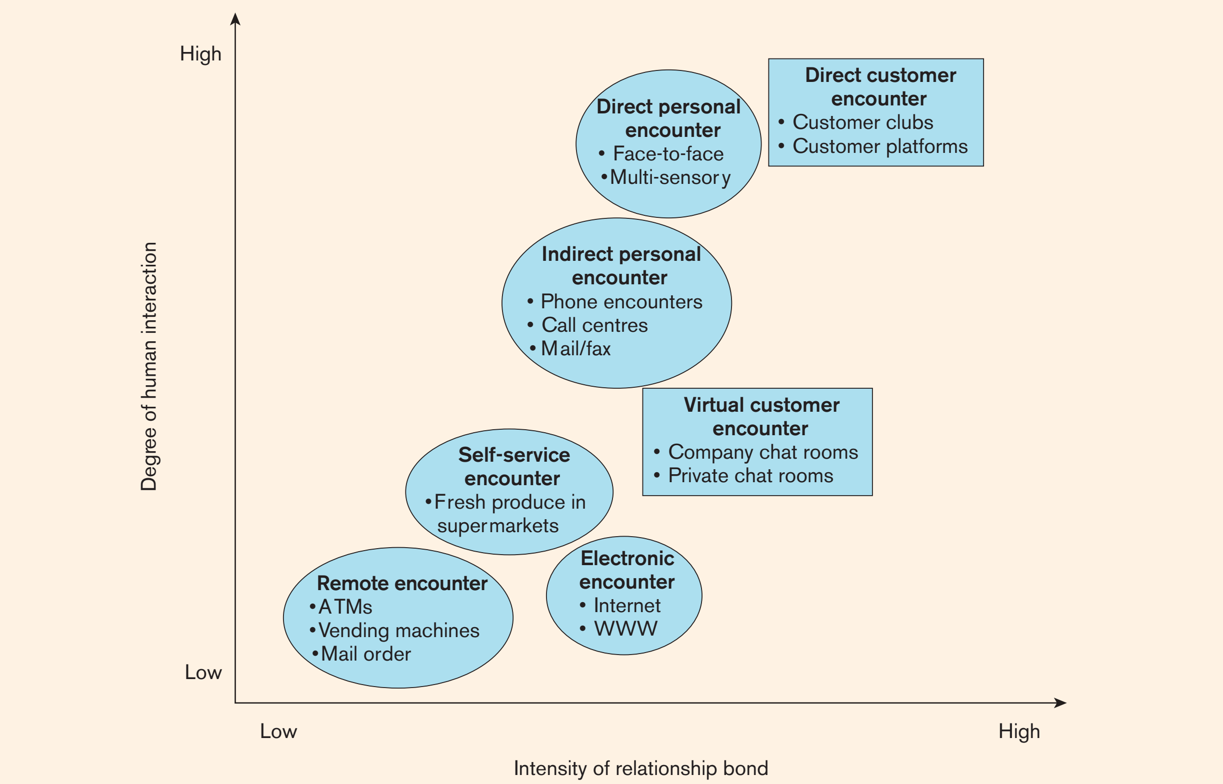


Figure 6.12 Typology of encounters based on the degree of human interaction and the intensity of the relationship bond
Source: Hennig-Thurau, T. and Hansen, U. (2000) *Relationship Marketing: Gaining Competitive Advantage Through Customer Satisfaction and Consumer Retention,* Springer Verlag, Berlin-Heidelberg, p. 283. Reproduced with permission.

The management has to be aware of the considerably higher complexity of the environment under consideration (compared to a purely domestic market) when a company takes and implements decisions concerning the standardisation of encounters with the aim of establishing customer relationships in foreign cultures. A careful assessment of the opportunities for encounter standardisation should provide an efficient and effective basis for establishing and maintaining relationships with customers, provided the product and/or service on offer is able to satisfy customer expectations.

6.4 RELATIONSHIPS WITH SUPPLIERS

There seem to be three major strategic issues related to purchasing management:

- decision whether to make an item in-house or to buy from external suppliers;
- development of appropriate relationships with suppliers;
- management of the supplier base in terms of size and relations between suppliers.

The first strategic issue is to decide what items to procure. This is defined by the scope of the operations that are undertaken in-house by the buying company. This determines the degree of vertical integration, which in purchasing terms has been addressed as the make-or-buy issue (Ghauri *et al.*, 2008; Freytag and Mikkelsen, 2007; Mclvor, 2008) .

What to produce internally and what to buy from external suppliers has been an issue in manufacturing firms for a very long time, despite the fact that it was apparently not identified as a matter of strategic importance until the 1980s. It is evident that buying firms over time have come to rely more on 'buy' than 'make'. Consequently, outsourcing to external suppliers has increased dramatically over time (Soroor *et al.*, 2009; Preston, 2004).

Having suppliers that compete with one another is one way of increasing efficiency in the purchasing operations. A buying company can switch from one supplier to the other and thus influence the vendors towards improving their efforts. The opportunity to play off suppliers against each other in terms of price conditions has been a particularly recommended purchasing strategy. The idea of this strategy is to avoid becoming too integrated with suppliers, because integration leads to dependence. Customer relationships based on this logic are characterised by low involvement from both parties.

The tendency in the overall industrial system towards increasing specialisation has called for more coordination between the individual companies. This in turn leads to more adaptation between buyer and seller in terms of activities and resources. These adaptations are made because they improve efficiency and effectiveness. They also create interdependencies between customer and supplier. Such relationships are characterised by a high involvement approach.

High-involvement relationships typically provide different types of benefits than low involvement ones, since it is not the individual transaction that is optimised. On the contrary, customers are eager to improve long-term efficiency and effectiveness. Instead of focusing on price in each transaction the efforts are concentrated on affecting long-term total costs. The purchasing behaviour of buying companies affects a number of costs, of which price is sometimes only minor in comparison with other costs. For example, product development has become increasingly common. Integrating resources with suppliers can reduce lead times in product development and decrease the total R&D spending.

The widely recognised *lean* and *agile* supply practices in such relationships have demonstrated that buyers and suppliers can work together to improve supply relationship, or even supply network, performance and consequently allow the supply chain to deliver better value to the ultimate customer. Lean supply techniques aim to eliminate waste in all areas of the business, from the shop-floor to manufacturing processes, and from new product development to supply chain management. Agile supply techniques, on the other band, are directed towards reducing the time it takes for a supply chain to deliver a good or service to the end customer and are aimed at supply chains that have to respond to volatile demand patterns. Both the 'lean' and 'agile' supply schools have provided a great deal of case evidence that demonstrates that collaboration, in the cause of lean or agile goals, can be effective in bringing down costs and/or increasing product functionality. For example, the lean school has often referred to the Japanese automobile industry, especially the Toyota Motor Corporation, as a good example of lean practice. The agile school has pointed to the production of the Smart Car, a car that offers total customisation, backed up by a service that offers responsiveness to customer demands.

However, the idea that collaboration constitutes 'best practice' ignores two key factors. First, not all transactions will justify the resources required for a collaborative relationship. Entering a collaborative relationship will only make economic sense if the expected financial and strategic rewards are deemed to be higher than the costs associated with the establishment of such a relationship. Second, not all the buyers that suppliers deal with will wish to allocate the resources required for a collaborative relationship to be developed. A supplier may have both the resources and the inclination to develop a collaborative relationship in a given situation. However, the buyer in question may have other priorities. The supplier may prefer to allocate its resources to other customers – those that it deems more relevant to the achievement of its business goals (Andersen and Christensen, 2004).

Furthermore, even where collaborative relationships are developed, there is by no means one form of collaboration. For example, in some power situations, getting buyers to collaborate will not be possible. In particular, such relationships will differ in both their conduct and outcome depending on the power-dependence relations concerned. As has long been argued in the social science literature, there are four generic buyer–supplier power structures: buyer dominance, interdependence independence and supplier dominance (see Figure 6.13).

ATTRIBUTES OF BUYER POWER RELATIVE TO SUPPLIER	BUYER DOMINACE	INTERDEPENDENCE
HIGH	• Few buyers/many suppliers • Buyer has high % share of total market for supplier • Supplier is highly dependent on buyer for revenue with limited alternatives • Supplier switching costs are high • Buyer switching costs are low • Buyer account is attractive to supplier • Supplier offerings are customised • Buyer search costs are low • Supplier has no information asymmetry advantages over buyer	• Few buyers/few suppliers • Buyer has relatively high % share of total market for supplier • Supplier is highly dependent on buyer for revenue with few alternatives • Supplier switching costs are high • Buyer switching costs are high • Buyer account is attractive to supplier • Supplier offerings are not commoditised and standardised • Buyer search costs are high • Supplier has significant information asymmetry advantages over buyer
	INDEPENDENCE	**SUPPLIER DOMINANCE**
LOW	• Few buyers/few suppliers • Buyer has relatively low % share of total market for supplier • Supplier is not dependent on buyer for revenue and has many alternatives • Supplier switching costs are low • Buyer switching costs are low • Buyer account is not particularly attractive to supplier • Supplier offerings are commoditised and standardised • Buyer search costs are relatively low • Supplier has only limited information asymmetry advantages over buyer	• Many buyers/few suppliers • Buyer has low % share of total market for supplier • Supplier is not at all dependent on the buyer for revenue and has many alternatives • Supplier switching costs are low • Buyer switching costs are high • Buyers account is not attractive to the supplier • Supplier offerings are not customised • Buyer search costs are very high • Supplier has high information asymmetry advantages over buyer
	LOW	HIGH
	ATTRIBUTES OF SUPPLIER POWER RELATIVE TO BUYER	

Figure 6.13 The attributes of buyer and supplier power

The bonding between buyers and suppliers can also increase by investing in relationship-specific adaptations to processes, products or procedures (Hughes, 2008; Johnsen *et al.*, 2008). By relationship-specific adaptations, we mean those adaptations that are non-transferable to relationships with other buyers or suppliers. It could be adaptations of the following kind: adaptations of the product specification, adaptations to the product design, adaptations to the manufacturing process, adaptations to delivery procedures, adaptations to stockholding, adaptations to planning procedures, adaptations to administrative procedures and adaptations to financial procedures.

To understand the power relation the power resources of both sides need to be put together. When the buyer has high power resources and the supplier has low power resources, the buyer will be dominant. When the buyer has low power resources and the supplier has high power resources, the supplier will be dominant. When the power resources are high for both the buyer and the supplier, then they will be interdependent. When both parties have low power resources, then they will be independent from each other.

Figure 6.13 provides a description of some of the key attributes that one might expect to find if one were trying to position buyer and supplier relationships using the power matrix. The power matrix is explained in more detail elsewhere, but it is constructed around the idea that all buyer and supplier relationships are predicted on the relative value and the relative scarcity of the resources that are exchanged between the two parties.

In the buyer dominance box, the buyer has power attributes relative to the supplier that provide the basis for the buyer to leverage the supplier's performance on quality and/or cost improvement, and ensure that the supplier receives only normal returns.

In the interdependence box, both the buyer and the supplier possess resources that require the two parties to the exchange to work closely together, since neither party to the exchange can force the other to do what it does not wish to do. In this circumstance, the supplier may achieve above-normal returns but must also pass some value to the buyer in the form of less-than-ideal returns, as well as some degree of innovation.

In the independence box, neither the buyer nor the supplier has significant leverage opportunities over the other party, and the buyer and the supplier must accept the current prevailing price and quality levels. Fortunately for the buyer, this price and quality level is often not that advantageous for the supplier because the supplier has few leverage opportunities (other than buyer ignorance and incompetence) and may be forced to operate at only normal returns.

In the supplier dominance box, the supplier has all of the levers of power. It is in this box that one would expect the supplier to possess many of the isolating mechanisms that close markets to competitors and many of the barriers to market entry that allow above-normal returns to be sustained. In such an environment, the buyer is likely to be both a price and quality receiver.

As well as the possible buyer–supplier power structures to consider, there is huge potential in exploiting better the opportunities offered by coping with suppliers. However, potential benefits are not reaped automatically. The focus has shifted from buying well towards managing within relationships (Gadde and Snehota, 2000).

Reverse marketing

Firms increasingly realise that rapidly changing market conditions require significant changes in their purchasing function. In more and more firms, purchasing is becoming proactive and of strategic importance. This phenomenon has been referred to as **reverse marketing**. As the term implies, there are clear similarities with the marketing concept (Biemans and Brand, 1995). The phenomenon was described in Chapter 4, in the section about supplier selection in the B2B market.

Reverse marketing
The buyer (and not the seller as in traditional marketing) takes the initiative of searching for a supplier that is able to fulfil the buyer's needs.

Reverse marketing describes how purchasing actively identifies potential subcontractors and offers suitable partners a proposal for long-term cooperation. Similar terms are proactive procurement and buyer initiative (Ottesen, 1995). In recent years, the buyer–seller relationship has changed considerably. The traditional relationship, in which a seller takes the initiative by offering a product, is increasingly being replaced by one in which the buyer actively searches for a supplier that is able to fulfil its needs.

Implementing a reverse marketing strategy starts with fundamental market research and with an evaluation of reverse marketing options (i.e. possible suppliers). Before choosing suppliers the firm may include both present and potential suppliers in the analysis as well as current and desired activities.

Based on this analysis the firm may select a number of suitable partners as suppliers and rank them in order of preference.

6.5 RELATIONSHIPS WITH COMPLEMENTORS/PARTNERS

This kind of relationship is based on collaboration between manufacturers of complementary functions and or products/services. In such a collaboration, each partner has a strategic resource that the other needs and in this way each partner is motivated to develop some kind of exchange process.

For example, partners divide the value chain activities between themselves: one partner develops and manufactures a product while letting the other partner market it. Another example is a joint marketing agreement where complementary product lines of two firms are sold together through existing or new distribution channels, and thus broaden the market coverage of both firms.

In Figure 6.14, different types of coalition are shown in the value chain perspective. These are based on the possible collaboration pattern along the value chain. In Figure 6.14 two partners are shown, A and B, each having its own value chain. Three different types of value chain partnership appear:

- *upstream-based collaboration (1)*: A and B collaborate on R&D and/or production;
- *downstream-based collaboration (2)*: A and B collaborate on marketing, distribution, sales and/or service;
- *upstream/downstream-based collaboration (3)*: A and B have different but complementary competences at each end of the value chain.

In such collaboration, each partner has a strategic resource that the other needs and so they are prepared to develop some form of extended exchange mechanism in order to expedite the process. For example, it could involve the transfer of technology in exchange for knowledge and understanding of a market. The resources involved are, by definition, strategic in nature. They are the long-term, relatively stable bases upon which the organisations create value in the product offerings that they exchange.

Types 1 and 2 represent the so-called Y coalition and type 3 represents the so-called X coalition.

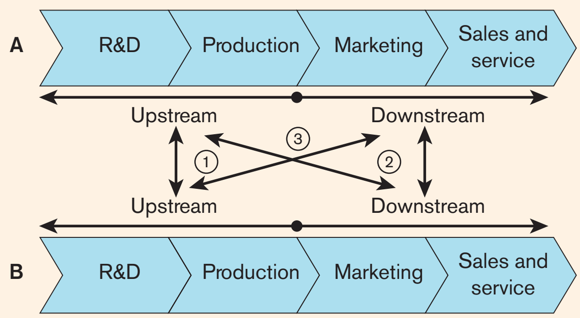


Figure 6.14 Collaboration possibilities for partners A and B in the value chain

Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach,* 2nd ed., Financial Times-Prentice Hall, Harlow, p. 274. Reproduced with permission.

Y coalitions

Partners share the actual performance of one or more value chain activities. For example, joint production of models or components enables the attainment of scale economies that can provide lower production costs per unit. Another example is a joint marketing agreement where complementary product lines of two firms are sold together through existing or new distribution channels, and thus broaden the market coverage of both firms.

EXHIBIT 6.4
Irn-Bru's distributor alliance (Y coalition) with Pepsi Bottling Group (PBG) in Russia

A. G. Barr, the UK's leading independent branded soft drinks manufacturer was founded in Falkirk, Scotland, in 1875. The company expanded to Glasgow in 1887 and its headquarters are now in Cumbernauld just outside the city. A. G. Barr makes the renowned Irn-Bru soft drink, introduced in 1901, which, in 2008 had about 5 per cent of the UK carbonated soft drinks (CSD) market. Despite tough domestic competition, Irn-Bru is Scotland's largest selling single-flavoured CSD and is the third best selling soft drink in the UK, after Coca-Cola and Pepsi.

In 2008, A. G. Barr's turnover was £170 million (Annual Report and Accounts 2009) with an operating profit of £23.1 million. The formula for Irn-Bru is a closely guarded secret, known only by two of Barr's board members. Irn-Bru is most famous for its unique taste, maverick advertising and eccentric bright orange colour, making it easily recognisable even when not in its packaging.

Source: Courtesy of A. G. Barr plc

In the late 1980s, Barr actively began to look at expansion through international markets. It considered France, Germany and Benelux countries, among others, but found that Coca-Cola and Pepsi dominated these mature markets. Competition was fierce and margins tight. Consequently, it examined other emerging markets and was attracted to Russia. In the years following the break-up of the Soviet Union, Russia showed much potential with a large population, growing prosperity and standard of living, and a rising demand for consumer goods. Moreover, the Russians, like the Scots, have a 'sweet tooth', leading to high soft drinks consumption. As part of the international expansion strategy, in 1994, Barr began direct exports of its trademark Irn-Bru to Russia.

Barr eventually parted company with its initial franchisee but the Irn-Bru brand by that time was so well-established that, in 2002, Barr arranged a new manufacturing franchise contract with the Pepsi Bottling Group (PBG) of Russia to manufacture, distribute and sell Irn-Bru. PBG (Russia) has over 4,000 employees and distributes the PepsiCo brands throughout Russia. Since February 2002, the distribution network has been greatly enlarged, especially by using the PBG retail space and coolers in the retail outlets, improving brand availability to the trade, retailers, wholesalers and clubs. The brand is produced in 250 ml glass, 330 ml cans, 600 ml, 1.25 l and 2 l plastic bottles.

Value of the distribution alliance for both partners:
Irn-Bru:

- Irn-Bru in Russia has been a part of A. G. Barr's international expansion plan.
- Irn-Bru has provided extra turnover and profit for A.G. Barr.

PBG:

- In many Russian retail stores (with a broader PBG product range) the Irn-Bru has blocked the available shelf space for Pepsi's main competitor, Coca-Cola.
- Irn-Bru has provided extra turnover and profit for PBG.

Irn-Bru is now established as one of the leading soft drink brands in the country.

Sources: A. G. Barr plc (www.agbarr.co.uk) and Irn-Bru website (www.irn-bru.co.uk).

X coalitions

Partners divide the value chain activities between themselves. For example, one partner develops and manufactures a product while letting the other partner market it. Forming X coalitions involves identifying the value chain activities where the firm is well positioned and has its core competence. Take the case where A has its core competences in upstream functions, but is weak in downstream functions. A wants to enter a foreign market, but lacks local market knowledge and does not know how to get access to foreign distribution channels for its products. Therefore A seeks and finds a partner, B, which has its core competences in the downstream functions, but is weak in the upstream functions. In this way A and B can form a coalition where B can help A with distribution and selling in a foreign market, and A can help B with R&D or production.

In summary, X coalitions imply that the partners have asymmetric competences in the value chain activities: where one is strong, the other is weak and vice versa. In Y coalitions, on the other hand, partners tend to be more similar in the strengths and weaknesses of their value chain activities.

The so-called **co-branding** is closely connected to the downstream-based collaboration.

Co-branding
The practice of using the established brand of two different companies on the same product with a common marketing message.

Co-branding

The term co-branding is relatively new to the business vocabulary and is used to encompass a wide range of marketing activity involving the use of two or more brands. Thus co-branding could be considered to include:

- *Sponsorship*: where Marlboro sponsors the Ferrari team in Formula 1;
- *Licensing*: where Mattel has been granted the worldwide rights to manufacture a Ferrari-branded range of boys' and girls' toys including vehicles, dolls, soft toys, games and puzzles. Licensed products, especially with entertainment properties, can sometimes have a limited shelf life. Using a licence such as Hello Kitty could be very short term. Others, such as Disney's Mickey Mouse, could go on practically for ever;
- *Retailing*: where BP hosts Safeway mini-stores;
- *Retail co-promotion*: where McDonald's and Disney get together;
- *Manufacturing collaborations*: for example the Mercedes-Swatch car.

Motives for co-branding

The basis for any cooperative arrangement is the expectation of synergies, which create value for both participants, over and above the value they would expect to generate on their own.

Co-branding is a form of cooperation between two or more brands with significant customer recognition, in which all the participants' brand names are retained. It is of medium- to long-term duration and its net value creation potential is normally too small to justify setting up a new brand and/or legal joint venture. (The Mercedes-Swatch car is an exception here.)

Logic and experience confirm that the stronger the brands that form the co-brand, the more likely it is that their identities will be preserved, whatever the extent of cooperation. If the participants were to destroy significant value by abandoning very powerful brands and investing resources in another name instead, the net value creation potential would be severely reduced.

Duration

How long cooperative relationships last depends very much on the lifecycle of the products and/or the characteristics of the markets involved.

The relationship between McDonald's and Disney where McDonald's uses the latest Disney movie on its product range will typically last for three to four months and can best be defined as a co-promotion.

At the other extreme, Mercedes-Benz and Swatch are cooperating on the development, manufacture and launch of a new urban vehicle, a process likely to take five years. This cooperation is taking place in a joint venture.

Similarly, a number of airlines are cooperating on routes, flights and customer marketing in major global initiatives, such as the Star Alliance. These initiatives have no evident end-point at all, have new brand identities created for them, and are generally described as alliances.

In between these extremes lie a number of arrangements usually referred to as co-branding and/or ingredient branding, such as Intel with a variety of PC manufacturers to co-brand its machines with the 'Intel inside' logo. But these arrangements are also without fixed end-points.

It appears that the envisioned duration strongly influences the categorisation of many instances of co-branding, but it is not the only discriminating factor. Longer-term cooperations generally imply more extensive sharing of assets and expertise, with the potential to generate more shared value.

Values endorsement co-branding

This level of cooperation is specifically designed to include endorsement of one or other's brand values and positioning or both. In fact, it is often the principal reason for the tie-up.

In recent years many charities have launched co-branded 'affinity' credit cards with a bank or credit card company, in fact so many that the concept has been somewhat devalued, but the principle remains intact. This is a win–win situation for the bank, the charity and the customer. The charity benefits from extra revenue, the bank gets extra transaction volume along with the kudos of charitable associations and the customer feels that they are contributing to a worthwhile cause.

So the essence of value endorsement co-branding is that the two participants cooperate because they have, or want to achieve, alignment of their brand values in the customer's mind. This substantially decreases the pool of potential partners for any projected co-branding deal and increases the value creation potential.

Le Cordon Bleu's co-branding deal with Tefal offers a more conventional example of value endorsement co-branding. Le Cordon Bleu is a French culinary academy whose brand has become synonymous with the highest standards of cooking. Tefal, a leading French cookware manufacturer, was launching its new Integral range of high-quality cookware and negotiated for the endorsement of Le Cordon Bleu in its marketing campaign.

This helped to build brand awareness for Tefal Integral, and it endowed the Integral brand with strong associations of culinary quality, particularly as Le Cordon Bleu academy's chefs were shown to be using Integral cookware and endorsing its quality values. The chief executive officer of Le Cordon Bleu knowingly staked his brand's values and reputation on the co-branded products.

Both companies were able to reinforce their complementary brand reputations through the tie-up and stimulate increased sales revenues for the co-branded products. This highlights the importance of appropriate partner selection.

Ingredient branding

The rationale here is that a brand noted for the market-leading qualities of its product supplies that product as a component of another branded product. Despite the similarities between co-branding and ingredient branding there is also an important difference, as indicated in Figure 6.15.

Co-branding

In the case of co-branding, two powerful and complementary brands combine to produce a product that is more than the sum of their parts and relies on each partner committing a selection of its core skills and competences to that product on an ongoing basis (Erevelles *et al.* 2008).

This was the case some years ago when Bacardi Rum and Coca-Cola marketed a bottle with the finished mixed drink 'Rum-and-Coca-Cola'.

Ingredient branding

OEM
Original equipment manufacturer. In the OEM contract the customer is called the OEM or 'sourcer' whereas the parts suppliers are called manufacturers of OEM products.

Normally the marketer of the final product (**OEM**) creates all of the value in the consumer's eyes. But in the cases of Intel and NutraSweet, the ingredient supplier is seeking to build value in its products by branding and promoting the key component of an end product. When promotion (pull strategy: see Figure 6.15) of the key component brand is initiated by the ingredient supplier, the goal is to build awareness and preference among consumers for that ingredient brand. Simultaneously, it may be the manufacturer (OEM) that seeks to benefit from a recognised ingredient brand. Some computer manufacturers are benefiting from the quality image of using an Intel chip.

However, ingredient branding is not suitable for every supplier of components. An ingredient supplier should fulfil the following requirements:

- The ingredient supplier should be offering a product that has a substantial advantage over existing products. DuPont's Teflon, NutraSweet, Intel chips and the Dolby noise reduction system are all examples of major technological innovations, the result of large investment in R&D.

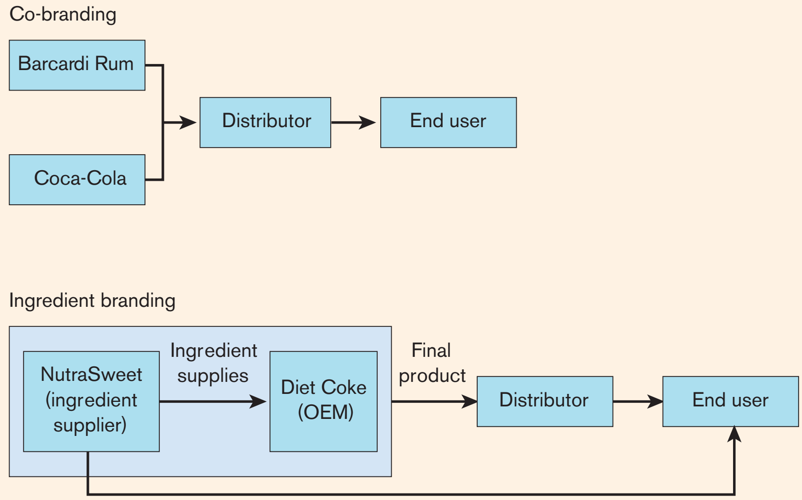


Figure 6.15 Illustration of co-branding and ingredient branding
Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach,* 2nd ed, Financial Times-Prentice Hall, Harlow, p. 421. Reproduced with permission.

- The ingredient should be critical to the success of the final product. NutraSweet is not only a low-calorie sweetener, but has a taste that is nearly identical to that of sugar.

An important part of the value for IBM, Compaq or any other PC manufacturer of co-branding with Intel is the reputation that Intel enjoys in the PC marketplace for the manufactured quality and functional performance of its Pentium microprocessors. Quality and performance are core values for the Intel Pentium brand and they migrate through to the PC product.

The categorisation of ingredient branding as a value added tool is justified because there is an identifiable physical component – the chip – contained in the product as sold to the customer. Without it, the value of the product would be greatly diminished.

Cars provide a good illustration of the benefits of ingredient co-branding. They are the most expensive branded purchases that most consumers ever make, so the manufacturers want to attach strong emotional and intuitive values to them in addition to their rational benefits and values. Many of the car companies, particularly the global volume producers, have found that co-branding deals enable them cost-effectively to reinforce particular brand images and customise their products. Various premium car manufacturers use Bose audio products. The use of such a strongly branded item, associated in the consumer's mind with high quality, is heavily promoted with the car's advertising to reaffirm the premium positioning of the vehicle.

In summary, the essence of ingredient co-branding is that a manufacturer (OEM)/ ingredient supplier wishing to convey focused messages about the attributes and values of its product uses and promotes branded components whose own brand image reinforces the desired attributes and values.

The ingredient supplier benefits by guaranteeing sales volumes at the same time as reinforcing the attributes of its product brand. The manufacturer (OEM) benefits by confirming the attributes and image of its product while sharing the marketing costs.

6.6 RELATIONSHIPS WITH COMPETITORS

The relationships between competitors (horizontal network) have not been analysed to the same extent as vertical relationships. Cooperative relationships in the vertical network (Figure 2.3) are easier to grasp as they are built on a distribution of activities and resources among players in a supply chain. Horizontal networks, on the other hand, are more informal, invisible, and based more on social exchanges.

When competitors are involved in resource exchange alliances, competition introduces same problems. The dilemma is that in creating an alliance with a competitor, an organisation is, in fact making them more competitive.

For collaboration to succeed, each competitor must contribute something distinctive: basic research, product development skills, manufacturing capacity, access to distribution. In the network approach, the market includes both complementarities and substitutes, both cooperating and competing firms. Competitors also strive to develop their nets. Such competitive activity is a major force for change in the networks. Competitors are predominantly negatively connected to each other. They might compete for customers, suppliers or other partners. Competing firms also often have customers, distributors or suppliers in common. Sometimes this implies a negative connection, but at other times competing firms do not have conflicting objectives vis-à-vis a common counterpart.

Interaction among competitors has been treated traditional1y within economic theory, and has been explained in terms of the structure of an industry within which it operates. It is further argued that intensity in competition is dependent on the degree of symmetry between companies, while the degree of concentration determines whether competitors act in collusion or competition with each other.

Variations in patterns of interaction are also viewed via a relational approach to competitive interaction.

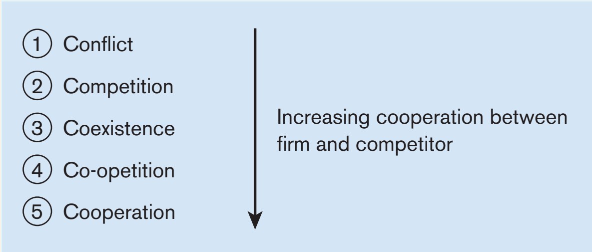


Figure 6.16 Five types of relationship between a firm and its competitor

Based on the motives for interaction and the intensity of the relationship concerned, five types of interaction are distinguished: *conflict*, *competition*, *coexistence*, *co-opetition* and *cooperation* (see Figure 6.16).

Conflict between competitors occurs when the strategies they employ are largely directed at each other with the aim of destruction. The strongest version of conflict requires that an organisation has as its single overriding objective the effective destruction of a specific competitor.

In the early 1980s, a number of authors took upon themselves the task of transferring the principles of war and battle, as codified by generations of military strategists such as Von Clausewitz, into the business arena. Organisations cannot only seek to destroy existing competitors, but also to prevent the emergence of new ones. Pre-emptive strategies may be used to render it unlikely that a new competitor survives.

Competition is goal-oriented, directed towards achieving one's own goals even though this may have a negative effect on other competitors. Coexistent competition occurs when actors do not see one another as competitors, and therefore act independently of each other.

It may be argued that one single relationship can comprise both cooperation and competition, that two firms can compete and cooperate simultaneously. In any specific relationship, elements of both cooperation and competition can be found, but one or the other of these elements can in some cases be tacit. If both the elements of cooperation and competition are visible, the relationship between the competitors is named co-opetition. For example, two competitors can complement each other by creating new markets, but will compete when it comes to separating the markets. Hence, organisations may make the same products, but not compete in the same markets or segments or may not compete in the same way (Bengtsson and Kock, 2000). However, the two competitors have to be careful not to be seen to be engaging in anti-competitive behaviour.

Finally, in cooperation, the companies involved strive towards the same goals, for example by working together on a common technological platform in strategic alliances. The interaction between competitors is variable and can involve both cooperative and competitive interaction. Individuals moving from one competitor to another provide a potential link and a powerful means by which cooperation between them can be achieved. Such an individual brings with him or her the existing relationships from the organisation left behind. These relationships may reduce with time, but are unlikely to disappear.

The individual provides a potential communication mode. In many industries movement of employees between competitors is common, and the resultant network of personal relationships is an important input for the implementation of the firm's marketing strategy.

In summary, if the firm, on the other hand, needs resources held by the competitor and does not have a strong position, cooperation is the best option. The advantage of cooperation is related to development, but the function of cooperation is the access to resources rather than a driving force or pressure to develop. Through cooperation a company can gain competence, market knowledge, reputation, access to other products and other resources of importance for its business.

6.7 INTERNAL MARKETING (IM) RELATIONSHIPS

Parallel to relationships that curb the free market mechanism outside the company, there is an internal market consisting of groups communicating to other groups within the organisation. Internal marketing is considered to be the process of creating market conditions within the organisation to ensure that internal employees' wants and needs are met. This will be the best basis for creating a relationship with external players.

Rafiq and Ahmed (2000) have defined internal marketing as

> a planned effort using a marketing-like approach to overcome organizational resistance to change and to align, motivate and inter-functionally co-ordinate and integrate employees towards the effective implementation of corporate and functional strategies in order to deliver customer satisfaction through a process of creating motivated and customer-orientated employees.

Internal marketing emerged from services marketing. Its purpose was to get the front-line personnel – who have interactive relationships with external customers – to handle the service encounter better and with more independence. The distinction between internal and external marketing becomes blurred.

For instance, the motivation of employees via marketing-like activities was implicit in the early stages of the evolutionary development of IM. Grönroos (1981) and others also recommend the marketing-like approach to improve the inter-functional coordination and hence customer orientation. Inter-functional coordination and integration are in later stages. In later stages of the evolutionary development of IM, the central reason for interest in IM was its contribution to effective implementation of strategy via increased inter-functional coordination and employee motivation.

At the centre of this framework is customer orientation, which is achieved through a marketing-like approach to the motivation of employees, and inter-functional coordination. The centrality of customer orientation reflects its importance in the marketing literature and its central role in achieving customer satisfaction and hence organisational goals.

The objective of internal marketing within RM is to create relationships between management and employees and between functions. The personnel can be viewed as an internal market, and this market must be reached efficiently in order to prepare the personnel for external contacts.

Making staff feel more valued motivates them to pull out all the stops and provide a better service to those outside.

Companies that fully embrace the concept of IM will therefore reflect their commitment in, for example, values, assumptions, behaviours, dress codes, reward schemes and office arrangements. In fact, an organisation's position relating to IM can be aptly communicated by the whole corporate brand.

Key components of IM include (Strategic Direction, 2009):

- *Trust*: employees who feel trusted are much more likely to collaborate and share information that will help the organisation satisfy customer demands. Highlighting similarities rather than differences can help cultivate trust and a community spirit. In contrast, too great an emphasis on rank or status can destroy any such ambitions.
- *Empowerment*: insightful management encourage employees to use discretion when dealing with the customer. Being allowed this flexibility on how to perform duties improves employee self-worth and helps nurture a 'can do' attitude that makes for greater adaptability and responsiveness. While potential issues lurk in the shape of overconfidence and role ambiguity, finding an optimal level of empowerment should prevent any serious problems. Likewise, clarifying performance expectations can avert confusion by helping employees strike the right balance between individuality and teamwork.

- *Behaviour-based evaluation*: the norm for many organisations is to use measurable outputs such as sales figures to gauge success. However, a focus on competences that include communication, personal qualities and service-related behaviours such as problem solving is deemed a more appropriate assessment of customer service encounters. That way, it is easier to identify where additional or enhanced employee input can improve the customer's experience.
- *Recognition and appreciation*: reward schemes provide a powerful means of encouraging enforcement and continuity. While the type of programme should be appropriate to organisational culture, it is worth remembering that a simple 'thank you' or 'well done' can also do wonders for morale.

An IM organisation can expect to reap rewards in the shape of customer loyalty, positive word-of-mouth (WOM), increased customer spending and cross-buying behaviour. But the benefits do not come cheap because the initiative demands significant capital investment in human resource capabilities.

Intranets
Connects the computers within a business together.

To a large extent, internal marketing must be interactive. An **intranet** can help, but the social event is also important. At the start of a sales season, large groups gather to learn, to be entertained and to mix socially for a day or two.

Training and education can be seen as tools for internal marketing. Disney has its own university, and McDonald's has its Hamburger University.

Internal marketing can be based on personal and interactive relationships as well as on a certain amount of mass marketing. Traditional activities to reach employees have often been routinely performed and have built more on bureaucratic principles and wishful thinking than on professional marketing and communications know-how (Mahnert and Torres, 2007).

6.8 SUMMARY

Relationships, rather than simple transactions, provide the central focus in marketing. It is not enough to discuss the activities that a single firm performs. RM includes relationships or networks among companies and their suppliers, lateral partnerships among competitors, government and not-for-profit organisations, internal partnerships with business units, employees and functional departments, and buyer partnerships with intermediate and ultimate customers.

Competitive advantage stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation. The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation. *A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors.*

The focus in the value net is managing relationships – similar to the systems idea of positive synergistic effects created through linkages – rather than optimising individual components of the system. The systems approach focuses not only on the components (e.g. functions or activities), but also on how they are related.

In this chapter, we have limited our understanding and analysis to how the activities are linked to the activities of a company's customers, suppliers, competitors, complementors and employees (the value net). Furthermore the company has to have good relations (internally) and communication to its employees (internal marketing).

According to the value net a company's activities evolve within its relationships with these organisations.

Relationship with customers

The always-a-share customer and the lost-for-good customer represent opposite ends of a continuum of exchange situations. The always-a-share customer displays less loyalty to a particular supplier, whereas the lost-for-good customer remains loyal to a particular supplier for a long time.

Relationship with suppliers

The adversarial approach is derived from a transaction-based theory as it explains how firms try to minimise the total production costs by maintaining multiple sources in order to reduce the power of their suppliers with the cooperative relationships. On the other hand, the company develops a close relationship with a small number of selected suppliers.

Relationship with competitors

Four different types of relationship have been identified, taking the trade-off between cooperation and competition into account: competition, coexistence, co-opetiveness and cooperation.

Relationship with complementors

These are based on collaboration between manufacturers of complementary functions and/or products.

Relationship with internal employees

The employees can be viewed as an internal market. Internal marketing is considered to be the process of creating market conditions within the organisation to ensure that the internal employees' wants and needs are met. This will be the best basis for creating relationships with external organisations.

The development of a customer relationship can be explained by use of the marriage metaphor: awareness, exploration, expansion, commitment and termination (dissolution). The decision to terminate is considered to be due to the interaction of a trigger event and the existing state of the relationship. The factors that characterise an inter-firm relationship cannot only provide a cause for the termination, but impact greatly on the strategies firms utilise when ending a relationship. A model of inter-firm relationship termination was proposed and propositions regarding choice and use of relationship termination strategies were explored.

CASE STUDY 6.1 Saipa

The Iranian car manufacturer seeks a drive to serve

Background

Saipa (an acronym for Société Anonyme Iranienne de Production Automobile) was established in 1966 as an Iranian-based car company. Its focus lay initially in producing cars, to cater for a predominantly Iranian audience.

In 1990 Saipa decided to consolidate its activities by forming the Saipa Group, which has grown to house a mixture of 86 separate companies, sub-divisions and subsidiaries. With 48 per cent of the company being owned by the Iranian government, Saipa reached a local market share of 55 per cent in 2006. It has also now become the largest automotive group in the Middle East, with the production of more than 1 million cars per year.

A contributing factor to Saipa's success has been the adoption of more than one strategic approach to producing vehicles. Its vehicle portfolio is made up of:

- existing overseas designs, with their final assembly being completed by Saipa;

The Saipa logo
Source: Courtesy of Saipa

Saipa's range of cars
Source: Courtesy of Saipa

- the manufacture of licensed versions of existing designs;
- Saipa-designed and manufactured vehicles.

Partnerships and joint ventures that have been forged with Citroën (France), Renault (France), Nissan (Japan) and Kia Motors (Korea) have resulted in Saipa manufacturing or assembling selected lines from each of these companies. The vehicles which Saipa has completed have served both its own domestic market and other overseas markets – including France, the Middle East and North Africa.

The strategic decision to form partnerships and joint ventures in this way has allowed Saipa to develop its own manufacturing competences over time. The company has benefited from understanding the manufacturing process, from the component upwards, with the support of established manufacturers. Production growth has also been managed smoothly through, first, being able to utilise imported parts and, second, by becoming more self-reliant – moving towards taking control of these manufacturing duties. In addition, Saipa by externally co-branding its vehicles, has capitalised on some of the existing brand equity and product values previously built up using its partners' resources.

Sapia facts

- Established in 1966
- Heaquarters in Teheran, Iran
- 18,500 employees
- Second-largest car manufacturer in Iran after IKCO (Iran Khodro Company)
- Iranian government owns 48 per cent of Saipa

Exports from the Saipa Group

Saipa's exporting activities are of increasing importance. The value of exports by Saipa and its affiliates surpassed US$150 million in the last Iranian calendar year ended 20 March 2009, showing a 30 per cent rise over its preceding year. Commercial vehicles and cars accounted for 50 per cent and 40 per cent of the exports respectively. Spare parts and technical-engineering services had a 10 per cent share in the value of exports.

The company has set a goal of $300 million exports for the current year through expanding its target markets to 40 countries.

Political positioning

In 2008 Saipa signed a memorandum of understanding with Malaysia's Proton, with the aim of encouraging a unified strategy looking to share resources and supply networks. An additional objective was to exert leverage on the ties that exist between Muslim countries, in the interests of then strengthening them. The aim of both companies, as stated, has been to encourage other Muslim counties to adopt this approach in order to better serve new markets collectively.

It appears that not only religion, but also global politics have afforded Saipa some successes in the face of the difficulties associated with conducting business under existing sanctions against Iran: Saipa has established automobile assembly lines in Venezuela and Syria, countries that have previously been termed by the US as 'axes of evil'. However, in the shadow of the economic downturn of 2009, references to axes seemed to have shifted away from politics and more towards the manufacture of vehicles. Saipa issued a press release

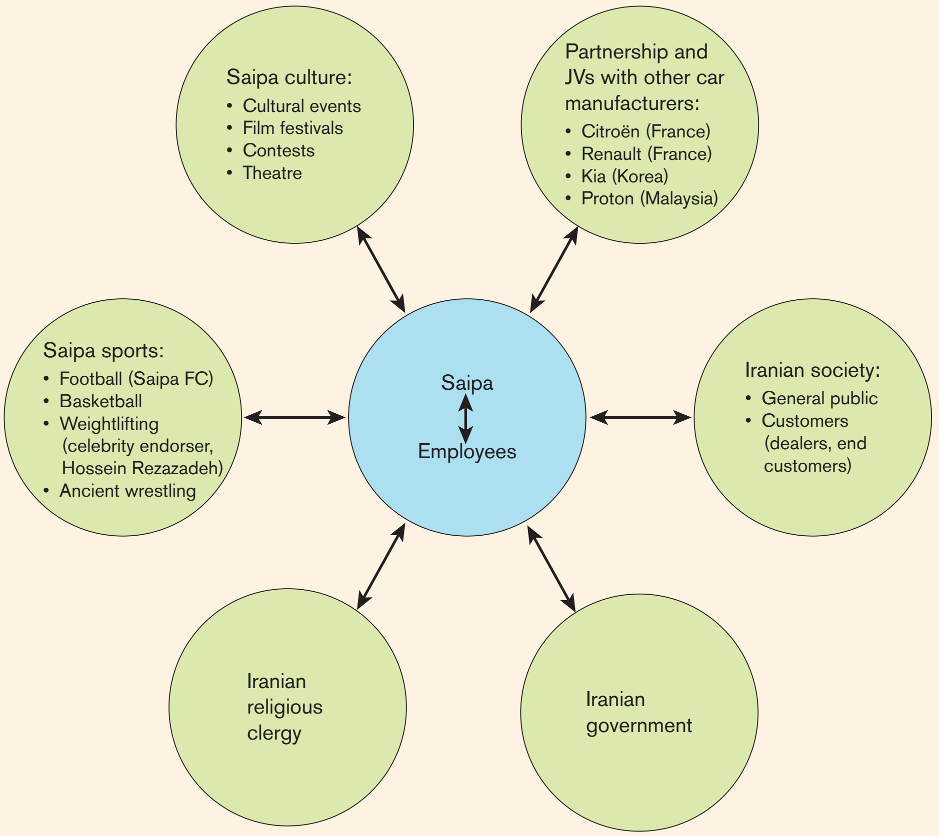


Figure 6.17 Saipa's diversified network of relationships

indicating that 'big auto-makers' in the US have now invited them to participate in joint projects. Further to this, other (European) auto-makers, which have previously shown little interest in working with Saipa, have also considered selling shares to it.

The people factor

But perhaps the most significant and critical success factor in all of these activities lies in Saipa's ability to manage consumer and employee relationships with tact, diplomacy and compassion. The company has extended this underlying principle beyond car manufacture and reframed it – to secondarily encompass a desire to serve the generalist needs of society. A people-centred approach, driven by human resource management and relationship marketing principles, has led Saipa towards a course of action which would see it attempt to actively embed these values much further than just management and marketing communications activities.

Saipa formed a subsidiary company called the Saipa Culture and Sport Company, in the interests of promoting Iranian culture, health, sport, well-being and family values. The company's focus has been to offer worthwhile 'other' initiatives for the general public, which have little to do with cars. As they all carry strong Saipa branding, this approach has in turn provided another platform, serving the expansion of both Saipa's brand proposition and core competences.

Culture counts

Activities have seen the company organise Saipa cultural events, film festivals and contests, and distribute CDs, books and magazines on a variety of topics. In addition, employees have enjoyed access to on-site courses held in lecture theatres (ranging from job-related technical subjects to English), a dedicated mosque, on-site healthcare, a pharmacist and sports facilities. The children of Saipa employees have also received presents delivered to them on their birthdays.

In a country with an ancient tradition of passionately celebrating the arts, romance, sports and Persian excellence, Saipa would argue that its approach is more than a strategic business decision. Instead, staff hold the view that, as individuals, it is both in their DNA and a social responsibility, and therefore has to be reflected in the activities of Saipa.

In the field of sports, Iran is proud of its national treasure, ancient wrestling. This, however, is being quickly replaced by many other activities including football, martial arts, basketball and other mainstream sports. This is perhaps a sign that despite much International press coverage, Iranians are no different than other nations and they are keen to compete and share experiences with people from other countries. In trying to cater for its consumers, these trends have meant that Saipa has had to keep a keen eye on consumer preferences, paying particular attention to emotional, behavioural and psychographic factors outside car consumption.

A thirst for knowledge

Iran holds a large, young and increasingly educated population. In contrast to other conservative Islamic societies such as Saudi Arabia, Iranian women are free to drive and make up approximately 60 per cent of the university student population. Also, interestingly, it was reported in 2006 that 70 per cent of the students in the applied physics department of Azad University were women. While women still need the permission of their families, or husband, to work, there has been strong encouragement from the government for them to do so.

With such large numbers of ambitious and educated Iranians, there have been consequential problems associated with increased economic migrancy. In 2006, the International Monetary Fund reported that of the 90 countries that it measured, Iran had the highest rate of brain drain. Saipa seems to have positioned itself well through its part-government ownership and strong intent to serve society. The company is attempting to address this issue through social inclusion, job creation and the championing of Iranian values.

By embedding itself into mainstream society and encouraging the consumption of at least one of its offerings, Saipa has been gifted a variety of touch-points with the consumer. Collectively, they afford it the opportunity to develop meaningful relationships and take advantage of a strong brand presence.

Sport becomes another vehicle

Saipa decided to branch into the field of sport, forming a portfolio of Saipa-branded clubs and teams. Sporting activities have included football, female futsal, volleyball and weightlifting, among others.

The company cites three underlying key strategic reasons for this approach:

1. to demonstrate that Saipa cares about personal health and well-being. Saipa wanted to address a possible concern, that in encouraging consumers to purchase its vehicles, this was not an excuse for them to become lazy or neglect personal fitness. In conjunction with this, Saipa has attempted to design more environmentally friendly vehicles. These safeguards are particularly necessary for those discerning consumers who perhaps scrutinise the activities of a partly owned government organisation more;
2. to take further advantage of the associated marketing communications and relationship marketing opportunities that sport affords;
3. to assist in the execution of Saipa's wider organisational objectives and its commitment towards serving people and Iranian culture.

Football – the chance to score brand extensions

It is possible that Saipa's relationships with French car manufacturers have had a more profound effect than simply producing cars. FC Sochaux is a French football club that was founded in 1928, as a works team for the Peugeot motor car factory. In 1929 they became France's first professional football club. In 1989, Saipa purchased a 4th division team, already playing in the Tehran league. They went one step further than Peugeot, however, in renaming their team Saipa FC.

Initially workers were encouraged to join the team, but they were eventually replaced by higher-profile professional players. A notable addition to the team was Iran's most famous footballer: player/manager Ali Daei. Daei's credentials and achievements remain unrivalled. He was the first Asian player to feature in a UEFA Champions League match and he currently holds the honour of being UEFA's all-time leading goal scorer in international matches, with 109 goals in 149 games for Iran. Daei also provided kit for the team, through his own sports manufacturing operation. While he no longer plays for or manages Saipa, his presence is still felt and he often appears at press events.

Saipa FC became league champions on three occasions: in 1994, 1995 and 2007. They also won the Hazfi cup in 1995. Despite these successes and a reputation for having the best youth training programme in Iran, Saipa FC's fan base has remained relatively small in comparison to teams such as Persepolis FC. This is perhaps due to football supporters' views of government – i.e. football is an activity that many involve themselves in

Saipa FC football team in action
Source: Courtesy of Saipa

to escape from politics. Having said this, Eastern bloc communist regimes have historically exploited football, especially during the Cold War, as a vehicle for their propaganda machines. This is not to say that Saipa and the Iranian government have attempted to do the same; nevertheless, this legacy remains and appears to still have some bearing on supporters' perceptions.

Hossein Rezazadeh as celebrity endorser or mineral water (truck advertisement in Teheran)
Source: Jon Wilson

Lifting Saipa to a higher level

Another high-profile celebrity endorsement has come in the towering frame of Hossein Rezazadeh, nicknamed the 'Iranian Hercules'. A former Saipa weightlifting club member, but now retired due to injury, Rezazadeh still holds world records in weightlifting's super-heavyweight class, in the snatch, clean and jerk and total weight categories. He became the first Iranian athlete to win two Olympic gold medals. In 2003 Saipa also grabbed the Asian Club Weightlifting title.

Rezazadeh was famously asked by Turkey's Weightlifting Federation to join them, by switching nationalities. In return it was suggested that he would receive a stipend

Support for Hossein Rezazadeh at Asian Games, Doha, Qatar
Source: Hassan Ammar/AFP/Getty Images

for US$20,000 a month, a luxury villa and a further lump sum reward of US$10 million if he won a gold for Turkey at the 2004 Athens Olympics. To the delight of Saipa and Iranians alike, Rezazadeh rejected the offer, saying that 'I am an Iranian and I love my country and people.'

Supporting regulations and the battle for ideals

Saipa's relationships, however, have at times faced added challenges. The religious clergy plays a pivotal role in Iranian affairs. Its Supreme Leader, who is currently Ayatollah Ali Khomeini, also sits at the very top of Iran's power structure, ahead of the president. In 2006 Ayatollah Ali Khameini vetoed a ruling by President Mahmoud Ahmadinejad that would have allowed women to attend major sporting events.

The Iranian clergy and government go further than many other sporting nations in outlining what is allowed or deemed acceptable. This set of conditions is often seen as being quite complicated by outsiders, especially from non-Muslim countries. The general principle is one which aims to either segregate or control the interaction between the sexes in public places. For example, females are not allowed to attend male sporting stadium events, but they can watch them on television, the rationale being that this is to avoid mixed socialising outside the family unit and female fans swooning or chasing after sportsmen. Females do have their own sporting activities, with all female staff and spectators, in dedicated closed venues. This is to allow them to take off garments, such as the chadar or hijab (headscarf and cloak), which they would normally have to wear in the presence of male non-family members. If there are occasions where females are participating in sporting events with a male presence, or photographs and footage is being taken for public consumption, then they have to cover their entire body – with the exception of their faces, hands and feet.

It is worth mentioning that this increase in perceived bureaucracy is not meant to deter people, but is in fact part of a genuine attempt by the Iranian Republic to balance adherence to religious beliefs with more generalist and globally held societal values. Comparably, conservative countries such as Saudi Arabia have tended to opt for simpler rules and regulations, as they see them, which instead suggest prohibiting women from engaging in many of these activities, full stop. The Iranian regulations also demand that supporters and athletes alike reflect on their moral conduct on and off the field, lest further restrictions be applied.

Women's futsal
Source: Maryam Majd/Shirzanan

Sensitivity when serving society

In light of these sensitivities, Saipa has had to pay particular attention to the way in which it promotes and organises its activities, for fear of being accused of encouraging what would be deemed inappropriate behaviour. As a result, marketing communications initiatives steer well away from using images, music and stories that are provocative, sexually explicit or erotic, encourage sexual promiscuity, or are seen to erode the ideals of marriage.

It could be said that this is in stark contrast to some of the approaches adopted by other car manufacturers outside Iran. There is instead an established tradition of drawing heavily from these aspects – positioning the car as an object connected to, and manifest in, its sexuality and evocation of lust. Having said this, it is unlikely that Iranian consumers remain unaware of these brand messages. It is in fact possible that they will still have their perceptions influenced, and in turn their value systems, in a more subversive fashion.

Future brand opportunities

Perhaps a greater limiting factor may occur if Saipa were to choose to extend their lines into the luxury car market. With government having such a large share of ownership, Saipa may find it difficult to communicate the necessary associated brand values to Iranian consumers. The idea that government has a role in marketing extravagance, opulence and luxurious consumables may require some additional work; at its worst, it could even backfire, subject to future political affairs.

Research suggests that attaining qualifications can, in the long term, lead to increased economic wealth. In turn, the appetite of an individual to choose to spend their wealth on more goods and services, of a perceived higher value, may increase. With Iran's educated population growing, there is likely to be both this appetite and a potential for market growth, which Saipa may not currently be positioned to take full advantage of. There is a risk that government involvement could devalue the premium aspects of the Saipa brand, in the eyes of the consumer, which may lead to cravings for alternative brand offerings.

Following this, an additional threat may appear when competing with other car manufacturers' brand extensions and their associated emotional brand components. Porsche, for example, has branched into producing branded luxury goods, ranging from pens and watches to coffee-makers and audio systems, among other items. Through this diversity, they are both capitalising on a legacy of existing brand ideals and, in much the same way as Saipa, attempting to wean a new audience of consumers.

Global identity

While most other car manufacturers seek to develop a globally neutral identity, differences between Saipa and especially premium brands might centre on whether culture plays a pivotal role in intrinsic values demonstrating brand superiority. Further to this, premium luxury brands are often seen as being better positioned to offer line and brand extensions in high-involvement and price categories. This is possibly why Saipa has decided to focus on more experienced-based activities as they encourage a greater deal of participation from the consumer and, as a result, avoid many of these dilemmas. The reason being that, if a consumer is satisfied by the offering (in this case an event), they are more likely to transfuse their own intrinsically self-held perceptions of worth to Saipa. More emotionally driven communications, if executed well, are also seen to appeal more strongly to consumers. By the same token, sports offer Saipa an added mode by which they can compete both domestically and abroad. A triumph on the field can lead to successes on the parking lot.

QUESTIONS

1 How is Saipa's network of relationships different from the relationships of typical Western car manufacturers?

2 Explain the fundamentals of Saipa's market communication strategy.

3 In order to fulfil Saipa's export goals, which international markets would you recommend them to focus on?

SOURCES

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QUESTIONS FOR DISCUSSION

1 What are the main differences between B2C and B2B relationships?

2 What might be the advantages and disadvantages of creating relationships with consumers for a manufacturer?

3 Motorola and Hewlett-Packard compete in some markets, are supplier and customer respectively for each other in various markets, share suppliers in other markets, often have the same customers, and have relationships in yet other markets. What should be done by the firms to achieve joint goals, minimise conflicts and protect core assets?

4 Some consulting companies argue that by properly incorporating suppliers in the product development process, firms can cut the cost of purchased parts and materials by as much as 30 per cent. Discuss how a buyer–supplier relationship might create these costs savings.

5 Discuss the possibilities for a manufacturer who wants to integrate consumers into the product development process.

6 Explain how distance in cross-cultural buyer–seller negotiations can be reduced.

7 Dell has entered into a relationship with IBM's Global Service Division. Under this agreement, IBM will now provide the service support for Dell's big customers. Evaluate the benefits of the relationship to Dell and IBM.

8 Relationships often involve more than the salesperson and a purchasing agent ('bow-tie' model). Often, both a whole selling team and a whole buying team are involved. Describe the interactions between buyer and seller in the 'diamond' model.

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