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After graduating from ESCP Europe Business School, Sylvie Lacoste held senior management positions in Business Development and Global Key Account Management in international MNCs before moving recently to academia and joining Advancia-Negocia Business School as an associate professor in Marketing.
She has published a book, "Key Account Management" (Pearson Education France) and her research deals with B to B marketing topics, with a focus on supplier and Key Accounts interactions (doctoral dissertation). She has also presented papers in academic conferences on supplier segmentation from a key account perspective (EMAC 2009) and power in B to B relationships (with Keith Blois – IMP 2009).

"Strategic Partnership": Moving the Limit of Relationship Marketing Further

Abstract

Purpose: Although the terminology of "strategic partnership" has been commonly used among researchers and practitioners, a new sense has recently emerged which extends the cooperative border of the Relationship Marketing continuum (Day, 2000). This paper aims to report on a qualitative study that illustrates how "strategic partnership" has evolved and how it has now appeared as a new segmentation of key customers' suppliers.

Design/Methodology/Approach: A qualitative study based on four industrial case-studies is used to explore how the collaborative end of the relationship continuum has been extended.

Findings: The results show a sophistication of the customer-supplier relationship in Business-to-Business with a new conceptualisation of "quasi vertical integration".
Managerial implications for the supplier are discussed as this new supplier segmentation may strongly impact on the key customer management of the supplying firms and provide SMEs with new opportunities to supply key accounts.

Research limitations: This research is a first step to investigate "strategic partnership" as an evolution in the customer-supplier relationship spectrum and aims to explaining the use of this new typology, rather than measuring it.

Originality/Value: Little research has been carried out, as of today, to explore the evolution of the far-end of the collaborative anchor of relationship marketing from the key customers' perspective.

Keywords: strategic partnership, key customers, supplier segmentation

1. Introduction

Relationship Marketing has received a great deal of attention since the nineties and marketing research focus is towards relational exchanges that emphasize the need for mutual co-operation to reach mutual benefits (Anderson and Narus, 1991; Cardozo, Shipp, Roering, 1992; Dunn and Thomas, 1994; Kanter, 1994; Morgan and Hunt, 1994; Dyer and Singh, 1998).

This focus is based on the willingness to create and share value, both on the supplier (Kalwani and Narayandas, 1995; Walter et al., 2001) and customer side (Anderson and Narus, 2004). Ulaga (2003) argues that most of the value created comes from indirect economic benefits such as product quality, supply chain management product co-development, additional services, information sharing, personal interaction. Suppliers that are able to optimize those benefits can gain key supplier status and optimize their share of wallet (Ulaga and Eggert, 2006).

Most suppliers have understood the need to provide their key customers with optimised relational benefits - The question today is how do key customers revisit their relationships with their key suppliers and how do they segment them within the relational benefit spectrum?

Richards and Jones (2009: 314) stress the need for a “strategic” fit between the suppliers and their key customers, that they define as “the degree to which the buying and selling firm’s strategies are aligned (i.e. growth strategies or market share ones)”. The word “degree” implies some kind of gradual improvement in the mutual alignment that may give birth to a new relational continuum moving from “key” to “strategic” supplier. What are the differences between those two supplier status?

Our paper examines the recent changes in key supplier-customer relationships and more specifically how and why changes happen at the “cooperative” border of the relationship continuum. This paper is structured as follows: first we discuss literature related to supplier segmentation set up by (key) customers, then we describe our research process and methodology. Third, findings from our qualitative research are discussed. Finally, we discuss the theoretical contribution of our paper and identify managerial implications before opening up further research plans.

2. Literature review

2.1. From Strategic Partnership to Strategic Supplier

The typology of the supplier-customer relationship comes back to the bi-polar approach described in the Relationship Marketing continuum. Hence, Dyer, Cho and Chu (1998) have classified supplier relationships between two opposite types of relationships: (durable) “arm’s length relationships” (quasi-markets) and “strategic partnerships” (quasi-hierarchies). The main differences between both classifications being the product characteristics and supplier/customer interdependence (See figure 1).

INSERT FIGURE 1 ABOUT HERE

From those two polar points, Webster (1992) ranges suppliers’ relationship on a continuum with different stages:

- ⇨ Transaction
- ⇨ Repeated transaction
- ⇨ Long-term-relationships
- ⇨ Buyer-seller partnerships
- ⇨ Strategic alliances
- ⇨ Network organizations
- ⇨ Vertical integration

As for Dyer et al. (1998), Webster’s focal point of the relational optimum within the dyadic relationship is the “strategic alliances” that may lead to vertical integration (we rule out network organizations as we are moving out of the dyadic relationship). By strategic, Dyer et al. (98: 68) mean “high-value inputs that are related to the buying firm's core competence and may be useful in differentiating the buying firm's product » whereas Webster (92 :8) defines « collaboration among partners involving the commitment of capital and management resources with the objective of enhancing the partners’ competitive positions ».

Ploetner and Ehret (2006:4) define vertical partnerships as a specific type of relationship based on interdependency and trust, with a mutual commitment for collaboration.

For all those researchers, “strategic” partnership or alliances are the step before internalisation, hence before vertical integration. This is why we qualify “strategic

partnership” as the ultimate limit of relationship marketing.
Bensaou (1999:38) helps to define the “strategic partnership” by reinforcing the Dyer et al. approach. He stresses the need for strong supplier proprietary technology, the high activity in research and innovation from the supplier and the high level of customisation required.
Some other researchers (Cannon and Perreault, 1999; Morgan and Hunt, 1994) stress the role of trust as the foundation for those strategic partnerships at the forefront of collaboration.
Nevertheless, if we understand the key points of a “strategic” partnership, we need to find out which are the specific criteria or situation that will lead key customers to consider their suppliers to be “strategic” and which supplier segmentation they are using.

2.2. Supplier Segmentation: from “key” to strategic” suppliers

Despite the academic contributions to better understand buyer-seller relationships, little research has been carried out so far on supplier typologies from the buyer’s perspective.
Therefore, we suggest deriving the supplier segmentation from the customer segmentation, as some deeper research has been carried out in this area, especially with the application of the Portfolio Theory (Fiocca, 1982 ; Cunningham & Homse, 1982; Campbell & Cunningham, 1983 ; Dubinsky & Ingram, 1984 ; Dubinsky, 1986 ; Turnbull & Valla, 1986 ; Yorke, 1984 ; Tumbull, 1990 ; Yorke & Droussiotis, 1994; Salle & Rost, 1993, Salle et al., 2000) that redefine the continuous nature of supplier–customer relationships from transactional to relational relationships based on three major stages, the definition of the unit analysed, the dimensions of analysis and the allocation of resources.
From a purchasing analysis to carry out supplier segmentation, we could adjust these three stages:

- The definition of the unit analysed could become the purchasing scale (local, regional, global);
- The definition of the unit analysed could refer to the Kraljic matrix (1983) with the complexity of the purchase process versus the strategic positioning of the purchased product;
- The allocation of the resources could be the supplier specific added value.

Olsen and Ellram (1997) have studied an interesting dimension, which may help to classify suppliers: the relative “supplier attractiveness”. Thereby, they try to analyse suppliers’ input according to economic (transactional) factors (volume or dollar value of purchases) but also relational factors (performance, technological and organizational factors, etc.).

If the supplier specific added value is more on the economic side, it could be segmented as a “standard” or low cost supplier, but if the supplier specific value comes from relational benefits, it could be segmented as a “key” supplier (Ulaga and Eggert, 2006). If, the specific value is derived from a very high level of research or product customisation, the supplier could be then segmented as “strategic”.

Extant research uses both terminologies, “key” and “strategic”, without making clear boundaries between the two types of relationships or suppliers.

Meanwhile, a “strategic” supplier, grounded in managerial practice, seems to be a new terminology. We have thus launched a field research to better understand this conceptual approach to supplier segmentation from key customers on the cooperative side.

3. Research Methodology

3.1. Methodology

The empirical research on which this paper is based was a study of the relationships between key customer buyers and their suppliers within leading companies in both the industrial and services sectors. Interviews were conducted with experienced senior buyers who had been contacted through a Business School’s alumni network. The sample consisted of one interview in each of ten companies. This was consistent with sample sizes recommended for exploratory studies (McCracken, 1988). The interviews lasted between one and three hours and were audio-recorded and transcribed within 72 hours. Thematic coding with the use of N’Vivo software and a mapping of concept relationships (Miles and Hubermann, 1994, 2003) were used to analyse the results.

To move from a broad picture into a refined and dyadic analysis a second series of case studies (Yin, 1984; Eisenhardt, 1989) was undertaken investigating four Global Key Accounts. The sample comprised four MNC’s which were leaders in their industries in three business sectors: industrial equipment (case-study 1); packaging (case-study 2); and, FMCG (case-study 3 and 4). As the intention was to obtain the opinions of influential decision makers involved in selecting and monitoring supplier relationships, interviews were conducted with senior executives combined with junior executives in charge of specific product categories. Those interviewed were Global or European Purchasing Managers/Directors and, in addition, for external validity (Yin, 1984) the ‘users’ or “influencers” of the products being purchased (e.g. Project Managers, Corporate Technical Managers, etc.).

Some verbatim were later used to pinpoint the supplier segmentation process.

For external validity (Yin, 1984) Key Account Managers and Directors of organizations supplying these four MNC’s were also interviewed. Including those taking part in the exploratory study, the final sample consisted of thirty informants.

For internal validity (Yin, 1984), some key informants were shown the results of the completed research and invited to give their feedback, which led to a few minor adjustments.

3.2 Participating companies (case-studies)

Case-study 1

This group of U.S. origin is a global leader in packaging. Its 2009 turnover was 7.9 billion $ and it employs over 20,500 people worldwide.

Although procurement is mostly involved in a transactional approach with suppliers, for strategic purchases (products directly concerned with food safety aspects), there is no question of shutting oneself in a transactional relationship, because all supplier switching is extremely expensive and risky. The first three suppliers will represent 90% of purchases and 3-4 others will be "challengers" who share the remaining 10%.

The contracts are global and are often signed over several years. Encouraging competition among suppliers remains strong, but it is rarely by bidding (or only on targeted products, but never the entire portfolio of a supplier): volume discounts and allowances resulting in wallet share are negotiated by mutual agreement through specific products. There is no question of challenging a supplier (... too risky), but to play on changes in wallet shares of different suppliers, encouraging suppliers "key" and "challengers" to modify their discounts based on incremental volumes. Nevertheless, suppliers with high and consistent quality levels have a strong power base versus their key customer and are considered as “strategic”.

Purchase strategy is thus a fine-tuning of wallet shares, which relies primarily on an internal (align all internal stakeholders) and external (vis-à-vis suppliers and their entire dedicated teams) communication plan.

Case-study 2

This French group is a world leader in industrial equipment. Its 2009 turnover was 5 billion euros and it employs over 22,000 people worldwide.

In 2001-2002, the corporate buyer began to build with pre-qualified suppliers a relationship he calls "excellence" materialized in the form of "framework agreements" signed for three years. He was to rebuild the relationship with suppliers to change the behaviour of plants and change the criteria for purchasing (habits, personal relationships, etc..).

It was also to harmonize procurement practices within the group and split the technical approach (responsibility of management and industrial plants) of the financing approach (responsibility of the purchasing department).

These framework contracts predefine the relationship, but also the transactional aspect of the relationship (definition of RFQ process). This collaborative basis is limited to a small number of qualified and “strategic” suppliers and embedded in a transactional approach for every project launch.

Case-study 3

This French group is a leader in its industry (FMCG). Its 2009 revenues amounted to 15 billion euros and it employs over 80,000 people worldwide. Since the late 1990s, this large account has changed its purchasing strategy in three phases. The first phase until the early 2000s was strictly focused on cost reduction, with a priority on price reduction and heavy use of transactional tools (tenders, auctions). The second phase was the logical continuation of the first, with a shortlist of competitive suppliers. The third phase is now based on the search for value through the concept of Total Cost Ownership and the innovations from suppliers.

Since 2006, this group has established strategic partnerships with a dozen suppliers (the goal is to reach 20 strategic partnerships). Suppliers, who can now provide an exclusive innovation that is able to create a competitive barrier with the customer’s competitors enjoy a status of "partners". Such a change in supplier relationship management has occurred with an improved level of strategic alignment at the top of the business (coordination between the three vice-presidents purchasing, marketing and R & D).

Case-study 4

This group of foreign origin is a leader in its industry (FMCG). Its turnover in 2009 amounted to around 82 billion euros and it employs more than 282,000 people around the world.

This key account, known for seeking consensual relationships with suppliers, has evolved from a purely cooperative partnership (since the mid-1990s), to a top-down approach with selective partnerships at European level (since 2003).

Supplier Relationship Management adds a geographical dimension to a supplier segmentation linked to the requirements of each key account own business. It moves along a continuum starting with a relationship based on prices and costs to a relationship of quasi-integration. Suppliers, according to their capabilities, are encouraged to move from “standard” towards “ preferred” supplier status, and few of them reach the final status of "strategic" supplier (two or three per product spend).

4. Research Findings

Key suppliers are today matching Ploetner and Ehret (2006:4) definition of buyer-seller partnership: traditional vertical partnership is based on cooperation as defined by Trent (2005), i.e. with both partners willing to improve the supply chain in all its dimensions and work on product co-development. They seem to work with such suppliers on a contractual basis defined by framework contracts for one to three years.

As more and more key customers are reluctant to go mono-sourcing, they will choose to have one to three “key” suppliers, but more interestingly, for the past few years, key customers have moved forward the continuum relationship to develop a new type of relationship with their suppliers, and to define the “strategic” supplier. We are here no longer in a cooperative relationship, but moving towards a collaborative relationship (Trent, 2005) with very specific features. Key customers will only choose one “strategic” supplier per line of products, whilst keeping “key” suppliers at the same time, but the “strategic” supplier will have a better position than the “key” ones and get a bigger share of wallet. The “strategic” supplier will only be chosen for strategic lines of products or brands or projects and a ten year partnership may be developed if required.

Under those specific conditions, a key customer will have 15 to 20 “strategic” partners out of thousands of suppliers.

Quote from a Global Purchase Director – Packaging (case study 3):

> *"The" strategic partner " is the ultimate level. They are 10 to 15 suppliers, from a total of perhaps 6000 suppliers, I say anything, because anyway the number is huge. "*

Quote from a European Sourcing Director (case study 4):

> *“ Then we come to a truly strategic approach, which will involve one or two or three suppliers: we are in a different concept. It is a partnership, but on the complete supply chain value: production, purchasing, logistics, etc.. [...] We're trying to work to get the best possible overall price.”*

Suppliers can only reach that status if they bring to the key customer unique scientific or technological knowledge. The aim of key customers is to build a competitive barrier against their own competitors by signing an exclusivity agreement with such a "strategic" partner.
We have moved away from Dyer et al.'s (1998) perspective of the supplier bringing some input to the customer's core competence, as this is today the supplier's own core competence that the key customer is getting. It is not just about "enhancing the key customer's competitive position" (webster, 1992), but "blocking" the key customer's competitors own competitive advantage.

Quote from a Global Purchase Director – Packaging (case study 3):

> *« We are working on solutions for differentiation.*
> *Enhancing the differentiation of our brands to boost the topline and developing proprietary solutions, here, we are in an agreement that is specific as long as no competitor can offer the same solution. We offer a unique solution to the consumer, there is a logic vis-à-vis the supplier that is cost + premium (depending on the margin of the product).*
> *At the opposite, the supplier who sells us standard flavours, which are not differentiated, which are not exclusive, it is considered as commodity trading and there, which is essential is that prices are competitive and there is bidding. »*

In case of those "proprietary solutions", we can talk of "vertical quasi-integration" according to Aoki's research. As stated by Monteverde and Teece (1982) the only difference with vertical integration is that both firms contract and remain legally independent, but they become much more intertwined than Monteverde and Teece were describing, in the early eighties, as not only production but major elements of goodwill are now integrated by the key customer.
This "vertical quasi-integration" is no longer dyadic but is embedded in a network (Hakansson, 1982) and can involve the supplier's supplier

Quote from a European Sourcing Director (case study 4):

> *"It can also happen, with integrated suppliers, that we negotiate the transfer price of the raw material."*

Or may involve the final customer,

Quote from a European Purchasing Director (case study 1):

> *"We like stability, there is little latitude for change: the packaging internal coating of Coca-Cola is the coating referenced by Coca-Cola. The day you want to change it's heavy, very heavy. So you take Long Term Agreements with those specific suppliers."*

As long as the strategic “fit” is prevailing, the relationship will roll out with little consideration to the initial length of contract: the future is already anticipated in the present relationship.

Quote from a Corporate Purchase Director – Packaging (case study 2):

> *"I cannot find the time to renew existing framework contracts (with strategic suppliers) - I felt at the outset that three years was an eternity - but, three years have gone by without the contracts being updated.*
> *In the "day to day trading" the contract is updated, but it is not in the "Wording".*
> *It is a major difficulty to update these contracts – (…) it is huge to manage.*
> *On the other hand, we are not faced with major changes from our (strategic) suppliers that would jeopardize these contracts.*

Quote from a Global Purchase Director – Packaging (case study 3):

> *«When we reach that point (…), we talk projects and less and less about prices. (…)*
> *We trust those people, as we know the gap between them and the other suppliers. (…)*
> *When we (at the CEO level) talk about new technology, they answer; “where you want to go, we will go”. There is a strong trust relationship and they are able to bounce back, whatever the situation. I see a future with them. »*

The outcome of such a “strategic” partnership is that price becomes irrelevant (we are no longer on a market) as the value proposition is unique and the negotiation to share the created value will take place on the margin of the final product: the supplier will receive a share of the profit on the end product.

Quote from a Vice-President Purchasing (case-study 3)

> *“I will choose suppliers with scientific or technological capabilities, the best in the world. I'll give them a market share on my blockbusters. I guarantee them a 2-digit growth over the next 5 years.*
> *In return, I ask them about their world exclusive developments in my product spend, not only I accelerate, but I catch the best capabilities in the world and I create a competitive barrier in front of my competitors.*
> *I use my size to create global sourcing strategies that are very difficult to access by my small local competitors.*
> *None of my local competitors have that ability to attract a supplier solely on the growth prospects of business they can offer. I am the only one who can do that.*
> *The idea is:*
> *1 = Accelerating*
> *2 = Have access to science*
> *3 = Build competitive barriers upstream*
> *[...] In other words, if my name is X or Y (competitors) and if tomorrow I want to launch a product similar to mine, I'll have to work with No. 2. They will not work with the No. 1, the world leader, which makes things more complicated for them. "*

We can thus summarize the main features of the “key” and the “strategic” supplier as represented in figure 2.

INSERT FIGURE 2 ABOUT HERE

In conclusion, the research presented here has thrown up some issues showing the link between vertical relationships and company strategy: suppliers play nowadays a bigger role in company strategic goal fulfilment. Suppliers are also a strategic tool for companies to create and protect their competitive advantages, which lead key customers to a level of quasi-integration of their suppliers, changing the nature itself of the exchange: the basic utilitarian exchange of goods versus payment (Bagozzi, 1975) is being replaced by a true value sharing, sharing the profit at the end of the value chain.

5. Theoretical Contribution and Managerial Implications

In this hyper-competitive global world, our research suggests that the “strategic” vertical partnership concept has changed meaning as key customers need to build stronger competitive barriers in their differentiation strategy (Porter, 1985, 2008). Our research helps to reinforce the relationship marketing paradigm by showing a new degree of collaboration between suppliers and key customers and analysing the new limit of collaborative integration at the downwards end of the relationship continuum.

The new supplier status we have analysed has many managerial implications for the supplier.

First, we find a strong incentive for suppliers to bring innovation with scientific or technological leadership, if they are aware they can get a true value share. For “key” suppliers, the negotiation on price can be sometimes tough despite all the relational benefits they bring to the key customer. Getting a percentage back of the value they bring seems a much fairer way to share that value. Nevertheless, the downside of this is the exclusivity contract. If the volume is attractive enough and the percentage of value high enough to ensure the targeted profitability, there should be no issue, but if the volumes are not the forecast ones, the supplier may find himself trapped. The supplier may then prefer to keep a “key” status and negotiate the price, to remain independent to sell its products to a broader range of customers; in a sense, this new supplier status may better fit SME’s who will feel comfortable in selling their innovation to one single key customer whereas supplying MNCs may want to sell larger volumes that one single customer, even another major MNC, may not provide them with.

Second, this new status implies a different strategic customer segmentation from the suppliers. This has a strong impact on the way they manage their customer portfolio: they should carefully think with whom they choose to be a strategic supplier as this may prevent them from becoming a “key” supplier to their dedicated key customer’s competitors who will fear getting only second rate offerings.

This new supplier status may then lead suppliers to review their own key Account management strategy.

6. Limitations and further research

Like all research, the underlying assumptions of our work do limit the interpretation of our results. More specifically, we chose to consider customer / supplier relationships within large global customers in the industrial sector, benefiting by the effect of their size or reputation from a certain power in their market, called "reward" and "referent" power (French and Raven, 1959).

We stayed relatively focused on the perspective of buyers, in a dyadic approach to deal with a manageable number of variables, but we are aware of the importance of the concept of "network" (Hakansson, 1982).

We tried to carry out a generic study, avoiding too strong a bias in an industry or type of product, even if we are aware that the structure of the industry may have an impact in the relational choices (Porter, 2008).

The qualitative nature of our study prevents a major expansion of our results, even if the objective of this study was not to quantify but to update new and little explored relational modes.

Further research would be to broaden the sample of key customers and to launch a quantitative study that would allow us to analyse the impact of the industry sector and the type of purchased product on this new relational mode.

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FIGURES

Quasi-markets (arm's length relationships)	Quasi-hierarchies (strategic partnership)
Commodity	Customized products
Low degree of interdependence	High degree of interdependence

Figure 1 - Based on Dyer et al. (1998)

"Key" supplier features	"Strategic" partner features
- **Innovation** - E-supply capability - Supply across markets - **Sustainable competitiveness** - TCO - Contract (2-3 years) - KAM organization - Proactive - Back up supply capability	- **Total value chain partnership** - **Full cost transparency** - Contract length 3-5 years - Development capability - **Alignment of strategies** - Integrated partnership/ Joint investment - Organisation integrated representation - Trust and confidence
Maintain market Competitiveness	Outperform market competitiveness

Figure 2 - Supplier segmentation from a cooperative perspective