

Benefits and antecedents of the preferred customer status in a buyer-supplier relationship: A case study at the Royal Netherlands Navy

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ABSTRACT

Recently, the preferred customer status has received more attention in academic literature. Theories were developed about the preferred customer status, the benefits of the preferred customer status and the antecedents of the preferred customer status. Recent studies also showed a shift in the importance of attractiveness from the supplier towards the buyer, meaning that it has become more important to know as a buyer what attracts suppliers. This case study aims to give more insight into the concept of the preferred customer status in practice, especially in its benefits and antecedents. Besides seeking to confirm to the theory, this case study also presents some new elements. The case study shows that benefits mentioned in the literature, such as more favourable prices and reduced lead times, are applicable in practice and found another unmentioned benefit. This benefit is the advantage that a buyer can get from a supplier in the form of additional maintenance service. The antecedents that were found within this case study show that the elements of customer attractiveness, supplier satisfaction and preferred customer mentioned in the available literature are visible in practice to a great extent. However, it also discovers that some elements of customer attractiveness were not yet mentioned in the literature. These elements are the status or good reputation that a buyer can have, a strategic fit between the buyer and supplier or a guaranteed payment for the supplier. This case study cannot confirm or reject all the theory available. If there is to be more certainty of the preferred customer status theories, more case studies need to be done.

Keywords

Preferred customer status, benefits, antecedents, customer attractiveness, supplier satisfaction, case study, buyer-supplier relationship

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1. INVESTIGATING THE BENEFITS AND ANTECEDENTS OF THE PREFERRED CUSTOMER STATUS AT THE ROYAL NETHERLANDS NAVY

In this study the theory of the preferred customer status will be tested in practice. To be able to test the theory in practice a case study will be performed. This case study will be performed at the Royal Netherlands Navy, located in Den Helder. The goal of this case study is to test whether the theory of the preferred customer status is valid in practice and to further explore the antecedents of the preferred customer status. Next to testing the theory, this study will test whether the Royal Netherlands Navy has a preferred customer status or not, and why and how this is the case.

The research question of this case study needs to encompass all the components mentioned above. However, it needs to be specific as well, to not make the research too broad. Therefore the research question consists of two questions in this particular case study. The first research question investigates the benefits of the preferred customer status that can be found at the Royal Netherlands Navy. In addition, it investigates if these benefits confirm the benefits described in the available literature or that there are benefits that are not yet mentioned in the available literature and that can possibly be added to it. Therefore the first research question is:

Q1: What are the benefits of the preferred customer status of the Royal Netherlands Navy and do these benefits found at the Royal Netherlands Navy confirm or add benefits to the available literature?

The second research question will investigate if and which antecedents of the preferred customer status can be found at the Royal Netherlands Navy. Similar to the first question, it will also investigate if the antecedents of the preferred customer status discovered at the Royal Netherlands Navy confirm the available literature or that antecedents are not mentioned before in the literature and can possibly be an addition to the literature. The second research question is therefore:

Q2: What are the antecedents of the preferred customer status of the Royal Netherlands Navy and do these antecedents found at the Royal Netherlands Navy confirm or add to the available literature?

To be able to answer these questions first a summarised literature review will be given. The literature review will focus on describing the preferred customer status and its benefits and antecedents. It will give the basis of the research of this case study and the interview questions. The original literature review and the interview questions were jointly written with other authors, meaning that these case studies use the same common core as this case study. This jointly written core and interview have the advantage that the studies can be easily compared to each other. It is beneficial to compare these case studies to each other, because different companies will most likely have different results. Getting different results to the questions at hand will give a more differentiated answer to whether the theory is valid in practice or not.

After the literature review, the methodology used to do this case study will be described, including information about the interview development, the sample and respondent characteristics and the interview procedures. Followed by the empirical findings of this case study. This part will include a description of the Royal Netherlands Navy, a general impression of the preferred customer status at the Royal Netherlands Navy, illustrative cases at the Royal Netherlands

Navy and its suppliers, and last a summary of the empirical findings. In the organisational description there will be explained what the Royal Netherlands Navy does, how they do it, and what the structure of this organisation is. In addition, the buying rules of the Royal Netherlands Navy will be outlined, since they have a specific set of rules to which they should comply. Next, a general overview of the opinions and ideas of the interviewees will be displayed, focusing on the benefits and the antecedents. The general impression will be illustrated by two more in-depth cases of two suppliers marked as having the Royal Netherlands Navy as their preferred customer. A summary of the empirical findings will be given in the last section of this part.

Last, a conclusion will be given. This conclusion will include some concluding remarks on the empirical findings, recommendations to the Royal Netherlands Navy to improve their current status with their suppliers, the limitations of this case study and recommendations for future research.

2. LITERATURE REVIEW: THE PREFERRED CUSTOMER CONCEPT, ITS BENEFITS AND ITS ANTECEDENTS

2.1 The Preferred Customer Concept: Preferential Treatment of Buyers by Suppliers

There is a growing body of literature exploring the phenomenon of buyers attempting to be attractive to suppliers in order to receive preferential treatment and thus become a preferred customer. A preferred customer status is consistently defined as preferential behaviour on behalf of the supplier towards the buyer (Steinle & Schiele, 2008, p. 11; Hüttinger et al., 2012, p. 1195; Mortensen, 2012, p. 1213; Nollet et al., 2012, p. 1186-1187; Schiele 2012, p. 44; Schiele, 2012, p. 47). Some authors add that this preferential behaviour is based on a strategic prioritisation of the buyer by the supplier (Hüttinger et al., 2012, p. 1195; Schiele et al., 2012, p. 1181), while Baxter (2012, p.1249) stresses that a preferred customer status can be gained by a buyer who ensures a good financial performance of the buyer-supplier relationship. Furthermore, preferred customer treatment is a way of showing the intended future level of cooperation with the buyer of the supplier. Nevertheless, Baxter (2012, p.1252) emphasises that preferred customer treatment always needs to be considered in relation to the supplier's resource allocations to other customers.

In order to become a preferred customer of a supplier it is necessary that the buyer is perceived as more attractive than other (potential) buyers by the supplier. The reason being that a buyer-supplier relationship can be characterised as an exchange relationship referring to the relationship aspect (Hald et al., 2009, p. 961-962). The buyer should thus have customer attractiveness in the eyes of the buyer. Schiele et al. (2012, p. 1179) argue that customer attractiveness expressed as expectations by the supplier can lead to supplier satisfaction if the supplier's expectations are met. Supplier satisfaction in turn can lead to the buyer obtaining a preferred customer status in case a comparison with the available alternatives reveals that supplier satisfaction is the highest with the respective buyer. The authors refer to these three different steps as the 'cycle of preferred customership' which is embedded in the context of the social exchange theory.

2.2 The Benefits of the Preferred Customer Status: Getting Favourable Prices, Reducing Lead Times and Enhancing Supplier Innovativeness

Several authors argue that preferred customers receive preferential treatment in terms of more favourable prices. Thus preferred customer status exhibits cost saving potential (Blenkhorn & Banting, 1991, p. 188; Moody, 1992, p. 57; Hald et al., 2009, p. 963; Nollet et al., 2012, p. 1187). A proactive purchasing approach “may permit the achievement of seemingly impossible objectives” (Blenkhorn & Banting 1991, p. 188), because previous research has demonstrated that close buyer-seller relationships influence the cost efficiency of both parties (Schiele et al., 2011, p. 8). Suppliers often present unique cost reduction opportunities to their preferred customers in the form of new solutions costing less or standardisation (Bew, 2007, p. 2; Ellis et al., 2012, p. 1261; Nollet et al., 2012, p. 1187). They may also be more receptive to further price negotiations and they can contribute to cost reductions for the customer by either decreasing operational costs due to higher efficiencies or take over costs of the customer (Ulaga 2003, p. 689-690; Nollet et al. (2012), p. 1187).

A reduced lead time is another benefit of the preferred customer status. The studies done by Christiansen and Maltz (2002, p. 182; 2010, p. 186) and the study done by Ulaga (2003, p. 686) confirm that a close buyer-supplier relationship with a preferred customer status can significantly decrease the time-to-market.

A preferred customer status also strongly enhances supplier innovativeness, which is another benefit to the customer. Schiele (2012, p. 47) found that having a preferred customer status may result in being offered innovations first, or even in suppliers committing to an exclusive agreement regarding innovations. Besides giving a better access to innovations, suppliers can engage in developing the competencies of the customer company that has a preferred customer status (Christiansen & Maltz, 2002, p. 192). A further benefit is an improvement of the logistics process by achieving, for example, inventory reduction through a responsive supply chain (Christiansen & Maltz, 2002, p. 186) and supply chain visibility (Christiansen & Maltz 2002, p. 189). This benefit of being a preferred customer is enabled through engaging in activities such as “*vendor-managed inventory (VMI)*” (Christiansen & Maltz, 2002, p. 185).

Not only can a preferred customer have better access to innovation, the preferred customer status can also result in prioritised delivery of goods or services when the supplier faces constraints in production capacity resulting in bottlenecks (Schiele, 2012, p. 47). Furthermore, Nollet et al. (2012, p.1187) argue that suppliers take special care for the deliveries to the preferred customer.

An appropriate tool for mapping the advantages resulting from a preferred customer status, and the extent to which they are without extra cost, can be found in the pyramid in Figure 1. It is based upon the assumption that the benefits that are enjoyed by a true preferred customer are free of charge, and are to some extent exclusive to this customer.

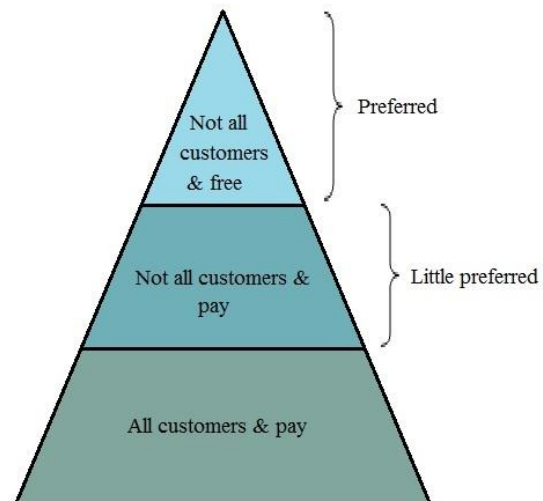


Figure 1: Mapping the benefits of preferred customers

2.3 The Antecedents of the Preferred Customer Status: Customer Attractiveness, Supplier Satisfaction and the Preferred Customer Status

In outlining the antecedents of the preferred customer status, the framework developed in the literature review by Hüttinger et al. (2012, p. 1203) will be used as a starting point. The authors draw from previous conceptual research, surveys and case studies, and postulate a conceptual model with three integrated stages anteceding preferential treatment by suppliers: customer attractiveness, supplier satisfaction and preferred customer status. Between the three factors mentioned, important relationships exist.

First, we find that the assessment of customer attractiveness by the supplier always precedes an exchange relationship (Schiele et al., 2010, p. 4; La Rocca et al., 2012, p. 1242; , 2012, p. 1230; Schiele et al., 2012, p. 1179), and determines whether or not a relationship will be initiated and developed. Customer attractiveness is generally viewed as a compound of the expectations which a supplier has of future interaction with a buyer (Hald et al., 2009, p. 961; Hald, 2012, p. 1230; Ellegaard, 2012, p. 1221; Ellis et al., 2012, p. 1260). Harris et al. (2003, p. 12) define attraction as “the extent to which relational partners perceive past, current, future or potential partners as professionally appealing in terms of their ability to provide superior economic benefits, access to important resources and social compatibility”. It is found that attraction is future-oriented, as it is based on expectations that are established through external, ex-ante judgment of the customer (Hüttinger et al., 2012, p. 1197 – 1198; Mortensen, 2012, p. 1216). Since perceived attractiveness is very subjective, it will differ from supplier to supplier. Therefore, according to Hald et al. (2009, p. 968), buying parties must gain an understanding of the prevailing perceptions of attractiveness at their suppliers to be able to align their actions in such a way that the business appears favourable and truly attractive in the eyes of the supplier. Ellegaard & Ritter (2007, p. 4) also stress this point, and suggest that customer attractiveness is determined by one side’s attachment towards the other. They deem attractiveness a construct “in the eyes of the beholder”, implying that it is determined by the supplier. Hence, as Schiele et al. (2012, p.

1178) have put it, the burden of being attractive is shifting from the supplier to the customer.

Customer attractiveness therefore acts as a precondition to supplier satisfaction. Anderson and Narus(1990, p. 45) state that satisfaction is “a positive affective state resulting from the appraisal of all aspects of a firm’s relationship with another firm”, while Geyskens and Steenkamp (2000, p. 11) define satisfaction as “a channel member’s appraisal of all outcomes of its working relationship with another firm, including economic as well as social outcomes”. Oliver (1999, p. 34) has regarded satisfaction as a ‘pleasurable fulfilment’ of needs, desires or goals. Applying this to supplier satisfaction in exchange relationships, we find these needs and desires of the supplier are analogous to their expectations when in an exchange relationship (Parasuraman et al., 1988, p. 17). Therefore, it can be concluded that a supplier is satisfied with the buyer when the buyer is living up to the expectations of the supplier, after interaction has occurred.

Whether or not a supplier is satisfied with the exchange relationship will to a great extent determine if they will award a customer with a preferred customer status or not. Dissatisfaction with past transactions from the side of the supplier will inevitably dismiss any opportunity of being awarded a preferred customer status. Consequently, it can be put forward that supplier satisfaction acts as a precondition to a preferred customer status. Finally, receiving preferential treatment from suppliers is also dependent on multiple additional factors related to value creation of one customer vis-à-vis that of its ‘competitors’ (Hüttinger et al., 2012, p. 1194-1195).

3. METHODOLOGY

3.1 Interview Development

The interview was developed by a joint effort between different authors. After acquiring information from a number of scientific articles and writing the literature review, there was chosen upon several benefits and antecedents to focus on. The questions that were developed for the interview can be categorised in three different categories: classification, benefits and antecedents. In every category there are several questions focused on getting the information from the company or organisation that is needed to test the theory in practice. In the section of categorisation questions are asked about categorising suppliers and buyers. In the benefits section the questions address the benefits that come along with a preferred customer status. Lastly in the antecedents section questions are asked about the precursors of a preferred customer status. The last question in the interview is trying to get an insight on the future plans of the company or organisation. This interview is an open question interview and leaves room for more in-depth cases and other remarks from the interviewee. This type of interview is ideal for this case study since it leaves room to fully investigate all the components needed to test the theory.

3.2 Sample and Respondent Characteristics

In this case study four purchasing employees of the Royal Netherlands Navy are interviewed. These respondents are chosen because they have good knowledge of the rules of purchasing in a governmental organisation and have a good overview of the suppliers of the Royal Netherlands Navy and their behaviour. Besides that, they have good knowledge about the widely known supply management theories and insight in the goals and directions that the Royal Netherlands Navy has. This knowledge will lead to more complete and in-depth answers to the interview questions, than when interviewing other employees would have had. Therefore it will give the best

results for the case study and the best possibilities to test the theory in practice.

The respondents and the corresponding interview are mentioned in table 1. References in the text will be made to the interview name mentioned in the table.

Name Respondent	Interview
Peter Tijssen	Interview A
Jeroen Burggraaff	Interview B
Robert Jansen	Interview C
Erik Hendriks	Interview D

Table 1: Respondents and the corresponding interview

3.3 Interview Procedures

The data was collected by conducting the interviews at the purchasing department of the Royal Netherlands Navy. The interviews were conducted separately with every respondent. There were two interviewers present at every interview, one was asking the questions of the interview and the other took notes and added information or asked critical questions where necessary to get the best possible answer. Next to acquiring more information, having two interviewers also helped avoiding interpretation biases. The interviews were recorded on a digital device as well to again avoid biases and to catch on to as much information as possible. From the recordings transcript were produced to be as precise as possible when analysing and processing the data.

4. EMPIRICAL FINDINGS OF THE PREFERRED CUSTOMER STATUS AT THE ROYAL NETHERLANDS NAVY: A ORGANISATIONAL DESCRIPTION, A GENERAL IMPRESSION AND ILLUSTRATIVE CASES

4.1 Organisation Description

4.1.1 The Royal Netherlands Navy: Providing Stability and Freedom at and from the Sea

The Royal Netherlands Navy, hereafter called the Navy, is part of the defence organisation of The Netherlands. Other parts of this defence organisation are for example The Royal Netherlands Air Force and the Royal Netherlands Marechaussee. The defence organisation defends the Netherlands in times of war and gives aid to other countries and allies that are at war. The goal of the organisation is to contribute to stability and freedom all around the world, which includes defending the national territory and that of their allies, maintaining the freedom, protecting and supporting the Netherlands’ interests, and providing support to civil authorities.

The Navy can be deployed independently, as well as together with other parts of the organisation. The tasks of the Navy can be described in three different task categories. The first category is the security at sea. Security at sea is very important for shipping routes and choke points. By keeping those secure the Navy can prevent or act against crimes such as piracy and drug, gun or human trafficking. They are able to do this by carrying out patrols or blockade operations. Besides keeping those routes and choke points free of crimes, the Navy also clears mines. The second task is to deliver security from the sea. The Navy can also be deployed to give support to operations on the land from the sea. The ships can be used as a place to

provide medical assistance, food supply, ammunition supply and provide fire support with naval guns or missiles. Next to that, it is possible for the Navy to use the ship as the base of the operational command and control. The last category of tasks includes national maritime tasks of the Navy such as Search-and-Rescue missions, clearing unexploded mines, combating terrorism, and helping divers with diver or medical assistance.

To be able to perform all these tasks the Navy needs high-end technology on its ships. This high-end technology is developed by the extensive research and development department of the Navy and in joint efforts with other high-tech companies such as Thales. Examples these ships high-end technology are Hydrographic Survey vessels, Ocean-going Patrol Vessels, Minehunters and Submarines.¹

4.1.2 The Organisational Structure of the Royal Netherlands Navy: A Top-Down, Centralised Organisation

The Navy is a top-down and centralised decision organisation, meaning that decisions in the Navy are made by the management and are carried out by lower management and floor management. The organisation has a functional structure, which implies that the departments of the Navy are organised by profession. In the organisation chart of the Navy this is visible by the different divisions of the DMI, the 'Divisie Materiele Instandhouding'. This department is divided into a programming group, a logistics group etc.² Within the logistics group the supply department can be found next to the logistics groups that exists in the organisation of the Navy. The supply department can in turn be divided in different tasks such as contract management and buying support.

4.1.3 Governmental Rules and its Influence on the Purchasing Process

Worth mentioning are the rules and laws that the purchasing department of the Navy has to abide to. The Navy is a governmental organisation, which means that they have to abide to the rules and laws that are set by the government when purchasing goods or services. Those rules and laws make the purchasing process more complex and make it more difficult to build relationships with your suppliers. They are based on three basic principles, which are the equality principle, the transparency principle and the proportionality principle. The equality principle states that no discrimination can take place, which implies that every company making an offer to the Navy should have the same amount of information. The transparency principle ensures that the purchasing department is transparent about their selection criteria and how they award a supplier the order. The proportionality principle ensures that what you ask of a supplier is equal with the offer you got from that supplier. The rules and laws are set with the idea that every company should have a fair chance of supplying the governmental body, which the Navy is part of.

In line with the principles the Navy has to set competition for every purchase they make, except when there is only one supplier that can deliver the good or service. In practice this means that for every purchase to be made the purchasing department has to invite multiple suppliers to make an offer to the Navy. After inviting the suppliers to make an offer the Navy will pick the best offer based on the lowest total cost of ownership, meaning they will look at the price offered, the

quality offered, the delivery services offered etc. It is only possible to not invite multiple suppliers when there is only one supplier that can make the good or provide the service the Navy needs, this is called a sole source supplier.

When the costs of an order exceed a certain threshold point the Navy has to resort to European tendering. This is a procedure that gives every company in Europe a chance to make an offer to supply the good or service needed by the Navy. The Navy has to set the demands, the specifications of the good or service and the certificates or other traits that a supplier should have to make an offer. These costs thresholds differ for different products and services and depend on the department you are working for. If the costs of the purchase is below the threshold the Navy can choose to invite companies to make an offer, to do national tendering or to do European tendering with some more flexible rules.³

4.2 An Elaboration on the Preferred Customer Status at the Netherlands Navy: Benefits and Antecedents

4.2.1 Benefits of the Preferred Customer Status at the Royal Netherlands Navy: A Reduction in Price and Lead Time, Joint Development and Extra Service

If a company has a preferred customer status, it most likely has some benefits from this status. One of these benefits can be a lower, more favourable price than other customers have to pay for a product or service. Next to that, research has shown that suppliers prove to be more open and receptive to price negotiations with a preferred customer than with other customers (Blenkorn and Banting, 1991, p. 188; Moody, 1992, p. 57; Hald et al., 2009, p. 963; Nollet et al., 2012, p. 1187).

There are companies that give a discount to the Navy, even without the Navy having to ask for it (Interview A). Known reasons for a more favourable price come for example from the company Covelli. Covelli gives the Navy a discount on their prices because of their strategic fit with the Navy. Covelli is an installation company, which installs for example heating and electricity in new buildings. This company is dependent on the projects it gets for its income. However, it always has the expense of paying its employees even when they are not be working on a project, meaning that sometimes the capacity is not fully utilised. The Navy does not always need employees with this kind of expertise and this is where Covelli has its strategic fit with the Navy. The over-capacity in employees that Covelli has when they are short on projects can be placed at the Navy. The price that the Navy then has to pay for these employees is noticeably lower than the price other customers have to pay (Interview C)

It is important to notice that if the Navy gets a lower price than most customers this cannot always be attributed to a preferred customer status. The Navy is allowed to put a special clause in its contracts that prevents suppliers from giving another customer a lower price than the Navy. This clause dictates that when another customers gets a lower price, the Navy will get the same low price (Interview A).

A reduced lead time can be another benefit of the preferred customer status. A reduced lead time can reduce the time-to-market, or in the case of the Navy a reduced lead time can reduce the time in which a ship is made or repaired (Christiansen & Maltz, 2002, p. 182; Christiansen & Maltz,

¹ See <http://www.defensie.nl/marine/>

² See <http://www.defensie.nl/english/navy/organisation/>

³ See www.pianoo.nl

2002, p. 186; Ulaga, 2003, p. 686). That suppliers are willing to give the Navy a shorter lead time is visible when the Navy needs to do some last minute alterations to finish a ship. Products or services may need to be ordered at the last moment, meaning that suppliers have to make an offer really quick and if awarded the order they need to deliver their products or services very fast (Interview A).

Besides a better price and a reduced lead time, a better access to innovative capabilities and shared development projects can be a benefit of the preferred customer status. Being a preferred customer may result in being offered innovations sooner than your competitors or a supplier may give you exclusive access to these innovations. Besides that, being a preferred customer might give you the advantage that this supplier wants to do shared developments with your company (Schiele et al., 2011, p. 16; Schiele, 2012, p. 47). This is the case in the Navy with their supplier Thales, TNO and companies that operate in the optical equipment. These companies develop products together with the R&D department of the Navy and make the Navy a launching customer of these products (Interview A; Interview D).

Not only products are being jointly developed, but processes are jointly developed or adjusted as well. For example companies handling the diving equipment of the Navy for reparations need to have a specific process and specific logistics to be able to supply to the Navy. Suppliers are willing to adjust their own process and the Navy helps them with this new process (Interview B). Another example is that of the temporary employment agencies. If a temporary employment agency sends a CV of a possible new employee to the Navy they make sure that all the specific information that the Navy needs is on the CV (Interview C).

Another benefit of the preferred customer status of the Navy concerns the amount of service they get from companies. Some equipment is very important for a ship or for the Navy in general. When this equipment needs to be repaired the Navy needs it to be done quickly, sometimes even within two hours. For this purpose the supplier responsible for that equipment should always have a maintenance employee nearby the Navy. The Navy is not located in the centre of the Netherlands so a company might need to station an employee nearby the Navy for this cause. The Navy does pay for this service, however, this service is not given to everybody (Interview D). Although this is an extreme case, companies do deliver maintenance very quickly to the Navy in general, without any extra costs (Interview A).

There can be another example of extra service found in the maintenance service that suppliers of on board installations give to the Navy. If an installation on a ship breaks down it is not possible to solve this by simply putting a new installation in the ship, this will cost millions. In the event that such an installation does not work the ship cannot leave. This is not only bad for the Navy, but also for the company that delivered the installation. What happens then is that the company that delivered the installation will offer technical support to the Navy and does research on what the problem might be for this installation. The Navy does not pay for this service and this service is most likely not given to everybody (Interview B).

4.2.2 Antecedents of the Preferred Customer Status of the Royal Netherlands Navy: Status, Technology Development, Secure Payment, Strategic Fit and a Large Turnover

A reason for a supplier to give a preferred customer status to a company is if they are under the impression that a company is an attractive customer for them. Customer attractiveness can be defined as the buyer's positive characteristics expressed in a supplier's positive image of the buyer (Hüttinger et al., 2012, p. 1195).

The most mentioned attractive trait of the Navy is the status that it has (Interview A; Interview C; Interview D). The Navy is a company that focuses on developing new technology for their ships and has an overall positive image because of their goals such as bringing freedom to regions at war. Besides that, it can be complicated and demanding for a supplier to deliver to the Navy. However, if you manage to deliver successfully to the Navy it is a good reference for your company (Interview B; Interview C; Interview D). Even more because the equipment of the Navy needs to be up to task of heavy operating (Interview A; Interview B).

Next to this attractive trait, the possibility of lifting on the technology development of the Navy is another attractive trait. The Navy has a lot of high-tech equipment and machinery on board of its ships and their technology is a step ahead when comparing to other ships. High-tech companies can try and lift on this step ahead and try to sell their products to the Navy, in the hope that other ships will use these products in the future as well (Interview D). Not to mention that when a company jointly develops high-tech products together with the Navy they can use the Navy as their launching customer (Interview A; Interview D).

A very obvious attractive trait of the Navy is that they will always pay. In the current economical climate a supplier is not always sure that he will get his money after a transaction. However, in case of supplying the Navy a supplier can always be sure that he will get his money after he delivered the product or service in a satisfying manner to the Navy. The Navy is a governmental body and therefore cannot go bankrupt, like other companies can (Interview A; Interview B; Interview C; Interview D).

A more specific attractive trait that the Navy has for some suppliers is a strategic fit. As mentioned before Covelli has a strategic fit with the Navy. It can take its over-capacity when it has a lack of projects and station them at the Navy. This is a win-win situation for both parties and makes the Navy very attractive for Covelli and the other way around (Interview C).

Another attractive trait to some smaller suppliers is that the Navy can generate a large turnover for them. The Navy is a large organisation and has a large demand compared to most companies. When the Navy places an order at a smaller supplier, this supplier is likely to have more turnover than it would normally have had. For C&M labour supply that is the case right now, they currently have a contract with the Navy. The Navy is their biggest customer and thus generates the most turnover for them (Interview C).

Additionally to being an attractive company to suppliers it is also important to generate supplier satisfaction after a transaction to maintain or create a preferred customer status. Supplier satisfaction can be regarded as 'pleasurable fulfilment' of needs, desires and goals. These needs and desires arise from the expectations a supplier has of the customer. When the customer meets or exceeds these expectations it can

be said that the suppliers is satisfied (Oliver, 1999, p. 34; Parasuraman et al., 1988, p. 17).

One reason of supplier satisfaction at the Navy could be that they try their very best to make it easier for the supplier to deliver their product or services. They do this by giving them a working station on the Navy grounds to work from and trying to simplify the process by using for example their ordering systems (Interview B). Other than that, the Navy helps companies with their processes. They will check the specifications of an offer and in case a company has something unusual in this offer, such as too many man hours, the Navy will point that out and try to help them improve on these points (Interview B).

Furthermore, the Navy will always try to take care that everything runs smoothly. This means that when a job needs to be done on a ship they make sure that the ship is in the harbour, no other jobs are being done on the ship, the equipment is available etc. They do this to ensure that the supplier can do his job and does not have any delays, causing no extra costs for the supplier as well as for the Navy itself (Interview B).

If a customer does not meet the expectations and therefore does not meet the needs and desires of the supplier this can lead to dissatisfaction. A point of dissatisfaction at the Navy is the late payment that sometimes occurs. It does happen that bills are getting paid past the payment term. This could have multiple causes, such as a mistake at the financial department, a mistake in the bill or that the supplier has send the bill too early (Interview A; Interview B; Interview C).

Other reasons for dissatisfaction of suppliers is the paperwork that comes with delivering to the Navy. The Navy has strict rules towards buying and security and this can lead to a lot of paperwork and bureaucratic behaviour. This is often a source of irritation with suppliers (Interview D).

4.3 Illustrating the Preferred Customer Status: Adecco Group and Thales

4.3.1 Adecco Group: Giving Extensive Extra Service to the Royal Netherlands Navy

Adecco Group Nederland is a temporary employment agency with offices spread across the Netherlands. The company is active in all the facets of temporary employment to indefinite employment to trainings.⁴ The offices that the Navy has relationships with are the office in Den Helder and the head office of Adecco (Interview C).

The reason that the Navy currently has a relationship with and hires personnel from Adecco is a contract closed by the government body located in The Hague. This contract allows the Navy to hire personnel from three different temporary employment agencies and states that Navy has to divide the number of hired personnel as evenly as possible across the different temporary employment agencies (Interview C).

Still the purchasing department of the Navy notices a difference between Adecco and the other agencies when approaching them for personnel. When the purchasing department calls Adecco with a request for personnel they respond immediately. The purchasing department gets to talk to somebody almost immediately and Adecco sends the Navy some candidates as soon as they can. This is in contrast with the other to agencies, with whom it takes longer to give the purchasing department

somebody to talk to and to respond with candidates. So Adecco gives the Navy a shorter lead time than the others (Interview C).

Not only does Adecco make sure that they give the Navy a short lead time, they also shared their software system for hiring and paying personnel with them. Last year the Navy had a system to contract and pay the personnel they hired through employment agencies. This is was called the EBF system and worked via the internet. The purchaser took care that the contracts of the employees were registered in the system and the employee could fill out his worked hours in the online system. The moment the employee had filed his hours, the manager of the department that hired the employee got an email to approve these hours. The bill for this employee would go into the system of the temporary employment agency and the agency would send the Navy the bill, who would pay within a couple of days. This system worked perfectly. However, from the first of January the Navy got a different supplier for the software systems and with that new software. The EBF program did not work on this new software system and the Navy had to fall back on their old system, which was paperwork. The extra administrative work, that was solved by using an internet system, was reintroduced and the payments to the agencies started to come in late again. This is when Adecco offered to share its software system with the Navy. The Navy accepted and Adecco put a lot of time and effort in installing the system at the Navy to make it work properly. The Navy did not have to pay for the software system and neither for the time and effort that Adecco put into installing it (Interview C).

One of the reasons for this close relationship between Adecco and the Navy can be found ten to fifteen years ago. The Navy needs to do a lot of conservation work on their ships and it had its own personnel to do these jobs. However, because of reorganisations these jobs disappeared and the Navy started to hire their personnel through a temporary employment agency. The same people that first worked for the Navy, now worked for the temporary employment agency for the Navy. After a while the Navy decided they wanted to change the system again and instead of hiring the personnel to the jobs they wanted to hire companies to do conservation projects. For the Navy doing the conservation of the ships in projects had the advantage that their own staff did not have to manage the workers anymore. For the employment agency this meant that it had to fire all the employees working at the Navy and had to face severance payments and lawsuits. Unfortunately for the Navy the new set up with the envisioned projects did not work and they had to fall back on the temporary employment agency, which refused to work with the Navy again. This was a problem for the Navy as well as for the conservation workers sitting at home. The Navy then contacted Adecco to ask if they could do something for them, which they did. The office of Adecco in Den Helder contacted the head office and together they put a lot of time and effort in getting the conservation workers to work for them and for the Navy again. This involved a lot of juridical aspects and the head office of Adecco even put their own juridical advisors at the disposal of the Navy's problem. After all this trouble they managed to get all the workers back to work through Adecco at the ships of the Navy (Interview C).

Although it is clearly visible that Adecco puts a lot of time and effort in keeping the Navy happy and most likely assigned them a preferred customer status, it is not completely clear what the antecedents of this status are. A factor that could have led to the preferred customer status is the fact that the Navy has hired more or less thirty temporary employees from Adecco, which is a lot for a local office (Interview C). Another factor could be the fact that they are sure to get their payment (Interview A;

⁴ See <http://www.adecco.nl/nl-NL/overadecco/Pages/default.aspx>

Interview B; Interview C; Interview D). A third factor that might have caused the preferred customer status is the status of the Navy. For temporary employment agencies it is attractive to supply personnel to the Navy because they can advertise with it to their other customers. The Navy is a very demanding client, with a lot of rules and high standards. Being able to meet this high standards and dealing with all the rules proves that you can adapt and adjust to a company (Interview A; Interview C; Interview D).

4.3.2 *Thales: Joint Development of Complex Technologies for Ships with the Royal Netherlands Navy*

Thales is a technical company that operates in aerospace, space, ground transportation, security and defence.⁵ For the Navy Thales is especially important for their radar systems. Radar systems are used on the ships of the Navy to locate other ships or airplanes that are nearby and to become aware of the possible threats they are facing.

The Navy has a preferred customer status with Thales and this is noticeable for example by the number of joint research and development projects they have together (Interview A; Interview D). In this particular case it is possible for the Navy to have a long-term relationship with Thales, despite all the rules. Thales develops radar system for the Navy and there are no other companies that the Navy can go to to buy these systems. In addition, if the Navy needs an extra delivery, a modification or a reparation on one of these radar system Thales is the only one that is able to deliver these services because of the right they have on their products. In practice this means that if the Navy buys a radar system from Thales, the radar system will be used a certain period of time. During this period of time the Navy needs to have a contract with Thales for maintenance, modifications or other services needed for that system. It is not possible to go to another company and therefore it is allowed for the Navy to have a contract longer than the normal restricted period (Interview B; Interview D). Next to these reasons, a long-term relationship can also be build when a project needs to be kept secret. When a project needs to be kept secret there is no possibility to invite companies to make an offer, because of the obvious reason it would be no longer secret (Interview B).

A benefit, and at the same time an antecedent, of the preferred customer status and the relationship with Thales is the joint development and research that the Navy has with Thales. Both the organisations have extensive research and development departments that are focussing on high-end technological products. From this point of view the Navy and Thales have a good strategic fit with each other. The Navy and Thales come together when the Navy needs to design a new ship or new equipment for a ship. The research and development department of the Navy will contact Thales and together they will decide on a course to develop the new equipment needed on such a ship (Interview D).

The navy has several attractive traits for Thales. As mentioned before the strategic fit of the research and development departments of the Navy and Thales can be very attractive to Thales. Having a good relationship and joint development with the Navy can give Thales new input for innovations, gives them more knowledge to work with and Thales does not have to pay for the development costs alone (Interview D).

When the Navy and Thales develop a radar system together the Navy is sure to buy this product from Thales and is bound to Thales for service on this system. Because the Navy is sure to use the developed product it will act as a launching customer for Thales. Meaning that the product will be displayed to the other customers of Thales by the Navy. Thales can name the system used by the Navy to other customers and tell about its good features and success factors (Interview A; Interview D). Not only can Thales mention the system they developed together with the Navy, they can also state in general to other companies or governments that they have the Navy as a customer (Interview D).

Because Thales is also very important for the Navy, the Navy tries to keep Thales satisfied with them as a customer. Attributes to this include a good communication and keeping them involved in research and development project. This is not done so much by the purchasing department as by the research and development department of the Navy (Interview D).

Another attribute that the Navy uses to keep Thales satisfied is hiring one employee that only deals with Thales. This has as an advantage for both parties that the employee in question knows all about Thales and its products. This makes the communication between the both parties easier and is less susceptible for mistakes (Interview D).

4.4 Summarising the Benefits and Antecedents of the Preferred Customer Status at the Royal Netherlands Navy

In table 2 a summary of the benefits of the preferred customer status at the Royal Netherlands Navy is given in relation to the pyramid in figure 1. In the left column of the table the level of the pyramid is described. In the right column the benefits that are corresponding with the pyramid level are presented.

Pyramid level	Benefit
Not all customers get it & it is free	Price reduction
	Shorter lead times
	Joint product development
	Joint process development
	Technical support
Not all customers get it & you have to pay	Fast maintenance service
	Exceptionally fast maintenance service
	Technical support

Table 2: Benefits of the preferred customer status

A summary of the antecedents of the preferred customer status at the Royal Netherlands Navy is displayed in table 3. The first column describes the driver of customer attractiveness, supplier satisfaction or preferred customer status found at the Royal Netherlands Navy. The second column mentions the theory corresponding to this driver, if any, and the last column gives the reference of this theory.

⁵ http://www.thalesgroup.com/Group/About_Us/

Drivers of customer attractiveness	Corresponding theory	Reference of the theory
Status or good reputation	-	-
High technology development	Types of technological skills	Fiocca(1982)
Guaranteed payment	-	-
Strategic fit	-	-
Large turnover	Size	Fiocca (1982)
	Market share	Fiocca (1982)
Launching customer for jointly developed products or processes	Influence on the market	Fiocca (1982)
Single sourcing (Thales)	Dependence (single sourcing strategy)	Harris et al. (2003), Hald et al. (2009), Ramsay and Wagner (2009)
Drivers of supplier satisfaction	Corresponding theory	Reference of the theory
Give them space to work	Commitment to supplier satisfaction	Wong (2000)
Use their ordering systems	Commitment to supplier satisfaction	Wong (2000)
	Order process	Essig and Amann (2009)
Recommendations to suppliers on how to do better	Supplier development	Ghijssen et al. (2010)
	Recommendations	Ghijssen et al. (2010)
Good time management and planning in projects	Forecasting/planning	Maunu (2003)
Guaranteed payment	Payment habits	Essig and Amann (2009)
High technology development	Technical competence	Essig and Amann(2009)
Drivers of preferred customer status	Corresponding theory	Reference of the theory
Strategic fit	Strategic fit	Bew (2007)
Joint developments	Early supplier	Moody (1992)

	involvement	
	Involvement in product design	Moody (1992)
High turnover or large order quantity	High purchase volumes	Brokaw and Davisson (1978), Williamson (1991), Bew (2007), Steinle and Schiele (2008)

Table 3: Antecedents of the preferred customer status

5. CONCLUSION AND RECOMMENDATIONS

5.1 The Royal Netherlands Navy Confirms and Adds Benefits and Antecedents of the Preferred Customer Status to the Available Literature

The first research question is partly answered by table 2, which summarises the benefits of the preferred customer status at the Royal Netherlands Navy. Most of the benefits found at the Navy can support the literature to an extent. There is one benefit that is not mentioned in the literature and can possibly add to the literature. This is the benefit of having faster maintenance service and problem handling services, which the Navy receives from their suppliers with whom they have a preferred customer status. Suppliers of the Royal Netherlands Navy make exceptions in their time management concerning maintenance service for the Navy and offer them technical support when a problem occurs.

The second research question can be partly answered by table 3, which mentions the antecedents of the preferred customer status in the three categories explained in the literature of Hüttinger et al. (2012, p. 1199, 1201, 1202). In the category, the drivers of customer attractiveness, several antecedents support the literature. Others can add to the literature. The antecedents that can add to the literature are status or good reputation, guaranteed payment and strategic fit. The status or good reputation is an important factor in the attractiveness of the Navy, because their suppliers can use this status or good reputation of the Navy to advertise themselves to other possible customers. Suppliers can tell other customers that they are delivering their products or services to the Navy and by that show that they are capable of meeting the high demands and the many rules of the Navy.

Guaranteed payment and a strategic fit are mentioned in other categories in the available literature, but for the Navy they are also part of their customer attractiveness. In contrast with other companies, suppliers of the Navy know beforehand that they are going to get paid for their products or services, because the Navy is a governmental organisation and cannot go bankrupt or deny payment. So the payment habits do not only correspond with the supplier satisfaction but also with the customer attractiveness. Strategic fit is mentioned in the driver of customer attractiveness as well as in the driver of the preferred customer status. However, in the case of the Royal Netherlands Navy a supplier can know before initiating the relationship that if it has a strategic fit with the Royal Netherlands Navy or not.

This is the case because the needs, wants and capabilities of the Navy are known to the market due to the rules they have.

The antecedents found in the drivers of supplier satisfaction and the preferred customer status at the Royal Netherlands Navy support the literature. They do not add antecedents that were not mentioned in the literature already.

In summary, the case study confirms some benefits and antecedents of the preferred customer status mentioned by the available literature. Besides confirming the theory, it also adds a benefit as well as some drivers of customer attractiveness. Although this case study does not confirm all the benefits and antecedents of the preferred customer status mentioned in the literature it cannot reject any of those, since it is only one case study and those benefits and antecedents not found in this case study might be applicable in other case studies.

5.2 Recommendation to the Royal Netherlands Navy: Become Aware of the Preferred Customer Status and Focus on Important Suppliers

Although the Navy has acquired preferred customer statuses at some of their suppliers they were not aware of the fact that they had them. Being aware of the preferred customer status could have some advantages for the Navy. One of these advantages is that they will have more insight in what a supplier is expecting from them and why the Navy is attractive to this supplier. Knowing what a supplier is expecting from you based on why you are attractive to him can lead to a better understanding of the supplier and therefore can lead to actions beneficial for the supplier and thus for the preferred customer status. When a supplier is satisfied he is more likely to help the Navy when problems occur and a preferred customer status can even develop.

With the preferred customer status the Navy can have some of the benefits of this status, despite the fact that they cannot have long-term relationships in general. For example the supplier can come to the Navy with new innovative products the Navy did not think of before, or propose a joint development that the Navy had not considered before.

Besides those benefits of the preferred customer status, the Navy can have positive outcomes from some smaller benefits. The Navy does have a lot of purchasing rules that are not common at purchasing departments in other companies. The rule that no long-term relationships can be build can have a negative effect of the benefits of the preferred customer status. However, when the Navy has a several years contract with a supplier with whom they have a preferred customer status with it can positively influence the interpretation of the contract. This might not be in the set prices, but it can translate into putting more time and effort in keeping the Navy happy, or more time and effort when a problem occurs.

Another one of those benefits can be that the supplier with whom they have a preferred customer status with will raise the standard for offers to the Navy. The moment that the Navy needs a new product or needs to reorder a product and goes into the market they will ask for offers from suppliers. If there are suppliers that have assigned the preferred customer status to the

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Navy they will most likely make a better offer to the Navy than other suppliers. If there is more than one supplier that assigned this status to the Navy, those suppliers will all try and get the offer. By that they will raise the standard for making an offer to the Navy, this can be a higher quality standard, a lower price, more service etc.

The Navy could also try to actively get a preferred customer status because a supplier is important to them. The Navy should then focus on their consumer attractiveness and the supplier satisfaction, while taking into account the rules they have to comply with. The Navy already has some strong attractive assets, such as status, a good reputation, guaranteed payment and high technology development. They already have, sometimes unknowingly, some good factors of supplier satisfaction as well. However, they could do more for supplier satisfaction, even with the rules. For example, the Navy could do more on supplier development, especially considering the technological knowledge the Navy has. If a supplier has prospect of learning from the Navy or even joint development with the Navy he is more likely to give the Navy a preferred customer status.

5.3 Limitations and Suggestions for Future Research

One of the limitations of this case study is that it is only one case study. There can only be something said about the Royal Netherlands Navy and the preferred customer status. With only this case study nothing general can be said about the preferred customer status and its benefits and antecedents. Another limitation of this case study is that it can only confirm and add to the theory. It is not possible to reject any element of the theory, since it could be relevant in another company. So the case study can only confirm the theory and not reject the theory.

A third limitation is the one sided information about the preferred customer status of the Royal Netherlands Navy. This case study is only based on the information and the opinion of the Royal Netherlands Navy and not on the information and the opinions of the suppliers of the Navy. This could lead to biases in the information and misinterpretation of the Navy's relationship with the supplier.

A recommendation for future research is conduct research on the benefits and drivers of customer attractiveness mentioned by the Royal Netherlands Navy but not mentioned in the available literature about the preferred customer status. Future research could explore these benefits and drivers in other case studies or by theory development.

Another suggestion for future research is more case studies in general. If more case studies were to be done on whether the theory holds in practice, the theory would stand stronger than it would with only one or a few case studies.

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