

# **Antecedents and Benefits of a Preferred Customer Status in a Buyer-Supplier Relationship: A Case Study at WILO SE and 4 of its Key Suppliers**

Julius Beering  
University of Twente  
P.O. Box 217, 7500AE Enschede  
The Netherlands

[j.beering@student.utwente.nl](mailto:j.beering@student.utwente.nl)

## **ABSTRACT**

In recent years, developing supplier relationships has become a major strategic activity which is associated with cost savings, enhanced flexibility and increased innovativeness. As the attainment of a preferred customer status is associated with preferential resource allocation, it can be a potential source of sustainable competitive advantage. Since the majority of academic literature on the preferred customer status takes a rather theoretical stance, a case study is conducted at WILO SE and its key suppliers to provide more practical insights. The existence of a preferred customer status has been confirmed as preferential treatment, which is obviously attributable to a high status at key suppliers, could be identified. The findings thereby do not only confirm several existing antecedents and benefits of a preferred customer status that have been identified in earlier literature, but also reveal some novel findings: It has been shown that a preferred customer treatment can also lead to the establishment of contacts to third parties, to acceptance of extraordinary financial transaction wishes, an excellent crisis management, a forward-looking pricing model, high management commitment at the supplier and to a key account status despite low purchasing volumes. Furthermore, novel drivers for the achievement of such a status could be identified. These are aligned technology life cycles of customer's and supplier's products, particularly high and challenging customer demands, mutual dependency and a one face to the customer environment. An inter-case comparison shows that purchasing volume might not be as strong as a driver of a preferred customer status as has been mentioned by customer and supplier employees, and that a better EDI integration could potentially enhance overall supplier satisfaction. The small scale of this case study does not allow drawing general conclusions about the theory of the preferred customer status, but more case studies need to be accomplished.

**Supervisors: Prof. Dr. habil. Holger Schiele  
Frederik Vos (M.Sc./M.Sc.)**

## **Keywords**

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

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# 1. PRACTICAL MANIFESTATION OF A PREFERRED CUSTOMER STATUS: A CASE STUDY AT WILO SE

Since the 1990s, firms increasingly view managing their supply chains and developing their supplier relationships as a major strategic asset associated with cost savings, enhanced flexibility and increased innovativeness (Cousins, Lamming, Lawson, & Squire, 2008, pp. 8, 14). Achieving a preferred customer status is one emerging objective of these relationship management efforts. According to Steinle and Schiele (2008, p. 11) a preferred customer status with a supplier has been achieved in case a customer obtains preferential resource allocation from this supplier. Due to the limited resources that suppliers possess, a high status can be regarded as a potential source of sustainable competitive advantage as it is impossible for all competing buyers to obtain the same preferential resource allocation. For this reason also academic research on the preferred customer approach is accelerating (Hald, 2012, p. 1229; Schiele, Calvi, & Gibbert, 2012, p. 1178). However, the stance taken is mostly rather theoretical lacking practical discourse. Conducting a case study at WILO SE and its key suppliers aims at taking a more practical perspective to answer the key questions related to the preferred customer concept. The first objective of this study is to disclose the antecedents required as well as the benefits achieved through maintaining a preferred customer status. The second objective embraces the identification of potential theoretical contributions by comparing the case study results to the findings in the literature. Consequently the two research questions addressed can be formulated as follows:

Q1: *'What are the antecedents and benefits of a preferred customer status with key suppliers for WILO SE?'*

Q2: *'To what extent do the findings at WILO SE represent and contribute to the elements identified in the existing body of literature?'*

In order to answer these questions, interviews with 4 suppliers of WILO SE as well as the corresponding purchasers have been conducted as providing a bilateral perspective on the buyer-supplier relationship offers the most holistic insights.

Firstly, a summarized and updated literature review on the preferred customer concept is provided. It is based on the efforts of a peer group of students at the University of Twente, who devoted themselves to this bachelor thesis topic in 2013. The theoretical foundation of this research starts with introducing the current state of the art of the scientific literature on the preferred customer status and other related concepts. Afterwards, an overview of the benefits as well as the antecedents of a preferred customer status identified in earlier literature is provided. The questionnaire design, respondent characteristics and the interview procedure are discussed. A short introduction to WILO SE is provided which is followed by the results of the dual-perspective case studies, which include both the details provided by the customer and supplier representatives in order to provide a holistic and comprehensive evaluation of the buyer-supplier relationship. Antecedents and benefits ascertained in practice are compared to the literature in order to identify the extent to which they coincide. Either the elements reinforce existing findings or unexplored elements may contribute to the existing literature. An inter-case comparison is performed to identify commonalities and differences. A short summary of the case study results is provided that aims at answering above-mentioned research questions. Finally the contribution to existing research, several

practical recommendations to WILO SE, limitations of the study and directions for further research are expounded.

## 2. THEORY: THE CONCEPT OF THE PREFERRED CUSTOMER STATUS

### 2.1 Customers Increasingly Strive For a Preferred Customer Status to Gain Preferential Resource Allocation

Traditionally it has been supposed that suppliers are trying to attract customers in order to convince them to engage in an exchange relationship (Nollet, Rebolledo, & Popel, 2012, p. 1186). However, this unidirectional perspective is changing: The body of literature addressing buyers pursuing to be attractive customers so as to obtain preferential access to supplier resources and to become a preferred customer is accelerating (Hald, 2012, p. 1229; Schiele et al., 2012, p. 1178).

Already in 1970 the foundation for the development of the preferred customer concept has been set by mentioning for the first time that businesses have preferred customer lists, which are based on past orders or expectations of future interaction (Hottenstein, 1970, p. 46). Concepts as 'reverse marketing' (Leenders & Blenkhorn, 1988, p. 187) and that of the 'best customer' (Moody, 1992, p. 52) have been postulated succeeding in this field of study. Finally, Brokaw and Davisson (1978, p. 10) explicitly identified the preferred customer status as cause for the preferential treatment that some buyers obtained from their suppliers. In the literature, 'interesting customer', 'customer of choice' and 'attractive customer' have been used interchangeably for preferred customers (Bew, 2007, p. 1; Christiansen & Maltz, 2010, p. 179; Ellegaard & Ritter, 2006, pp. 6-7; Ramsay & Wagner, 2009, p. 127).

The reasons for awarding a preferred status are twofold: Schiele et al. (2012, p. 1178) argued that business-to-business markets are consolidating and that oligopolistic market structures with a limited number of capable suppliers are emerging. Additionally they constituted that the responsibilities of suppliers are enhanced through the core competence movement and the movement towards open innovation, implying an increased involvement of suppliers in customers' innovation activities (Schiele et al., 2012, p. 1178). For these reasons buying firms are increasingly dependent on their suppliers, particularly as suppliers have the ability to select buyers and serve them differently, thereby preferring one over the other (Williamson, 1991, pp. 81-83). Thus maintaining a preferred customer status can have a significant impact on a buyer's competitiveness and can lead to a competitive advantage, especially if it involves an extremely innovative or market-leading supplier, or if market demand outstrips supply (Hüttinger, Schiele, & Veldman, 2012, p. 1194; La Rocca, Caruana, & Snehota, 2012, p. 1241; Nollet et al., 2012, p. 1186; Schiele, 2012, p. 44; Schiele et al., 2012, p. 1179; Steinle & Schiele, 2008, p. 11). In case a supplier confers a preferred customer status to the right buyer, a competitive advantage might also be achieved by the supplier (La Rocca et al., 2012, p. 1241; Nollet et al., 2012, p. 1187; Williamson, 1991, p. 81).

Hüttinger et al. (2012, pp. 1194-1195) clarified the relationship between the concepts customer attractiveness, supplier satisfaction and preferred customer status. Customer attractiveness can be conceptualised as supplier expectations, which in turn can lead to supplier satisfaction if these expectations are met (Schiele et al., 2012, p. 1179). If supplier satisfaction is maximized, because a supplier perceives the attractiveness of a particular customer as higher than that of all potential alternatives, a preferred customer status can be achieved (Hald, Cordon, & Vollmann, 2009, pp. 961-962). This

development towards a preferred customer status through buyer attractiveness and subsequent supplier satisfaction has been named the ‘cycle of preferred customership’ (Schiele et al., 2012, p. 1179). The cycle builds upon the social exchange theory (Schiele et al., 2012, p. 1179) whose premise it is that a resource exchange is only realized if it is perceived as rewarding by both parties (Emerson, 1976, p. 359). However, this evolving and cyclic process for achieving a preferred customer status is rather novel and the three integrated concepts have largely been researched in isolation (Hüttinger et al., 2012, p. 1195). Research on supplier satisfaction is thereby prevailing in the literature, whereas research on customer attractiveness and preferred customer status is less developed (Hüttinger et al., 2012, pp. 1196,1200; Mortensen, 2012, p. 1206; Nollet et al., 2012, p. 1189; Schiele et al., 2012, p. 1179).

After having provided a general overview of the preferred customer concept, the following sections are going to elaborate on the antecedents as well as benefits of a preferred customer status that have been identified in the literature.

## 2.2 Cost Savings and Other Factors are Benefits of a Preferred Customer Status

### 2.2.1 Cost Savings and Price Benefits are Attributable to a Preferred Customer Status

Obtaining a preferred customer status can be associated with a number of benefits. First of all, a preferred customer status can be seen as a source for potential cost savings (Blenkhorn & Banting, 1991, p. 188; Hald et al., 2009, p. 963; Moody, 1992, p. 57; Nollet et al., 2012, p. 1187), which are discussed in the following. A sole section is devoted to cost savings and price benefits, because these are the most contested benefits as both, customer and supplier, need to realize cost savings as to react on increasing labour and input prices (Bew, 2007, p. 4).

Although buyers often perceive an influence of power imbalances on pricing behavior, it has been found that innovative suppliers do not inevitably behave opportunistically and offer preferred customers benevolent pricing even when they are largely dependent on the supplier (Schiele et al., 2011, pp. 3, 7, 14, 16). While savings between two and four per cent can be accomplished for preferred customers according to Bew (2007, p. 2), Blenkhorn and Banting (1991, p. 188) even identified potential savings between five and thirty per cent. However, savings are not only possible for the customer, but close buyer-supplier relationships can also enhance the cost efficiency of the supplier (Schiele et al., 2011, p. 8). Similar in kind, suppliers present opportunities for further cost reductions to their preferred customers by offering new, affordable or standardized technologies (Bew, 2007, p. 2; Ellis et al., 2012, p. 1261; Nollet et al., 2012, p. 1187). Moreover suppliers may decrease customers’ operational costs, which comprise product, manufacturing process, tooling and warranty costs, as well as they might pay for or provide higher efficiency in terms of transportation, inventory management, order handling and product checking (Nollet et al., 2012, p. 1187; Ulaga, 2003, pp. 689-690).

Further, efficiency enhancements have been detected by Christiansen and Maltz (2010, pp. 182, 186), whose case study with three companies revealed that preferred customers face reduced lead times. They exhibited that lead time has been reduced by 10 weeks for one customer whereas another company received preferential delivery through air service. Ulaga (2003, p. 686) verified in his study that a preferred customer status can enhance time-to-market.

### 2.2.2 A Multitude of Additional Benefits Related to Innovation, Information and Logistics are Obtained through a Preferred Customer Status

Preferred customer status is also interlinked with enlarged supplier innovativeness (Schiele et al., 2011, p. 16). Likewise preferred customers might get early access to supplier innovations or might be able to forge an exclusive agreement for the use of innovations (Schiele, 2012, p. 47).

Suppliers’ efforts to improve the capabilities of their preferred customers is another important benefit, which encompasses, for instance, sharing of strategic information or supplier employees, employee trainings, process developments as well as organizational change (Christiansen & Maltz, 2010, p. 192). Further benefits cluster around the optimization of logistical processes: Vendor managed inventory and resulting supply chain responsiveness (Christiansen & Maltz, 2010, pp. 185-186), preferential delivery in times of production constraints (Schiele, 2012, p. 47), and increased attention to deliveries (Nollet et al., 2012, p. 1187) are specific logistical benefits preferred customers may obtain.

Suppliers are also deemed more loyal to their preferred customers. They may just let their most capable personnel interact with the preferred customer, adjust their capacity according to customer wishes or provide preferential access to innovations (Schiele et al., 2011, p. 8). Suppliers perceive it as conceivable to offer lower prices for being engaged in preferred customers’ new product development in order to sustain future interaction (Schumacher, Schiele, Contzen, & Zachau, 2008, p. 16). Knowledge sharing in relation to R&D is a common benefit of close interaction (Trott & Hartmann, 2009, p. 730) that can lead to faster new product development (Walter, Muller, Helfert, & Ritter, 2003, p. 162). Moreover higher product quality and customization according to preferred customer’s specifications have been found to be advantages (Nollet et al., 2012, p. 1187).

The benefits of a preferred customer approach can be mapped using the pyramid in Figure 1. Exclusiveness as well as the cost of achieving a benefit from a supplier are the dimensions used for distinguishing between different benefit categories. The model offers three different classifications of a firm’s customers along the benefits they obtain from their suppliers. First, standard customers in the bottom of the pyramid receive all the same features and have to pay for them. Second, customers that are ‘little preferred’ obtain benefits from their suppliers, which are not offered to all customers, but which require payment. Finally, at the top are true preferred customers who receive exclusive advantages and that free of charge.

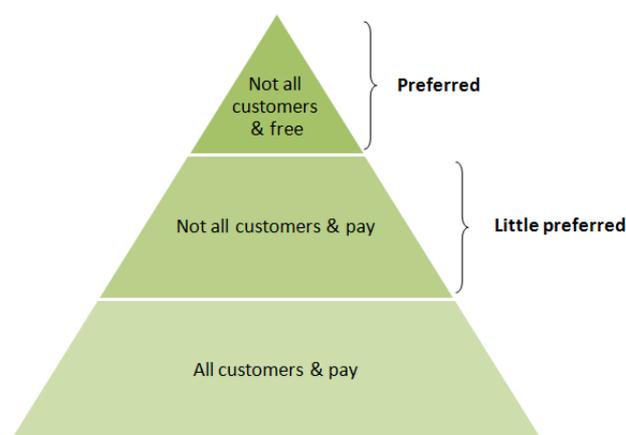


Figure 1: Mapping the Benefits of a Preferred Customer

## **2.3 To Become a Preferred Customer a Multitude of Drivers can be Addressed**

### *2.3.1 Customer Attractiveness and Supplier Satisfaction Precede a Preferred Customer Status*

In order to exhibit the antecedents of a preferred customer status, the overarching framework by Hüttinger et al. (2012, p. 1203) has been adopted, which sees customer attractiveness and supplier satisfaction as preconditions of a preferred customer status. Obviously, it is possible to identify strong ties between these three concepts: A first assessment of the attractiveness of a potential customer determines whether an exchange relationship is established (Hald, 2012, p. 1230; La Rocca et al., 2012, p. 1242; Schiele, 2012, p. 1179; Schiele, Veldman, & Hüttinger, 2010, p. 4) and is thus regarded as a precondition for the achievement of supplier satisfaction. Supplier satisfaction is in turn inevitable for achieving a preferred customer status, because a dissatisfying past will never lead to a positive outlook. Hüttinger et al. (2012, pp. 1194-1195) also constituted additional factors which influence the achievement of preferential treatment by suppliers that are related to the comparison of value creation with competing buyers.

In the following subsections of this paper, customer attractiveness, supplier satisfaction and preferred customer status are considered in isolation. For each of them a definition and an in-depth explanation is provided that is followed by the antecedents to its achievement.

### *2.3.2 Customer Attractiveness is Determined by Suppliers' Expectations of Future Collaboration*

Customer attractiveness embraces the perceptions of suppliers about the future interaction with a particular customer (Ellegaard, 2012, p. 1221; Ellis et al., 2012, p. 1260; Hald, 2012, p. 1230; Hald et al., 2009, p. 961). This definition already indicates the concept's orientation towards the future, which has already been identified by Hottenstein (1970, p. 46) and Harris, O'Malley, and Patterson (2003, p. 12). Attractiveness is based on suppliers' expectations, which are founded on external judgement of the customer by the supplier prior to business interaction (Hüttinger et al., 2012, pp. 1197-1198; Mortensen, 2012, p. 1216). Hence, in order to become an attractive customer, it is inevitable that suppliers are aware of the existence of a potential customer and its corresponding attributes (Schiele et al., 2010, p. 4).

Ellegaard and Ritter (2007, p. 4) postulated that attractiveness is created by one party binding itself to another party. However, attractiveness must also be adjusted to supplier demands. Hald et al. (2009, p. 968) regarded it as important that customers understand how their suppliers view customer attractiveness as to be able to direct their endeavours towards appearing more attractive. Thus the duty of becoming attractive in a buyer-supplier relationship is more and more that of the customer rather than the supplier (Schiele et al., 2012, p. 1178).

In order to become more attractive buyers can address a number of drivers. These have been summarized in the literature review by Hüttinger et al. (2012, p. 1199) as embracing (1) market growth factors, (2) risk factors, (3) technological factors, (4) economic factors and (5) social factors.

### *2.3.3 Supplier Satisfaction is Determined by a Customer's Ability to Fulfil Supplier's Expectations*

Wong (2000, p. 427) was among the first researchers, who regarded supplier satisfaction in a close buyer-supplier relationship as enhancing supplier commitment. Other scholars perceived supplier satisfaction even as inevitable for manufacturers to maintain market responsiveness (Benton &

Maloni, 2005, p. 2). Satisfaction has generally been defined as involving the adequate attainment of needs, desires or goals (Oliver, 1999, p. 34), which may represent the supplier expectations in a buyer-supplier relationship (Parasuraman, Zeithaml, & Berry, 1988, p. 17). Consequently, supplier satisfaction can be achieved by fulfilling the supplier's expectations of the exchange relationship.

The expectations that have to be fulfilled to satisfy a supplier have been categorized by Hüttinger et al. (2012, p. 1201). They mentioned (1) technological excellence, (2) supply value, (3) mode of interaction and (4) operational excellence as driving the attainment of supplier satisfaction.

### *2.3.4 Creating Higher Value than Competing Buyers Leads to a Preferred Customer Status*

Once a customer has posed itself attractive and a subsequently initiated business relationship contents both customer and supplier, buyers may aim at becoming a preferred customer. Williamson (1991, p. 80) encouraged customers to do so as the movement from contract management to more flexible supply base optimization can provide against contingencies that cannot even be captured in a 'mammoth contract' (p. 80). Increasingly, factors related to volition and 'value creation' with suppliers have been stressed in the literature as mitigating the effect of these eventualities (Bew, 2007, p. 3; Moody, 1992, p. 52; Steinle & Schiele, 2008, pp. 11-12). A preferred customer status is in the end attained by offering suppliers higher value than competing buyers (Hüttinger et al., 2012, p. 1202).

The dimensions on which customers have to offer a higher value than competing buyers have been outlined by Hüttinger et al. (2012, p. 1202). They stated that the drivers of a preferred customer status encompass (1) economic value, (2) relationship quality (3) strategic compatibility and (4) instruments of interaction. Some of these factors coincide with drivers identified earlier as antecedents of customer attractiveness and supplier satisfaction.

## **3. METHODS: RESEARCH DESIGN & DATA COLLECTION**

### **3.1 Two Structured Questionnaires have been Used to Gain Insights in the Preferred Customer Status of WILO SE**

The questionnaires that have been used for conducting this case study are the result of a peer group effort of students at the University of Twente in 2013. In order to enhance the comparability of case study results it has been decided to use the same interview questions. Two separate questionnaires have been used, one for the interviews with the customer and one for the interviews with suppliers. However, the structure of the questionnaires is identical: First, it has been identified whether and how companies classify their suppliers and customers. Second, the benefits of a preferred customer status have been revealed and the final part aimed at determining the antecedents of a preferred customer status. All questions have been open questions in order to elicit as much information as possible and to engage participants in a conversation.

### **3.2 Four Buyer and four Supplier Interviews have been Conducted**

For this case study, interviews have been conducted with 5 employees of WILO's purchasing department, as well as with representatives of 4 of their suppliers. Next to the buying company, participating companies included btv technologies GmbH, a provider of logistical and technological services related to microcontrollers, EBV Elektronik GmbH, a

distributor of semiconductors, ESSEX Europe SAS, a producer of winding wire products, and Eisengießerei Baumgarte GmbH, a foundry. Suppliers have been selected by WILO SE. Two of them won a supplier award in 2014 and it is particularly interesting to test whether their high status at WILO is replicated vice versa. Remaining suppliers have been selected based on the customer's impression to receive preferential treatment. In order to provide dual-perspective views on the preferred customer status, the purchasers at WILO SE represent the counterparts to the suppliers respectively. In the following the buyer interviews are named B1-B4 and the supplier interviews are referred to as S1-S4. An overview of the interviews and the related suppliers can be extracted from Table 1. At one of the buyer interviews two purchasers have been present, whereas in all other buyer interviews only one buyer has been interviewed. At one of the supplier interviews two interviewees have been present, while at all residual interviews one supplier representative has been interviewed.

**Table 1: Overview over Cases and Corresponding Interviews**

Case	Supplier	Interviews
1	btv technologies GmbH	B2, S1
2	EBV Elektronik GmbH	B2, S2
3	ESSEX Europe SAS	B4, S3
4	Eisengießerei Baumgarte GmbH	B1, B3, S4

### 3.3 Most Interviews have been Conducted Face-to-Face in German language

The interviews with purchasers of WILO have been conducted at headquarters in Dortmund, at a German production facility and via telephone. At one of these interviews two purchasers have been interviewed simultaneously and it has been talked about two of their suppliers. In all other buyer interviews only one buyer has been present and one supplier relationship has been addressed. The average buyer interview lasted 32 minutes. Three of the supplier interviews took place at the suppliers' facilities all over Germany, whereas one has been conducted via telephone. In two cases, two supplier representatives have been interviewed simultaneously, whereas in all other cases one supplier representative was present. The average supplier interview lasted 41 minutes. Both supplier and customer interviews took place in May and June 2014.

The interview questions as well as a short introduction to the preferred customer concept have been sent to the supplier representatives and the buyers prior to the interviews in order to give them the possibility to develop an understanding of the topic and to prepare for the interview. This information has been provided in German language, in which also the interviews have been conducted. Questions have been translated into German and results have been translated back into English. As all interviews have been audio recorded, it was possible to let translations double-check by two fellow students at the University of Twente. Additionally, recordings prevent from transcription errors. Thus, two main sources of bias have been eliminated.

## 4. ANALYSIS & RESULTS

### 4.1 WILO is a Large Multinational Player in the Pump Industry

Case studies have been conducted in collaboration with the department 'Group Purchasing & Supply Chain Management' of WILO SE. The company is a manufacturer of pumps and related systems for the market segments building services,

water management and industry with its headquarters located in Dortmund, Germany. In 2013, on average 7.200 people have been employed who generated a revenue €1,23 bn. WILO SE operates 15 production facilities in Germany, France, the UK, Ireland, Italy, India, China, Korea and the US on a decentralized basis. This decentralization is partially represented in the procurement organization as local purchasing departments exist at all production facilities. Moreover commodity groups have been established for the most important commodities to increase transparency and competition in supply markets and to formulate separate company-wide sourcing strategies for all these groups. Commodity management is responsible for the overall coordination of suppliers, internal information exchange as well as managing cost, quality and delivery of these commodity groups. Case studies are accomplished with commodity managers within these commodity teams and/or local purchasing staff.

WILO's purchasing mission emphasizes the reliance on supply quality, costs, timing and technologies. Excellence in the supply base shall be maintained by confessing to a total cost approach in order to ensure an optimal supply chain performance and to capture sustainable competitive advantages. However, purchasing strategies are not solely focusing on these core values stated in the mission, but likewise emphasize processes, people and partners. Continuous improvement of purchasing processes, hiring experts in supply markets, technologies and cost structure, and offering a fair and long-term relationship are key characteristics of purchasing at WILO SE. Commodity strategies are determined through an assessment of strategic significance and supply complexity of particular commodity groups. Especially the partnership strategy is important for WILO as it involves commodities that are strategically significant and whose supply is complex. Partnerships are characterized by the firm through bilateral performance commitment and motivation as well as excellent capability and sustainability that are closely related to the preferred customer concept. Its general supplier requirements involve (1) competitiveness based on lowest total cost, (2) fulfillment of WILO's quality requirements, (3) innovation, technology process and product leadership, (4) openness and honesty, (5) flexibility, (6) high speed, and (7) acceptance of WILO's supplier code of conduct. Some of these features have already been identified as being benefits of a preferred customer status. Therefore, it is highly interesting also from a company perspective whether WILO SE already maintains a preferred customer status at its key suppliers.

### 4.2 Case 1: Competitive Advantages from btv technologies GmbH through Reliability, Proximity and Strategic Compatibility

#### 4.2.1 The Relationship with btv technologies is Based on Mutual Trust

The German btv technologies GmbH (short: btv) is a technological and logistics service provider responsible for the microcontroller supply of WILO. The medium-sized company, which is situated particularly close to the respective production facility of WILO, is not only distributing microcontrollers, but also undertakes their programming (S1).

The two parties are already maintaining a business relationship for 7 years. Despite of this period being rather short, a relationship based on mutual trust has evolved (S1). WILO currently accounts for approximately 5 % of btv's pure services revenues (S1). In 2014 btv technologies received a supplier award for the best logistics from WILO SE (B2, S1). Although

no formal preferred customer status is assigned (S1), an obviously preferential treatment of WILO can be identified.

#### *4.2.2 Access to Process and Technical Capabilities is a Core Benefit Obtained from btv technologies*

A number of exclusive benefits have been identified that WILO receives due to its status at btv technologies. First, WILO has the possibility to negotiate prices for microcontrollers directly with its producers. These are then bought, programmed and delivered by btv according to WILO's specifications. This offers WILO a complete open book calculation (B2) as the margins for programming and logistical services are consequently unfolded. Such a treatment is thereby reserved to preferred customers (S1) and can also be associated with the good prices WILO receives (B2).

Second, process and technical capabilities of WILO are driven through btv's knowhow. As much feedback and experience from the interaction with other even larger customers has led to knowhow and experience in which state-of-the-art technologies and processes work best, btv is able to take a consulting firm perspective to implement these best practices at WILO (S1). However, such an investment is only undertaken for designated customers (S1).

Third, as btv technologies has been forced by one of its extremely large automotive customers to open a production facility in Romania, it has been established in a way that demands of a subcontractor of WILO based in Romania can also be fulfilled locally. Although these efforts are only partly undertaken because of WILO, planning has been adjusted so that WILO is able to benefit from this step, too (S1).

Fourth, an extremely far-reaching crisis management is offered by btv. In case of emergency it is possible that production schedules are changed to fulfill WILO's demands or that extra shifts are planned (S1). Before production has to stop due to late delivery or missing parts, even the key account would personally deliver those to WILO at any time (S1). Furthermore, it is also possible that deliveries take place even if administrative procedures have not yet been finished (S1), which is explained in more detail in a later section of this paper.

Fifth, WILO receives a number of exclusive logistical benefits. Investments in logistics development have been emphasized as a benefit of its preferred customer status (S1). Specifically these investments manifest in several forms: Multiple deliveries a week in multi-way containers (S1) increase efficiency as no packaging has to be removed and no waste occurs. Thereby even smaller and flexible lot sizes are possible (S1) so that the required warehouse capacity is reduced accordingly. Due to local proximity extreme responsiveness is granted so that even same-day delivery is practicable (S1). Just in time and just in sequence delivery are further logistical benefits provided to preferred customers (B2).

Additional benefits that have been mentioned are particularly high and stable quality and going in advance payment for parts (S1). Although all these benefits are rather specific, the key account manager even stated that they "would do everything for WILO" (S1), which shows the potential for further benefits.

#### *4.2.3 Customer Attractiveness and Supplier Satisfaction Precede a Preferred Customer Status at btv technologies*

##### *4.2.3.1 Achieving Customer Attractiveness through Demand Stability and Business Opportunities*

WILO is perceived as a highly attractive customer by both the purchasers as well as their respective key account manager (S1,

B2). This attractiveness is founded on a number of factors. First, the pump industry is regarded as being rather stable also during crisis (B2). Thus WILO is particularly attractive in comparison to many large automotive customers whose demand is highly volatile. Also WILO's legal form as a family-controlled foundation is associated with a long-term relationship, continuity and reliability, which is highly valued (S1, B2).

Second, btv technologies values the growth opportunities it has with WILO. Next to the company and industry growing itself (B2), especially the demand for electronic components is accelerating (S1). Additionally, the new production facility of btv in Romania elucidates the potential that btv sees to grow with WILO internationally. These growth opportunities are especially interesting as the purchasing volume is already now relatively high (S1).

The purchasers also mention the company's reputation, positive standing in the media, high liquidity, trust and its potential to act as a reference customer to be features of WILO's attractiveness (B2). Although these have not been mentioned by the key account manager, he postulated that "WILO is a highly attractive customer" (S1).

##### *4.2.3.2 A Collaborative Relationship Constitutes btv technologies' Supplier Satisfaction*

Both parties interviewed perceive WILO as being able to satisfy btv technologies. The main reason for that is the reliability and partnership structure of the relationship that goes hand in hand with enormous mutual trust (B2, S1). This nature of the relationship is particularly satisfying as it is associated with on-time payments, open communication and the bilateral cooperation to solve problems (S1). However, an in-depth relationship as it currently exists would not have evolved without the mutual appreciation that both show. The supplier representative mentioned that appreciating one another makes it only satisfying to act more proactively towards a customer (S1). Furthermore, the business review meetings and the actual implementation of btv's logistics improvements satisfy the supplier (B2). The one face to the supplier environment that offers a single contact point for the supplier facilitated the emergence of strong interpersonal ties that lead to a positive attitude towards the relationship (S1).

Notwithstanding not all elements of the business relationship with WILO are currently satisfying btv. The lacking integration of electronic data interchange (EDI) has been mentioned as one example for the limited IT capacity of WILO (S1). Furthermore, suggestions for improvement could be implemented faster and administrative barriers could be dismantled to increase supplier satisfaction (S1). However, these negative points also exist in the interaction with most other customers (S1).

##### *4.2.3.3 Obtaining a Preferred Customer Status through Relationship Quality and Reliability*

btv technologies has multiple motivations to award a preferred customer status to WILO. First of all, their similarity due to strategic alignment is seen as crucial for the achievement of a preferred customer status (S1). In regular 'business review meetings' strategic issues are addressed in order to achieve a mutual understanding (B2). This is also supported through supplier days and supplier awards that successfully lead to the achievement of a shared vision (S1). Without face-to-face interaction it can appear to be rather difficult to achieve this strategic alignment. Hence, local proximity, which facilitates regular face-to-face contact, is regarded as being beneficial for the achievement of a preferred customer status (S1, B2). Many

of the advantages that WILO has through its high status are also only possible to offer due to the local proximity. The supplier postulated that “it is the short distance that makes this customer relationship special” (S1). Therefore, the proximity is at the core of the preferential treatment.

A second important driver is according to *btv* reliability, which is necessary to build the trust required for awarding a preferred customer status (S1). Trust can only emerge through interaction in interpersonal relationships which are also perceived as very important as it has been mentioned that “knowing the people” makes the difference (S1). The ‘one face to the customer/supplier’ strategies that WILO and *btv* maintain respectively thereby firstly make these profound relationships possible as they depict the fairness and trust that needs to exist between a supplier and its preferred customer (S1, B2). Appreciated is further that buyers do not rotate through different commodity groups regularly, so that the aforementioned points take on even greater significance (S1). A trustful long-term relationship can emerge and has emerged that lead to the attainment of a preferred customer status.

Many more issues have been mentioned which are not outlined in much detail. Among these are growth potential with the customer, customer loyalty, mutual appreciation, open communication, collaborative problem solving, volume, and high quality requirements (S1, B2).

### **4.3 Case 2: Supplier Benevolence at EBV Elektronik GmbH & Co. KG through High Demands and Good Interpersonal Relationships**

#### *4.3.1 WILO has a High Status at EBV Elektronik Despite Low Interdependence*

EBV Elektronik GmbH & Co. KG (short: EBV) is an electronics distributor that is specialised in semiconductors and employs roughly 1.000 people. It is part of the Avnet Group, one of the largest electronics distributors worldwide, and maintains a global market share of 24,88 % in the area of semiconductors. Contact is maintained to EBV’s regional sales office in Holzwickede in vicinity to WILO’s headquarters (S2). A purchasing volume of nearly €2 million is attributable to WILO (S2), which is relatively small compared to a total revenue of €1,5 billion.

EBV maintains a customer base that comprises a classification of different customers. However, it is emphasized that every customer starts at zero and has to put effort in the relationship in order to be awarded with a preferred customer treatment (S2). According to EBV’s CEO the sales office in Holzwickede has been solely established to operate closer to WILO (S2), thereby revealing its high status.

#### *4.3.2 Information sharing and Technological Support are Key Benefits from EBV Elektronik*

A vast amount of benefits has been identified that WILO SE receives exclusively due to its high status. First of all, the most astonishing benefit is that EBV accepts WILO’s preference for financing their accounts payable and ultimately pays for it (S2). Due the interesting nature of this benefit, a more detailed explanation is given later in this paper.

Second, WILO would like to have a customer-specific label with its internal item code on the product it receives. Although it is particularly difficult for a distributor to fulfill a request like this, WILO receives these labels attached to parts ordered (S2).

Third, EBV offers WILO sophisticated crisis management. On the one hand, proactive escalation management takes place in

times of allocation problems, and on the other hand an 8D report is used to solve quality problems in a structured and timely manner (S2).

Fourth, EBV is profoundly involved in WILO’s new product development. Remarkable is here that EBV picks components that are not that much used by its automotive customers, as their status would outweigh that of WILO in times of allocation problems (S2). In case parts are discontinued by producers, EBV by itself looks for feasible alternatives (S2). On top of that, EBV regularly presents innovations to WILO, offers training and seminars on recently introduced components and organizes direct technical support from the producers (S2). Technical know-how is therefore transferred to WILO.

Fifth, WILO receives a higher amount of information than it would without its status (B2). As EBV has a key account status at all the producers whose products it distributes, it receives information about changes in the supply markets and at the producers much faster. This information is firstly distributed to preferred customers (S2). Consequently, WILO’s status helps them to obtain market transparency. However, also internal information of EBV is that is important in terms of logistics is forwarded to its preferred customer: EBV meets every four weeks with WILO’s disposition department in order to talk about changes in lead times (S2). Updating those in the company’s ERP system prevents from running out of stock due to ordering too late. In addition, EBV buys from its sister companies for WILO and partially manages its C-part supply (S2).

Additionally, there are many other benefits among which are high management commitment, direct price negotiation with producers, sales office close to its preferred customer and a forward-looking pricing model (S2). As EBV “tries to make everything happen”, more benefits might manifest in the future (S2).

#### *4.3.3 Customer Attractiveness and Supplier Satisfaction Precede a Preferred Customer Status at EBV Elektronik*

##### *4.3.3.1 A continuously stable and growing Demand appeals to EBV Elektronik*

WILO is an attractive customer for EBV which is “very valuable” (S2). First, the growth in electronics demand, which mounted up to 20 % in 2013 (S2), as well as the market and company growth (B2, S2) make it possible to grow with the customer in the future. However, these growth opportunities would not be as attractive without WILO being able to pay EBV. Therefore, attractiveness has also been found to be driven by the customer’s high liquidity (B2).

Second, the stability and continuity of the business interaction between WILO and EBV is regarded as attractive. Since large corporations are known for switching their suppliers regularly, the stable demand of a family-owned corporation is cherished (S2). This stability was also present during the last financial crisis (B2). Hence, the relationship with WILO makes EBV’s business more stable as well, which is highly beneficial.

Finally, the attractiveness is based on the good reputation and the resulting positive standing in the media (B2, S2). However, only the large size of the customer makes WILO well-known enough for the supplier to gain from using WILO as a reference customer and to transfer some of its positive image towards the supplier organization. Thus, the large size of the customer is directly antecedent customer attractiveness (B2).

#### 4.3.3.2 High Requirements and large Purchasing Volume lead to EBV's Supplier Satisfaction

EBV views WILO not only as an attractive, but also as a satisfying customer (S2). First of all, this is due to the large purchasing volume that WILO has at EBV. Although it is rather small compared to EBV's automotive customers, the volume is large in their market segment industry (S2). Orders from customers with smaller volumes are usually outsourced to logistical companies and do not include all the value-adding services EBV offers (S2).

Second, they perceive the challenging relationship nature as satisfying as it "makes fun" to help with product selection and process improvements (S2). Without these demands a successful collaboration is seen as impossible. It has been argued that EBV would not offer any additional services anymore in case WILO would not demand and use them anyway (S2). Besides "making fun", this in-depth involvement of supplier employees is perceived as being highly motivating for the individual (S2). The evolution of such in-depth relationships is further facilitated by open discussion about problems and performance, inclusion in the design phase, WILO's payment performance and stable and long-term demand forecasts (S2).

Next to the positive points there also exist some barriers to supplier satisfaction. The buyer and supplier both mention a weak EDI integration as destroying some of the supplier's satisfaction (B2, S2). Dissatisfying is also the delivery schedule which often requires multiple deliveries a week, whereas one specific time slot for delivery would be preferred (S2).

#### 4.3.3.3 Good Collaboration is the main Reason for Preferential Treatment from EBV Elektronik

EBV's sales manager states that WILO is awarded a high status (S2). There are a number of reasons for this being done. The first finding is that the status depends to a large extent on the challenging nature of the relationship and the efforts to collaboratively make improvements (S2). The intrinsic motivation from being engaged in NPD processes and improvement processes leads to EBV further offering these services. As it would not be offered anymore in case WILO would not act upon suggestions (S2), challenging tasks are directly antecedent to a preferred customer status. Related to this concept is also the inclusion in the design phase. It is argued that EBV cannot change anything anymore when RFQs are sent and does not see its added value in a transaction-based relationship (S2). Integration in challenging design phases is therefore crucial to achieve this status at EBV as "the back and forth between suggestion and implementation by both parties makes the partnership interesting" (S2).

Second, the open and friendly communication leads to preferential treatment (S2). As it is always possible to find a solution with WILO if problems occur, EBV's employees regularly stress the good interpersonal communication with WILO (S2). The evolution of strong interpersonal ties followed (B2). These were all mentioned as antecedent to the preferential treatment.

Third, the total cost of ownership (TCO), which WILO uses for the evaluation of the purchasing prices (B2) is seen as an antecedent to a preferred customer status (S2). As EBV offers a number of value-adding services on top of its distribution tasks (B2, S2) they might not be able to compete on component prices alone. Hence, a TCO method offers significant advantages.

Further antecedents for the achievement of a preferred customer status that have been mentioned are the aligned organizational

aims, growth opportunities in the future, the high purchasing volume in the market segment industry (S2), and customer loyalty (B2).

### 4.4 Case 3: Proximity, Interpersonal Relationships and Longevity as Determinants of a 'Special Status' at ESSEX Europe SAS

#### 4.4.1 WILO has a 'Special Status' at ESSEX and awarded them with their 'Excellence Award'

ESSEX Europe SAS (short: ESSEX) is a division of Superior Essex, which is a global leader for winding wire products based in the US that is in turn owned by LS Cable & System, a total solution provider for the telecommunications and electric power industries. ESSEX received the 'Excellence Award' of WILO in 2014 and is therefore regarded as the best overall supplier of the whole WILO Group. Complex copper wires are the products that are mainly supplied by ESSEX Europe, which has its headquarters in France and employs more than 1.000 people. The business relationship between the two companies already exists for approximately 50 years (S3). The dependency ESSEX has on WILO is rather low as the purchasing volume is decreasing and small compared to total sales (B2). However, in the market segment pumps, WILO is a large customer (S3).

ESSEX Europe assigns different statuses to their customers, but the interview did not reveal formal attribution of a preferred customer status (S3). While the buyer regarded WILO as not maintaining a preferred customer (B2), the supplier mentioned "WILO definitely maintains a special status" (S3). Antecedents and benefits of this status are outlined in the following.

#### 4.4.2 Key Account Status, Logistical Benefits and Quality Improvements Attributable to a High Status at ESSEX

Due to its high status WILO receives a number of exclusive benefits. First, a key account has been assigned on request of WILO, who is responsible for all commercial decisions related to the business relationship with the whole WILO group (B4, S3). This desire has solely been fulfilled due to the high status of WILO as its purchasing volume would normally not imply a key account status at ESSEX (B4, S3).

Second, a 'quality assurance agreement' has been signed by both parties. It was a large internal discussion until the efforts have been undertaken. However, the benefits have not solely been discovered at WILO, but also by ESSEX itself (S3). However, the parties do not only collaborate on quality initiatives: ESSEX is involved in WILO's new product development (S3). The requirements for new wires are set jointly and exemplary wires are produced that are then offered at future lot price in order to be tested by WILO (S3). Particularly receiving the exemplary wires is thereby considered as being preferential (B4).

Third, a number of logistical benefits are discernible. Minimum inventory levels that have to be maintained by ESSEX are determined by WILO (S3). Furthermore, consignment stocks have been introduced in France (S3). The risk to run out of stock is thus significantly reduced through maintaining a high status at its supplier.

Additional benefits include higher responsiveness in terms of faster communication, favorable pricing, enhanced proactivity (B4), better information access and sharing, undertaking of measuring activities for WILO, as well as EDI integration of the parties (B4, S3). Further, a changed invoicing process has been

implemented for WILO (S3). As this benefit is particularly noteworthy, it is outlined in more detail later in this paper.

#### **4.4.3 Customer Attractiveness and Supplier Satisfaction Precede a Preferred Customer Status at ESSEX**

##### **4.4.3.1 WILO is Attractive to ESSEX due to its Technical Capabilities and Interaction**

ESSEX has a many-faceted view on WILO's attractiveness. First, it has been argued from the buyer that the stable growth of the firm itself and the potential for its suppliers to grow with WILO are attractive (B4). However, this does not resemble the perception of ESSEX as WILO's purchasing volume has been shrinking since years (S3). But as WILO and ESSEX already maintain a business relationship for decades and the purchasing volume is still perceived to be high (S3), WILO has been able to remain an attractive customer further on.

Second, it has been argued that the attractiveness largely depends on a technical basis: The very close and in-depth interaction of applications engineering and WILO is highly attractive (S3) which goes hand in hand with the early involvement in new product development processes (S3). Regular face-to-face interaction thereby characterizes this in-depth cooperation (S3).

Third, the good information exchange that is already facilitated through the above-mentioned face-to-face interaction is seen as a further key satisfier (S3). The functioning and open communication and the very good interpersonal relations are thereby crucial facilitators (S3).

Additionally, the attractiveness depends on the customer size, local proximity, industry leadership (S3) and reliability (B4).

##### **4.4.3.2 Strong Interpersonal Relationships mainly satisfy ESSEX Europe**

Representatives of ESSEX have argued that "in comparison to other customers the interaction with WILO is absolutely satisfying" (S3). The main reason for this satisfaction is the interpersonal communication. Frequent, intense and open communication with one particular buyer is perceived as satisfying (S3, B4). Resulting from good interpersonal communication are good information exchange and the collaborative problem solving. WILO even openly communicates that the demands for the products of ESSEX go down, which is highly appreciated (S3). While one could argue that shrinking purchasing volumes lead to lower supplier satisfaction, ESSEX acknowledged that the long-term orientation of the business relationship and the resulting involvement of strong relationships and communication structures are still preserving supplier satisfaction (S3).

Satisfaction is further achieved on a technical basis. For satisfying ESSEX it is necessary to integrate them early in new product development, as these joint efforts "make fun" (S4). However a joint technical understanding is required in order to successfully undertake this technical collaboration (S4). Next to that the commercial factor of payment reliability (B4, S3) is required for satisfying ESSEX.

Astonishingly, the supplier did not mention any additional factors that could be addressed to increase satisfaction. WILO's buyer perceives a decrease in satisfaction due to a shrinking purchasing volume (B4). However, this is obviously not the case and it might be attributable to supplier days and the 'excellence award' that ESSEX received, which might be able to preserve the motivation of the supplier.

##### **4.4.3.3 Long-term Collaboration and Local Proximity are Key to a Preferred Customer Status**

As has already been outlined above, WILO currently maintains a special status at ESSEX despite a shrinking purchasing volume. This is mainly due to the length of their business relationship of approximately 50 years (S3). This long-term relationship is also attributable to the good interpersonal communication and relationships which have been stressed by employees of ESSEX (S3). However, this communication is not only limited to purchasing and sales staff, but for attaining a preferred customer status it has also been referred to the inter-firm communication between other departments, such as quality management, production, or marketing (S3). Related to this point is additionally the good capability for joint problem solving (S3, B4).

The involvement in the customer's new product development has been seen as anteceding the achievement of a preferred customer status (S3). It is interesting to mention that the alignment of the product lifecycles is also anteceding a preferred customer status (S3). It can be argued that producers of products with shorter lifecycles than the products of their customers do not award a preferred customer status as they are not able to introduce all their innovations at the customer.

Local proximity is also regarded as important determinant of a preferred customer status. As ESSEX's locations are close to WILO in both Germany and France, it is particularly interesting to act as a supplier for the whole group and offers possibilities for exclusive benefits (S3).

## **4.5 Case 4: 'A-Customer' at Eisengießerei Baumgarte GmbH as Result of Long-term Collaboration and High Volume**

### **4.5.1 The Relationship with Eisengießerei Baumgarte is based on Longevity and Dependence**

Eisengießerei Baumgarte GmbH (short: Baumgarte) is one of Germany's largest foundries with a particular focus on the pump industry and is situated in Bielefeld, Germany. WILO maintains a business relationship with the medium-sized business since 1983 (B1, S4). Products that are sold to WILO are mainly customized casings for its pumps (S4).

Baumgarte does not formally assign a preferred customer status, but an informal classification into A-, B- and C- customers exists, which is necessary due to resource constraints (S4). As WILO is Baumgarte's third largest customer which generates 12-13 % of Baumgarte's revenues, they definitely maintain a status as an A-customer (S4).

### **4.5.2 Advanced Technical Support and Logistical Benefits are achievable by Preferred Customers**

Being served as an A-customer generally offers WILO a service level that is a bit higher than that of other customers (S4). Firstly, these benefits manifest in the area of innovation and product development: In case a new pump is designed, WILO develops the hydraulic systems inside the pump, whereas Baumgarte develops the most economic casing for it that suits the foundry environment best (B1, S4). Therefore, the supplier is involved as early as possible in new product development (B1, B3). As development efforts do not even depend on the order being placed at Baumgarte, this early involvement is a service solely offered to A-customers (S4).

Second, the logistics that Eisengießerei Baumgarte offers WILO is highly preferential. 40 to 50 of the parts delivered to WILO are always kept on stock (B1, S4). Additionally a kanban system has been set up (B1, B3, S4) which is not done for any

other customer (S4). This involves Baumgarte looking into WILO's SAP system for the demands of parts and to decide independently when to produce and deliver them (S4). Hence, less disposition work has to be done at WILO.

Third, although it has been mentioned by the supplier that they are not able to compete on price internationally (S4), one of the buyers perceives their pricing as preferential and sees them as more receptive to further savings through additional negotiations or value-analytical efforts (B1).

Additionally, it has been mentioned that Baumgarte always has an "open ear" for WILO and always tries to put any wishes into practice (S4).

### *4.5.3 Customer Attractiveness and Supplier Satisfaction Precede a Preferred Customer Status at Eisengießerei Baumgarte*

#### *4.5.3.1 Pioneering and large Purchasing Volume form WILO'S Attractiveness*

The attractiveness of WILO as a customer is to a large extent based on the high purchasing volume it generates, which constitutes roughly 13 % of Baumgarte's revenues (S4). The importance of the high volume is further supported by the stability of the pump industry, the demand stability from WILO and reliability (B1). However, face-to-face interaction enhances the emphasis put on WILO's commercial attractiveness (S4).

Furthermore it is seen as attractive that WILO is a pioneer in logistics and product development (S4) and thus adapts to environmental changes faster than other customers. The market leadership that WILO has is attracting Baumgarte as well (S4). As complying with the standards of a pioneer and market leader could attract new customers, Baumgarte also uses the pump casings of WILO to show them on trade fairs (B1). Thus, the potential to act as a reference customer is regarded as attractive.

#### *4.5.3.2 Eisengießerei Baumgarte is Satisfied largely through WILO's Economic Value*

Eisengießerei Baumgarte puts it simple and argues that "we are satisfied when WILO is able to sell its pumps on the market" (S4). However, there are also more specific factors that precede the achievement of supplier satisfaction: First, the in-depth technical cooperation, which is also based on much data exchange and face-to-face interaction, leads to supplier satisfaction (S4).

Next to that the high purchasing volume, the possibility to give proof of its capabilities (S4), the long-term nature of the relationship, the open communication and the implementation of suggestions (B1, S4) are satisfying Baumgarte. The buyer mentioned payment reliability as additional satisfiers (B1), but this factor has not been mentioned by the supplier.

Some factors are also dissatisfying the supplier and could be addressed to enhance satisfaction. Currently, departments of WILO regularly communicate different priorities and put their own priorities first (S4). For example, a buyer might demand the lowest prices, whereas the product development requires additional paid services. That leads to an inconsistent appearance of the customer. Communicating a more integrated view of requirements and wishes would thus be more satisfying (S4). Furthermore, demand forecasts could be provided for a larger number of products (S4).

#### *4.5.3.3 WILO's capacity to Refine is a Core Determinant of its Preferred Customer Status*

Eisengießerei Baumgarte clearly does not want to forego the business relationship with WILO and sees them as one of their most important customers (S4). This high status is firstly

dependent upon WILO's capability to continuously improve and transform. It has been argued that customers that develop and adapt to market conditions and additionally commit themselves to strong product development receive a preferred treatment by the supplier (S4).

Second, the early involvement in product development has been mentioned. Baumgarte has the skills in the area of foundry to develop the most economic casted casings and see it therefore as inevitable to be involved in the product development (S4).

Third, the long-term nature of the relationship has been recognized as influencing the customer's status (S4). It can be associated with high loyalty from the buyer towards the supplier.

Additionally, mutual dependency, local proximity (S4) and high purchasing volume (B1, B3, S4) have been found as antecedents of a preferred customer status.

## **4.6 Fulfillment of Extraordinary Financial Transaction Wishes and Neglect of Administrative Processes are Core Benefits of a Preferred Customer Status at WILO**

WILO SE receives a diverse set of benefits due to its preferred customer status. As the former depiction of these advantages is rather superficial, this section aims at outlining the most remarkable benefits and explains them in more detail. The benefits addressed in this section are not received by all competing customers and are free of charge and thus represent benefits of a true preferred customer.

First of all, EBV Elektronik accepts that WILO prefers to finance its accounts payable in cooperation with Deutsche Bank. If an invoice is received by EBV, it is paid for by the bank within 8 working days. However, WILO first has to pay the amount due back to the bank after 60 working days. Thus less capital is tied up and WILO's cash flow improves significantly. Of course, the bank does charge for financing the invoice amount, but WILO does not have to pay these banking fees: Its supplier EBV receives 1,5 % less than the invoice amount and consequently pays for a better cash flow of its customer, which they would not do for every customer (S2).

Second, ESSEX also fulfills extraordinary financial transaction wishes of WILO. The invoicing process has been changed according to WILO's wishes so that copper, which is included in the wires produced by ESSEX, is invoiced separately and in another currency, namely in US dollar (S3). Hence it offers the opportunity for WILO to reduce its exchange rate risks by hedging some of its sales that are made in US dollar by also purchasing parts in this currency. A procedure similar to this is not undertaken for any other customer (S3).

Third, as part of its sophisticated crisis management btw technologies mentioned that it would accept orders and deliver parts although administrative processes have not yet been finished (S1). For example, delivery might be processed while no formal written order has been received or contracts have not yet been signed (S1). Obviously, this involves a risk for btw, which it takes only for preferred customers with whom it build a strong and reliable relationship (S1).

## **5. DISCUSSION**

### **5.1 Findings Reinforce and Contribute to the Benefits of a Preferred Customer Status Existent in the Literature**

A multitude of the benefits of a preferred customer status, which have been identified in the literature, could also be

identified in this case study. Among these key benefits are price benefits, enhanced technology access, information sharing, joint product development, lower lead times and logistics development.

However, some benefits could be identified that complement the previous findings and have not previously been identified. These are the facilitation of contact to a third party, an excellent and far-reaching crisis management, a forward-looking pricing model, high management commitment at the supplier, key account status despite low volume, and the acceptance of extraordinary financial transaction wishes.

An overview of all benefits identified in the case study and their link to the existing scientific literature can be found in Table 2 in the Appendix.

## **5.2 Antecedents to Customer Attractiveness, Supplier Satisfaction and a Preferred Customer Status Existent in the Literature are Reinforced by Case-Study Findings**

As the theoretical outline of the antecedents to a preferred customer status provided in this paper has been based on the framework by Hüttinger et al. (2012, p. 1203), it has also been used as the foundation for the practical examination of the antecedents. Thus, antecedents for customer attractiveness, supplier satisfaction and preferred customer status have been viewed in isolation in order to be able to provide an in-depth comparison of the practical findings with existing theory.

The case study findings at WILO SE disclosed a number of antecedents to customer attractiveness, which have mostly already been mentioned in the literature. Among these are, for instance, the early involvement in NPD, interpersonal communication and demand stability. However, some of the findings are heretofore unbeknownst: That the customer's liquidity, legal form, reputation and its proximity to its suppliers influence its customer attractiveness has not been identified in recent academic discourse.

For supplier satisfaction even more of the practical findings are already established. The implementation of suggestions, technical competence and payment habits are merely a couple of examples for these confirmed antecedents. Only EDI integration, positive attitudes towards the relationship and strong interpersonal ties have not previously been mentioned.

Finally, the drivers of a preferred customer status could also be linked to previous findings. For example, local proximity, high purchasing volume and early involvement in new product development are only a few of the factors that this case study could reinforce. Additionally, it has been found that the length of technology life cycles need to be similar, the customer's requirements need to be high, that a mutual dependency needs to be present and that only one customer representative should interact with the supplier in order to achieve a preferred customer status.

A complete overview of the antecedents to customer attractiveness, supplier satisfaction and preferred customer status is exhibited in Table 3 in the Appendix.

## **5.3 WILO's Preferred Customer Status is largely Constituted by the same Drivers at all Suppliers and offers Similar Benefits**

So far only similarities and differences between the cases and the existing literature have been explained. However, there are also similarities and differences between the individual cases that are critically discussed in this section. First of all, it has been found that except EBV Elektronik none of the suppliers

actually have a formal status which they assign to their customers (S1-S4). As the other suppliers still regarded WILO as an 'A-customer' or mention its 'special status' (S3, S4), the preferential resource allocation it receives can still be argued to result from a preferred customer status. However, as it is assigned only informally, it is particularly subjective how to obtain preferential treatment from suppliers.

The benefits of a preferred customer status are to a large extent similar between the cases and only minor differences are present. However, the majority of the benefits are related to new product and capability development that help WILO to create better products in the future. Further benefits cluster around price benefits and cost savings, logistical improvements and enhanced information sharing. A full overview of the benefits and its presence in the cases can be found in Table 2 in the Appendix.

Antecedents to customer attractiveness also largely coincide across the cases. Attractiveness is mainly founded on the economic standing of the customer and the potential future value it could bring to the supplier as well as the in-depth relationships that WILO maintains to its suppliers. Other factors such as the early involvement in product development or local proximity are only mentioned by one case company, but still their importance is not to be underestimated.

Drivers of supplier satisfaction are predominantly founded on how the relationship is actually executed, i.e. how it is communicated, what information is exchanged and how issues are addressed jointly. In all cases some similar concepts have been found, however slight deviations occurred. It is particularly interesting to look at the factors dissatisfying the supplier which provide potential for further improvements: Two of the suppliers mentioned that the EDI integration between WILO and its suppliers could be better (S1, S2). Thus, this is a major area for improvement which could potentially also enhance the satisfaction of other suppliers. Noticeable is also that two suppliers regard the commodity management and the resulting one face to the customer as satisfying (S1, S3) whereas another supplier sees it as a future improvement that is currently not existing in their business relationship (S4). It might thus be the case that the commodity management works for some commodity groups better than for others. This could be due to the commodity and its requirements or the individuals involved in the particular transaction.

When it comes to the drivers of a preferred customer status, the factors are again quite similar when comparing the cases. Nevertheless, an astonishing finding could be revealed: Purchasing volumes are regarded as very important for obtaining a preferred customer status by three of the four suppliers (S2, S3, S4). However, it has also been found that the purchasing volume at ESSEX is shrinking since years so that WILO would normally not even be able to obtain a key account status (S3) and that WILO's share of EBV's revenue is with approximately 0,13 % really low (S2). Since WILO still receives exclusive and free benefits from these suppliers, it actually still maintains a preferred customer status at these suppliers. Consequently is it questionable whether the purchasing volume is actually such an important determinant of preferred customer status as it has been mentioned by both, buyer and supplier representatives.

To conclude it can be said that WILO is an attractive and preferred customer to all the case companies, but that some differences between them need to be addressed and examined in more detail as to practically and theoretically contribute to the preferred customer concept.

## **6. CONCLUSION**

### **6.1 The Case Study Revealed a Number of Benefits and Antecedents to WILO's Preferred Customer Status**

Firms increasingly view managing their supply chains and developing their supplier relationships as a major strategic asset, associated with cost savings, enhanced flexibility and increased innovativeness (Cousins et al., 2008, pp. 8, 14). Hence, in order to remain competitive good buyer-supplier relationships are inevitable. Achieving a preferred customer status, which is associated with preferential resource allocation by a supplier (Steinle & Schiele, 2008, p. 11), is thus an emerging objective of buying organizations.

This research answers the key questions related to the preferred customer concept by offering a large number of benefits and antecedents of this status that WILO SE maintains. Furthermore, these practical manifestations have been matched to the literature in order to reinforce existing findings of prior studies and to reveal previously unknown factors. It has been shown that the additional benefits of facilitation of contact to third parties, an excellent and far-reaching crisis management, a forward-looking pricing model, high management commitment at the supplier, key account status despite low volume and the acceptance of extraordinary financial transaction wishes could be attributed to the preferred customer status of WILO SE. Although these findings could not be linked to earlier findings, they may be of relevance for companies' competitive advantage. The drivers of a preferred customer status that could not be identified in earlier literature are the similar length of technology life cycles, high customer requirements, mutual dependency and a one face to the customer environment. Although high requirements and a one face to the customer environment have already been attributed to the related concept of supplier satisfaction, it is novel that they are also directly antecedent to the achievement of a preferred customer status.

### **6.2 Case Study Findings Contribute to Existing Research**

This paper firstly provided an in-depth overview of the literature on the related concepts of customer attractiveness, supplier satisfaction and preferred customer status as well as of its benefits. These concepts have completely been viewed in isolation in order to be able to compare the case findings at WILO and its key suppliers to the existing literature base. Although it was not possible to reinforce all existing findings, none of the existing antecedents and benefits could be refuted. A number of additional antecedents and benefits of a preferred customer status could be identified and used as a basis for further research.

### **6.3 WILO maintains a High Status at its Suppliers but can Further Soar Up**

Although it has been shown that WILO currently receives a preferential treatment by all the suppliers participating in this case study, WILO was actually not aware of its high status. One buyer perceived their volume as too small in order to successfully compete against large customers of the automotive industry to obtain preferential resource allocation (B2). However, it has been found that especially strong relationships have the potential to mitigate this perceived inferiority (S1). Maintaining a preferred customer strategy is therefore particularly important for WILO SE in order to receive preferential resource allocation from their suppliers. As WILO is currently already focusing on a partnership strategy with key suppliers and the average buyer-supplier relationship has a

length of 12 years (B2), it is already worked on achieving a high status at suppliers. The introduction of 'supplier day' and 'supplier awards' can also be argued to be efforts in this direction (B4, S1). The vast amounts of benefits that have been identified already indicate the effects of these endeavors. However, buyers and suppliers see still potential for further improvements, as the EDI integration between customer and supplier could be expedited (B1, B2, S2), demand forecasts could be provided for more parts (S4), suggestions could be implemented faster (S1), even more information could be communicated (S3) and suppliers could be involved in new product development even earlier (B3, S2). Furthermore, it has been mentioned by the buyers that there currently is no specific management commitment towards achieving a preferred customer status (B1, B2, B3, B4). Thus, internally strengthening the preferred customer approach could potentially lead to the manifestation of further benefits.

As these further improvement suggestions might not have evolved without conducting the interviews underlying this study, it might be useful for WILO if the changes are accompanied by a more explicit preferred customer strategy, which aims at positioning itself as attractive and satisfying customer. Addressing the previously identified antecedents to customer attractiveness, supplier satisfaction and preferred customer status can be one way to do so. Hüttinger et al. (2012) provide a good overview of these factors. Although not all of these can be consciously affected, some factors can be deliberately stressed and improved. Furthermore, it might be worth to listen to the customer and to implement a regular supplier satisfaction evaluation in order to understand its current status at suppliers and to better direct future efforts. It might be worthwhile to consider engaging a third party to undertake these studies as this could facilitate a more honest evaluation based on higher anonymity of suppliers.

### **6.4 Case Study Findings cannot be Generalized and Further Practical Research is Necessary**

The findings of this study are based upon one single case study at WILO SE and four of its key suppliers. Hence it is not possible to draw general conclusions about the preferred customer concept and its benefits and antecedents. While it is possible to confirm and further strengthen the relevance of earlier findings, it is not possible to reject findings that could not be identified in this specific case. Additionally, findings that could not be identified in earlier literature, but have been found in this case study, are not generally valid and can only provide rough hypotheses for further testing.

As the research on the preferred customer status is mostly rather theoretical, practical testing of the antecedents and benefits of a high status could lead to a further maturation and rise in importance of this concept. Thus it is important to conduct more studies similar to this in order to confirm the benefits and antecedents of a preferred customer status in practice.

Unexpected findings should be further tested in order to figure out whether these are also present at different companies in order to be able to reject these findings or to strengthen their potential contribution to the existing literature base.

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## 8. APPENDIX

### 8.1 Benefits of a Preferred Customer Status

Table 2: Benefits of a Preferred Customer Status identified at WILO SE and their links to Theory

Element in Practice (Case)	Related Theoretical Element
<b>Exclusive and free</b>	
Regular meetings with disposition to discuss lead time changes (2)	Appropriate information on timely basis
Higher responsiveness in terms of faster communication (3)	Be available and responsive – Speed of Response
Priority delivery personally by key account (1)	Be ready to deliver missing components within reasonable time
Receptive to further price negotiation and value-analytical efforts (4)	Be receptive to further price negotiations with the customer
Good Prices (1, 3, 4)	Benevolent pricing / One of the lowest prices
High and stable quality (1)	Delivering consistent quality
Training and seminars on newly introduced components (2)	Developing customer competencies
Negotiating of prices directly with producers from whom their supplier buys (1, 2)	Disclosing internal cost data
8D report to solve quality problems (2)	Initiate Quality improvements for the products required by the customer
Keeping 40-50 items on stock (4)	Keep safety stocks
Accept minimum inventory levels set by WILO (3)	Keep safety stocks
Picking components not used in the automotive industry (2)	More technological input from supplier
Jointly setting demands for new wires (3)	More technological input from supplier
Development support for most economic casings (4)	More technological input from supplier
Establishment of a sales office in local proximity (2)	Physical Presence
Taking a consulting firm perspective to implement technical best practices (1)	Process improvements
Signing quality assurance agreement (3)	Quality initiatives for products bought by customer
Multiple deliveries per week in multi-way containers (1)	Reducing Acquisition Costs
Kanban system (4)	Reducing Acquisition Costs
Producing exemplary wires at future lot price (3)	Reducing Acquisition Costs
Faster and more information sharing (2, 3)	Sharing information about markets
Choosing alternatives for discontinued parts (2)	Suggest innovations for the products required by the customer
Presenting innovations to WILO (2)	Suggest innovations for the products required by the customer
Undertaking measuring activities for WILO (3)	Undertaking non-core activities
Facilitation of direct support from the producer (2)	-
Invoicing copper separately in another currency (3)	-
Proactive escalation management (2)	-
Delivery despite unfinished administrative processes (1)	-
Forward-looking pricing model (2)	-
Key account status despite too low purchasing volume (3)	-
Paying for accounts payable financing (2)	-
Regular meetings with top management (2)	-
<b>Exclusive and paid</b>	
Same-day delivery for missing components (1)	Be ready to deliver missing components within reasonable time
Customer-specific label (2)	Customize Products to Customer Specifications
Smaller and flexible lot sizes (1)	Delivery flexibility
Going in advance payments for parts (1)	Less working capital needed
Consignment stock (3)	Reducing Acquisition Costs

Buying parts from sister companies (2)	Taking over parts of the customer's activities
Partially managing C-part supply (2)	Taking over parts of the customer's activities
<b>Unknown</b>	
"Tries to make everything happen" (2)	"Achievement of seemingly impossible objectives"
"Would do everything for WILO" (1)	"Achievement of seemingly impossible objectives"
Open ear for WILO and trying to put all wishes into practice (4)	"Achievement of seemingly impossible objectives"
Changes in production schedule (1)	Adjust to changes in delivery schedules
Adapting capacity of new subsidiary in Romania so that subcontractor's demands can be met (1)	Physical Presence
EDI link between customer and supplier (3)	Sharing information about products and markets

## 8.2 Antecedents of a Preferred Customer Status

Table 3: Antecedents to a Preferred Customer Status identified at WILO SE and their links to Theory

Element in Practice (Case)	Related Theoretical Element
<b>Customer Attractiveness</b>	
Early NPD Involvement (3)	Early R&D involvement
Firm, Industry and Product demand growth (1, 2)	Growth rate
Functioning and open communication (3)	Communication
Good reputation and standing in the media (1, 2)	-
High customer liquidity (2)	-
High purchasing volume (1, 4)	Price/Volume
High reliability (1, 3, 4)	Reliability
Industry stability and continuity also in times of crisis (1, 2, 4)	Demand stability; market stability
Large size of the customer (2, 3)	Size
Legal form as family-controlled foundation (1, 2)	-
Local proximity (3)	-
Long-term relationship (1, 3)	long-term interactions / loyalty
One of the industry leaders (3, 4)	Influence on the market
Pioneer in logistics and product development (4)	Depth of skills
Potential sales to subcontractor in Romania (1)	Access to new customers/markets
Potential to act as a reference customer (1, 4)	-
Regular face-to-face interaction (3, 4)	Possibilities for face-to-face contact
Satisfying information exchange (3)	Information exchange
Very good interpersonal relationships (3)	Tight personal relations
<b>Supplier Satisfaction</b>	
Collaborative problem solving (1, 3)	Conflict management
Early and in-depth involvement in NPD (2, 3, 4)	Early supplier involvement
Electronic data interchange (EDI) integration (1, 2)	-
Good and regular information exchange (3, 4)	Level of information exchange
Good Interpersonal Relationships (3)	Cooperative relationships
High purchasing volume (2)	Substantial volumes
High requirements and providing possibilities to give proof of its capabilities (2, 4)	Required effort needed for delivery
Implementation of improvement suggestions (1, 2, 4)	Response to suggestions for improvement
Long-term demand forecast (2, 4)	Forecasting / Planning
Long-term orientation (3, 4)	Long-term time horizons
Mutual appreciation (1)	Joint relationship efforts
One face to the customer (1, 3, 4)	Availability of direct contact in the buying firm

Open performance feedback and business review meetings (1, 2)	Feedback
Open, frequent, intensive communication (1, 2, 3, 4)	Communication
Payment performance (1, 2, 3, 4)	Payment habits
Positive attitude towards the relationship (1)	-
Shared technical understanding (3)	Technical competence
Strong interpersonal ties (1)	-
Trust (1)	Trust
<b>Preferred Customer Status</b>	
Early involvement in NPD (2, 3, 4)	Early supplier involvement; Involvement in product design
Efforts to collaboratively make improvements (2)	Supplier development / Quality initiatives / Response to cost reduction ideas
Growth of Industry, firm and product demand (1, 2)	Business opportunities
High quality requirements (1)	Quality initiatives
High customer requirements (2)	-
High purchasing volume (1, 2, 4)	High purchase volume
Joint discussion and cooperative problem solving (1, 2, 3)	Action-oriented crisis management
Length of the business relationship (3, 4)	Loyalty / Strong bonds
Local proximity (1, 3, 4)	Geographical proximity
Loyalty (1, 2, 3)	Loyalty
Mutual Dependency (4)	-
One face to the customer (1)	-
Open and friendly communication also with other departments of the customer (1, 2, 3)	Communication and feedback
Partnership-structure (1)	Focus on partnership
Shared vision, aims, strategy (1, 2)	Strategic fit
Similar Length of Technology Life Cycle (3)	-
Strong interpersonal ties (1, 2, 3)	Strong bonds
Total cost of ownership (2)	Total cost as basis for purchasing price
Trust (1)	Trust