

# **Antecedents and Benefits of the Preferred Customer Status- a Case Study with the World's Biggest Producer of Enclosure Systems**

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## **ABSTRACT**

In recent years, the concept of the preferred customer status has gained an increased amount of interest. Since companies have to face increased global competition paired with supplier scarcity, firms try to reap a competitive advantage by being more attractive to their suppliers than their competitors are in order to gain preferential treatment. However, most scientific literature takes a more theoretical stance at the concept of preferred customer status. Therefore, a multiple case study with X and three of its key suppliers is conducted in this research in order to identify benefits and antecedents reaped from the preferred customer status. The findings strengthen the existing body of knowledge by confirming several antecedents, benefits and drivers of the preferred customer status which have been previously found by other scholars. Among others, a high purchasing volume is classified among the most influential factors regarding customer attractiveness. Furthermore, having a long-term relationship with the supplier is one of the drivers of achieving the preferred customer status. Concerning the benefits of the preferred customer status, this study reinforces many factors found in the previous literature, such as, among others, shorter lead times and an increased service offering by the supplier. While this case study is conducted on a rather small scale, conducting similar case studies in the future might strengthen the scientific groundwork of the preferred customer status, giving purchasing managers a handbook on how to obtain the preferred customer status with their key suppliers.

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## **Keywords**

Preferred customer status, preferential resource allocation, supplier satisfaction, customer attractiveness, buyer-supplier relationship, case study

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## 1. INTRODUCTION

In today's business environment, companies experience a great threat of an increased global competition (Petersen, Handfield, & Ragatz, 2005). To cope with this kind of competition, companies are always eager to find new ways of gaining competitive advantage in terms of increased innovativeness, cost savings and quality. Therefore, purchasing departments increasingly extend their relationships with their suppliers so that they are able to acquire a preferred customer status, which helps ensuring these benefits. According to Steinle and Schiele (2008) a preferred customer status is achieved when the supplier offers preferential resource allocation to the buying company (Steinle & Schiele, 2008). As stated by Schiele, Calvi, & Gibbert (2012), buying firms nowadays increasingly compete for the best suppliers and therefore have to be attractive for the supplier, which is contrasting to the predominant assumption that suppliers have to be attractive for the potential customer (Schiele, Calvi, & Gibbert, 2012). Gaining a preferred customer status might help achieving a competitive advantage, as the buying company can derive benefits out of such a relationship a competitor might not get.

In the last years, the topic of preferred customer status has gained an increasing amount of interest in the scientific literature. As the preferred customer status is a form of creating competitive advantage for businesses, a practical perspective is needed. In order to address this lack of practical insights, a case study with and its key suppliers will be conducted in which the buyer-supplier relationship will be investigated. The case study aims at showing the necessary antecedents as well as the derived benefits of the preferred customer status. Furthermore, it will be examined to what extent these findings contribute and reinforce the existing literature. Therefore, the following two research questions will be addressed in this paper:

Q1: What are the antecedents and benefits of a preferred customer status with key suppliers for X?

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

In order to answer these questions, a literature review and a case study is conducted in this paper. The case study consists of six interviews, two interviews with purchasing managers from X and four with key suppliers of X.

The paper is structured as follows. Firstly, a literature review on the existing body of knowledge is provided. In the literature review the preferred customer status is defined and related theories are shown. Afterwards, antecedents and benefits of the preferred customer status which can be found in the existing literature are discussed. Additionally, the historical development of buyer-supplier relationships is analysed. The third chapter shows the methodology of the case study, presenting the data collection method and the research design. Furthermore, a short introduction to the parties involved in the case is given. In the fourth chapter an introduction to X, followed by the dual perspective case study showing the details of the buyer-supplier relationship is presented, focusing on the antecedents and benefits of it. In the discussion chapter, differences and similarities between the empirical findings and the existing literature are discussed. In the sixth chapter a summary of the findings is given. Additionally, recommendations for X are given, followed by limitations of this study as well as avenues for future research.

## 2. THEORETICAL BACKGROUND

### 2.1 The Concept of the Preferred Customer Status: A historical overview

The preferred customer status first got attention in 1970 when Hottenstein published his work about companies which used preferred customer lists to structure and rank their customer base (Hottenstein, 1970). At this point in time, Hottenstein did not get much attention for his work and it took nearly two decades before Leenders and Blenkhorn investigated the topic under the name "reverse marketing" (Leenders & Blenkhorn, 1988).

Nowadays, preferred customer status has gained an increased interest in scientific literature. As stated by Nollet, Rebolledo, and Popel (2012) buyers increasingly need to engage in reverse marketing, making their company more attractive to the supplier than their competitors are. This phenomenon has many reasons. One of them is the increased supplier scarcity in oligopolistic market situations (Schiele et al., 2012). Therefore, buying companies in such a market environment need to have good relationships with their strategic suppliers. Another reason to engage in reverse marketing was shown by Pulles, Veldman, and Schiele (2014), who stated that the preferred customer status is positively related to buyer-supplier innovativeness. Since there was a development in supply chain organisation, many buying firms moved from closed to open innovation (Schiele et al., 2012). As most suppliers are only capable of serving few buyers with the newest innovations, these suppliers have the opportunity to select their customers on their own accord (Schiele et al., 2012). Nollet et al. (2012) stated that having a close buyer-supplier relationship can therefore lead to a competitive advantage, since suppliers are more prone to share their innovativeness with customers they experience as preferred customer (Nollet et al., 2012).

According to Steinle & Schiele (2008, p. 11) a company has the preferred customer status if it is "receiving better treatment than other customers" (Steinle & Schiele, 2008, p. 11). This definition has been adjusted by Pulles, Schiele, Veldman, and Hüttinger (2015), who state that buyers obtain the preferred customer status if they are "a buyer to whom the supplier allocates better resources than less preferred buyers because the supplier favours the buyer's behaviours, practices, business values, or some combination thereof" (Pulles et al., 2015, p. 8). As the definition by Pulles et al. (2015) is the more recent and more elaborated one, this paper is going to use this definition.

The three parts of the preferred customer concept, namely supplier satisfaction, customer attractiveness and preferred customer, previously have been studied separately (Hüttinger, Schiele, & Veldman, 2012) and have been summarized by Schiele et al. (2012) in the "cycle of preferred customership", which is shown in figure 1. The cycle of preferred customership is divided into three steps, beginning with the attractiveness of the buying company towards their supplier. When the roots of the relationships have been set and the customer appears to be attractive, supplier satisfaction is the next stage the buying company has to address. As stated by Pulles et al. (2015), the perceived value of a current relationship influences the supplier satisfaction. Furthermore, Pulles et al. (2015) have shown empirically that being attractive for a supplier does not necessarily lead to preferential treatment as long as the supplier is not satisfied with the relationship, meaning that a competitor, who might be less attractive might achieve preferential treatment if the supplier is more satisfied with the competitor. Therefore, supplier satisfaction is a key concept in the preferred customer topic.

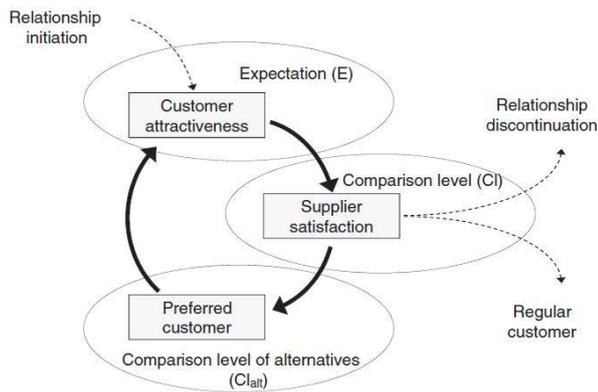


Fig. 1: The cycle of preferred customership

After the introduction to the topic of preferred customer status, its antecedents and benefits will be discussed in the following section.

## 2.2 Antecedents of a Preferred Customer Status

To successfully achieve a preferred customer status it is necessary to understand the antecedents of it. In order to show the drivers of preferred customership, the framework developed by Hüttinger et al. (2012), which is shown in figure 2, will be used. The framework consists of three stages: customer attractiveness, supplier satisfaction and preferred customer status. These three stages will be discussed individually hereafter. Additionally, the newest findings by Pulles et al. (2015) will be taken into account.

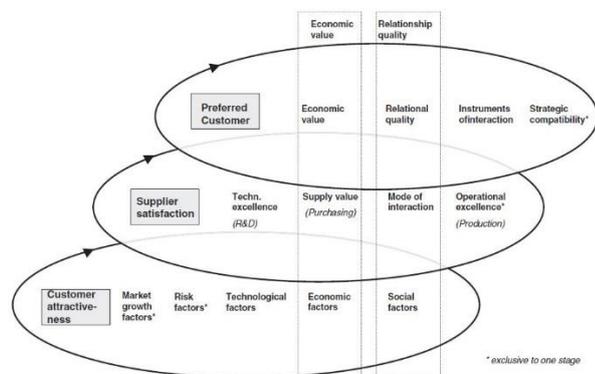


Fig. 2: Drivers of preferential treatment by suppliers

At first it needs to be mentioned that a buyer-supplier relationship is always forgone by the assessment of the customer attractiveness by the supplier (Hald, 2012; La Rocca, Caruana, & Snehota, 2012; Nollet et al., 2012; Schiele, Veldman, & Hüttinger, 2010). After the assessment, the supplier will choose whether a relationship will be introduced and intensified. As stated by Hald (2012), supplier satisfaction and customer attractiveness are interdependent, although the former is focused on the present and refers to ex-post experiences while the latter is an ex-ante expectation judgment and future directed. Therefore, it can be stated that customer attractiveness is necessary to achieve supplier satisfaction (Hüttinger et al., 2012; La Rocca et al., 2012). Hüttinger et al. (2012) distinguish five categories of drivers of customer attractiveness: (1) market growth, (2) risk, (3) technological, (4) economic and (5) social

factors. Additionally, Hüttinger et al. (2012) described four drivers of supplier satisfaction: (1) technical excellence, (2) mode of interaction, (3) supply value and (4) operational excellence.

Although the concept of customer attractiveness is a necessity to achieve supplier satisfaction, Pulles et al. (2015) showed that the influence of customer attractiveness on preferential treatment becomes smaller as soon as supplier satisfaction is in the equation. However, Pulles et al. (2015) pointed out that customer attractiveness is still important, as it is an important factor in the initiation of business relationships as well as in the intensification of the relationship. Additionally, the authors stated that a company, which might seem a little less attractive, might be granted the preferred customer status over a more attractive company because the supplier is less satisfied with the latter company (Pulles et al., 2015).

## 2.3 Benefits of a Preferred Customer Status

Being a preferred customer implies a special relationship between the buying company and its supplier, as the buying company has to be a more attractive customer than its competitors. Such a relationship can reap benefits for both parties (Schiele, Veldman, & Hüttinger, 2011) and may lead to competitive advantage (Schiele et al., 2012).

One potential benefit which can be achieved by being a preferred customer is a reduction in purchasing price (Blenkhorn & Banting, 1991; Hald, 2012; Moody, 1992; Nollet et al., 2012). Nevertheless, the margins of this price reduction range. While Bew (2007) stated that a price reduction of two to four per cent can be achieved, Blenkhorn and Banting (1991) found out that savings between five and thirty per cent are possible to obtain. These price reductions can be explained by the impact of the increased buyer – supplier relationship. As the supplier is more eager to further establish business with the buying company it is more prone to instruments which lead to price reductions like standardisation and are furthermore more open to price negotiations (Bew, 2007; Nollet et al., 2012). Additionally, suppliers might achieve price reductions by increasing their efficiency and in turn pass on the savings to their customer (Ulaga, 2003). Not only a price reduction follows an increased efficiency, but also the lead time as well as time-to-market can be reduced as benefits of the preferred customer status (Christiansen & Maltz, 2002; Ulaga, 2003).

Although several authors recognised a power disequilibrium based on the buyer's dependency on the supplier, Schiele et al. (2011) stated that it is not necessarily common for suppliers to behave opportunistically regarding their pricing behaviour towards buyers. Actually, Schiele et al. (2011) found out that the pricing behaviour of suppliers is getting more favourable as soon as the buyer achieves a preferred customer status.

Additionally, Ulaga (2003) found out that, besides a direct reduction in purchasing price, also the need for switching costs was not found in a stable buyer – supplier relationship. Switching costs always occur when a buyer wants to switch from one supplier to another, as the new supplier needs to go through the whole qualification process, including quality checks as well as supplier audits. This process is costly and time-consuming, therefore buyers tend to try to get a price reduction at their old supplier rather than switching suppliers.

Another benefit which can be obtained by achieving a preferred customer status is the access to supplier's innovativeness (Schiele, 2006). As stated by Schiele (2006), companies might have the possibility to be the first to access supplier's innovations by being their preferred customer. Additionally, Schiele (2006)

stated that not having a preferred customer status might have a negative impact on companies new product development as well as on delivery reliability. Nollet et al. (2012) backed up this findings and stated that another benefit of the preferred customer status might be product customization as well as consistent quality levels.

Figure 1 visualizes the different levels of preferred customership, where the top of the pyramid shows those customers which obtained preferred customer status. The top field is the hardest to achieve as most benefits are assigned to them. In the middle section are the so called “little preferred customer”, who partially already obtained a preferred customer status. The bottom category consists of all other customers which do not get any preferential treatment at all.

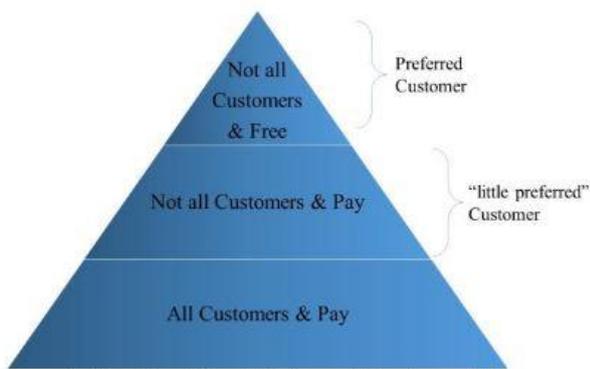


Figure 1. The Benefits of Preferred Customer Status

### 3. METHODOLOGY: RESEARCH DESIGN & DATA COLLECTION

#### 3.1 Questionnaire Design and Interviews

The interviews for the case study are based on two guiding questionnaires. One is designed for the purchaser’s perspective and the other one for the supplier’s perspective. These questionnaires have been conducted by bachelor students in 2013 and were also used by students in 2014 and 2015. The questionnaires follow the same structure and consist of three parts: Classification, Benefits and Antecedents. In the first section, the interviewee was asked to describe the way they classify their relationship with the opposing party. In the second section the benefits of the relationship were asked and lastly the antecedents were discussed. All questions were designed as open questions to encourage an environment which gives room for discussion.

To forestall any difficulties concerning the language, the interviews were conducted in German. The interviews were recorded and afterwards transcribed so that they could be rechecked by the interviewed person to forestall any misunderstanding which might have occurred during the interview. Additionally, the respective questionnaire and an information leaflet in German were distributed prior to the interviews as it turned out that no interviewee knew the concept of the preferred customer status.

#### 3.2 Respondent Characteristics

To conduct the case study, contact was made with the purchasing department of X, the biggest manufacturer of enclosure systems. After describing what the intent of this paper was, two purchasing managers have been asked to participate in the

interviews. The selection was made based on availability of staff and the degree to which they and their respective suppliers fit the requirements. Both purchasing managers are responsible for handling one commodity, namely packaging and casting. Each representative was asked to choose two suppliers where they assumed that they obtained preferential customer status. The chosen suppliers were Supplier A, a German cardboard packaging supplier, Supplier B, a German supplier for C-Part systems, Supplier C, a German supplier for lock options, and Supplier D, a German supplier for wooden pallets.

The first buyer (B1) represents the counterpart for Supplier A (S1) and Supplier D (S4), and the second buyer (B2) is the counterpart for Supplier B (S2) and Supplier C (S3). The interviewed suppliers were chosen by the buyers, while a perceived preferred customer status was the basis for choosing them.

Table 1 illustrates the numbers of the interviewees to which references will be made in the course of the following case study. Case 1 consists of interviews with Supplier A and Buyer 1, case 2 consists of interviews with Supplier B and Buyer 2, case 3 consists of Supplier C and Buyer 2. Unfortunately, case 4 is not conducted since Supplier D was not available for an interview.

Table 1: Case study interviews

Case	Supplier	Interviews
1	Supplier A	B1, S1
2	Supplier B	B2, S2
3	Supplier C	B2, S3
4	Supplier D	B1, S4

(B = Buyer, S = Supplier)

The interviews with the buyers as well as Supplier A were conducted in a face-to-face interview. The interviews with Supplier B and Supplier C were conducted via telephone. All interviews were conducted in German and recorded with the prior consent of the interviewees, to guarantee a better analysis and to forestall any bias concerning misunderstanding and forgetting certain important aspects. The interviews were conducted in a personal environment, meaning that the respective opposing party was not present during the interviews. Furthermore, all interviews were conducted in September and October 2015 with an average duration of 30 minutes.

### 4. ANALYSIS AND FINDINGS

#### 4.1 X is a leading Manufacturer of Enclosure Systems and Climate Control

The case study conducted in this paper was undertaken in cooperation with the purchasing department of X which is responsible for buying climatization, electronics and non-ferrous components of the manufactured products. X is a German manufacturer of enclosure systems and climatization technology and world leading in its respective field.

The purchasing department is divided into three sub-departments following material groups. Everything X buys is categorized in commodity groups summarizing the materials which have comparable attributes. As the case study was conducted with the S&P CENF department, this department will be introduced more extensively.

The department consists of thirteen purchasing managers, divided into three categories: Global Commodity Manager,

Local Commodity Manager and Local Buyer. The department is responsible for handling eight different commodity groups, among others packaging material, plastics and Zinc die-cast. To cope with the amount of invoices they receive each day, most purchases have been automated using e-procurement tools like SAP and Pool4Tool, the latter is a supplier relationship management tool which among others helps the purchasers to rank their suppliers based on their performance and is used as a database for all different contracts X closes with the respective supplier.

## 4.2 Case 1: Preferred Customer Status at Supplier A

### 4.2.1 Relationship Development History

Supplier A is a German producer of customised cardboard packaging solutions. The product range of Supplier A ranges from standard cardboards following a DIN norm to customary solutions for the industry. The supplier delivers all non-standard cardboard packaging for most production sites of X.

Supplier A and X engage in a long-term relationship since around 2000 (S1, B1). The business consistently grew over the past 15 years without any remarkable disruptions. The supplier categorizes its customers following the ABC-method (S1), where X is situated in the category A as a whole. According to Supplier A it does not make sense to treat differing business units in a different way. Additionally it needs to be mentioned, that during the course of the evolutionary progress the relationship made both parties grew closer together due to the intensive relationship (S1, B1).

### 4.2.2 Antecedents of the Preferred Customer Status

#### 4.2.2.1 Customer Attractiveness

X as well as Supplier A see X as an attractive customer (S1, B1). Supplier A stated that X is an attractive customer since both companies are already engaged in a business relationship for more than 15 years (B1, S1). As the relationship exists for a very long time, Supplier A has reason to believe that it will continue in the future. This appears to be the main reason for X's attractiveness, since, due to the long-term orientation, Supplier A can plan the future knowing that it will stay a supplier for X. Eventually, X is going to increase the relationship with Supplier A (S1).

Additionally, the payment period plays an important role. As it is common in this industry to have a payment period of sixty days, X stands out by offering payment in no later than twenty-eight days. Since Supplier A can be sure to receive the payment in the following twenty-eight days, it is possible for Supplier A to better plan their expenses, knowing the income they will receive.

Another aspect which is mentioned by Buyer 1 is the high order quantity as well as the high purchasing value. Supplier A confirmed that this is a factor which is taken into account when deciding which customer they serve first in times of product scarcity or any other potential flaw which might lead to a production shortage.

#### 4.2.2.2 Supplier Satisfaction

Supplier A is satisfied with the relationship towards X. Nevertheless, Supplier A stated that in a long-term relationship are always aspects given which cause tension between the parties, since, as the interviewee put it, "you won't find a married couple that did not have a fight over the course of their

relationship" (S1). However, as stated by Supplier A, without tension it is harder to achieve the best business possible. Therefore, the supplier expects a certain level of tension in order to be able to perform best.

Additionally, it needs to be mentioned that Supplier A named aspects which were drivers of customer attractiveness as important for their satisfaction, as long as they are fulfilled by X. If X is unable to live up to Supplier A's expectations, the level of satisfaction is decreased. Until today, this was not the case in the relationship between X and Supplier A, as both interviewees could not remember a case where X was not able to meet the expectations.

### 4.2.2.3 Preferred Customer Status

Supplier A mentioned several different reasons to award X with the preferred customer status. The first reason is the long-term interaction with X, which is based on loyalty and trust. This relationship developed from a normal relationship to a partnership-like relationship over the long time period over which both companies have a business relationship. As Supplier A stated, a customer which delivers all aspects to be satisfied with the performance of the customer and has a huge profit impact, will be regarded as an attractive customer. Therefore, the behaviour X shows as well as the huge order quantity present two drivers for achieving the preferred customer status. Additionally, mutual respect on the intra-personnel level increases the chances of achieving the preferred customer status. This aspect was mentioned by both interviewees, showing the consent on this factor. Nevertheless, it is important that the relationship is well functioning on every managerial level, since also a good relationship between the top managerial staff fosters a healthy business relationship. In this case, the top managerial staff meets every once in a while to plan the future business outlook or when it is necessary to discuss urgent topics (S1, B1). Additionally, Supplier A is not only able to deliver products to X, but also to other suppliers of X which need comparable products (S1), showing a business opportunity for Supplier A which they otherwise might not have found. The last factor needed to be taken into account is the good reputation X has built up concerning the way they do business with suppliers.

### 4.2.3 Benefits of the Preferred Customer Status

Supplier A identified several benefits resulting from the preferred status of X.

The first benefit Supplier A mentions is the increased service X gets (S1). There are two people employed which solely deal with the key-account management of X. These employees are responsible for smooth transactions between X and Supplier A. One employee is responsible for the daily business while the other has more strategic tasks. Apart from employing two people whose only task is to guarantee smooth business with X, Supplier A also tries to decrease process times and engages in just-in-time delivery. Additionally, Supplier A attempts to be flexible if unpredicted demand shows up and tries to deliver the needed products, even though it might seem impossible to do so. The interviewee stated that they, if needed, produce the needed products on days where they normally would not have their production site running. The additional costs are mostly not forwarded to X.

The second main benefit which needs to be mentioned is that Supplier A operates in an open book environment towards X. Therefore, Supplier A shows the actual calculation of the price to X and in return receives a special status as Preferred Supplier at X. By implementing an open book relationship, Supplier A

also shows the planned improvements of their operations. Since X is always eager to find ways of improvement, Supplier A shows pro-actively what they plan to improve in the future and which new product lines they plan to implement. Furthermore, both companies engage in mutual research and development programmes with the aim to improve operations, lower production costs, improve quality and develop new products. In fact, there are several projects currently being developed, with one project which is going to be completed in the following months. Due to this new product which they develop, Supplier A expects to increase sales.

### **4.3 Case 2: Preferred Customer Status at Supplier B**

#### *4.3.1 Relationship Development History*

Supplier B has its headquarters in Germany and is the biggest supplier for X's C-Parts. With over 1.000.000 different products, which form the basis of Supplier B's C-Part handling, and special parts, designed for the specific customer, Supplier B has a huge product portfolio for connection and fastening elements.

Supplier B supplies X with products since around 15 years and is therefore a long-term supplier (S2, B2). The supplier categorises its customers in two segments; normal customer and system customer. System customers are customers which need a special system solution, for example regarding Kanban systems. Supplier B is responsible for managing the Kanban systems of most of X's production sites. Additionally, system customers receive special treatment by having a key account management team at the headquarters while the other customers are distributed regionally over the differing subsidiaries of Supplier B. In the case of X, it began with a regional way of handling business and developed into having an own key account management team at the headquarters. Overall, the relationship is described to be an evolutionary process, where the growing of the business relationship led to an improvement of the long-lasting relationship.

Supplier B has a key-account management team for X which consists of seven people. Additionally, Supplier B is involved in X's supplier relationship management (B2).

#### *4.3.2 Antecedents of the Preferred Customer Status*

##### *4.3.2.1 Customer Attractiveness*

Both interviewees, Supplier B and Buyer 2, perceive X as an attractive customer. According to Buyer 2, everybody wants to have a functioning business which makes profit. This claim was reinforced by Supplier B, which stated that the turnover is one of the main drivers of customer attractiveness, since X has a huge demand of C-Parts. Furthermore, the way information is shared depicts an indicator for the attractiveness of X (S2). Through collaboration in the planning of production, research and development involvement and a good communication between the companies, the solutions offered for X by Supplier B are constantly improving.

Additionally, the long-term perspective of the business plays a role in the way Supplier B perceives the attractiveness of X. Furthermore, the long product life cycle X has appears to be attractive, since the supplier knows that X will produce the same product over an extended period of time, therefore it is not necessary to adapt to new product specifications for a longer time than with a short product life cycle (S2, B2).

##### *4.3.2.2 Supplier Satisfaction*

According to Supplier B and Buyer 2, X delivers supplier satisfaction. Supplier B is satisfied with the relationship because they experience a good communication between both companies. Nevertheless, Supplier B stated that communicating requirements for products could be improved in both directions (S2), since Supplier B sees itself as a partner of X and has the know-how to implement their products in the best possible way.

Another driver of supplier satisfaction is that X sticks to made agreements in terms of purchasing volume, price negotiations and forecast of orders. However, Supplier B experiences huge pressure regarding the price, since they have to face global competition, and would be glad to see the pressure reduced.

##### *4.3.2.3 Preferred Customer Status*

According to Supplier B, X has achieved the preferred customer status. Nevertheless, neither party planned this to happen (S2, B2). According to Supplier B, it happens automatically as soon as a customer has a purchasing volume which is outstanding (S2, B2). Supplier B stated that every big customer with enough purchasing volume receives the preferred customer status, since every big customer has specialised requirements regarding timing of delivery, quantity, quality and implementation of Supplier B's services and therefore needs special treatment.

Nevertheless, Supplier B stated that also the long-term orientation of the relationship between the two companies plays an important role for awarding the preferred customer status. Since they are in a business relationship for over 15 years and the purchasing volume of X at Supplier B is expected to increase, Supplier B has the impression that the relationship will prosper.

##### *4.3.3 Benefits of the Preferred Customer Status*

One of the main benefits Supplier B stated is the sheer amount of people solely responsible for a smooth business with X, since the key account management team for X currently consists of seven people (S2, B2). Due to the previously mentioned benefit, other benefits can be delivered, too. One of those benefits is a decreased response time, leading to a faster communication between the companies. Additionally, changes in the forecast of orders are possible. Furthermore, Supplier B adjusts their processes to X to serve them as good as possible with the best possible solutions. Adjusting the processes of Supplier B also lead to the possibility of just-in-time delivery, decreasing the local stock of X.

Another benefit preferred customers at Supplier B get is that extraordinary requirements can be met, which normal customers do not get, since they have to take the standard products Supplier B offers. One example of such a benefit is that X has certain requirements concerning the packaging of Supplier B's products. While a normal customer would have to adjust to the standard packaging Supplier B offers, Supplier B adjusted to X's requirements (S2).

### **4.4 Case 3: Preferred Customer Status at Supplier C**

#### *4.4.1 Relationship Development History*

Supplier C with its headquarters in Germany is a world leading supplier for lock options. The products Supplier C offers range from electronic locks over cam locks to coin locks. Additionally, Supplier C offers customised lock solutions to every customer who is willing to pay an extra fee to have the lock system designed according to his needs. However, X gets this service for free, since many parts Supplier C delivers to X have been

specially designed to meet the expected requirements set by X towards Supplier C.

Supplier C was one of the first suppliers for X, considering the business relationship is existing since 1972 (S3, B2). Furthermore, it is said that Supplier C delivered the locks for the first product X has ever produced (S3). Supplier C categorises its customers in two categories; Key Account and Other Customers. The distinction between a key account customer and other customer is the turnover Supplier C generates with the specific customer. In this case, X is a key account customer with one employee at Supplier C which is solely working for the customer X (S3). Nevertheless, there are many other people that also work with the customer X, but are not only handling the matters of X (S3).

#### 4.4.2 Antecedents of the Preferred Customer Status

##### 4.4.2.1 Customer Attractiveness

Both interviewees, Supplier C as well as Buyer 2, see X as an attractive customer. One aspect relevant for the attractiveness of X is the turnover Supplier C generates with X. This is especially important since X is the biggest client Supplier C has with a purchasing volume exceeding one million Euro per year (S3). Additionally, Supplier C values that the relationship is reliable and long-lasting, since the first business was made in 1972 and went on to this day and is expected to increase in the following months. Additionally, Supplier C values the steady growth rate X has, showing an increase in business for nearly every year (S3).

##### 4.4.2.2 Supplier Satisfaction

Both interviewed parties stated that X is able to deliver supplier satisfaction. The most important point responsible for the supplier satisfaction according to Supplier C is a partnership-like relationship which is present at all levels of hierarchy of both companies. Another important aspect mentioned by Supplier C is the mutual trust between both parties. According to Supplier C, trusting the other party is very important for successfully doing business. Additionally, mutual respect increases the satisfaction of the supplier.

Another aspect Supplier C mentioned was that X does not only evaluate the relationship based on numbers but also includes soft criteria in their evaluation. Additionally, Supplier C values the feedback X provides, as it points out what went fine and where problems occurred. As they have a partnership like relationship, Supplier C and X mostly work together to decrease the amount of occurring problems, which in turn lead to greater supplier satisfaction at Supplier C since they had help figuring out how to cope with problems.

##### 4.4.2.3 Preferred Customer Status

Supplier C made it clear that X has the preferred customer status at this supplier. There are several reasons why Supplier C awarded X with the preferred customer status. First, X has a consistently high purchasing volume with little fluctuation in demand. Therefore, Supplier C can plan their production better. Additionally, Supplier C does not only deliver X plants in Germany but is worldwide set as supplier for certain products.

Second, the relationship between Supplier C and X is already established since 1972. Over the course of the around forty years of business, mutual trust, reliability and dependability were developed on both sides (S3, B2).

Another factor responsible for awarding the preferred customer status to X is the constant feedback towards Supplier C (S3). As

the interviewee stated, good feedback is important to further improve the own business. Since X delivers feedback to its suppliers in, among others, timeliness of the delivery and overall quality measured in defect parts per million, Supplier C is able to adapt to a change in performance and improve their own processes in order to cope with a lack in operations.

#### 4.4.3 Benefits of the Preferred Customer Status

Two benefits of the preferred customer status have been identified in this case study.

First, Supplier C offers customized products to X. These products were specifically designed to address the special requirements X developed. According to Supplier C, designing products specifically for a certain customer for free will only be done for the most important and influential customers.

Another benefit X enjoys is an increased service offering. One beneficial service is that certain employees are only handling the customer X. Another benefit is that not all services are billed, for example if Supplier C has to let the workers do overtime they do not send the costs to X. Additionally, when it comes to setting dates to deliver certain goods, X is always the first to get the needed products.

## 5. DISCUSSION

### 5.1 Relationship Development History

The relationship development history was examined in this case study using Ellegard's evolutionary perspective as well as Hald's episodic perspective at the attractiveness in a buyer-supplier relationship.

In all cases, Ellegard's evolutionary perspective of attractiveness in the exchange relationship was found (B1, B2, S1, S2, S3). Additionally, all cases revealed that becoming a preferred customer was seen as an evolutionary process (S1, S2, S3). Furthermore, Supplier C indicated that through the long-term orientation of the relationship as well as the good collaboration between Supplier C and X, adjustments in terms of optimisations regarding delivery and quality were implemented and fostered (S3). Moreover, Supplier A indicated that receiving the preferred customer status "just happens" (S1), without any party of the relationship forcing the status to happen. Nevertheless, Supplier A also stated that in order to have a good buyer-supplier relationship, long-term commitment is beneficial. Similarly, Supplier B indicated that, due to the long-term orientation of the relationship, the connection between both companies has intensified, as Supplier B in the beginning just delivered their products and services to few of X's production plants, while they now deliver their products to nearly every production site X is currently running (S2), indicating that the relationship developed evolutionary. All in all, all interviewed suppliers confirmed that X's attractiveness, supplier satisfaction and eventually the achievement of preferential treatment is seen as an evolving process.

### 5.2 Antecedents of the Preferred Customer Status

The antecedents of the preferred customer status were analysed in this case study based on the three part framework developed by Hüttinger et al. (2012), consisting of customer attractiveness, supplier satisfaction and a preferred customer status. Therefore, the case study results have been compared to the literature and it showed that most antecedents of the preferred customer status were confirmed by prior findings.

### 5.2.1 Customer attractiveness

Regarding the drivers of customer attractiveness, nearly all of the elements found in the case studies revealed to be found in the literature and reinforce the existing body of knowledge which was mentioned in previous theoretical studies. Eventually, all suppliers indicated that a customer is seen as attractive if the customer commits to a long-term relationship while a high information exchange between the involved parties is present and the customer is additionally interested in collaborating with the supplier regarding innovation (S1, S2, S3). Additionally, a stable market environment, in which X operates, proves to be a driver of customer attractiveness, too. Furthermore, the long product life-cycles X has appear to be attractive to suppliers, since they do not have to adapt to new products this often. The most important drivers for customer attractiveness which were not found in previous literature are high purchase volumes, firm reputation, supplier award, business opportunities, supplier feedback and strategic pricing. Eventually, high purchase volumes is a driver of customer attractiveness found in every case study (S1, S2, S3, B1, B2).

### 5.2.2 Supplier Satisfaction

All found elements concerning supplier satisfaction are covered by comparable concepts and no new elements could be identified. Consistently, the elements found that increase supplier satisfaction consist of an open and trustful communication standard, timely payments, cooperative relationships, high quality and timely information exchange, and a joint relationship effort (S1, S2, S3). Additionally, the suppliers value the forecast X provides, enabling the suppliers to adjust their production plan to the expected demand (S1, S3). Furthermore, Supplier C values the feedback given from X concerning timeliness of delivery as well as quality of the delivered products and states that this is also a driver to supplier satisfaction (S3). Nevertheless, achieving new business opportunities was only mentioned as driver of supplier satisfaction by Supplier A.

### 5.2.3 Preferred Customer Status

Regarding drivers of the preferred customer status, most elements found in the case study were proven by the literature. All suppliers mentioned that high purchasing volumes, good communication and fair feedback, respect and trust, and new business opportunities for the supplier are drivers of a preferred customer status (S1, S2, S3). Drivers of the preferred customer status which were not found in previous literature are stable financial performance, reputation, strategic pricing, and long-term interaction.

## 5.3 Benefits of the Preferred Customer Status

Besides the antecedents, benefits of the preferred customer status have been identified in the case studies. In the following, an overview of the found benefits as well as a comparison of the similarities and differences to the existing literature will be discussed. Eventually, all suppliers provide X with some kind of preferential treatment, although the range of exclusive offerings differ from supplier to supplier.

The benefit mentioned by all interviewed suppliers is that the preferred customer status increases the services X enjoys (S1, S2, S3). All suppliers indicated that X enjoys services for free other customers do not get or have to pay for (S1, S2, S3). One example of a service X enjoys is that not all additional services are billed

(S3), another example is that Supplier A sets up their production even though they would normally not produce on this day.

The next benefit acknowledged by all suppliers is that X enjoys shorter delivery times and just-in-time delivery (S1, S2, S3). Additionally, the interviewed suppliers engage in designing products exclusive for X, a benefit normal customers do not get which have to stick to the standard products and adapt to them, not the other way around (S1, S2, S3).

Another benefit X enjoys from all suppliers is that the suppliers intensively care about the customer X by employing employees solely responsible for handling business with X (S1, S2, S3). Furthermore, Supplier B established a whole department consisting of seven people which are responsible for key-account managing the customer X (S2). Employing a whole department of key-account managers to comfort X is solely found at Supplier B, although Supplier A and Supplier C employ between one and two people solely responsible for handling business with X.

The next benefit brought up by the suppliers is the creation of a safety stock to cope with unexpected fluctuations in demand (S1, S3). Since the suppliers are aware that having a safety stock for certain products to meet unexpected demand increases the satisfaction of the customer X, they established a small safety stock for certain products which showed that the demand might fluctuate slightly. Although the suppliers agree to have a safety stock, this is also part of negotiations regarding contract negotiations. Nevertheless, since they can be sure that X will buy the products, the safety stock is not that kind of a burden to the suppliers.

Another benefit named by Supplier C was that in times of product shortages, X is the first to receive the needed goods for production (S3). Additionally, Supplier C offers to deliver X more frequently than they agreed to in the contracts. Although this is a benefit some customers do not get all, Supplier C mostly does not forward the costs for additional transportations to X (S3).

Although most benefits recovered from literature could be found at all suppliers, some benefits written in previous studies were not found at this case study because of firm respectively industry specific issues. Supplier B, for instance, mainly delivers screws to X, which makes new product development really hard, since, in the end, they are "just screws" (B1) and do not deliver that much space for innovativeness.

## 6. CONCLUSION

### 6.1 Offering a Practical Perspective to the Antecedents and Benefits of a Preferred Customer Status

The traditional environment of buyer-supplier relationships has changed, showing an increase of dependency of the buyer towards its supplier. This change of power can be explained by two reasons, first an oligopolistic market structure due to supplier scarcity and second a shift towards an open innovation environment, where the supplier gains responsibility (Schiele et al., 2012). Therefore, suppliers see themselves in an increased position of power, enabling them to serve the customers in the order the supplier chooses to. Giving chosen customers the chance to attain preferential resource allocation as well as preferential treatment the supplier is able to decide which buyer acquires a strategic prioritization and in the end achieves a preferred customer status. Therefore, a preferred customer status delivers competitive advantage which other customers try to achieve as well by being as attractive to the supplier as possible.

To be able to increase the attractiveness of a company towards its suppliers, it is first important to understand what suppliers value in terms of customer attractiveness and supplier satisfaction. This paper helped identifying the antecedents and benefits of the preferred customer status by executing a multiple case study with a dyadic interview set-up to be able to gather information from both viewpoints, the buyer perspective as well as the supplier perspective.

By answering the two research questions with this multiple case study at X and three of its suppliers a large number of antecedents and benefits of the preferred customer status have been identified. Additionally, the case study was designed to provide practical evidence of the antecedents and benefits of the preferred customer status which have been found in the previous scientific literature. Moreover, the conducted research discovered some new aspects regarding antecedents and benefits of the preferred customer status in a buyer-supplier relationship. However, most of the found antecedents were found in previous literature, for example the commitment of a buyer towards a long-term relationship. Nevertheless, some new aspects, like a high purchasing volume, a reduction of production mistakes as well as awarding exceptional suppliers has not been found in other scientific literature yet.

Furthermore, a high purchasing volume appeared to be a driver for customer attractiveness, supplier satisfaction and a preferred customer status, although the literature indicated this to be a driver solely of the preferred customer status. Similarly, the long-term interaction between a buyer and a supplier was seen as driver of customer attractiveness by the literature, the case study showed that it is also a driver of the preferred customer status. Therefore, the case study shows that some drivers of customer attractiveness can be seen as drivers of the preferred customer status and vice versa. Looking at the benefits the preferred customer status of X delivers, most elements have been found in the current body of literature. However, some elements, which were expected to be found, could not be confirmed at every supplier, such as the drive to innovate. Actually, X expects that their suppliers come up with innovations multiple times per year on their own accord. Nevertheless, some product specific areas do not get much attention regarding innovativeness due to a lack of innovative possibilities or a prioritisation on other areas which need to develop.

## 6.2 Recommendations to X

Taking into account that X is classified as an A-level Customer, or a comparable status since not all suppliers classify their customers on an A-, B-, C- level, at all the interviewed suppliers, it is evident that X already enjoys several benefits from their suppliers. Next to this, X also tries to improve the relationship with their suppliers by for example introducing the supplier award and implementing the preferred supplier status, consisting of several aspects a supplier should match in order to attain a special status in X's supply base.

However, there is always room for improvement. In this case, X could think about implementing a way for suppliers to show their level of satisfaction with X. One way to do so could be by frequently giving out questionnaires aiming at identifying the level of satisfaction of chosen suppliers. Conducting such a questionnaire should be outsourced to a third party in order to forestall any potential bias regarding honesty. The evaluation of the questionnaires could be used in order to improve the relationship with the suppliers and might be used as a handbook on how to approach certain suppliers, since aspects which one supplier values very highly might be unimportant to another supplier.

Additionally, the management of X does not implement a preferred customer strategy, since they mostly see themselves in a position of power and thus not necessitate to improve their status at certain suppliers. As this study shows that having a preferred customer status can deliver great benefits and in turn competitive advantage, implementing a preferred customer strategy might strengthen X's competitiveness against potential rivals. Therefore it is advised to increase commitment to the preferred customer approach to further foster the benefits of the preferential treatment.

Another aspect X might need to consider is the importance of good communication. Most suppliers stated that they were satisfied with the communication between X and the suppliers (S1, S3). Nevertheless, communicating requirements to suppliers can be enhanced (S2), which will lead to an increased level of supplier satisfaction.

## 6.3 Limitations and Research Contributions

Since the concept of the preferred customer status has not been fully explored by academic research this paper delivered a literature review of the latest definitions, antecedents and benefits. After the literature review, a dual perspective case study with X and three of its suppliers has been conducted. In this case studies, the existing theoretical concepts regarding the antecedents and benefits of the preferred customer status have found support. Additionally, a contribution regarding antecedents and benefits in terms of undiscovered or unnoticed drivers has been made.

However, due to the small scale of this case study, since it was only conducted with one buying firm and three of its suppliers, it is not possible to generalise the findings to a greater scale. So it can be said that this paper lacks external validity. Therefore, it is only possible to verify the findings of previous literature rather than adding substantially new aspects to the topic of preferred customer status. Consequently, further empirical research regarding the antecedents and benefits of the preferred customer status should be conducted in order to further verify the theories developed by fellow researchers.

Furthermore, it needs to be mentioned that no specific examples for benefits of the preferred customer status could be retrieved, as both sides, the buyers and the suppliers, could not think of any specific event that made it necessary for the suppliers to give X an exceptional treatment. This lack is explained by the long lasting relationship and close collaboration between X and the suppliers which led to an adjustment between both parties making exceptional treatment a common routine.

Using a qualitative approach to answer the research questions was the best possibility to conduct this research under this circumstances. The reasons for this are twofold: I do not know that many people working either as a key-account manager or purchaser to conduct a research with many participants. Secondly, it was hard to find time slots were both, me and the interviewee, were available, since they actually have to work and answering my questions was not the most important task in their schedule.

It is hard to achieve generalizability due to the small scale of the research. In order to gain the possibility to generalise the findings, a more quantitative approach should be used. This increases the chances of generalising the findings. To be able to do so, a multi-industrial approach should be used.

A potential bias in this study is the response bias where an interviewee gives answers he expects the interviewer to hear. As most suppliers are reliant on the business with X and they know that some employees from X are going to read this paper they

might be reluctant to say anything negative about the relationship with X. Although the suppliers were given the chance to read the paper before it is sent to X no supplier decided to take the opportunity. Nevertheless, a potential response bias cannot be entirely ruled out.

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