

# **Antecedents and Benefits of Supplier Satisfaction in a Buyer-Supplier Relationship: A Case Study at Company X and Three of its Key Suppliers**

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## **ABSTRACT,**

In the last few years, the concept of supplier satisfaction has received more and more attention. Previously, the relationship between buyer and supplier was seen from the supplier's side making it their responsibility to compete and satisfy their customers. However, this focus has shifted to the buyer and research so far has been mostly conducted from a theoretical perspective with a small number of qualitative research. To provide more practical evidence on the antecedents of supplier satisfaction, a case study in the mechanical engineering industry has been conducted. This study confirms a large number of previously identified drivers of supplier satisfaction, but also presents various new factors that have not been mentioned in literature before. It was found that relational behaviour and its second-tier antecedents, reliability and involvement to be the most influential components. However, confirming that antecedents are indeed of operational nature and relational aspects. This study also explored the influence of strategic positioning of suppliers with help of the Kraljic matrix, customer segmentation and buyer status on supplier satisfaction. It was found that the three concepts have an indirect influence on satisfaction as they all affect the relational behaviour, the partner's commitment to the relationship, preferential treatment and thus, the quality of the relationship.

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## **Keywords**

Supplier Satisfaction, Kraljic Matrix, Customer Segmentation, Buyer Status, Preferred Customer Status

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# 1. BUYERS NOW TRY TO ATTRACT THE MOST PROMISING SUPPLIER

In the past the relationship between buyer and supplier was seen from the supplier’s point of view, the supplier had to compete for customers and satisfy them (Schiele, Calvi, & Gibbert, 2012, p. 1178). This focus has shifted to buyers now trying to attract the most promising supplier (Vos, Schiele, & Hüttinger, 2016, p. 4613) to get the best resources (Schiele et al., 2012, p. 1178). Managing the relationship between buyer and supplier is seen as a key factor for success of supply chain management (Ambrose, Marshall, & Lynch, 2010, p. 1289) because it can improve a firm’s performance due to receiving preferential treatment which enables the buyer to build competitive advantage (Pulles, Schiele, Veldman, & Hüttinger, 2016, p. 129; Pulles, Veldman, Schiele, & Sierksma, 2014, p. 17). A driver for this change in the view on the buyer-supplier relationship is that reorientation in the organization of supply chain’s allocates more significance to the suppliers (Schiele et al., 2012, p. 1178). In today’s business-to-business markets, companies are faced with a decreasing number of potential suppliers (Hüttinger, Schiele, & Schröer, 2014, p. 687) or even “supplier scarcity” (Vos et al., 2016, p. 4613). Due to the rising number of outsourced activities the company’s dependency on its suppliers increased (Mol, 2003, p. 49; Nagati & Rebolledo, 2013, p. 180; Vos et al., 2016, p. 4613). Furthermore, with a decreasing number of available suppliers, there are several customers competing which enables the supplier to pick a company, thus the allocation of resources is a “selective-process” (Pulles et al., 2016, p. 129). Consequently, “[...] buyers should view the supplier as a key source of competing advantage and innovation and try to achieve preferred customer status” (Vos et al., 2016, p. 4613). Based on Vos et al. (2016, p. 4618), supplier satisfaction has a positive impact on awarding customer with a preferred status and thus, with receiving preferential treatment.

Previous research often focused on supplier satisfaction as an antecedent to the preferred customer status. Even though some factors influencing supplier satisfaction have been identified, qualitative assessments of this concept are rare and Hüttinger et al. (2014, p. 713) implied that “[...] the results can hardly be generalised to all industry settings [...]”. This thesis aims at identifying and understanding the underlying mechanisms of supplier satisfaction. Therefore, the global research question is: *What are influencing factors of supplier satisfaction, consequences and benefits?*

It is known that companies make distinctions between their different suppliers and customers and put them into segments accordingly (Hallikas, Puumalainen, Vesterinen, & Virolainen, 2005, pp. 71-73). This segmentation influences the company’s behaviour towards the other party, hence, the buyer-supplier relationship is affected (Schiele, Ellis, Eßig, Henke, & Kull, 2015, p. 133). Meaning, that the satisfaction with the relationship might be influenced as well. Therefore, it is important to figure out the extent to which segmentation affects satisfaction. Thus, a focus is given to segmentation leading to the following sub-question: *To what extent does the strategic position of the supplier and customer segmentation influence satisfaction?*

It was found out that a company’s status influences the perceived attractiveness of the customers and suppliers (Fiocca, 1982, p. 57). Because customer attractiveness is a pre-requirement for engaging in a relationship, this study aims at clarifying if a company’s status can also influence supplier satisfaction. Therefore, the following sub-question is stated: *To what extent does buyer status influence satisfaction?*

Moreover, the case study aims at comparing the outcomes with the literature to confirm findings to identify a contribution to the

already existing literature. Especially with a focus on benefits the case company receives from having satisfied suppliers.

The structure of the remaining thesis is structured as follows: in chapter 2, a literature review regarding the concept of supplier satisfaction as well as the antecedents and benefits. Followed by chapter 3 in which the research methodology with the design and data collection are presented. The analyses and results of the interviews are given in chapter 4 and these findings are discussed in chapter 5 finalized with the conclusion. In chapter 6, limitations, research contribution and a presentation of recommendations to the case company are given. Finally, ending with acknowledgements.

## 2. THEORY: THE CONEPT OF SUPPLIER SATISFACTION

### 2.1 The Importance of Supplier Satisfaction: the Cycle of Preferred Customer Ship

So far in literature, the concept of supplier satisfaction is often used only as one of the antecedents to the preferred customer status. Nollet, Rebolledo, and Popel (2012, p. 1186) described a preferred customer as “[...] a buying organization who receives better treatment than other customers from a supplier, in terms of product quality and availability, support in the sourcing process, delivery or/and prices”. Based on Vos et al. (2016, p. 4618), supplier satisfaction has a positive impact on awarding customer with a preferred status and thus, with receiving preferential treatment. Supplier satisfaction is described as “the buyer’s ability to live up to the expectations of the supplier [...], and the relationship between the buyer and supplier influences this satisfaction” (Vos et al., 2016, p. 4613) and is directly linked to the relationship’s quality and value creation. Next to supplier satisfaction, Schiele et al. (2012, p. 1180) identified customer attractiveness as a requirement for suppliers to initiate and enter a business relationship. An indicator for attractiveness is the expected value of the future relationship (Pulles et al., 2016, p. 137) hence, it can be concluded that a customer is perceived attractive if a supplier has a “[...] positive expectation towards the relationship with the customer” (Schiele et al., 2012, p. 1180). Customer attractiveness is driven by the customer’s size, market share and influence in the market (Tanskanen & Aminoff, 2015, p. 135). Consequently, a buyer who is perceived as an attractive customer and the supplier feels more satisfied with the buyer in comparison to other buyers is awarded with a preferred status (Schiele et al., 2012, p. 1181). Once the buyer-supplier relationship grows and is intensified, having a preferred customer status can result in additional expectations and increased attractiveness. Overall, resulting in a repetitive circle (Schiele et al., 2012, p. 1182) as can be seen in Figure 1 below.

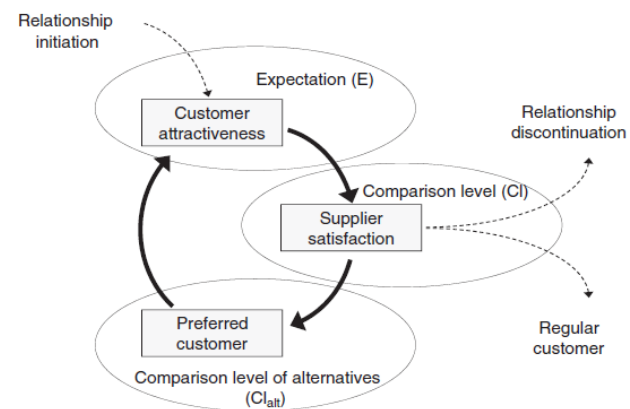


Figure 1: The cycle of preferred customer ship (Schiele et al., 2012, p. 1182)

## 2.2 Supplier Satisfaction: The Buyer's Ability to Live Up to the Expectations of the Supplier

With the decreasing number of suppliers in many industries, managing the relationship between buyer and supplier is seen as a key factor for success of supply chain management (Ambrose et al., 2010, p. 1289; Padin, Ferro, & Svensson, 2017, p. 1). Moreover, suppliers play an important role for the firm in gaining a competitive advantage in the market by providing resources like raw materials, but they can also provide knowledge and capabilities that are not accessible otherwise (Bemelmans, Voordijk, Vos, & Dewulf, 2015, pp. 178-179; Koufteros, Vickery, & Dröge, 2012, p. 96).

Even though customer attractiveness is an important initiator for engaging in relationships (Hüttinger, Schiele, & Veldman, 2012, p. 1194), in this study only ongoing relationships are looked at. Having satisfied suppliers plays an crucial part in today's competitive business environment, making it the focus of this paper. Krause, Handfield, and Tyler (2007, p. 531) explained that performance improvements by the buying company results if they commit to long-term relationships with their key suppliers. And a close relationship starts with satisfaction (Meena & Sarmah, 2012, p. 1238) of both partners. Supplier satisfaction is described as "the buyer's ability to live up to the expectations of the supplier [...]" (Vos et al., 2016, p. 4613). Thus, the more a customer invest in meeting and exceeding the supplier's expectations, the more the supplier reciprocates this commitment by making relational investments (Vos et al., 2016, p. 4615). The Social Exchange Theory suggests that companies thrive for value creation and are more likely to remain in the relationship if it continues to provide satisfactory rewards (Hüttinger et al., 2014, p. 704). Whereas an unsatisfied supplier might not work to its best abilities or may produce products of less quality (Meena & Sarmah, 2012, p. 1236) leading to lower quality products of the buyer which in fact has a negative effect on the sales volume and profitability of the buyer.

### 2.2.1 Antecedents of supplier satisfaction – operational and relational factors are equally importance

At first, antecedents or drivers of satisfaction were thought to be mostly of an operational nature and refer to the ways business is done between buyer and supplier such as purchasing policy, payment and finance policy and coordination policy (Essig & Amann, 2009, p. 109; Hüttinger et al., 2014, p. 669; Meena & Sarmah, 2012, p. 1236). Vos et al. (2016, p. 4614) however, identified that next to economic aspects, relational aspects are equally important drivers of supplier satisfaction. Benton and Maloni (2005, p. 16) indicated that "supplier satisfaction is strongly impacted by the quality of the buyer-supplier relationship." Commitment, communication and trust are important for the quality of a relationship (Meena & Sarmah, 2012, p. 1240; Gilbert N Nyaga, Whipple, & Lynch, 2010, pp. 109-111). Vos et al. (2016, p. 4619) based his research on the model of Hüttinger et al. (2014, pp. 697-721) and developed a new model of antecedents of supplier satisfaction and divided them into one-tier and second-tier antecedents. The one-tier antecedents having a direct impact of supplier satisfaction in direct procurement whereby those are influenced by the second-tier ones. The first-tier antecedents that have been identified are 1) growth opportunity 2) relational behaviour 3) operative excellence and 4) profitability, which is a new factor in their new model. Second-tier antecedents are 1) innovation potential 2) involvement, 3) reliability, 6) support and 5) access to contacts. Hüttinger et al. (2014, p. 703) described growth opportunity as "[...] the supplier's ability to grow together with the buying firm

and to generate new potential business opportunities through the relationship." For instance, growth opportunity is influenced by innovation potential; which is "[...] understood as the supplier's opportunity to generate innovations in the exchange relationship due to the buying firm's innovative capabilities and its contribution in joint innovation processes" (Hüttinger et al., 2014, p. 703). Innovation potential in turn has a positive impact on a manufacturers performance in quality, cost, delivery and product development (Kim & Chai, 2017, p. 42). Bryan Jean, Sinkovics, and Kim (2017, p. 121) found that innovativeness improves relationship performance which also influences supplier satisfaction. Next, relational behaviour refers "[...] to the buying firm's behaviour towards the supplier with regards to the relational focus of exchange capturing multiple facets of the exchange behaviour such as solidarity, mutuality, and flexibility" (Hüttinger et al., 2014, p. 703). Relational behaviour is impacted by support, reliability and involvement, which have been defined by Hüttinger et al. (2014) as follows: support is defined as the buying firm's effort or assistance to increase a supplier's performance and/or capabilities. Reliability is conceptualized as the supplier's perception that the buying firm acts in a consistent as well as reliable manner and fulfils its agreements and involvement describes the degree to which the supplier's staff participates directly in the customer's product development team and is entrusted with developing product ideas. A customer's contact accessibility is described by Hüttinger et al. (2014, p. 703) as the availability of a person who intensively shapes and advances exchange processes and reflects the buying firm's willingness to develop structural bonds with the supplier. Based on Vos et al. (2016, p. 4620), contact accessibility is said to have an influence on the operative excellence, which is "[...] the suppliers perception that the buying firm's operations are handled in a sorrow and efficient way, which facilitates the way of doing business for the supplier" (Hüttinger et al., 2014, p. 703). The new factor profitability was described simply as the profitability of the relationship, which has a positive influence on supplier satisfaction (Vos et al., 2016, p. 4614).

### 2.2.2 Preferred customer status and preferred resource allocation as benefits of supplier satisfaction

One of the benefits from having satisfied supplier is the awarding of a special status, because suppliers are known to differentiate their customer relationships and select specific companies as preferred customers (Ellis, Henke Jr, & Kull, 2012, p. 1260). Supplier satisfaction is a necessary condition for achieving a preferred status (Vos et al., 2016, p. 4614). With a preferred customer status the buyer can receive preferential resource allocation from their supplier (Steinle & Schiele, 2008, p. 11). Schiele et al. (2015, p. 133) indicated "that suppliers generally 'respond first to the needs of his/her preferred customers' [...], whereas less preferred customers are 'forced to wait in a queue' [...]. In case of uncertainty, suppliers first attend to their strategically important preferred customers". Nevertheless, benefits a customer receives due to the preferred customer status can be operational or service benefits for example being on top of the resource allocation list (Bew, 2007, pp. 1-2), timely forwarding of information about new products or developments or the offer of reduced lead time (Christiansen & Maltz, 2002, p. 189) Secondly, benefits are also often of technological nature such as supporting customers during collaborative product developments (Schiele, Veldman, & Hüttinger, 2011, p. 20) or better quality products (Moody, 1992, p. 4). Additionally, there are also financial benefits due to having a preferred customer status such as beneficial pricing behaviour (Nollet et al., 2012, p. 1187) or cost reduction opportunities (Bew, 2007, p. 2).

Overall, benefits suppliers offer to customers can be categorized into three different levels: 1) benefits; all customers can receive but have to pay for it, 2) benefits for customers who are a little preferred by the supplier but who still have to pay for these extra benefits and lastly, 3) benefits for the preferred customers who receive benefits free of charge exclusively.

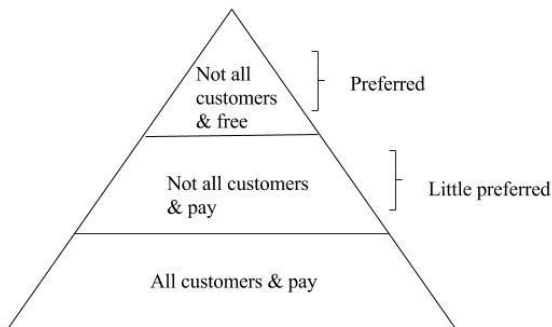


Figure 3: Preferred customer pyramid

## 2.3 Uniform Relationship Management is not Appropriate Anymore: it is Necessary to Classify Relationships

### 2.3.1 Strategic positioning of suppliers with a portfolio approach - the Kraljic Matrix

Schiele et al. (2015, p. 133) proposed that strategically important customers receive better treatment. Therefore, the way a supplier is treated by its customers might be directly related to the strategy the buyer follows for the specific supplier. In line with Hallikas et al. (2005, p. 73) the importance to manage and develop supplier relationships has increased due to the “[...] rapid proliferation of outsourcing and the use of external resources” (Hallikas et al., 2005, p. 73) meaning that reactive and uniform relationship management are not appropriate anymore for all suppliers. Making it necessary to make distinctions between different suppliers to formulate suitable strategies. Therefore, however, an approach to classify the suppliers is needed (Hallikas et al., 2005, p. 71). In literature two broad categories of supplier classification models are distinguished: on the one hand, the continuum approach, which is based on transaction-cost economics, core competencies and governance structures. On the other hand, there are portfolio approaches which, besides the actual classification of the suppliers include “[...] an analysis of purchased items / services and relationship-management strategies for classified suppliers” (Hallikas et al., 2005, p. 73).

In order to position the supplier strategically based on their supply commodity, the Kraljic matrix is often used. This matrix is a purchasing portfolio modelling approach which was created by Peter Kraljic in 1983 (Kraljic, 1983, pp. 109-117). With this approach, Kraljic aimed at “minimizing supply vulnerability and making the most out of buying power, where the [purchasing] strategy was based on classifying purchase items into four portfolio quadrants vis-à-vis their relative contribution towards supply risk and profit impact for the firm” (Padhi, Wagner, & Aggarwal, 2012, p. 1). Therefore, the Kraljic Portfolio Matrix (KPM) intends at “matching external risks and opportunities with the internal needs of the buying firm” (Padhi et al., 2012, p. 1). Hesping and Schiele (2015, pp. 138-141) suggested that there is not one single purchasing strategy but that such a strategy is a composition of a series of plans and therefore, a specific purchasing strategy is needed for distinct sourcing categories. Matching a specific purchasing strategy to a commodity is important because the purchasing strategy has an large impact on

the organization’s performance (Padhi et al., 2012, p. .1). Thus, the KPM classifies commodities based on two dimensions: ‘supply risk’ and ‘profit impact’. This results in a 2x2 matrix of dichotomous variables: ‘low’ and ‘high’ for both dimensions with four categories: ‘bottleneck’, ‘non-critical’, ‘leverage’ and ‘strategic’ commodities.

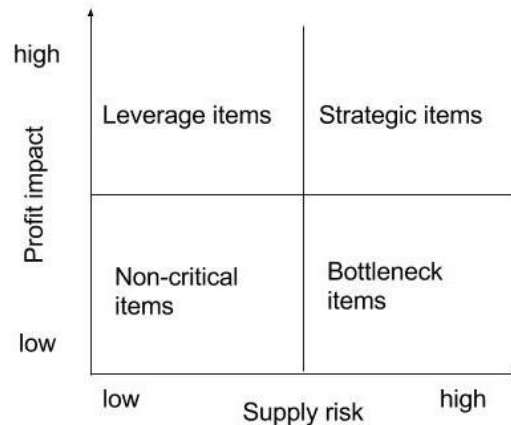


Figure 2: Kraljic Matrix

Another important factor for the strategy creation is the ‘power position’ which is identified “[by] plotting the buying strength against the strengths of the supply market” (Padhi et al. (2012) p.2), hence, taking into account the number of competitors in the market. Kraljic then formulated a strategy recommendation for each commodity, namely: “[...] form partnerships for strategic products; assure supply for bottleneck products; exploit power for leverage products and ensure efficient processing for non-critical products” (M. C. J. Caniëls & Gelderman, 2005, p. 141). Especially for the strategic items, Kraljic created an extra matrix taking into account the relative power position of the company in the corresponding supply market (M. C. Caniëls & Gelderman, 2007, p. 220). Resulting in three general purchasing strategies: “[...] exploit (in case of buyer dominance), balance (in case of a balanced relationship) and diversify (in case of supplier dominance)” (M. C. Caniëls & Gelderman, 2007, p. 220). It can be expected that suppliers who are classified as supplying ‘strategic items’, receive better treatment because the supply risk is high and these products have a high profit impact. Therefore, having an influence on the quality of the relationship. With a good quality relationship, the satisfaction of suppliers is expected to be high as well.

### 2.3.2 Customer segmentation based on continuum or portfolio approaches for a better strategy formulation

Similar as companies classify their suppliers they also segment their customers, both perspectives are explored in this study to create a comparison of their mutual perception. In order to position the company in the marketplace, the competing companies have to identified and values or attributes have to be chosen on which these companies are evaluated or rated (Kraaijenbrink, Kalewska-Kurek, Hospers, Constantinides, and Loohuis (2014, p. 876).

However, there is no fixed model on how to segment customers. For instance, as already mentioned before the majority of segmentation models fall under two categories; classification based on the continuum approach into arm’s length or market-based relations (Hallikas et al., 2005, p. 73), or different partnership relations and joint-venture or hierarchy-based relations (Cox, 1996, pp. 62-69). The other category is classification based on the portfolio approach such as the

previously explained Kraljic Portfolio Matrix or a segmentation according to the strength of the relationship and the relative attractiveness (Olsen & Ellram, 1997, p. 102). An important element in the buyer-supplier relationship and portfolios is the value-analysis and value creating potential of the different relationships (Hallikas et al., 2005, p. 73). Keeping in mind the value creating potential of customers, Cuadros and Domínguez (2014, p. 26) suggested customer segmentation based on the current value, potential value and customer loyalty because customer relationships are crucial for “[...] survival in today’s competitive marketplace” (Cuadros & Domínguez, 2014, p. 26). Another method to differentiate between customers is segmentation via a customer profitability analysis (Van Raaij, Vernooij, & van Triest, 2003, p. 573) referring to the allocation of revenues and costs of individual customers or segments to calculate the profitability. Meyr (2009, p. 231) divided customers into low and high priority customers. To give another example on how to classify customers, Marcus (1998, pp. 4-5) created a customer value matrix based on the number of purchases and amount of purchases to create a 2x2 matrix. As already stated, Schiele et al. (2015, p. 133) proposed that strategic important customer receive better treatment. Hence, comparing the strategic positioning of the supplier with the customer segmentation to see the mutual perception it can be expected that if both companies perceive their mutual strategic importance as high, that the satisfaction will be high.

## **2.4 Suppliers Make Sacrifices to Preserve Long-Term Relationships with High Status Customers**

Another focus of this paper is given to buyer status and its influence on supplier satisfaction. In literature, there are two different interpretations of the meaning status; either the position of the company in the market and the importance of this firm in the industry (Sauder, Lynn, & Podolny, 2012, p. 724) or as reputation of the given firm (Sorenson, 2014, p. 64). These two perceptions are discussed below also in regard to their influence on supplier satisfaction and hence, preferential treatment.

Based on Stern, Dukerich, and Zajac (2014, p. 513) a company’s status can be seen as its position in socially constructed system or ranking. A status is an externally assigned measure of a social position (Patterson, Cavazos, & Washington, 2014, p. 73). The firm’s status “[...] is influenced by the status of the entities with whom the firm affiliates” (Sauder et al., 2012, p. 268) and thus, is also based on the history of the company’s positive or negative associations (Patterson et al., 2014, p. 76). The reputation of a company comes from past actions and future prospects (Sorenson, 2014, p. 64). Chun (2005, p. 91) described that a company’s reputation is a valuable intangible asset which affects the way stakeholders perceive and act towards an organisation. Status can act as a ‘signalling’ mechanism and indicator of quality (Sauder et al., 2012, p. 272), worth (Sorenson, 2014, p. 63) and expected performance of the firm (Stern et al., 2014, p. 513). However, as well as the status, a firm’s reputation can also be a sign about a firm’s quality and performance (Wagner, Coley, & Lindemann, 2011, p. 30) Apparently, companies with a high status receive benefits exceeding their actual performance or quality (Washington & Zajac, 2005, p. 284). Fombrun and Shanley (1990, p. 233) found that a company’s reputation can have an influence on the status of a firm.

Consequently, a high status can help organizations to obtain its desired outcomes (Patterson et al., 2014, p. 76) and can enable the company to gain competitive advantage in the market (Patterson et al., 2014, p. 75). Additionally, according to Piazza and Castellucci (2014, pp. 301-304), a high buyer status gives benefits to suppliers and can provide a basis for a cooperative

relationship between both firms. In order to associate with companies that have a high status and positive reputation, firms are willing to accept lower wages, prices and premiums (Sorenson, 2014, p. p.63). Reimann, Shen, and Kaufmann (2017, p. 20) found that “it is not uncommon for suppliers to make short-term sacrifices in order to preserve profitable long-term relationship with customers. This is in line with Vos et al. (2016, p. 4619), who identified ‘relational behaviour’ as having a positive effect on supplier satisfaction.

Therefore, it is expected that a high buyer status and a positive reputation affect the buyer-supplier relationship. Thus, it might motivate companies to work cooperatively together, directly or indirectly increasing satisfaction.

## **3. METHODS: MAKING USE OF QUALITATIVE RESEARCH FOR DATA COLLECTION**

### **3.1 Questionnaire Design: Two Sided Questionnaire Used for Case Study**

To answer the research questions, qualitative research in form of open-ended questionnaires is used to identify factors influencing supplier satisfaction. A qualitative research method is used to explore an area about which little is known “[...] to gain novel understandings” (Strauss & Corbin, 1990, p. 11). Moreover, qualitative research methods “provide strategies for exploring experiences, practices and phenomena in sociocultural worlds” (Moen & Middelthon, 2015, p. 322), hence, qualitative assessment might help to enhance the understanding of the underlying concept of supplier satisfaction. For this dual perspective case study at Company X, two questionnaires were developed on a basis of previous questionnaires and literature review. Although both questionnaires cover similar questions, one is designed for the buyer’s point of view whereby the second one focusses on the supplier’s perspective. However, both questionnaires follow the same structure; participants are first asked to classify the relationships and if they classify, based on which dimensions or values. This is followed by questions which explore benefits the company has received due to having satisfied supplier or what kind of benefits the supplier are willing to give. The third part was designed to identify antecedents of supplier satisfaction. Finally, questions explore the importance of the buyer’s status. Overall, a special focus has been placed on the strategic positioning of the supplier, customer segmentation and on the buyer’s status. The questions asked can be found in Appendix A1 and A2.

### **3.2 Interviews with the Head of Purchasing and Three Key Suppliers of Company X**

For this case study, interviews have been conducted with the Head of purchasing of Company X, a purchaser at Company X and three of their key suppliers. These suppliers were selected by the Head of purchasing, who also arranged the interview appointments. The selected suppliers are key supplier of company X and each belong to a different commodity. Throughout the interviews with the suppliers a member of company X was present. The interview partner from the supply side were from different positions, from supplier 1 (hereby referred to as S1) the CEO of the company was interviewed, from the second supplier (S2), the sales manager and account manager responsible for Company X were interviewed. The third interview (S3) was made with the CEO of the company. In total, there were five interviews.

It is crucial for this study to gain insights from both ends of the buyer-supplier relationship regarding factors that influence supplier satisfaction. Interviews with the suppliers took an

average of 27 minutes whereas the interview with the head of purchasing took 55 minutes and the interview with the head of purchasing and another purchaser of Company X took 20 minutes. All interviews are conducted in German language and took place in April and May 2017. With prior consent from all people involved the interviews were recorded, analysed and translated in to English.

#### **4. COMPANY DESCRIPTIONS AND PRESENTATION OF INTERVIEW FINDINGS**

Left out due to confidential information.

### **5. DISCUSSION OF RESULTS AGAINST LITERATURE AND CONCLUSION WITH ANSWERING THE GLOBAL RESEARCH QUESTION**

#### **5.1 Discussing Practical Findings against Theoretical Background**

##### *5.1.1 Summary of findings: Suppliers are satisfied, mutual perception of strategic importance of the relationship is equal and Company X has a high status*

In this section, the findings of the interviews are discussed and compared to the theory. In general, it can be said that all suppliers are satisfied with Company X and the mutual perception about the importance of the buyer-supplier relationship match. All suppliers are strategic partners and in turn, Company X has a preferred customer status with the suppliers. For the most part, this case study supports previous research on antecedents of supplier satisfaction. All three suppliers named factors in the area of relational behaviour and contact access as most important. Whereby, profitability creates a base line for satisfaction. However, the whole buyer-supplier satisfaction is influenced by the nature of the industry and the products. For instance, the required composition of the raw materials and the necessity to work with moulds makes it difficult to switch suppliers easily. Therefore, both partners seek personal contact to solve issues more easily. Additionally, the buyer's status was perceived as high by all three suppliers. It was admitted that the status has an influence on the buyer-supplier relationship and the supplier treatment of the buyer. Below, the key findings are discussed and compared, divided into a discussion about the antecedents of supplier satisfaction and two sections about the three new concepts; strategic positioning, customer segmentation and buyer status.

##### *5.1.2 Confirming multiple antecedents proposed by literature and discovering of new drivers of satisfaction*

Building on the study of Vos et al. (2016), this research explored the antecedents of supplier satisfaction.. The key antecedents are discussed and compared to the literature.

All three suppliers named a sustainable relationship as a factor with high impact or importance for their satisfaction. This is in line with Vos et al. (2016, pp. 4613-4623) and Hüttinger et al. (2014, pp. 697-721) who identified relational behaviour as an antecedents of satisfaction. However, in addition to sustainability (S1, S2, S3) and economic value (S1) of the relationship, this study supports the new factor Vos et al. (2016, pp. 4613-4623) included in their model; profitability. Moreover, two suppliers mentioned that they value a long-term (S2) and long-lasting (S3) relationship more and are more satisfied with a customer if the

commitment to a long-term relationship is present. In their model, Vos et al. (2016, p. 4615) used the length of relationship as a control variable because previous studies found that it has an influence on the relational outcomes between buyer and suppliers. However, a non-significant relation between supplier satisfaction and the length of the relationship was discovered in the automotive industry. Nevertheless, it could be a factor of influence in the mechanical engineering industry. Therefore, it could be relevant to note that Company X has a long history with all three suppliers, of over 30 years. With S2 they played an important role in the founding and initial development of the business (supplier development).

In their model Vos et al. (2016, pp. 4613-4623) identified three second-tier antecedents of supplier satisfaction, which have an impact on relational behaviour: support, reliability and involvement. Reliability is supported by one supplier, who said that on-time payment and meeting commitments are important to them (S1). Even though it was not specifically stated, throughout the interviews it became clear that reliability is a factor that is a necessary condition for their buyer-supplier relationship. One supplier even said that if he could not rely on a customer it would create distrust and the satisfaction with the customer would decrease and the relationship as it was could not be repaired (S3). Under the word 'reliability' one can also include trust as a relevant factor. As already mentioned, one supplier stated he needs to be sure that he can rely on a customer (S3) which is similar to the statement of Supplier 1 who said that he needs to be able to fully trust the customers to stick to requirements and agreements (S1). Trust as an antecedents to supplier satisfaction can be confirmed by Gilbert N Nyaga et al. (2010, p. 111). This case study also supports involvement as an antecedent of supplier satisfaction. Two suppliers mentioned, to increase the current satisfaction, earlier supplier involvement in product or process development projects and planning would be an option (S1, S3). Under the term 'relational behaviour', fair behaviour can be added. Two suppliers mentioned the importance of fair and uncompetitive behaviour as important regarding the level of satisfaction with the customer (S1, S2).

Overall, relational behaviour seems to be an important antecedent of satisfaction for all three suppliers as well as for the buying company. This might be effected by the origin of the companies as they are all family-owned businesses. Moreover, the size of the three suppliers might also be a factor that needs to be considered. The suppliers are all small or medium sized. Hence, together with being a family owned business the corporate culture might be different compared to large groups. Already Wong (2000, p. 430) pointed out that the culture of the companies can have an influence on supplier satisfaction. This is in line with Schiele et al. (2015, p. 137) who stated that "[...] cultural aspects may have to be taken into account." Hence, having similar cultures could affect both partner's desire of a more partnership like relational behaviour to be satisfied with the relationship. Thus, having a buyer-supplier relationship where both partners have similar cultures and expectations about the relationship thriving for the same goal or outcome could positively affect the satisfaction of the suppliers with the relationship. Consequently, cultural aspects as well as the origin of business and the size should be taken into account when looking at the buyer-supplier relationship.

Furthermore, this case study supports innovation potential as an antecedent of growth opportunity. Two suppliers mentioned that they want to see that the relationship has growth potential for the future with a high level of innovativeness of product or processes (S1, S3). Next, Vos et al. (2016, p. 4620) named contact accessibility as a second tier antecedent effecting supplier satisfaction through operative excellence. Contact accessibility

was named as a driver of satisfaction (S1, S3) whereby, operative excellence was not named in line with contact accessibility. Additionally, an overall high level of communication / frequent information sharing was wished for satisfaction (S1, S3). Supplier 1 stated receiving confirmation about their good work would increase their satisfaction. Hence, information sharing can be added as an antecedents of supplier satisfaction.

So far commitment into the relationship was named as a driver of awarding the preferred customer status (Baxter, 2012, p. 1251; Schiele et al., 2015, p. 137). Never the less, supplier 1 named commitment of the buyer to the relationship as an important driver of their satisfaction with the relationship. Another new factor or driver of satisfaction is purchase volume. Supplier 2 admitted Company X could increase the satisfaction if they buy more. This, however, might be due to the fact that supplier 2 is a trade company of steel.

### *5.1.3 Strategic positioning of the suppliers at Company X and customer segmentation as influencing factors of supplier satisfaction*

Next to the aforementioned antecedents of supplier satisfaction, this study also explored how supplier satisfaction is influenced by strategic positioning of the supplier and customer segmentation. Subsequently, the three concepts and their influence/ effect on the buyer-supplier relationship are discussed.

Company X stated that making a supplier classification based on the Kraljic matrix, all three suppliers are supplying strategic items. It needs to be mentioned that the suppliers were classified as a whole based on their commodity; steel, aluminium and plastic. Each supplier supplies various products for the whole product portfolio not only for one line. Assessing the profit impact as high. Even though there are many suppliers for each commodity in the market, the supply risk is assessed as high because Company X is bound to the suppliers to some degree. For instance, Supplier 1 and Supplier 3 need a mould for each of their products in the production. These moulds belong to Company X and are quite expensive to make, one of the reasons why Company X performs single sourcing for these two suppliers. Nevertheless, the composition of the raw materials is important as well, because the whole production process is balanced on these compositions. This makes it not very feasible and inconvenient to switch suppliers on a short notice. All three suppliers had the same perception about their product's importance to Company X and identified themselves as a supplier of strategic items.

The overall purchasing strategy suggested by Kraljic for suppliers of strategic items is to form partnerships. Specifically, for the strategic items a second matrix was formulated with distinct strategies based on the power balance in the buyer-supplier relationship. The power position is identified by "[...] plotting the buying strength against the strengths of the supply market" (Padhi et al. (2012) p.2), hence, taking into account the number of competitors in the market. Schiele et al. (2015, p. 137) pointed out that if, in the buyer-supplier relationship the buyer has power over the supplier the satisfaction of the supplier will decrease. On the one hand, due to the necessity of needing a mould to produce the products of Supplier 1 and 3, it is difficult to assess the power position in the relationship, despite the high number of competitors in the market. This highlights that Company X depends on the supplier to some degree, as already mentioned the switching costs are very high. On the other hand, for instance with Supplier 1 and 2 there is interdependence in the buyer-supplier relationship because Company X has a high share of the supplier's revenue while being attractive for the supplier with a having high market share in the industry.

In line with the classification made by the Kraljic matrix, the segmentation method Company X uses is confirm with the separation. Company X does a supplier evaluation based on a portfolio approach, with quantitative key figures such as cost structure, quality, purchase volume or the supplier's percentage of the annual turnover. All three suppliers are class A suppliers. Overall, it seems that the strategic positioning influences the treatment of the suppliers, increasing the buyer's willingness to invest and make commitments to the relationship.

At all three suppliers, customer segmentation takes place, even though to different dimensions and degrees, Company X has a preferred status with all three suppliers.

Two suppliers base their segmentation on a customer evaluation of key figures at the end of the year with additional factors influencing the segmentation (S1, S3). Supplier 1 uses factors such as revenue, turnover and purchase volume for the evaluation and a portfolio approach with the dimension of the Kraljic matrix; profit impact and supply risk to map the strategic importance of the customer to them. Based on the evaluation, the customers are put into A-B-C segments. For Supplier 1 the A segment also represents customers with whom they have a partnership like relation. Similarly, supplier 3 evaluates their customers based on purchase volume, cost structure, revenue and turnover. Even though Supplier 3 does not put customers into fixed segments, he treats them differently according to the evaluation. Considering the sustainability of the relationship, future perspectives such as innovation potential or growth potential of the relationship and common goals for the future in the treatment of the customers (S3). Supplier 2 only based the customer segmentation on the purchase volume as a dimension to put the companies into A-B-C segments. Segment A represents the customers who purchase the highest volume.

Nevertheless, all suppliers treat their customers differently with the varying 'status' with them. Even though, all three suppliers use quantitative dimensions for the initial segmentation, only Supplier 2 does not use additional dimensions for further classification.

Connecting customer segmentation to supplier satisfaction it can be said that the suppliers are more satisfied with their most important customers (A-suppliers). As found out in the interviews, suppliers treat their customers differently based on the segmentation. Hence, they are more committed to invest into the relationship with a preferred customer and thus, according to the reciprocation promoted by the Social Exchange theory (Gilbert N. Nyaga, Lynch, Marshall, & Ambrose, 2013, p. 44; Vos et al., 2016, p. 4615), the buying company is inclined to invest more into the relationship as well. As one supplier highlighted, commitment into the relationship would increase or lead to satisfaction with the customer. Hence, according to the circle of preferred customer ship the satisfaction will increase. Bringing in the perspective of the buying company with their strategic positioning of suppliers it can be said that the mutual perception of each other's importance is aligned in this case study. Moreover, the buying company admitted that they treat suppliers who are strategically important to them better, making more investments into the relationship.

Consequently, it can be said customer segmentation and the strategic positioning of the supplier impact the quality of the relationship which in turn has an influence on supplier satisfaction. Meaning, classification has an indirect effect on satisfaction, or putting it the way Vos et al. (2016, pp. 4613-4623) did, customer segmentation is a second tier antecedent influencing the relationship and relational behaviour. However, one has to keep in mind that in this case study the mutual perception was aligned and both classified the other as a class A

partner. Therefore, the effect of the segmentation on satisfaction might vary if the mutual perception differs. Even though if the mutual perception is aligned, the power position has to be taken into account, because as Schiele et al. (2015, p. 137) pointed out it can negatively affect satisfaction.

#### *5.1.4 Association with a market leader influences the buyer-supplier relationship*

All interview partners agreed that Company X has a high status. Two suppliers said that the status is affected by the position in the market, namely Company X being market leader (S1, S3). Company X is further perceived as a highly innovative company (S1, S2, S3) with high standard products (S1) who has environmental sustainability (S2) and shows growth potential (S2, S3). Supplier 1 said that the corporate image and presentation on their website positively influence the company's reputation. The mentioning of different factors influencing Company X's status might be because there is an asymmetry in information available for each supplier. All suppliers mentioned the advantage of having a company with a high status as a reference customer, such as an increase of their status and thus, the perceived attractiveness for other companies. Which supports the finding of (Piazza & Castellucci, 2014, pp. 301-304; Washington & Zajac, 2005, pp. 284-286). It is especially important for a mid-sized company to have high status customers (S2). Even though having customers with a high status is great, other factors such as the relational behaviour and growth and development are more important for the relationship (S3).

Nevertheless, all three suppliers admitted that their treatment of the customer is impacted by the status. A high status with a reputation of good quality motivates Supplier 2 to invest and commit into the relationship. For Supplier 3 the most important aspect of the status influencing their behaviour towards the customers are the company's size, turnover and growth (S3). It can be confirmed that in the case of Company X the status and reputation act as a signal of quality and engaging with a high status' customer triggered change influencing the supplier's status as well.

Consequently, it can be concluded that having a high status makes the buyer more attractive for engaging in a relationship. Even though, the status effects preferential treatment of the customers it cannot be said if the buyer's status has a direct impact on satisfaction. However, the quality of the relationship is effected by the status having an indirect influence on satisfaction.

## **5.2 Conclusion: Practical Evidence on the Antecedents of Supplier Satisfaction: Relational Behaviour as Most Influential Driver**

By conducting a dual perspective case study with Company X and three of its key suppliers, various antecedents of supplier satisfaction have been identified. Answering the global research question of this paper, it can be said that in line with the literature, antecedents are both of operational nature and relational aspects. Relational behaviour, including the second-tier antecedents; involvement and reliability to be the most influential ones. Both sides wanting a partnership like relationship for being satisfied. Next to that, this study also confirmed profitability, growth opportunity with innovation potential as second-tier antecedent and contact accessibility as influential antecedents of supplier satisfaction in the mechanical-engineering industry. Besides supporting already existing literature, novel findings have been made. In their model Vos et al. (2016, pp. 4613-4623) discovered

that the length of the relationship has a non-significant role in influencing satisfaction in the automotive industry, but in this case it could be a significant antecedents of supplier satisfaction.. It is worth mentioning that some of the new drivers of satisfaction can be categorized and considered belonging to one of the existing antecedents. These new factors are trust, fair behaviour, purchase volume, confirmation about good quality work, information sharing and commitment which was previously only named as a driver of the preferred customer status. Even though, trust was named as an antecedents of supplier satisfaction before, it is an addition to the model created by Vos et al. (2016, pp. 4613-4623). Additionally, while looking at factors influencing supplier satisfaction in the mechanical engineering industry it might be important to take cultural aspects, origin of the business and size into account, as these seem to influence the buyer-supplier relationship in this case study as well.

This study further elaborated on the influence of the strategic positioning of the suppliers, customer segmentation and buyer's status towards supplier satisfaction. It can be concluded that the three concepts all influence the behaviour towards and treatment of the partner, affecting the quality of the buyer-supplier and in turn having an impact on supplier satisfaction. There was not enough evidence to state that these concepts have a direct effect on satisfaction. Nevertheless, positively affecting relational behaviour and the quality making them second-tier antecedents.

## **6. CONTRIBUTION TO LITERATURE, LIMITATIONS, FURTHER RESEARCH AND RECOMMENDATION TO COMPANY X**

### **6.1 Providing Practical Evidence on Antecedents while contributing to literature with New Drivers**

While most papers on supplier satisfaction are theoretical, this study provides practical evidence on the concept and thus, confirming the antecedents identified by Vos et al. (2016, pp. 4613-4623) in the contexts of the mechanical engineering industry. Next to confirming the existing antecedents, this study identified new antecedents namely trust, fair behaviour, purchase volume, confirmation about good quality work, information sharing and commitment. Moreover, contributing to the research of supplier satisfaction with three new concepts (strategic positioning of suppliers, customer segmentation and buyer's status) and their impact on supplier satisfaction as second-tier antecedents through relational behaviour. Even though, not focus of this study, it could be confirmed that supplier satisfaction is an antecedent of the preferred customer status and preferential treatment.

### **6.2 Due to the Small Sample Size Findings cannot be Generalized but Provide New Directions for Future Research**

This research is limited and the findings cannot be generalized, due to the a very small sample size and different industry settings. The study is based on one case company and three of their suppliers. Moreover, the validity and reliability of the outcome is based on the trustworthiness of the interviewees answers. It is important to mention that the supplier interviews were conducted in the presence of an employee of the case company. Hence, this might have influenced the trustworthiness of the supplier and their willingness to say the truth. Moreover, the findings of the buyer's status influence on satisfaction might be biased because the distinction between status and reputation could not always be made. To generalize the findings, more studies with the same



setting need to be conducted with an increased number of buying companies and suppliers.

As there is still little research on the concept of supplier satisfaction it could be interesting to see if the findings of this study can be generalized for other industry settings. Especially in regards to the Moreover, in this case study the culture, size and origin of the business need to be considered while looking at the buyer-supplier relationship, their expectations and satisfaction. Therefore, it might be a good idea to keep these factors in mind when doing further research. This study found out that the length of the relationship is an antecedents of supplier satisfaction whereas Vos et al. (2016, p. 4260) discovered that it was of non-significance in the automotive industry. Therefore, it could be interesting to test the relevance of the length of the relationship in further research in the same industry as well as with other settings.

### 6.3 Improve Communication and Ensure Clear Formulated Messages to Retain and Increase Supplier Satisfaction

This case study confirms that Company X has satisfied suppliers. However, several recommendations can be made in order to retain this satisfaction or even increase it further. First of all, as mentioned by the suppliers Company X should try to improve their communication. Therefore, increasing the frequency in which they share information with the suppliers. While the suppliers are satisfied with the overall contact accessibility, two suppliers mentioned that there is still room for improvement as sometimes demands are unclear. Hence, it is important to pay attention that messages, demands and inquiries are clearly formulated. This can be done by adding a table to create an overview and to summarize the message shortly. Secondly, one supplier named the change of generation as a factor creating uncertainty and insecurity about the future development of the relationship. It was already mentioned by the buying firm that a change of generation at a supplier strained the relationship and decreased the value of the partnership. Therefore, Company X should make sure to introduce the new employees carefully to create a seamless transition. To do so, Company X could try to find the suppliers with the most suitable new employee.

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## APPENDIX

### Appendix A1: Questionnaire Supplier Satisfaction (Purchaser)

#### Klassifizierung

1. Klassifizieren Sie die Beziehung, die Sie mit Lieferanten haben? Wenn das so ist, wie?
2. Haben Sie Hinweise darauf, dass die Lieferanten das gleiche mit Ihnen machen?
3. Gibt es Management-Engagement für die Erreichung der Lieferantenzufriedenheit (außer mehr zu bezahlen)? Wenn ja, welche Lieferanten versuchen Sie am meisten zu befriedigen? Bei welchen Lieferanten legen Sie besonderen Wert auf ihre Zufriedenheit?
4. Wenn es Engagement für die Erreichung eines bevorzugten Kundenstatus mit strategischen Lieferanten gibt, wie zeigt sich das?
5. Was glauben Sie, für welchen Lieferanten besitzt Ihr Unternehmen einen bevorzugten Kundenstatus?

*Die folgenden Fragen beziehen sich auf die ausgewählten Lieferanten mit denen ebenfalls Interviews geführt werden:*

6. Wie hoch ist das Lieferantenspezifische Versorgungsrisiko? Stehen viele Lieferanten für die jeweiligen Produkte zur Verfügung? (Kraljic Matrix)
7. Was ist die strategische Bedeutung der Ware dieser Lieferanten für Ihre Organisation? Wie wichtig ist das Produkt, das dieser Lieferant Ihnen bietet? Hat das Produkt eine große Auswirkung auf den Gewinn Ihres Unternehmens? (Kraljic Matrix)
8. Warum haben Sie Ihre aktuellen Lieferanten gewählt und keine Anderen? (Qualitätsgründe, Zuverlässigkeit, Lieferzeit, Preis, etc.)
9. Haben Sie mehr als einen Lieferanten für die jeweilige Ware?

#### Vorteile

10. Ist Ihnen jemals aufgefallen, dass Sie von einigen (zufriedenen) Lieferanten Vorteile erhalten haben? Haben Sie von kürzere Lieferzeiten, niedrigeren Einkaufspreisen, einen besseren Zugang zu Innovativen Fertigkeiten oder gemeinsamen Entwicklungsprojekten profitiert? Geben Sie bitte konkrete Beispiele.
11. Welche anderen Vorteile konnten Sie durch das Zufriedenstellen der Lieferanten bzw. durch einen bevorzugten Kundenstatus erreichen? Geben Sie bitte konkrete Beispiele

12. Für welche Vorteile müssen Sie bezahlen und welche werden Ihnen kostenlos angeboten?
13. Werden Ihnen Vorteile angeboten, die andere Unternehmen nicht erhalten?

#### Ursachen/frühere Vorgänge

14. Gibt es Aktionen, die Sie nicht unternommen haben, die bei der Erreichung der Lieferantenzufriedenheit / eines bevorzugten Kundenstatus hätten helfen können?
15. Gibt es Maßnahmen, die geplant sind, um Lieferanten in der Zukunft zu befriedigen bzw. um ein bevorzugter Kunde für Lieferanten zu werden?
16. Ist Ihr Unternehmen in der Lage, Lieferantenzufriedenheit von wichtigen Lieferanten herzustellen? Welche Faktoren bewirken diese Zufriedenheit?
17. Welche Faktoren rufen Unzufriedenheit des Lieferanten hervor?

#### Status

18. Was glauben Sie hat Ihre für Unternehmen für einen Status?
19. Welche Faktoren beeinflussen die Meinung Außenstehender über Ihr Unternehmen positiv? Negativ?
20. Was glauben Sie wie wichtig ist Ihr Status für ihre Lieferanten?
21. Glauben sie, dass ihr Status das Verhalten ihrer Lieferanten ihrem Unternehmen gegenüber beeinflusst?

## **Appendix A2: Questionnaire Supplier Satisfaction (Supplier)**

#### Klassifizierung

1. Weisen Sie Ihren Kunden unterschiedliche Status zu? Welche Statusarten weisen Sie zu? Welche Dimensionen nutzen Sie? (Welche Kriterien werden berücksichtigt?)
2. Ordnen Sie dem Kundenunternehmen als Ganzes, oder den verschiedenen Abteilungen/Zweigniederlassungen einen bevorzugten Kundenstatus zu?
3. Haben Sie einen bevorzugten Kundenstatus an Unternehmen-X (Ihr Unternehmen) vergeben?
4. Wo würden Sie sich selbst in der Kraljic Matrix sehen (aus der Sicht von Unternehmen-X)

#### Vorteile

5. Wie beeinflussen die Statustypen Ihr Verhalten gegenüber Kunden?
6. Welche Vorteile bieten Sie einem bevorzugten Kunden an? (Innovationen, Sonderdienste, Flexibilität, gemeinsame Produktionsplanung etc.)
7. Können Sie noch zufriedener mit dem Käufer sein, als Sie es jetzt sind? Welche Vorteile würden Sie dem Käufer dann bieten?

#### Ursachen/frühere Vorgänge

8. Sind Sie mit der Geschäftsbeziehung mit Unternehmen-X zufrieden? Welche Faktoren beeinflussen Ihre Zufriedenheit?
9. Welche Faktoren sorgen in dieser Beziehung für Unzufriedenheit?
10. Was ist die Motivation Ihres Unternehmens Unternehmen-X einen bevorzugten Kundenstatus zuzuteilen? Was könnte Unternehmen-X tun um seinen Status weiterhin zu verbessern?
11. Ist Unternehmen-X sich seines Status bewusst? Lassen Sie Ihre bevorzugten Unternehmen von ihrem Status wissen?
12. Was sind Maßnahmen die ein Kunde treffen muss, um einen bevorzugten Kundenstatus zu erreichen und wie sieht das notwendige Verhalten aus?
13. Was tun die Kunden im allgemeinen, um einen bevorzugten Kundenstatus zu erreichen? Wie versuchen Kunden Sie zufrieden zu stellen? Unterscheidet sich dieses Verhalten von dem, das Sie sich wünschen?

#### Status

14. Wie sehen Sie den Status von XY?
15. Durch welche Faktoren wird dieser in ihren Augen beeinflusst?
16. Wie wichtig ist der Status eurer Kunden für euer Unternehmen?
17. Wie beeinflusst der Status von XY ihr Verhalten dem Kunden gegenüber?
18. Geben sie Kunden mit einem guten Status Vorteile? Welche?