

# **Role of inflation in shaping buyer-supplier relationships with preferred customer status**

Author: Bernar Zhetpisbayev

University of Twente

P.O. Box 217, 7500E Enschede

The Netherlands

## **Abstract:**

This paper focuses on the identification of the inflation role in buyer-supplier relationships with preferred customer status. The literature review, as well as the case study, were the main methods in writing this manuscript. The cycle model of preferred customer status and its antecedents was reviewed to analyze which steps of buyer-supplier relationships the inflation can have a significant effect on. Moreover, the case study includes semi-structured interviews conducted with five participants. The findings of both the literature review and case study did not provide enough knowledge capacities to evaluate and propose the clear role of inflation in supply chains with preferred customer status. However, there were some interesting insights from the case study regarding the antecedents of preferred customership and its consequences. Namely, not all companies have classification standards for suppliers/buyers, but they do it on the intuitive level and rely more on social attributes. Moreover, it was not enough information extracted from the case study to support the statement that companies form inflation expectations based on price changes within their supply chain, but not based on all price adjustments. Future research requires a case study with a bigger number of participants and most likely to be from different states. Moreover, due to the fact that developed countries have not faced dramatic inflation changes in the last two decades, it is expected to have more academic interest in this field in the nearest future.

## 1. INTRODUCTION

A supply chain can be counted as a route of connections between multiple interested parties from different economic fields and refers to “the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purpose of improving the long-term performance of the individual companies and the supply chain as a whole” (Mentzer et al., 2001). Therefore, establishing robust relationships with stakeholders across the supply chain is considered a fundamental requirement for achieving optimal business performance in the current environment. Furthermore, according to a study by (Vos, 2019), firms can gain a competitive advantage and generate value by shifting from traditional in-house production to collaborative business-to-business relationships. In addition, another research by (Schiele et al., 2011) strengthens this statement and declares that the percentage of firms relying on competitive advantage gained from external support increased from 20% to 85% over the decade. This was mostly the case in innovation-targeted collaborations, due to the fact that the open innovation model provides an opportunity to enlarge resource capacities relying on external sources. On the other side, the number of suppliers has been decreasing over the last decades, which caused ‘supplier scarcity’ described as a decreasing number of suppliers in B2B markets (Schiele et al., 2012). As a consequence, buyers find themselves in a weakened position due to the increasing number of firms seeking close relationships with strategic innovation suppliers to secure a competitive edge. This situation leads to opportunistic behavior from the supplier side ((Pfeffer & Salancik, 1978); (Henderson & Cote, 1998). This fact creates a reverse of a traditional situation, in which customers are in competition for suppliers making them decide which of their buyers put more effort or less into achieving a strong partnership. Moreover, as can be seen in previous studies (Takeishi, 2002); (Dyer & Hatch, 2006) close collaboration with suppliers does not always become the source of competitive advantage, due to a lack of resources and their necessity for suppliers in the same supply base. The scarcity of resources and suppliers pushes buyers to an environment with high risks of losing their partners from unforeseen situations or competitors' negotiation advantage. In addition, the COVID lockdown as well as the current political situation in the world created conditions for a recession with increased inflation rates all over the world, which is referred to as “the rate of increase in prices over a given period of time” (IMF, n.d.). Another interpretation of the same definition can also be found on the IMF website which declares “Inflation measures how much more expensive a set of goods and services has become over a certain period, usually a year”, from which

it can be concluded that inflation can also be counted over the contract period and become a significant factor during the decision-making processes. In fact, some studies evaluate inflation risks in running close buyer-supplier relationships at the medium level in the four-layer matrix (Pellegrino et al., 2020). At the same level of perceived probability and impact rate, there are such risks as commodity price volatility, macroeconomic degradation, etc. (Pellegrino et al., 2020). Although, there is a relatively significant gap in academic studies related to the preferred customer status and inflation, which increases expectations from the outcome of this paper. Considering the information provided above, the first goal of the research question is to explore the existing state of the art in the academic world regarding the influence of inflation on preferred customer status in buyer-supplier relationships.

The increased inflation rate over the last couple of years as well as multiple unforeseen events in a global environment arise more awareness regarding the disruption of the supply chain. According to (Steinle & Schiele, 2008), a firm has preferred customer status, if the buyer has preferential resource allocation from the supplier. Preferred customer status benefits can be indicated in different ways. For instance, closer collaboration and involvement during product development stages, pricing differentiated from others, more adaptive to external factors contractual agreements, etc. In addition, recent research illustrated that preferred customer status has a positive correlation with the benevolent pricing (Schiele et al., 2011). Inflation directly affects purchasing power, which then can be projected through trading volumes or payment periods. Moreover, increased costs of raw materials directly affect production costs becoming a possible threat to other supply chain participants. One of the negative effects of inflation is that it can decrease the demand for products. When the prices of goods and services rise, consumers tend to cut back on their spending. This can lead to a reduction in the purchasing power of preferred customers who may no longer be able to afford the products they once purchased field (Ginn & Pourroy, 2020), (Iddrisu & Alagidede, 2020). As a result, they may lose their status as preferred customers, which can be detrimental to businesses that rely on their loyalty. Additionally, certain findings propose that prices in long-term collaborations tend to remain constant over time (Blinder et al., 1998). However, considering the decline in purchasing power during the same period, it becomes apparent that fixed prices may not always prove advantageous for both parties. Therefore, the inclusion of inflation during pricing negotiations can have a positive influence on mitigating future risks related to the inability to fulfill planned supply. On the other hand, inflation can also have a positive effect on suppliers. As the cost of production increases, suppliers may need to raise their prices to maintain their profit margins. This can prompt

them to offer preferred customer status to those who are willing to pay higher prices for their products, which is a beneficial situation for those who are willing to pay premium prices. Therefore, it can be assumed that inflation can be interpreted differently, meaning different outcomes for different sides: buyers and suppliers. However, the inflation dynamics remained steady over the last couple of decades, which was one of the main reasons for the lack of academic research in connecting inflation and its influence on buyer-supplier relationships. Consequently, the second objective of the research will focus on comparing interview findings with academic outcomes derived from existing literature. Thus, by integrating both research objectives, the first question can be formulated as follows:

RQ: What effect does an increase in inflation over the world have on shaping buyer-supplier relationships with preferred customer status?

It can be assumed that by answering this research question a more depth understanding of how inflation can affect preferential customer treatment in buyer-supplier relationships and enrich findings from the existing academic literature about the cycle of preferred customership (Schiele et al., 2012) (Bemelmans et al., 2015). Moreover, apart from the theoretical knowledge, some key findings from the case study should support provided below propositions. As was mentioned above, there is a lack of literature directly connecting these two concepts, so the application of these knowledge bases is not fully illustrated in existing case studies (Pellegrino et al., 2020). Therefore, this research aims at conducting case studies based on interviews with real companies and their suppliers. As a result, one of the main expectations of this paper is to provide findings extracted from interview results and compare and complement them with academic material. Specifically, real-life customer attractiveness antecedents, antecedents of supplier satisfaction, and preferred customer status benefits are only part of all subtopics planned for the discussion of possible outcomes. Therefore it can be assumed that the results of this research will complement existing research by (Furceri et al., 2022) and (Schiele et al., 2011) by connecting both concepts of inflation and preferred customer status, in order to identify the degree of importance of one in another.

The paper is structured in the following way: Firstly, the theoretical background, as well as the research goals, are described in the first section. Secondly, the description of the main concepts with the current state of the art in academic literature is briefly illustrated. This section is divided into multiple subsections for the purpose of ease of explanation and brevity. Then a brief description of research methods supported by the research design as well as clear reasoning is provided in the third section. Section four presents the interview results and their analysis

## 2. LITERATURE REVIEW.

As was mentioned above there is not a significant number of studies connecting “inflation” and “preferred customer status” in one research. Therefore, this section is divided into two main subsections, in order to provide a current state of the art in academic repositories as well as provide first insights of both topics. Another fact to bear in mind is, the literature review is not the only method used in this research, but also interviews with both sides: buyers and suppliers are also sources to test hypotheses on a real-life case study.

### 2.1. Preferred customer status.

#### 2.1.1. Preferred customer status theory and current state of the art.

As was mentioned by (Brokaw, 1976) almost all the literature in this field was aimed to describe the buyer/supplier relationships from the supplier side, while the buyer perspective was mostly ignored by the scientific world. One of the reasons described was the shortage of resources, but not of customers. This fact pushed companies to link their performance problems with lack of demand, rather than drivers of cost increase. Therefore, companies may try to achieve competitive advantage by not only re-evaluating financial and human capital but also either introducing or increasing social capital. In fact, (Blonska, 2010) states that social capital can be counted on an equal level as financial, physical, and human capital. However, in comparison to other assets, social capital like any other investment provides an opportunity to invest in buyer/supplier relationships, which then can be expected to return as opportunities in gaining a competitive advantage (Uzzi, 1996). Another fact illustrating an arising interest in this topic during the 1970s is described in the (H., Schiele et al., 2012) conceptual paper. In fact, most of the companies in the 1970s had a list of preferential customers, which was based either on previous performance or on future expectations.

Before the interest among buyers started to increase, the traditional view of marketing was also affected. Specifically, (Brokaw & Davidson, 1978) statement supports this idea, by stating that purchasers must use marketing tools to sell their company to suppliers. Such a situation creates a reverse of a traditional market situation as well as a preferred customer can be interpreted as the mirror to a “preferred supplier”. Another study by (Leenders & Blenkhorn, 1988) illustrated the shift in buyer-supplier relationships referring to a reverse marketing perspective. The reason for such a paradigm shift may be found in different research studies, but this manuscript tries to join conclusions from different time frames. Firstly, before the shift in the 1970s happened there was no shortage of resources, and after World War II most of the companies were busy with problems of “wooing”

customers, while procurement problems became to wane (A. J. Brokaw, 1976). Then, there were two reasons for the increasing interest in re-evaluating buyer-seller relations. Firstly, a significant change in supply-chain constructions, with increased responsibility for the supplier side. Secondly, reduction of suppliers in almost all B2B markets, which was early described as a “supplier shortage” (Prahalad & Hamel, 1990).

### 2.1.2 Social Exchange Theory

As mentioned above, most of the literature was mainly focused on a subject related to preferred customer status but without the broad and direct involvement of inflation. Although, most of the literature reviews at the moment of writing this research are based on resource-based view, agency theory, transaction cost theory, etc. the number of studies with social exchange theory as the main concept had been increasing from the beginning of this century (R. Narasimhan et.al., 2008). Despite the fact that this theory is not widely used in exploring the current subject, Social Exchange theory has a huge potential to provide a more depth understanding of buyer-seller relationships, especially in terms of preferred customer status (Emerson, 1976). The reason for this is the fact that propositions can be used in different models of supply chain relationships (Griffith et. al., 2006). Moreover, it can be assumed that Social Exchange Theory studies are mostly focused on power and justice, which are the attributes of managing the preferred customer status in supply chain relationships. According to (A. Blonska, 2010), strong buyer-seller relationships not only grant preferential access to its resources as the main advantage but also align their goals, visions, and interpretations. In combination with the conclusion provided by (E. Albagli et. al., 2022) paper, it can be assumed that strong relationships with buyer/supplier lead to an aligned expectation of upcoming economic risks as well as create more favorable conditions for joint work.

The reason for the increasing attention to this theory from the academic society is discussed in the (Hüttinger et al., 2012) literature review, which describes social exchange theory as an explanation of buyer-supplier relationships. In fact, social exchange theory concerns the social processes that obligate the recipient of an inducement to reciprocate in kind by voluntarily providing some benefit in return. Central to this theory is the notion of social exchange – an exchange that involves (i) goals that can only be accomplished through interaction with another party, (ii) adaptation to further the accomplishment of these goals, and (iii) development of social bonds which reflect the intrinsic value of qualitative aspects of the exchange relationship (Blau, 1986). Moreover, based on this theory, other studies link customer attractiveness, preferred customer status, and supplier satisfaction. For instance, the interdependence of business partners is

created from their initial interaction (Schiele et al., 2012). As was mentioned above, a supply chain can be considered a route of connection between businesses from various industries, and from the (Duer, 1996) literature collaboration can be conceptualized as the creation of joint processes through substantial investments into co-specialized actions, supporting the basic concept of the social exchange theory. Another concluding definition of collaboration formulates it as a specific form of relational exchange with the main goal of creating value together (Kanter, 1994). The cost of this collaboration can be counted for each party individually by subtracting the cost of interaction from the reward while seeking rewards and avoiding punishment as the main motivations for the joint activities (Emerson, 1976; Bandura, 1986). Social exchange theory is formed on a collection of fundamental propositions that outline social exchange. Therefore, this paper reflects on the most related topic of these precepts. Firstly, “the success proposition” states that the more reward for the specific joint action is received, the more likely this action will be repeated (Homans, 1961). This proposition aligns with the “gain sharing” principle among supply chain participants. Secondly, the reward proposition declares that rewards gain value when deprived (Homans, 1961). Thirdly, the rationality proposition argues that during the selection process, a member of joint action tends to choose the collaboration which rewards with the highest value and can be linked to a non-exploitation of the situation by a supplier through pricing, in the supply chain context (R. Narasimhan et.al., 2008). For a broad understanding, a lock-in situation is defined as an instance in which one supply chain participant is extremely dependent upon the other participant, with few alternatives for diversification (R. Narasimhan et.al., 2008).

### 2.1.3. The cycle of preferred customership

According to Schiele et al. (2012, p. 1183) paper, there are three cyclical stages of becoming a preferred customer status. Namely, customer attractiveness, supplier satisfaction, and preferred customer status.

Firstly, customer attractiveness can be interpreted differently, but for this paper it can be defined as the emotional response of wishing to get closer to a given buyer (Hüttinger et. al., 2012). It is important to mention that attraction plays an important role in the social exchange theory (Schiele et. al., 2012). As a result, within the context of this theory, another definition declares that a person can be considered attractive to another person if he/she expects the association with this other individual to be a rewarding experience (Blau, 1964). In some cases, customer attractiveness plays a crucial role in determining whether to interact with it or not.

Secondly, supplier satisfaction is defined as the supplier's sense of fairness in relation to the buyer's incentives and the supplier's contribution to the industrial

buyer-seller relationship (M. Amann, 2009). There are different variations for assessing this indicator, but it is important to bear in mind that most of these studies were not linked to a clear theoretical foundation (Schiele et al., 2012). Consequently, these authors studied satisfaction as a stand-alone concept, without a broad view of antecedents and consequences, which are attractiveness and preferred customer status. Positive supplier satisfaction can be achieved only if the potential incentive of the collaboration is higher than the costs of maintaining those relationships. Consequently, the social exchange theory proposes that participants are willing to continue maintaining relationships, only until the satisfactory rewards surpass the minimum comparison level (Homans, 1958, Lambe et al., 2001). Moreover, the relationship evaluation is mostly done by comparing the expected value with the actual result. Although expectations vary depending on personal/organizational preferences, as long as these expectations are fulfilled, satisfaction is achieved.

#### 2.1.4 Antecedents of customer attractiveness

Attribute group	Antecedents	Source
Market growth	Customer size	Ellis et al. (2012, p. 1264); Hüttinger et al. (2014, p. 699)
	Market share	(Fiocca, 1982, p. 57; Tanskanen & Aminoff, 2015, p. 135)
	Influence in the market	(Hald et al., 2009, p. 964; Ramsay & Wagner, 2009, p. 131; Tanskanen & Aminoff, 2015, p. 137).
	Price	(Hald et al., 2009, p. 964).
Economic factors	Share of sales	(Ellis, Henke, & Kull, 2012, p. 1261)
	Volume	Hüttinger et al. (2014, p. 699)
	Cost of partnership	(Ramsay & Wagner, 2009, p. 132)
	Economy of scale	(Fiocca, 1982, p. 57).
	Profitability	Bew (2007, p. 3); Moody (1992, p. 52); Baxter (2012, p. 1255)
	Customer capacity utilization	(Fiocca, 1982, p. 57).
Technological factors	Technological skills	(Fiocca, 1982, p. 57; Tanskanen & Aminoff, 2015, p. 136) p
	Joint R&D	(Ramsay & Wagner, 2009, p. 131).
	Joint product or logistics development	(Christiansen & Maltz, 2002, p. 190).
Risk factors	Commitment to innovation	(Ellegaard & Ritter, 2007, p. 5)
	Forecast reliability	(Ramsay & Wagner, 2009, p. 131; Tanskanen & Aminoff, 2015, p. 136). In a similar vein, Hüttinger et al. (2014, p. 712)
	Demand stability	(Tanskanen & Aminoff, 2015, p. 136) a
	Production standardization	s (Christiansen & Maltz, 2002, p. 181) v
Social factors	Personal relationships	Patrucco et al. (2020, pp. 8-9)

**Table 1. Antecedents of customer attractiveness**

In order to be in preferred customer status, a purchaser has to first be attractive enough for the beginning of the negotiation process. If the first step, customer attractiveness is aligned with the supplier's evaluation criteria the initial stage of building relationships can be satisfied. There are different approaches to evaluating the "attractiveness" of a customer, but this study refers to the 5 attributes (table 1.) measurement proposed by (Hüttinger et al., 2012). Different studies, as well as companies, apply a relatively huge number of antecedents applied in determining customer attractiveness. However, this

manuscript tries to collect the most faced antecedents and separate them by attributes groups proposed by (Fiocca, 1982). Firstly, companies start the decision-making processes based on market factors, such as purchaser's size, growth rate, share in the market, etc. For instance, attractive customers are those whose purchasing capacities are bigger in comparison to others in that industry. On the other side, particular industries' purchasers' accounts do not always have the main influencing factor, in the case of leading or prestigious market positions.

The second attribute refers to social factors. Due to the fact that companies can be interpreted in different metaphors, one of the most obvious is the comparison between a business and an organism. Consequently, for an "organism" such factors as personal relationships with different stakeholders play a huge role in determining the "attractiveness" of other companies. In addition, companies are managed by people and their perception of others determines the perception of other companies, which highlights the importance of social characteristics. Moreover, such characteristics as trust and commitment are also considered important factors in building long-term oriented buyer-supplier relationships (Ellegaard & Ritter, 2007).

The third category is based on the evaluation of the economic and financial performance of a company. Such variables as leveraging factors, economies of scale, capacity utilization, etc. are the major under this category group. Moreover, financial and economic attributes are the driver of customer attractiveness, due to their ability to provide the partner with "superior economic benefits" (Harris, O'Malley, & Patterson, 2003). In addition, the perceived attractiveness of a purchaser can be expressed by the value creation opportunity, which then can be interpreted in volume and price (Hald et al., 2009, p. 964).

Technological factors refer to the ability to develop innovations as well as existing technological skills (Ellegaard & Ritter, 2007) and also play a significant role in customer evaluation processes. Additionally, suppliers pay significant attention to such joint actions as mutual sharing of "know-how" knowledge bases, early involvement in R&D projects, initiation of collaborative development projects, and joint logistics improvement in evaluating processes regarding the long-term relationship building with a particular buyer.

The last attributes group refers to risk factors. One of the reasons for that is the fact that suppliers are already confronted with high risks and uncertainties (Ramsay & Wagner, 2009). Therefore, stable demand, reliable forecasts, and valid risk management are attributes a customer should represent to be "attractive" to suppliers (Ramsay & Wagner, 2009; Tanskanen & Aminoff, 2015). Consequently, operative excellence, as well as well-standardized (Christiansen & Maltz, 2002) operational

activities and stable operational processes, play a positive role in building the perceived attractiveness of a customer, because these factors decrease existing risks within the company (Hüttinger et al., 2014). The same as a buying company's market stability affects the "attractiveness" level, perceived dependence from the supplier also can make a rating either weaker or stronger (Hald et al., 2009).

### *2.1.5 Antecedents of supplier satisfaction*

As was mentioned above, there are multiple studies examining supplier satisfaction and its antecedents, but for this study (Hüttinger et al., 2012) academic paper stands as the main reference of supplier satisfaction antecedents. Growth opportunity, reliability, and relational behavior are the most significant factors (Hüttinger et al., 2014a) influencing supplier satisfaction.

As a standardized system for sellers, social exchange theory provides an interesting tool for evaluating and analyzing customer portfolios. According to this theory, the main category for providing preferential treatment to a certain customer is the comparison level "CL" and "CLalt". As mentioned in previous studies, the comparison level for alternatives is a standard that illustrates the average amount of outcomes from current buyers' alternatives (Anderson & Narus, 1984) CL and CLalt should always be considered in running business relationships in order to gain the maximum advantages it is possible in comparison to other offers. Moreover, it is also important to use this system, because even satisfied suppliers may leave relationships if there are better alternatives provided. On the other side, there are some cases when there are no alternatives on the market, pushing not satisfied suppliers to maintain the same relationships (H. Schiele et. al., 2012).

According to (Hüttinger et al., 2012) supplier satisfaction was studied more than customer attractiveness in academic literature, and one of the main outcomes of these studies was the fact that supplier satisfaction is mostly driven by relationship-based supply chain strategy. Namely, cooperation rather than competition is the key strategy in achieving desired supplier satisfaction (Forker & Stannack, 2000). On the other side, research made by (Essig & Amann, 2009) concludes that there is still a lack of business and academic research made regarding this topic, which makes this concept "rudimentary" in supply chain management. Despite this fact, this variable should be the subject of examination in every business-to-business relationship at least once in two years, in order to avoid the consequences of unsatisfactory suppliers. Moreover, such an examination is required in order to identify dissatisfactory factors to maintain successful risk management systems for ongoing business relationships (Essig & Amann, 2009).

This paper focuses on growth opportunity, reliability, and relational behavior as the most significant variables influencing supplier satisfaction. Firstly, "growth

opportunity" refers to the ability of firms to grow their business and potentially develop new business together within these relationships. While the customer perspective evaluates such characteristics as growth and volume as the most significant in assessing the "growth opportunity", for the supplier side the availability of the reference effect their customers might have is already a determinate factor for satisfaction by potentially expanding their markets (Hüttinger et al., 2014b). The same as for customer attractiveness, a substantial volume a buyer has can also positively influence the ability of a supplier to grow further, which is then projected in increased the satisfaction of a supplier. Secondly, reliability refers to a supplier's perception of a buying firm that acts consistently and reliably in terms of contract agreements and relational constraints (Hüttinger et al., 2014b). In fact, the combination of (Hüttinger et al., 2014b) and (Essig & Amann, 2009) research papers leads to the conclusion that "reliability" stands as the most influencing factor in determining supplier satisfaction. Moreover, according to these studies' reliability stands not only in contractual fulfillment obligation but also in the fact that oral agreements must be assessed at the same level of importance. It is important to mention that if buying firms are looking for preferential treatment from suppliers, should avoid opportunistic behavior and transaction-based strategy. In fact, companies should rely on relationship-based supply chains, showing respect, solidarity, and mutual support for their partners (Hüttinger et al., 2014b). The last factor for this paper was relational behavior which is defined as the buying firms' behavior towards its supplier in terms of the relational focus of exchange, primarily focusing on such aspects as solidarity, mutuality, and flexibility (Hüttinger et al., 2014b). This factor is clearly aligned with the above-mentioned statement regarding the importance of relational factors and social exchange theory, both concluding that satisfaction and continuation of relationships are driven by relationship-based supply chain strategies.

### *2.1.6 Preferred customer benefits*

Another fact to bear in mind is attention to risk mitigation practices in relationships with preferred customer status is at an increased level in comparison to weak buyer-supplier relationships. Additionally, high efficiencies and cost-reduction requirements pushed modern industries to form organizations specialized in specific areas over the value chain. Such companies allow other chain participants to either outsource or create a joint production (Kakabadse & Kakabadse, 2005). These circumstances created a favorable for long-term collaboration environment, especially in developed countries (Quélin & Duhamel, 2003). In fact, outsourcing is

when a company transfers the ownership and control of a company function/process to a contractor (Kelly, 2006).

Thus, one of the outcomes of these practices is an increased dependency between parties due to the above-mentioned “supplier scarcity”, outsourcing practices, and decreasing number of B2B relationships, illustrating a shortage of alternatives for both parties of the supply chain. Therefore, buyers become more vulnerable to risks related to their supplier and reverse. Consequently, this part provides a more depth description of potential risks related to preferred customer status. On the other side, granting preferred customer status does not always lead to an increase in dependency, but in combination with social exchange theory, it can be assumed that the longer the relationships lasting the more relatively dependent their participants are. It is important to understand that preferred customer status leads to well-structured relationships with long-term orientation on collaboration. Since outsourcing is one of the potential forms to execute joint plans, it has raised attention to the outcomes of strong-tie partnerships. Outsourcing has changed the view of traditional purchasing roles in company performance, thus nowadays this department became a strategic function for effective business performance (Zsidisin, 2003). However, for some industries, such as construction, purchasing has always been such an important role and required great investments, both tangible and intangible, into the supply networks for successful business management (Eccles, 1981); Dioguardi, 1983; (Costantino & Pietroforte, 2002). On the other side, for most modern companies, the purchasing role has dramatically changed its initial goals from short-term operations tasks to the development of long-term strategic partnerships (Lewis, 1995). As a result, investments in social capital such as supplier relationship management can provide a more solid competitive advantage gained from investing in economic capital, for example, restructuring of cost drivers. The reason for that stands in scarce resources every supplier has as the limitation of the production, which means that being in a preferred customer status provides you preferential resource allocation even in situations of shortages, in which the same resources cannot always be achieved with financial capital only ((Takeishi, 2002); (Dyer & Hatch, 2006)). For instance, resource allocation is a selective process and the ability to maintain these resources from the shared supply base provides a purchaser a competitive advantage in comparison to its competitors.

On the one side, being a preferred customer provides a solid number of advantages, such as better resource allocation, preferential treatment, knowledge sharing, etc. On the other side, being a preferred customer means higher dependency, which not only affects risks related directly to the company but also to its partners. Namely, the so-called ripple effect in the SC refers to

situations when the supply chain disruptions cannot be localized, thus harming the whole chain and its participants. However, the list of benefits can be seen in Table 4.

## 2.2 Inflation

### 2.2.1 Profit-maximization theory

It is clearly illustrated that social exchange theory relies mostly on qualitative attributes, such as trust, but any collaboration should also be reasoned by quantitative means in order to achieve the highest sustainability and collaborative benefits. According to the profit-maximization theory (A. Victor & A. Wiese, 2018), any market participant is aimed at increasing profit as much as possible, which can be achieved through promotional activities, credit periods, etc. (N. Pakhira & M. K. Maiti, 2021). Nowadays, a volatile market pushes suppliers to provide credit periods in order to improve his/her sales volume. However, not all market participants take responsibility to obey business ethics, which creates extra risks for the supplier (N. Pakhira & M. K. Maiti, 2021). Therefore, extended credit periods, fair pricing, and individually negotiated payment arrangements can become a source of competitive advantage for a buying firm. As with any financial agreement, credit payments must take into consideration inflation over the agreement period. On the one hand, social exchange theory can be interpreted as the framework for assessing business-to-business relationships on a long-term scale taking into account qualitative means, trust, reliability, mutual support, etc. On the other hand, the profit-maximization theory provides the reasoning for entering and maintaining these relationships in the short term by evaluating quantitative outcomes, such as profitability, volume, etc. Due to the fact that in this context the best representation of quantitative parameters is money, it is important to consider one of the main economic phenomena, inflation, which gives the real representation of the financial reasonability of a partnership over the given time period.

Despite the fact, there is a shortage in a number of academic studies exploring inflation and its impact on supply chain management, specifically preferred customer status, IMF concludes that firms predict upcoming inflation and mostly rely on observed cost changes along the supply chain during the price setting processes (Abigali; et al., 2022). According to this statement, it can be assumed that multiple firms may have different expectations of inflation, due to distinctive supply chains and price changes within them. This fact can be crucial during the initial stage of building long-term buyer-supplier relationships, due to the fact that both parties may have to contradict forecasts regarding inflation, thus creating a situation of misunderstanding in price negotiations. However, as was mentioned in (N. Pakhira & M. K. Maiti, 2021) nowadays almost all products are very price sensitive to inflation,

except for emergent goods, such as medicals or life support products. As was mentioned above, inflation has a significant impact on the demand for a certain product, due to its direct effect on purchasing power of money.

### 2.2.2. *Supply chain effects on inflation*

On the other side, the last decade clearly illustrated how strongly these two fields are connected in both ways. As exemplified by (Carrière-Swallow et al., 2023) global supply chain disruptions have a direct correlation to domestic inflation rates. Even though the correlation effect varies depending on the country, there is a significant relationship, supported by a few amount of academic evidence. Despite the fact that scientific society paid major focus to the identification of the effects of oil and food price shocks on domestic inflation, supply chain disruptions were counted as the more considerable effect on domestic inflation, even if all variables are connected to a certain degree. Particularly, (Herriford et. al., 2016) declares that an increase of 15 percent in international shipping costs is then projected by a 0.10 percentage point increase in core inflation after twelve months. The same as inflation decreases the purchasing power of customers, global supply chain disruptions decrease the availability of resources all over the world, due to increased shipping costs and decreased supply. There are many reasons varying from geopolitical conflicts, such as the war between Russia and Ukraine, to a relatively “new” experience of health-related pandemics, which can affect the global supply chain somehow. However, this paper illustrates events that happened in the Suez Canal as the main example for the purpose of brevity and ease of exposure, because it can be counted as the disruption caused not by global demand. The last episode happened in March 2021, locking the canal for all transfers for six days (Carrière-Swallow et al., 2023). This clearly illustrates reverse causality, namely the impact supply chain disruptions have on inflation rates and the other side because the initial reason was not hiding under demand but in unexpected events. Therefore, it can be assumed that mitigation of supply chain disruptions can then be interpreted as the avoidance of inflationary risks, due to the fact that one event is the consequence of another. Moreover, as was mentioned above inflation is considered at the medium level risk in running close buyer-supplier relationships (Pellegrino et al., 2020), which clearly illustrates the fact that both sides must equally cooperate with inflation and joint practices are more efficient in close collaborations. For instance, (Pellegrino et al., 2020) proposes the following inflationary risk mitigation practices: parties should agree on minimum savings required to offset inflation effects and negotiate on product components that are subject to inflation.

Such a tight correlation between global supply chain disruptions and inflation rates can be explained by

multiple reasons. Firstly, due to the fact that the average GDP in 2018 includes thirty-eight percent of imported goods, varying by country, thus any adjustment in shipping costs will then directly affect the local price of these items, which then affects the state economy (IMF World Economic Outlook, 2018). Secondly, an increase in shipping costs pushes suppliers to increase costs for customers, which is then projected in increased pressure on domestic consumer demand. Therefore, it can be assumed that closer collaboration and joint risk mitigation practices may not only increase the general performance of a chain but also avoid future environmental and economic problems.

### 2.2.3 *Synthesis*

It can be assumed that a combination of social exchange theory and profit-maximization theory can provide a framework to build long-lasting relationships. For instance, both theories are aimed to secure additional benefits and avoid negative consequences through collaboration, which provides extra resources not available within one company (Hüttinger et al., 2012). Consequently, the two theories can complement each other in terms of comparing tangible and intangible costs, and potential outcomes of collaboration during the value creation processes and initial stages of building new partnerships. Particularly, in certain scenarios, the immediate economic incentives for collaborating with early-stage companies may not be apparent due to factors such as pricing, demand, or other quantitative considerations. However, the prospect of future growth and increased order volumes from these companies can be projected to contribute positively to long-term financial performance. By carefully weighing short-term costs, such as missed revenues, against the potential for growth and improved long-term performance indicators, companies can extract additional value from collaborations. This evaluation process should also incorporate qualitative factors, such as trust, to ensure a comprehensive assessment of the relationship. In addition, a supply chain with preferred customer status tends to have more mutual support from both sides (Bemelmans et al., 2015). In particular, benefits from preferred customer status relationships may vary from information sharing to financial incentives or cost-sharing (Hüttinger et al., 2012). Thus, it can be assumed that partnerships with preferred customer status provide more flexible working agreements, which may become a navigating factor in dealing with scenarios of high inflation dynamics. In combination with the fact that companies may have different predictions of inflation, a lot of concerns arise during the initial stages of partnering, but this paper tries to test the following proposition.

P: “Preferred customer status contributes to the development of a collaborative examination of inflation



risks, enabling buyers to meet their obligations more consistently”

P2: “Preferred customer status provides more opportunities, in terms of renegotiation and flexible contractual agreements, for both sides to fulfill their obligation in scenarios with high inflation dynamics”

### 3. Methodology

#### 3.1. Research design

The research is based on two methods, which are literature review and case study interviews. This study is qualitative research, due to multiple reasons. Firstly, the existing state of the art in literature does not clearly illustrate the direct correlation between such topics as “inflation” and “preferred customer status”, which creates plenty of space for exploring this complex phenomenon. Thus, in order to give a clearer explanation of this multifaced question, it is required to provide a deep exploration of contextual factors, decision-making processes, and subjective perspectives, which are the most suitable goals for executing qualitative research. Moreover, this fact stands as the main distinguishing point between the two research methods, namely, qualitative research studies mostly aim to explore and understand, while measuring stands in the quantitative (Green & Thorogood, 2004). Secondly, conducting open questions and interviews provides an opportunity to extract the broader context of relationship development as well as in-depth information regarding the data related to social capital and its improvement. In fact, qualitative research methods are more suitable in studies answering the “what”, “how”, and “why” of the phenomena, in opposite to quantitative research methods mainly answer, “how many”, and “how much” perspectives of the research gap (Leitan et al., 2015).

Therefore, the initial goal of this research is to understand how inflation can affect the preferential treatment of a purchaser. The literature review is conducted on “Preferred customer status”, “Inflation”, and “Social-Exchange Theory” as the main topics. The research is mostly based on recent articles dated later than 2013, in order to avoid outdated results. However, as mentioned above, a few academic papers connect the main subjects of the paper, which limits the literature review outcome. Another point to bear in mind, some articles used in this academic research were issued more than 40 years ago, the reason for taking these papers was mainly to develop the storyline of how the interest in preferred customer status topic has been evolving over time.

#### 3.2 Research sample

In order to collect as much reliable data as it was possible, the research sample group was planned to be

involved in one supply chain in order to review it from different perspectives. Moreover, due to the fact that the research sample was reached through online tools and social networks, such as LinkedIn, there were some problems to achieve the minimum required number of research participants. Another fact to bear in mind, respondents involved in this research originally work in different countries, but it can be counted as an advantage because inflation rates may vary over the states and even inflation dynamics can have dramatically different historical lines (Parker, 2018), which then can affect buyer-supplier relationships. First, company X was involved in the dairy industry in Kazakhstan, a country with high inflation rates and inflation dynamics (Aydin et al., 2016). There were a couple of reasons for choosing this company as the main participant. Firstly, it operates with international partners, providing a more suitable for this research supply chain, which involves different economic environments, namely inflation dynamics. Secondly, the researcher was not able to find companies to participate in the research in the Netherlands, which limited the researcher's ability to gather more data for the case study. In addition to company X, the researcher interviewed their local raw milk supplying company, dairy products distributor, and multinational dairy products trading company.

#### 3.2.1 Case Study with Company X

This research was aimed at reviewing both sides of a supply chain, but also it was important to compare different companies within one market. One of the reasons for reviewing different supply chain participants was necessary in order to identify how inflation expectations are formed in different companies. Thus, after a detailed introduction and meeting into the topic using email and phone calls, the first Company X assigned the researcher to a purchasing department, which then provided information about the possibilities of reviewing their supply base. It is important to mention that company X operates in Kazakhstan, a country with relatively high inflation rates over the last couple of years. In fact, the inflation rate has been varying varied between 5.12% in 2012 to 17,15% in 2008, and 14.96% this year (IMF, 2022). Although it was impossible to review the company's supply base, the purchasing department connected with one of its key suppliers and then with the sales department to contact one of its key customers. As a result, the researcher was able to interview a local raw milk supply firm and a regional distributing company. It is important to mention, that the local raw milk supplier is a small business, operating only in the city of the Company X location, thus the company can be considered as a small enterprise even from a developing country's perspective.

On the other side, in addition to the one-country perspective for this case study, company X shared contacts of their supplier from an international trading company specializing in dairy products and its supplements. A representative from the international trading company operated as a commercial manager at the moment of interviewing and thus was able to provide information to both sides of the supply chain. In fact, according to the respondent, both purchasing and realization (sales) activities were under this position's responsibilities. Therefore, Company X provided an opportunity to complete five interviews with the company itself and its stakeholders. Table three provides the list of participants and their markings in this report.

Respondent	Brief name	Industry
Company X purchasing department	Company X B	Dairy production
Company X sales department	Company X S	Dairy production
Local raw milk supplier	S1	Raw milk collector and supplier
Local distribution firm	B1	Distribution
International Supplier and Buyer	S2 and B2	International dairy products trade

Table 2. List of participants.

### 3.3 Interview design

Most of the interviews are conducted using online meeting platforms and the recording of each interview is based on the preferences of the interviewed person. Namely, most of the respondents agreed to record the meeting but did not have a camera for video recording of an interviewed person. Also, the transcript of each meeting is provided in the appendix section as well as the questionnaire. The case study is aimed at the identification of the inflation influence on preferred customer status from both perspectives, buyers, and suppliers. One of the initial goals of conducting interviews was to track and learn from real companies, how they classify, sort, and categorize their buyers. Thus, interviews are made with both sides' buyers and their suppliers. However, not all buyers are open to providing their supplier base, which limits the number of participants.

For this case study semi-structured interviews were the best option, due to the fact that previous academic research does not provide a clear role of inflation in buyer-supplier relationships with preferred customer status and any information as an addition to interview repliers a participant is free or willing to share will be very

useful. Interview questions were mostly prepared for the identification of antecedents of customer attractiveness and supplier satisfaction, but the inflation topic will be reviewed depending on the interviewed persons' responses regarding this topic. Questionnaires can be divided into three major parts: antecedents of preferred customer status, classification, and benefits. Each questionnaire was translated and then checked by independent sources: an online translator and individual check, from English to Russian. The case study is based on semi-structured interviews with open questions targeted at both sides of a supply chain, namely supplier and purchaser. As was mentioned before, the goal of this study is to give an in-depth understanding of preferred customer status in buyer-supplier relationships and how inflation may affect preferential treatment thus by providing an opportunity for a participant to give open answers, the researcher expects to receive an illustration of real-life step-by-step processes of becoming a preferred customer status and find inflation implications in those processes.

Due to the fact that all respondents were abroad, it was unable to make face-to-face in-person interviews, but the usage of different online tools guaranteed a valid way to collect, store and visualize information in a required form. Namely, participants were interviewed using Skype and Microsoft Teams for the recording and then transcribed using the "Sonix" online tool. The next step, translation of the transcription from Russian to English version, was made through "DeepL" online tool and by the researcher in order to provide valid information and not miss any idea from replies. Interviews were conducted one-by-one, due to the fact that collective interviews may influence the respondent's formulations and openness to share (Acocella, 2012). In combination with the fact that all questions are open-ended, which makes respondents provide broad answers, group interviews could negatively affect the final result, which can be projected in the length of answers.

### 3.4 Data analysis(coding)

For the purpose of ease of organization and labeling, the researcher used a coding process with the support of the "Atlas. ti" software tool. Specifically, coding is defined as a qualitative data analysis method in which some parts of the data are referred to a descriptive label that helps a researcher to identify related content across the data (Deterding & Waters, 2021). There are two main coding practices: deductive and inductive methods (Neale, 2016). The researcher started with the deductive coding, by labeling first codes based on antecedents of customer attractiveness, preferred customer status benefits, and inflation forecasting. Then during the first round of analysis of transcripts, new codes were added based on new

findings in the data. The second round of analysis was aimed at the linkage of responses to codes. The last round of analysis was aimed at the coding reliability assessment and creation of code groups with the most similar labels. For instance, antecedents of the customer attractiveness group include six categories: risk factors, economic factors, technological factors, economic factors, market growth, and new findings as the code referring to the information added to results extracted from existing literature.

## 4. Results

This section provides the main findings related to this research paper. Due to the fact that this case study used qualitative data, the researcher applied the Coding approach, as the central method for the data analysis.

### 4.1 Preferred customer status classifications

Based on the interview findings, it can be concluded that all companies in the research region do not have standardized classification systems for preferred customer status. However, although there were no companies that use the “preferred customer status” definition, almost all respondents have different layers of either suppliers' or customers' treatment. For the purpose of brevity and ease of understanding, factors influencing supplier satisfaction and customer attractiveness are listed in Table 3. The procurement manager from company X expressed that their customer classification does not have clear standards, yet they implement non-identical credit periods, contracting standards, and promotional activities with different suppliers. For instance, it was mentioned by the procurement manager: “If you ask any top manager in our company to which cohort do you classify this supplier or that supplier? He will answer one way or another, won't he? But the official classification, which would be regulated or implemented in the company by some kind of prescribed regulations, there is no such thing.”, which clearly illustrates this situation. The same situation goes for their key supplier, due to the fact that the amount of B2B relationships within one industry is limited in comparison to developed economies, the supplier also does not have clear classification practices, but at the same time cannot say that all customers are evaluated the same. Multiple respondents XB, XS, S1, and S2 believe that contract fulfillment obligations are one of the main reasons for continuing relationships with certain companies, and the greater the number of successful interactions between these companies the greater the chance of gaining preferential treatment. The same situation continues even after achieving preferential treatment. Namely, XB shared a personal experience unrelated to Company X, involving an international company operating in Kazakhstan. According to his words, one of the benefits of achieving preferred supplier status was decreased “bureaucratic barriers”, which also was the main advantage for him. Firstly, besides financial opportunities, a customer decreased the bureaucratic barriers by assigning more contact persons. Secondly, after “closing the first line of barriers”, direct

communications with different departments and their managers became an allowed opportunity provided only after rounds of successful interactions. As was mentioned by the respondent, such high barriers were required due to high corruption risks in Kazakhstan, which were evaluated by international managers as a potential threat to their employees too, so the governance of the company decided to minimize direct communication between managers at the first steps of collaboration. Another point supporting Social Exchange theory, specifically the third rationality proposition. The procurement manager stated that one of the antecedents of becoming a preferred customer was information sharing, which can be interpreted as a company characteristic. For instance, before becoming a preferential customer with one of the suppliers, the banking assessment of company performance before taking a loan was a confirming paper of Company X's positive financial and operational management became a supporting argument for building long-term relationships and not using the lock-in situation with unfair pricing. It is important to mention, that the banking paper did not contain any sensitive or private information, the only reason for such an increased trust in this paper is the fact that statistics and public information is not always truthful information, but rather a tool for manipulation by different institutions, according to the respondent XB. Another interesting finding from Company X as well as their international supplier S2 was the fact that the procurement department clearly understands the role of “reverse” marketing for purchasing practices. In particular, they stated that the reputation of the company, which includes both marketing activities and operational accountability to stakeholders, is one of the main requirements to receive preferential treatment. Another fact to bear in mind is that supplier also highlighted the same attribute as the main reason for assigning Company X its preferential treatment, namely reputation on the market.

Due to geographic reasons, some regions of the country Company X operates in are located too far from the production point and close to the Russian border, pushing Company X to provide special agreements for customers with those circumstances. It is important to mention, that after the war between Russia and Ukraine, the currency difference made Russian products cheaper for boarding cities. Therefore, preferential treatment in comparison to all customers is provided to the whole part of the country. It is important to bear in mind that such actions are required not only to save one particular customer but the whole region. Thus, in this situation, the main difference in customer treatment is based on pricing, specifically lower prices in comparison to other parts of the country. Despite the fact Company X does not have a clear classification, it also looks at financial performance, market share, and technological enrichment as an evaluation of customer attractiveness. Moreover, one of the supporting ideas of reverse marketing highlighted by the sales manager is the reputation of the brand and

whether it operates in markets contradicting Company X's code of ethics. Particularly, if any action, such as corruption, or labor usage, of a potential or existing buyer conflict with Company X's code of ethics any collaboration will be finished. Another important aspect of reputation highlighted by XB is the age of the company and its product portfolio, which potentially can illustrate their partners. The same refers to their customer B1, which also indicated that portfolio composition is an important aspect due to the specificity of the region and product type. Namely, B1 works only with "Halal" products, which are strict in terms of rules of production. Therefore, it can be stated that a portfolio is a significant characteristic of an "attractiveness" due to the fact, they cannot work with non-halal products.

To conclude, replies provided by respondents (XB, XS, S1, and S2) aligned with factors such as customer size, market share, and influence in the market. As the main finding in classification and antecedents' topics reputation or the idea of reverse marketing is faced in all answer variations, but in different interpretations. For instance, as was stated by respondents' XS and S2 reputations can be formed based on the company's existing partners, age on the market, or the existence of courtside cases from previous partnerships. Moreover, according to the respondent, S2 reputation plays a huge role in evaluating processes for both sides of supply chains: supplier and buyers. Another interesting outcome of the case study was the fact that a company can grant preferential treatment not only to a particular company but to a group of independent companies, due to environmental or industry-related circumstances. Also, it is important to highlight the fact that knowledge-sharing is not always related to innovativeness, but also information-sharing may be used as a tool illustrating company characteristics or competencies, as was mentioned by respondent XS with an example.

Influencing factor	XS	XB	S1	B1	S2	B2
<b>Supplier satisfaction</b>						
Growth opportunity	x	x	x	x		x
Innovation potential						
Operative excellence	x	x	x	x		x
Reliability	x	x	x	x	x	x
Support of suppliers		x			x	
Supplier involvement		x				
Contact accessibility	x		x			
Relational behavior	x	x	x		x	
Financial stability	x	x		x		x
<b>Customer attractiveness</b>						
Geographic location		x		x		
Customer size	x	x	x		x	x
Influence in the market	x	x	x		x	x
Existing partnerships	x	x		x		
Market share	x	x	x		x	x
Reputation on the market	x				x	x

Table 3. Antecedents of customer attractiveness and supplier satisfaction from respondents.

#### 4.2 Outcomes of preferential treatment

Group	Benefit	X S	X B	S 1	S 2	B 1	B 2
Financial benefits	Renegotiation	x	x			x	
	Benevolent pricing	x	x		x	x	
	Cost reduction		x				
	Adjustable payment periods	x	x	x		x	
Operational benefits	Shared promotional costs	x				x	
	Access to supplier knowledge on markets		x		x	x	x
	Delivery Reliability	x	x	x		x	
Production benefits	Joint production line	x	x				
	Shared technologies	x	x	x			

Table 4. List of preferred customer status benefits.

Promotional activities, such as negotiated credit periods can be counted as the main advantage for receiving preferential treatment in this case study according to XB and B1. It can be assumed that the relatively volatile economy of the industry company operates in became the main reason for that. Moreover, the respondent from the Company X purchasing department (XB) mentioned that in that state some contracts include indexing to foreign currency due to high risks and inflation dynamics in the last twenty years. Another outcome of the research is the undefined revenue percentage aimed at running promotional activities, which results in non-planned budgeting for running joint promotional activities, so the companies of the case study cannot compare the cost of running relationships with the rewards earned from these relationships. This was the case for almost all respondents from the region Company X operates in, namely XS, XB, and B1. Therefore, it was hard to discuss the usage of concepts such as CL and Clalt. Another significant result of the research was the repeated answer from the sales department of Company X and their supplier S1, which states that one of the outcomes of receiving preferential treatment is the opportunity to ask for advance payments or not, in situations when the inflation rate changes. Consequently, partnering companies may leverage their previous investments into

relationships and their reputation in unexpected and emergent situations. Buying from Company X B1 also stated, that it feels the preferential treatment not in price changes, but in additional support of entering new markets for realization. Namely, respondent XB stated that this support was provided through marketing activities, such as free product trials or advertisement materials.

Moreover, respondent XB shared a personal experience unrelated to Company X, involving an international company operating in Kazakhstan. According to his words, one of the benefits of achieving preferred supplier status was decreased “bureaucratic barriers”, which also was the main advantage for him. Firstly, besides financial opportunities, a customer decreased the bureaucratic barriers by assigning more contact persons.

Secondly, after “closing the first line of barriers”, direct communications with different departments and their managers became an allowed opportunity provided only after rounds of successful interactions. As was mentioned by the respondent, such high barriers were required due to high corruption risks in Kazakhstan, which were evaluated by international managers as a potential threat to their employees too, so the governance of the company decided to minimize direct communication between managers at the first steps of collaboration.

Due to the fact that companies are located in developing economies, there is much less innovativeness in comparison to developed economies, according to Company X’s purchasing manager. Therefore, such an antecedent as “commitment for innovation” was not faced in interviews, but joint production was one of the outcomes of being a preferred customer for Company X according to their customer B1 and sales department XS. Namely, after years of partnership and preferential treatment, companies started a new product line, which was constructed based on investments from both sides.

Despite the fact, almost all companies operate in one country, there were different benefits found for each of the participants. Namely, the most faced outcomes of preferred customer status were benevolent pricing and delivery reliability. Regarding benevolent pricing, it is important to mention that the country operates in a highly volatile market, which pushes firms to run opportunistic businesses, which are aimed at short-term profit maximization, achieved by unfair pricing. This fact was also confirmed by XS participants during the interview, which makes benevolent pricing not the common characteristic of running a business, but a benefit achieved after building fair buyer-seller relationships. The same goes for delivery reliability, according to XS and S1 in Kazakhstan, there is a lack of statistics, which could potentially be caused by low-efficient institutions monitoring and controlling market participants. Therefore, delivery reliability heavily depends on the personal characteristics of the company’s management and can be ignored until court cases or law enforcement emerge. On the other hand, for S2 and B2, access to knowledge on markets was one of the main benefits due to the fact that this company operates on the

international level, thus any information about new markets would be beneficial for future growth. To conclude, the list of benefits of being in business-to-business relationships with preferred customer status is provided in table 5.

#### *4.3 Role of inflation in shaping buyer-supplier relationships with preferred customer status*

Unfortunately, there were no direct effects inflation has on buyer-supplier relationships with preferential treatment. As was mentioned above the case study is based on semi-structured interviews, so the researcher asked the following questions in order to open this topic and give a respondent an opportunity to speak about areas in which inflation can affect relationships: “The inflation rate varied between 5.12% in 2012 up to 17,15% in 2008 and 14.96% this year, in comparison to the Netherlands with 0.17% in 2016 and 11.6% in 2022 (Statista, 2023). Based on this information, how is the inflation forecasted in your company? Which adjustments related to price compositions can you make after the contract signing? Which promotional activities do you provide to your customers? And do they vary based on the status? Is there a certain revenue share aimed at promotional costs and are they shared with your customers? “. The major expectation was to determine how the inflation was forecasted, whether it is done through price adjustments within that supply chain or not. However, three out of four local respondents (XS, S1, and B1) just said that they change prices only if their supplier changes them, so no forecasts are made beforehand. On the other side, the last respondent mentioned that it is hard to rely on official statistics and forecast inflation. The international supplier firm S2 informed that their company tries to mitigate inflation by implementing a selective growth strategy and aiming at building long-term relationships and not “short-term opportunistic business deals”.

Another significant expectation was aimed at the identification of inflation forecasting methods within the supply chain. As was mentioned above, company X does not have clear prediction practices, but due to the fact they can monitor global trends, the most important criteria were market trends, namely the analysis of demand in certain periods of time. This factor in combination with changes in the cost of production was the determination criteria in decision-making processes in the last year. Unfortunately, there were no significant findings made to answer the research question in a broad way. However, some findings illustrate that inflation plays a role during contract composition, payment period negotiations, and other processes related to promotional activities.

Regarding the inflation role in shaping preferred customer status, there were no major findings from the sales manager and customer B1. However, Company X stated that price adjustments are mostly made due to inflation and the increased price of their suppliers. On the

other side, Company X cannot always raise prices respectively to inflation dynamics, due to the fact that it partially sells socially important goods, which are regulated by the government. Therefore, in some contracts, the prices are indexed to Usd-Kzt currency exchange rates. Moreover, after providing preferential treatment, Company X may provide longer payment periods or reverse ask for advance payments, due to volatile market conditions.

## 5. Discussion

### 5.1 Cycle of preferred customership.

The initial goal of this research is to explore the role of inflation in buyer-supplier relationships with preferred customer status. Firstly, the research started with the cycle of preferred customership. Customer attractiveness characteristics were taken from (Hüttinger et al., 2012) model with five attribute groups. All antecedent groups were found in the case study data. Moreover, the most “popular” antecedent group faced in this case study was related to “market growth”. Namely, respondents XS, S2, and S1 stated customer size (Hüttinger et al., 2012); (Ellis et al., 2012). The second most faced attributes group was “Economic factors”. According to respondents XS, XB, and S2, in this dimension, the most important criteria are price and volume. Almost all antecedents found in the literature were mentioned at least once in respondents' answers. However, such antecedents as “Joint R&D”, “Influence in the Market”, and “Commitment to innovation” were not faced in any of the answers (Ramsay & Wagner, 2009) (Ellegaard & Ritter, 2007) (Tanskanen & Aminoff, 2015). Moreover, some respondents even said that the environment Company X operates in is not so well-structured for product innovations. However, S2 and B2 respondents mentioned that one of the main characteristics making their company “attractive” is the innovation practices in sustainability. Due to the fact that the company operates worldwide and has representatives on all continents, some sustainability standards may be common for one region and innovative for another region, which makes them a more innovative company in partnerships with developing countries firms.

Regarding the antecedents of supplier satisfaction, increased attention was paid to “fulfillment of contract obligations”, which was the critical factor in evaluating customer attractiveness for XS, XB, B2, and B1 respondents. Another important variable in shaping buyer-supplier relationships was communication, which is related to the accompanying level (Essig & Amann, 2009). Almost all companies except S2 and B2, were evaluating communication as one of the most important factors not only in supplier satisfaction but also in developing long-term partnerships. Communication was interpreted differently, for instance, one participant mentioned that a company is a metaphor for an organism, and in the same way, how people build a friendship with others, companies should develop long-term collaborations. Another important aspect of supplier satisfaction was “Payment habits”, from the (Essig & Amann, 2009)operational level.

### 5.2 Inflation in buyer-supplier relationships with preferred customer status and future implications.

It was important to mention that the researcher was unable to find a clear correlation between inflation and the preferred customer status concept as was expected before. Moreover, none of the respondents formed their inflation expectations in collaboration with their supply chain partners. Due to the high inflation dynamics, most of the respondents did not have a clear forecasting practice to form inflation expectations and the last respondent S2 mentioned that diversification of the portfolio to which the “preferred customer status” concept is referred, was one of the main methods of inflation risk mitigation practices. On the other side, the data support the second part of the proposition, which states that preferred customer status pushes a buying firm to meet its obligations. This statement is supported by almost all respondents, particularly XS, XB, and B1 stated that after receiving preferential treatment both sides of the partnership are eligible to adjust payment periods, ask for pre-payments or even increase credit periods, which facilitates contract obligation fulfillment. However, joint inflation mitigating practices were faced almost in all interviews, except for S2 and B2. Other respondents highlighted that either contract indexing, promotional activities (extended credit periods specifically) (Pakhira et al., 2017), or even reformulation of contracts were used in case of upcoming inflation. The reason S2 and B2 do not practice adjustments in contracts, or any other activities related to contract fulfillment, due to the fact that their company stands not only as the supplier but also as an international trader, which means they can earn money on the same deals using financial (buying short positions for example) and operating tools with one contract. To conclude, the relatively stable inflation rates in developed countries stopped the depth research on supply chain disruption and inflation topics until the COVID-19 crisis. It is important to mention that inflation becomes a more-significant issue in building international supply chains. Various inflation rates in different countries stand as the main reason for that(Xing, 2022).For instance, Company A may be a supplier of certain minerals from a country with a developing economy and work with Company B from the Netherlands with a stable economy and approximately stable inflation rate over the last two decades (varying from 0.2% to 4.9%, before the COVID-19 crisis), according to Statista (Centraal Bureau voor de Statistiek, 2023). In most cases, almost all global situations can negatively affect inflation rates in both countries, but in developing countries, the decline in this indicator may be much more significant or tragic. As an illustration, Venezuela faced a huge food crisis caused by hyperinflation, which then pushed Coca-Cola, the leading beverage producer in the world, to temporarily stop its production (The Wall Street Journal, 2016). Therefore, it can be assumed that the existing excitement before the forecasted crisis and increased inflation dynamics (Kliesen & Werner, 2022) will

push the academic society to deeper research and understand how inflation and preferred customership in a supply chain correlated and can be controlled by companies. Therefore, it would be interesting to take a comparison look at case studies from different economic regions of the world. As was mentioned above, different economies react to global supply chain disruptions differently, thus making the ground for research on how local businesses may mitigate this problem using internal market tools.

## 6. Limitations

Despite the fact the research paper provides some contributions, there are a couple of limitations, which are important to describe. Firstly, the relatively small sample size. As mentioned above, four respondents participated in this study from the same country, and one international partner worked within one supply chain. Another limitation to bear in mind is that S2 and B2 respondents are replies from the same person working with both procurement and sales departments, making his answer reliable and valid as the supplier and purchaser representative. Therefore, the inability to apply findings from the case study to a wide range of companies is the result of such a small sample size. Another limitation of the research is the lack of statistics from official representatives in the region Company X operates in, resulting lack of inflation forecasting within some companies. Another possible limitation is the bias with which respondents may be faced, due to the fact that they were invited to the research using one channel to which they have personal belonging.

Despite the fact the researcher was initially aiming to include both European and non-European research samples, it was problematic to achieve equal sample groups from different regions, which was partially mitigated by inviting an international trading company with a headquarter in the Netherlands. Moreover, in order to

avoid bias from other participants, who were reached through the Company X stakeholder group, the researcher offered anonymizations for all interviews.

For future research, it will be more efficient to invite more participants using different channels in order to avoid biased answers. Secondly, the comparative research from both developed and developing economies would be more practical, due to the fact that inflation rates vary dramatically, and different approaches would help in the identification of the best practices for such a macroeconomic risk.

## 7. Conclusion

The goal of the research was to explore the current state of the art in academic literature regarding preferred customer status and complement these findings with case study results. In addition, this paper also tries to examine how inflation can affect buyer-supplier relationships with preferential treatment. As a result, the researcher conducted five interviews with different participants of the same supply chain, linking answers with knowledge found in academic papers. A comprehensive and multifaceted understanding of the research topic was obtained through the correlation of insights shared by the interviewees with the knowledge derived from pertinent academic literature. Even though the research was made in a market with high inflation dynamics, there was not enough evidence to support both propositions, which are: "Preferred customer status contributes to the development of a collaborative examination of inflation risks, enabling buyers to meet their obligations more consistently" and "Preferred customer status provides more opportunities, in terms of renegotiation and flexible contractual agreements, for both sides to fulfil their obligation in scenarios with high inflation dynamics". Therefore, future research is required in order to be confirmed.

## Reference

- Abigali, E., Grigoli, F., & Luttini, E. (2022). Inflation Expectations and the Supply Chain [Working paper]. *IMF*, 43.
- Acocella, I. (2012). The focus groups in social research: advantages and disadvantages. *Quality & Quantity*, 46, 1125-1136.
- Anderson, J. C., & Narus, J. A. (1984). A model of the distributor's perspective of distributor-manufacturer working relationships. *Journal of Marketing*, 48(4), 62-74.
- Aydin, C., Esen, Ö., & Bayrak, M. (2016). Inflation and economic growth: A dynamic panel threshold analysis for Turkish Republics in transition process. *Procedia-Social and Behavioral Sciences*, 229, 196-205.
- Bemelmans, J., Voordijk, H., Vos, B., & Dewulf, G. (2015). Antecedents and benefits of obtaining preferred customer status. *International Journal of Operations & Production Management*, 35(2), 178-200. <https://doi.org/10.1108/IJOPM-07-2012-0263>
- Blau, P. M. (1964). Justice in Social Exchange. *Sociological Inquiry*, 34(2), 193-206. <https://doi.org/https://doi.org/10.1111/j.1475-682X.1964.tb00583.x>
- Blinder, A. S., Canetti, E. R. D., Lebow, D. E., & Rudd, J. B. (1998). *Asking About Prices: A New Approach to Understanding Price Stickiness*. Russell Sage Foundation.

- <http://www.istor.org/stable/10.7758/9781610440684>
- Blonska, A. (2010). *To Buy or Not To Buy* Dissertation). Universitaire Pers Maastricht, Maastricht].
- Carrière-Swallow, Y., Deb, P., Furceri, D., Jiménez, D., & Ostry, J. D. (2023). Shipping costs and inflation. *Journal of International Money and Finance*, 130, 102771. <https://doi.org/https://doi.org/10.1016/j.jimonfi.2022.102771>
- Costantino, N., & Pietroforte, R. (2002). Subcontracting practices in USA homebuilding—an empirical verification of Eccles's findings 20 years later. *European Journal of Purchasing & Supply Management*, 8(1), 15-23. [https://doi.org/https://doi.org/10.1016/S0969-7012\(01\)00019-3](https://doi.org/https://doi.org/10.1016/S0969-7012(01)00019-3)
- Deterding, N. M., & Waters, M. C. (2021). Flexible Coding of In-depth Interviews: A Twenty-first-century Approach. *Sociological Methods & Research*, 50(2), 708-739. <https://doi.org/10.1177/0049124118799377>
- Dyer, J. H., & Hatch, N. W. (2006). Relation-specific capabilities and barriers to knowledge transfers: creating advantage through network relationships. *Southern Medical Journal*, 27, 701-719.
- Eccles, R. G. (1981). The quasifirm in the construction industry. *Journal of Economic Behavior & Organization*, 2(4), 335-357. [https://doi.org/https://doi.org/10.1016/0167-2681\(81\)90013-5](https://doi.org/https://doi.org/10.1016/0167-2681(81)90013-5)
- Ellegaard, C., & Ritter, T. (2007). Attractiveness in Business Markets: Conceptualization and Propositions.
- Ellis, S. C., Henke, J. W., & Kull, T. J. (2012). The effect of buyer behaviors on preferred customer status and access to supplier technological innovation: An empirical study of supplier perceptions. *Industrial Marketing Management*, 41(8), 1259-1269-1269. <https://doi.org/10.1016/j.indmarman.2012.10.010>
- Essig, M., & Amann, M. (2009). Supplier satisfaction: Conceptual basics and explorative findings. *Journal of Purchasing and Supply Management*, 15(2), 103-113. <https://doi.org/https://doi.org/10.1016/j.pursup.2009.01.001>
- Fiocca, R. (1982). Account portfolio analysis for strategy development. *Industrial Marketing Management*, 11(1), 53-62. [https://doi.org/https://doi.org/10.1016/0019-8501\(82\)90034-7](https://doi.org/https://doi.org/10.1016/0019-8501(82)90034-7)
- Forker, L. B., & Stannack, P. (2000). Cooperation versus competition: do buyers and suppliers really see eye-to-eye? *European Journal of Purchasing & Supply Management*, 6(1), 31-40. [https://doi.org/https://doi.org/10.1016/S0969-7012\(99\)00032-5](https://doi.org/https://doi.org/10.1016/S0969-7012(99)00032-5)
- Furceri, D., Carriere-Swallow, Y., Deb, P., & Ostry, J. (2022). Shipping Costs and Inflation. *IMF Working Papers*, 2022, 1. <https://doi.org/10.5089/9798400204685.001>
- Ginn, W., & Pourroy, M. (2020). Should a central bank react to food inflation? Evidence from an estimated model for Chile. *Economic Modelling*, 90(C), 221-234. <https://EconPapers.repec.org/RePEc:eee:ecmod/e-v:90:y:2020:i:c:p:221-234>
- Henderson, P. W., & Cote, J. A. (1998). Guidelines for Selecting or Modifying Logos. *Journal of Marketing*, 62(2), 14-30. <https://doi.org/10.1177/002224299806200202>
- Hüttinger, L., Schiele, H., & Schröer, D. (2014a). Exploring the antecedents of preferential customer treatment by suppliers: A mixed methods approach. *Supply Chain Management*, 19, 697-721. <https://doi.org/10.1108/SCM-06-2014-0194>
- Hüttinger, L., Schiele, H., & Schröer, D. (2014b). Exploring the antecedents of preferential customer treatment by suppliers: a mixed methods approach. *Supply Chain Management: An International Journal*, 19(5/6), 697-721. <https://doi.org/10.1108/SCM-06-2014-0194>
- Hüttinger, L., Schiele, H., & Veldman, J. (2012). The drivers of customer attractiveness, supplier satisfaction and preferred customer status: A literature review. *Industrial Marketing Management*, 41(8), 1194-1205. <https://doi.org/https://doi.org/10.1016/j.indmarman.2012.10.004>
- Iddrisu, A.-A., & Alagidede, I. (2020). Is the interest rate setting behaviour of the Bank of Ghana constrained by high debt levels? *African Development Review*, 32(3), 459-471. <https://EconPapers.repec.org/RePEc:bla:afdev:v:32:y:2020:i:3:p:459-471>
- Kakabadse, A., & Kakabadse, N. (2005). Outsourcing: Current and future trends. *Thunderbird International Business Review*, 47(2), 183-204. <https://doi.org/https://doi.org/10.1002/tie.20048>
- Kelly, A. (2006). *Managing maintenance resources*. Elsevier.
- Kliesen, K. L., & Werner, D. (2022). Using Beige Book Text Analysis to Measure Supply Chain Disruptions. *Economic Synopses*.
- Leenders, M., & Blenkhorn, D. (1988). Reverse Marketing: The New Buyer-Supplier Relationship. *Journal of Marketing*, 53. <https://doi.org/10.2307/1251420>
- Leitan, N. D., Michalak, E. E., Berk, L., Berk, M., & Murray, G. (2015). Optimizing delivery of recovery-oriented online self-management strategies for bipolar disorder: a review. *Bipolar Disord*, 17(2), 115-127. <https://doi.org/10.1111/bdi.12258>



- Mentzer, J., Dewitt, W., Keebler, J., Min, S., Nix, N., Smith, C., & Zacharia, Z. (2001). Defining Supply Chain Management. *Journal of Business Logistics*, 22. <https://doi.org/10.1002/j.2158-1592.2001.tb00001.x>
- Neale, J. (2016). Iterative categorization (IC): A systematic technique for analysing qualitative data. *Addiction*, 111, n/a-n/a. <https://doi.org/10.1111/add.13314>
- Pakhira, N., Maiti, M. K., & Maiti, M. (2017). Two-Level Supply Chain of a Seasonal Deteriorating Item with Time, Price, and Promotional Cost Dependent Demand Under Finite Time Horizon. *American Journal of Mathematical and Management Sciences*, 36(4), 292-315. <https://doi.org/10.1080/01966324.2017.1334605>
- Parker, M. (2018). How global is "global inflation"? *Journal of Macroeconomics*, 58, 174-197. <https://doi.org/https://doi.org/10.1016/j.jmacro.2018.09.003>
- Pellegrino, R., Costantino, N., & Tauro, D. (2020). The role of risk management in buyer-supplier relationships with a preferred customer status for total quality management. *TQM Journal*, 32(5), 959-981-981. <https://doi.org/10.1108/tqm-04-2019-0107>
- Pfeffer, J., & Salancik, G. R. (1978). *The external control of organizations: a resource dependence perspective*. Harper & Row.
- Quélin, B., & Duhamel, F. (2003). Bringing Together Strategic Outsourcing and Corporate Strategy:: Outsourcing Motives and Risks. *European Management Journal*, 21, 647-661. [https://doi.org/10.1016/S0263-2373\(03\)00113-0](https://doi.org/10.1016/S0263-2373(03)00113-0)
- Ramsay, J., & Wagner, B. (2009). Organisational Supplying Behaviour: Understanding supplier needs, wants and preferences. *Journal of Purchasing and Supply Management*, 15, 127-138. <https://doi.org/10.1016/j.pursup.2009.02.001>
- Schiele, H., Calvi, R., & Gibbert, M. (2012). Customer attractiveness, supplier satisfaction and preferred customer status: Introduction, definitions and an overarching framework. *Industrial Marketing Management*, 41(8), 1178-1185. <https://doi.org/https://doi.org/10.1016/j.indmarman.2012.10.002>
- Schiele, H., Veldman, J., & Hüttinger, L. (2011). Customer attractiveness, supplier satisfaction and preferred customer status: a review and a cycle model. 27th IMP Conference,
- Steinle, C., & Schiele, H. (2008). Limits to global sourcing?: Strategic consequences of dependency on international suppliers: Cluster theory, resource-based view and case studies. *Journal of Purchasing and Supply Management*, 14(1), 3-14. <https://doi.org/https://doi.org/10.1016/j.pursup.2008.01.001>
- Takeishi, A. (2002). Knowledge Partitioning in the Interfirm Division of Labor: The Case of Automotive Product Development. *Organization Science*, 13(3), 321-338. <http://www.jstor.org/stable/3086024>
- Tanskanen, K., & Aminoff, A. (2015). Buyer and supplier attractiveness in a strategic relationship - A dyadic multiple-case study. *Industrial Marketing Management*, In Press. <https://doi.org/10.1016/j.indmarman.2015.04.011>
- Uzzi, B. (1996). The Sources and Consequences of Embeddedness for the Economic Performance of Organizations: The Network Effect. *American Sociological Review*, 61(4), 674-698. <https://doi.org/10.2307/2096399>
- Vos, F. G. S. (2019). Preferred customer status, supplier satisfaction and their contingencies. In C. Bode, R. Bogaschewsky, M. Eßig, R. Lasch, & W. Stölzle (Eds.), *Supply Management Research: Aktuelle Forschungsergebnisse 2019* (pp. 25-46). Springer Fachmedien Wiesbaden. [https://doi.org/10.1007/978-3-658-26954-8\\_2](https://doi.org/10.1007/978-3-658-26954-8_2)
- Xing, B. (2022). *Why Do Inflation Rates Vary Across Countries?* SSRN. <https://books.google.kz/books?id=HfLrzwEACAAJ>
- Zsidisin, G. A. (2003). Managerial Perceptions of Supply Risk [<https://doi.org/10.1111/j.1745-493X.2003.tb00146.x>]. *Journal of Supply Chain Management*, 39(4), 14-26. <https://doi.org/https://doi.org/10.1111/j.1745-493X.2003.tb00146.x>

**Appendix.**

**Information was anonymized.**