

# Preparing industrial suppliers for customer integration

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## Abstract

In real world markets and business markets in particular, the idea of customized products and services receives increasing attention. A management tool called customer integration has been developed as an approach to master the challenges originating from customization for a supplier. Customer integration competence is the organizational quality that results from this tool after being implemented. Putting this together, we can hypothesize a causal relation between customer integration competence and market success. In order to confirm this hypothesis, the paper presents a conceptualization of customer integration competence. To accomplish this, references are made to competence models from psychology, success factor research and organizational science. The concept was validated through a survey with 78 industry experts from business markets responding. Customer integration competence measured in this way was then contrasted to a second measure capturing market success. Regression analysis supports our hypothesis strongly. Finally, implications for marketing research as well as marketing practice are presented. © 2005 Elsevier Inc. All rights reserved.

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## 1. Customer integration as a key to product and service customization

Customized goods and services can be regarded as an inherent characteristic of business markets and transactions (Anderson & Narus, 2004). These types of goods and services appear in different forms. Capital goods or heavy equipment are usually very specific and therefore often custom tailored. For instance in the machine tool manufacturing industry, customer specific variations of base models are the rule rather than the exception. In the automotive supply sector parts and modules are typically made to customer specification. The application specific integrated circuits industry typically referred to as ASICs, as well as other electronic or electric components, belong to the same category of customized products. In addition to products, many services provided to commercial consumers exhibit a high degree of customization as well, such as planning, engineering, and most types of consulting. Some researchers regard individualization as a constituent characteristic of services as well (Lovelock & Yip, 1996), which emphasizes the significant overlap between industrial and services marketing. Although this paper primarily focuses on business markets,

similar observations concerning customized goods and services can also be found in typical consumer markets. In that context, the buzzword ‘mass customization’ has received significant attention (e.g. Piller, 2000).

Several empirical studies have confirmed the important role of customized goods and services on modern markets (e.g. Johansson, Krishnamurthy, & Schlißberg, 2003; Pine, 1993). This study comes to a similar conclusion (see Fig. 1). In a survey seventy-eight company representatives from different industries in the business-to-business sector were asked to estimate their share of sales accounting for products and services which were customized to meet individual customer demands. All respondents indicated their companies and business units provide customized goods and services to customers to some extent. Most often chosen was the category ‘80% sales share for customized products and services’ with 13 counts altogether.

The operational implementation of customized product and services however is not trivial. In their study Coenenberg and Prillmann (1995, p. 1248) found that customizing goods and services only then leads to economic success for a supplier if it is declared explicitly part of the manufacturer’s target system and implemented systematically. Such a systematic approach primarily concerns the way a supplier and customer cooperate. This supplier–customer interaction in particular makes customization a challenge not only for the operations

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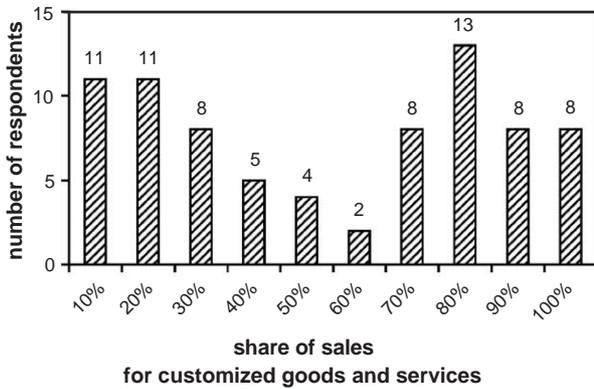


Fig. 1. Share of sales for customized goods and services.

department and operations research, but also for marketing and marketing research.

To provide an approach for mastering this challenge, we refer to the concept of customer integration developed by Kleinaltenkamp, Ehret, and Fließ (1996). The concept itself is rooted in industrial marketing literature as well as in writings on services marketing. To illustrate the concept, we choose to follow Gouthier and Schmid (2003, p. 124) for reasons of comprehensiveness (see Fig. 2).

According to the concept of customer integration, customization of any kind requires preparation to be done beforehand. This includes all internal factors of production that are neither specific nor subject to customization. Examples of such internal factors may include tooling, raw and semi-fabricated material, personnel, buildings and space, communications infrastructure or technological know-how. These factors of production need to be planned and in some cases procured. Some internal factors may be pre-combined and become part of a firm's internal pool of resources. To give an intuitive illustration of this concept, in

the simplest form of customized services, even a hair dresser for instance has to set up his salon to provide the basis for his activities. The salon is an internal pool of resources which merely represents a potential in the sense that it opens up options for production and the means to create products and services that are customer specific and unique. Customizing as such is accomplished through a second procedure of factor combination. Customer transactions are characterized by activities of complementing internal factors and resources by so-called external factors of production. These are provided by customers as inputs into the production process. A customer's input is twofold. First the customer is the information source of his individual needs, problems to be solved, or demands. Obviously, this input is a necessary condition for individualization to occur. Another example is that of the car manufacturer who wants his supplier to customize components for a specific model car. The manufacturer has to provide basic information about this model which serve as external factors of production. Secondly, when individual requirements are very specific and include the development of innovative solutions, the influence of the customer goes far beyond this and is comparable to a customer's input into a consulting project. In this case problem solutions — as in consulting — need to be developed for each new situation. This development of problem solutions requires repeated decision making. If the component supplier can offer different proposals that all comply with the same basic specifications, the car manufacturer is required to participate in the decision. With regard to his role of influencing interim decisions, the customer integration concept refers to customers as interactors. If this combination of external and internal factors is completed effectively, it may result in the output of goods and services that are highly individualized and fulfill a very specific customer demand. All sub-processes associated with the cooperation between supplier and customer are subsumed in the concept

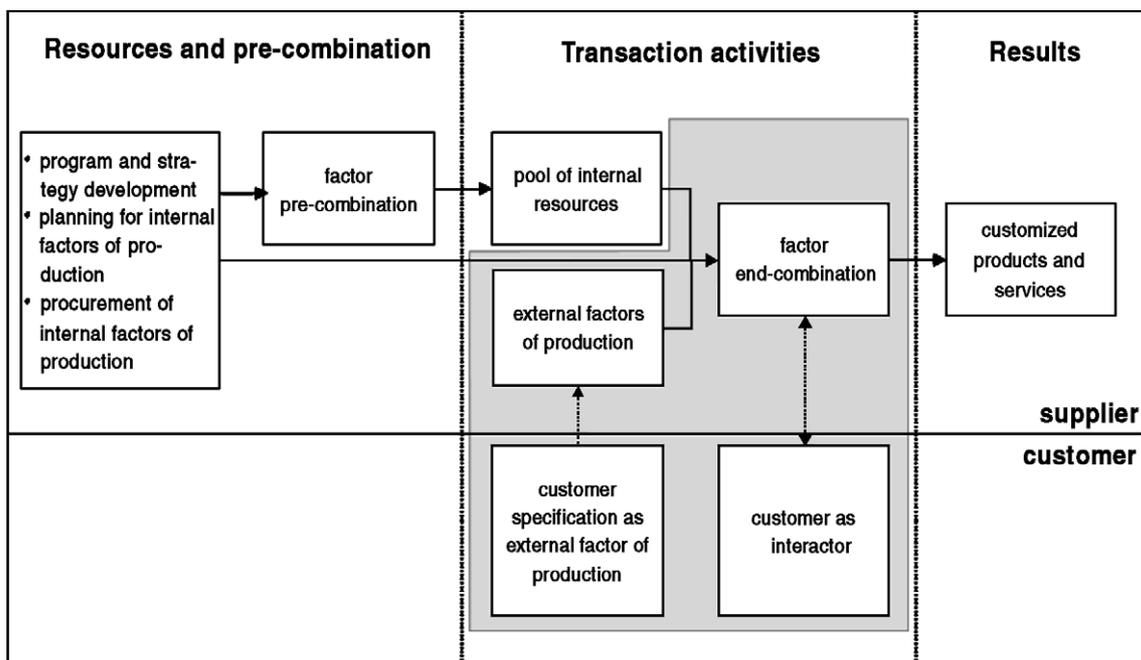


Fig. 2. The concept of customer integration.

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