



Managing customer share in key supplier relationships

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ABSTRACT

Supply base consolidation is an important issue in many business markets. Against this background, the allocation of purchasing budgets across vendors becomes an area of vital interest to suppliers. In the present research, we argue that customer share is a key decision variable in business marketing settings and investigate how a supplier can proactively manage the share of its customer's business. We report the results of a cross-sectional study among purchasing managers in U.S. manufacturing industries. Our findings confirm the role of customer value as an antecedent to customer share in business relationships. The study further shows that customer share influences the stability of key supplier relationships. Rather than displaying a direct impact, our results suggest that trust mediates and dependence moderates the link between customer share and search for alternative suppliers. Based on these findings, we propose a framework for managing customer share in key supplier relationships. Four approaches of how industrial vendors can proactively manage customer share are discussed.

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1. Introduction

Over the last decades, supply base consolidation has been a major issue in business marketing and supply chain management (e.g., Hunt & Morgan, 1994; Kulp, Lee, & Ofek, 2004; Ogden, 2006; Sarkar & Mohapatra, 2006). Sheth and Sharma (1997) observe a widespread trend towards downsizing of the supplier portfolio between 20 and 90%. Cousins (1999) reports typical supply base rationalizations in the region of 40 to 70%. As a current example, take the European aerospace industry. In 2007, Airbus Industries announced 'Power8', a major restructuring program intended to achieve savings of 750 million Euros annually. Among other measures, the group planned to reduce the number of its first-tier suppliers from 3000 to 500 (Airbus, 2007). Similarly, THALES, a major European supplier to the aerospace industry, reduced the number of its key suppliers from 3000 in 2004 to 1100 in 2007. The ultimate goal of such moves is to gain competitive advantage (Cousins, 1999). Through cost reductions and quality improvements, a firm's supply chain may indeed become one of the strongest barriers of entry for competitors (Choi & Hartley, 1996).

The advantages of working with fewer suppliers are well documented in the purchasing and supply chain management literature (Chen & Paulraj, 2004; Hahn, Kim, & Kim, 1986; Kekre, Murthi, & Srinivasan, 1995). From a cost perspective, placing a greater emphasis on fewer suppliers allows a customer to concentrate order volumes and gain more influence over vendors. Beyond price concessions, a focus on selected suppliers allows a firm to reduce total cost of ownership. For example, through better coordination and exchange of information, order processing and inventory management may be dramatically improved. Similarly, by adopting flexible manufacturing strategies and design-to-cost approaches, key suppliers can assist customers in taking additional costs out of production processes. From a quality perspective, a limited supply base allows customers to invest in supplier development. In addition to improving quality of existing products, it allows customers to motivate vendors to engage in efforts of joint product development.

Scholars also recognize potential downsides of a reduced supplier base (Newman, 1989; Talluri & Narasimhan, 2005; Trevelen & Bergman Schweikhart, 1988). Above all, buyers face increased dependence and, consequently, higher risks of supply disruption. In addition, suppliers may be tempted to raise prices to take advantage of a customer's increased level of dependence. Finally, favoring one supplier over others typically comes at the cost of reduced flexibility. For example, in industries where technology changes are frequent, the commitment to a particular supplier typically results in locking customers in on a specific technology.

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Along with the trend towards supply base reduction, the purchasing and supply chain management literature discusses how this trend affects sourcing strategies at the individual firm level. Indeed, many industrial customers progressively modify their purchasing policies and behavior shifting from a focus on competitive multiple sourcing to more sophisticated sourcing strategies, such as cross-sourcing, dual sourcing or single sourcing (Monczka, Trent, & Handfield, 2005; Ogden, 2006). How to allocate order volumes across selected suppliers is considered a key decision in the scholarly literature on purchasing and supply chain management.

Against this background, it comes as a surprise that empirical research on investigating customer share in business markets is still in its infancy (Anderson & Narus, 2003; Leuthesser & Kohli, 1995). Therefore, we contend that there is a fundamental need to better understand the role of customer share in organizational buying behavior.² As a marketing metric of growing importance, customer share indicates the percentage of a customer's purchasing budget allocated to a particular vendor within a specific product category. In prior research, business marketing scholars typically included customer share as a measure of behavioral loyalty. In contrast, our study takes a different stance: rather than viewing customer share as an *outcome* of organizational buying behavior, the present research investigates the allocation of a purchasing budget among competing vendors as a *key decision variable*.

Mirroring the discussion of customer share in the purchasing and supply chain management literature, we suggest that customer share should be researched as a focal construct by linking it to its antecedent, outcome, mediator, and moderator variables. Existing studies in business marketing have focused on the drivers of customer share. From both an academic and a managerial perspective, however, we also need a thorough understanding of the consequences and contingencies of customer share marketing. For example, how does holding a specific customer share in a buyer–seller relationship impact the vendor's marketing policy? How can a key supplier maintain or grow its existing business when already holding a significant share of a customer's order volumes? Under which conditions does it make most sense to increase the share of customer and when does it appear to be a problematic endeavor?

To address these issues, the present article is structured as follows. We first present a comprehensive review of empirical research on customer share. Next, we develop our conceptual model. We then present our cross-sectional research design and discuss our study's findings and implications. Finally, we conclude by presenting limitations of the present research and directions for further inquiry.

2. Literature review

Table 1 summarizes a comprehensive review of empirical studies including some measure of customer share. A careful review of this growing stream of research leads to several insights on the state-of-the-art and the gaps in the literature.

First, our knowledge on customer share largely stems from consumer research. Out of 54 empirical studies, 37 are positioned within a consumer marketing context. While the widespread availability of consumer panel data allowing researchers to compute valid customer share measures may partly explain this prevalence, the relative paucity of studies in business markets still comes as a surprise. Given its importance, one would expect to find a rich body of literature investigating customer share in a B2B context. The allocation of purchasing budgets among competing suppliers represents a strategic decision for purchasing managers. While the purchasing and supply chain management literatures shed some light on this important issue

from a general sourcing strategy perspective, we contend, in turn, that more knowledge is needed about how customer share allocation affect the nature and governance mechanisms of buyer–seller relationships both from a customer's and a business marketer's perspective. To the best of our knowledge, there is an apparent gap between the need for a thorough understanding and the existing body of knowledge on customer share in business markets.

Second, empirical research on customer share has been limited to certain industries or companies. More precisely, 40 studies are based on data from retailing and the financial industry. Among the studies in a business marketing context in particular, we find a tendency to rely on data gathered from the customers of a single company. No more than two studies³ (Homburg, Droll, & Totzek, 2008; Leuthesser, 1997; Leuthesser & Kohli, 1995) employed a cross-sectional sampling plan in a business marketing context. While cross-sectional studies are exposed to industry or category specific factors, they are instrumental for finding causal relationships that can be generalized across a broad range of research settings. To improve the generalizability of our current insights on customer share in business markets, we identify a need for more cross-sectional studies.

Third, none of the studies listed in Table 1 researched customer share as a focal construct. Typically, it is considered as an outcome variable measuring behavioral loyalty. In addition to treating customer share as a proxy for behavioral loyalty, it can also be conceptualized as a key decision variable. Business marketers in particular are not only interested in the drivers but also in the consequences and contingencies of customer share marketing. From the customer's point of view, we need to know whether increasing customer share has beneficial or detrimental effects on the governance structure of an exchange relationship. In turn, sellers need guidance on when it appears most promising to follow a customer share marketing strategy. To provide answers to these research questions, we position customer share as a focal construct within the nomological net of business relationships.

3. Conceptual model

Fig. 1 depicts our conceptual model. Building on existing research (Cannon & Homburg, 2001; Liu, Leach, & Bernhardt, 2005), we identify customer value as a fundamental driver of customer share in business markets. In buyer–seller relationships, value captures the trade-off between the customer-perceived benefits and costs of a supplier relationship (Ulaga & Eggert, 2006a). “A supplier that enhances customer value [...] will increase its ‘share of customer’ at the expense of suppliers that do not provide such benefit” (Cannon & Homburg, 2001, p. 34). Therefore, we hypothesize:

H₁. Customer value has a positive impact on customer share.

Our conceptual model is based on the assumption that purchasing managers generally dislike being dependent on their suppliers (Anderson, Narus, & Narayandas, 2009; Eggert, Ulaga, & Hollmann, 2009). Though they need to accommodate a certain level of dependence, purchasing managers can take measures to mitigate its consequences. Searching the market for alternative suppliers that may substitute the incumbent's sourcing volume represents a potential behavioral response (Wagner & Friedl, 2007). Other things being equal, we expect that a higher customer share intensifies purchasing managers' search for alternatives. Rather than being of direct nature, we hypothesize trust to mediate this link. With growing customer share, the amount at stake increases. Consequently, potential downsides such as supply disruption,

² The authors would like to thank one anonymous reviewer for this insight.

³ Leuthesser (1997) and Leuthesser and Kohli (1995) are based on the same dataset. Therefore, they are recognized as one empirical study.

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