Industrial Marketing Management 41 (2012) 1186–1193

Contents lists available at SciVerse ScienceDirect

Industrial Marketing Management

Becoming a preferred customer one step at a time

Jean Nollet [a,*], Claudia Rebolledo [a,1], Victoria Popel [b]

[a] HEC Montréal, Department of Logistics and Operations Management, 3000, Chemin de la Côte-Sainte-Catherine, Montréal (QC), Canada H3T 2A7
[b] HEC Montréal, Canada

ARTICLE INFO

Article history:
Received 24 October 2011
Received in revised form 26 September 2012
Accepted 10 October 2012
Available online 7 November 2012

Keywords:
Preferred customer
Attraction
Supplier satisfaction
Buyer–supplier relationship

ABSTRACT

A preferred customer is a buying organization who receives better treatment than other customers from a supplier, in terms of product quality and availability, support in the sourcing process, delivery or/and prices. The decision to become a preferred customer implies a continuous commitment by the purchaser to a complex, expensive and often uncertain process. It is important to use a strategic approach, as well as appropriate tactics. Based on well-known models on the development of buyer-supplier relationship, on customer portfolio analysis and on the emergent literature in customer attractiveness and preferred customer status, we suggest four steps to become – and remain – a preferred customer: initial attraction, performance, engagement and sustainability. The process takes the perspective of a buyer willing to obtain the preferential status and focuses on the strategies and tactics that could influence the supplier's decision of granting this status. The proposed process considers that the supplier is continuously comparing the value offered by the customer to its expectations, and to the value offered by other customer relationships.

1. Introduction

It is usually considered that the initiator of the relationship between sellers and buyers is the potential vendor. The salesperson tries to convince a client to do business with his/her organization; and, over time, the efforts can eventually be oriented towards becoming a preferred supplier. However, the increased dependence of buying firms on their suppliers is changing the dynamics between the selling and the buying parties (Dyer & Singh, 1998; Johnson, Leenders, & Flynn, 2010). To be able to get the attention of the best suppliers and the make sure they are willing to contribute to their customer competiveness, purchasers have to know better than before how to make their organization become a preferred customer (Schiele, 2012). Suppliers, particularly those recognized as excellent or exceptional, are wooed by potential clients, and even by existing ones who want to increase their business with them.

Such a reality gives little choice to purchasers, who now have to come up with more proactive supply strategies, while improving their relative position towards suppliers. Otherwise, security of supply and supply chain competitiveness might become an even more challenging issue.

Although product substitution or changing suppliers is recommended when a supplier's power is higher than the purchaser's (Lindwall, Ellmo, Rehme, & Kowalkowski, 2010), developing a long-term relationship with an existing supplier constitutes a better avenue when the dependence level is high (Caniëls & Gelderman, 2005). The purchaser should then strive to stimulate and improve exchange processes (Ellegaard, 2006), as well as to modify supplier behavior and improve supplier performance (Ghijsen, Semeijn, & Ernstson, 2010). A survey aimed at determining the most appropriate buying strategies support this approach. Out of 100 purchasers who were interviewed, 72% indeed answered that becoming a "preferred customer" should be a priority for some goods or services where demand exceeds supply; according to the other interviewees, suppliers give priority to higher selling prices rather than to which customer orders (Kanter, 2008). However, a supplier survey by Bew (2007) indicates that customer status carries more importance than economic or monetary capabilities:

- 75% regularly offer "rare" products/services to their preferred customers (this is also confirmed by Ivens & Pardo, 2007);
- 82% indicate that this type of customer is the first one to have access to product innovations and new technologies;
- 87% offer better prices to their preferred customers.

As mentioned by Steinle and Schiele (2008, p. 11): "In the same way that suppliers strive for "preferred supplier" status with their most important customers, buyers may want to become their core supplier's customer of choice, that is, *their* "preferred customer." Considering the statistics just mentioned, having achieved this status also helps in times when capacity exceeds demand, since a preferred customer could also be perceived as continuing to contribute very positively to a supplier's success; in fact, this could even be considered as a "favor returned." Such an approach by the customer clearly helps to consolidate the relationship with a supplier.

* Corresponding author. Tel.: +1 514 340 6279; fax: +1 514 340 6834.
E-mail addresses: Jean.Nollet@hec.ca (J. Nollet), Claudia.Rebolledo@hec.ca (C. Rebolledo), Victoria.Popel@hec.ca (V. Popel).
[1] Tel.: +1 514 340 6928; fax: +1 514 340 6834.

0019-8501/$ – see front matter
http://dx.doi.org/10.1016/j.indmarman.2012.10.003

Although becoming a preferred customer might not always be critical, it "is very important for the buying firms and, potentially, essential for future success" (Schiele, Veldman, & Hüttinger, 2010, p.2). However, as discussed subsequently, becoming a preferred customer shares some common characteristics with becoming a preferred supplier, but there are differences as well (Nyaga, Whippke, & Lynch, 2010). The concept of preferred customer, which is also labeled "interesting customer" (Christiansen & Maltz, 2002), "attractive customer" (Ellegaard & Ritter, 2006) and "customer of choice" (Bew, 2007; Ramsay & Wagner, 2009), has been studied since the 1980s, but there is no consensus on its definition and especially on the steps and strategies on how to become a preferred customer (Lindwall et al., 2010).

Considering these gaps in the literature, we first come up with a definition of the term "preferred customer." Then we will answer the following question: How does a buying organization become a preferred customer? We develop a four-step model and propose specific tactics that could help customers obtain and keep this preferential status.

Clearly, the intent of the four-step process is to show how an organization can achieve the "preferred customer" status. This can be done over little time or many years, depending on the context, but most often than not, suppliers do not grant this status rapidly. Also, even if we suggest tactics for each of the steps, a customer might choose to use tactics from other steps; it is a matter of strategy, and wanting to accomplish too much too rapidly could well backfire.

2. Understanding better what a preferred customer is

A preferred customer is a purchaser (buying organization) who receives better treatment than other customers from a supplier, in terms of product quality and availability, support in the sourcing process, delivery or/and prices. These privileges are possible thanks to a preferential allocation of resources and time (Steinle & Schiele, 2008). They are conditioned by a deep relationship between purchasers and suppliers, endowed with instruments and organizational principles that ensure the effectiveness of the relationship and protect the purchaser against its competitors, whom a supplier may eventually turn to (Hüttinger, 2010). Details of these privileges are presented in Table 1.

Suppliers do not treat all their customers equally (Krapfel, Salmond, & Spekman, 1991). Using more or less sophisticated customer portfolio analysis, they classify customers according to different variables such as strategic importance, attractiveness, cost to serve and relationship value (Eng, 2004; Salle, Cova, & Pardo, 2000). Only a small group of customers will obtain a preferred status, resulting in a special treatment and a privileged allocation of resources (Ivens, Pardo, Salle, & Cova, 2009). From the supplier's point of view, the status of preferred customer will be granted to those who will assist its development and help it to be more competitive (Fiocca, 1982; Pels, 1992). The selection of these key customers is based on the possibility of increasing volume, the capacity to develop the supplier's image, the know-how which it can transfer or help to create and the network effect (Turnbull, 1990), i.e. the access which a customer can provide to new markets or market segments (Eng, 2008).

Becoming a preferred customer requires a structured – albeit sometimes complicated – approach. It implies process and operations transformations, as well as a change in the usual approach used by purchasers and even by other members of personnel. In fact, the purchaser must "sell" the organization, while it is usually the role of the potential supplier to do so about his own organization. The approach used could be similar to the one called "reverse marketing" (Leenders & Blenkhorn, 1988), where a purchaser attempts to convince a potential supplier to make a product that is not part of that supplier's regular product line. However, selling one's own organization does not necessarily imply that the product required has special features, but rather that the supplier will give priority or provide some other favors to the purchaser.

In the following sections, we present a four-step process by which a buyer becomes a preferred customer.

3. The process to become and maintain the status of preferred customer

The proposed process is mostly based upon social exchange theory (SET), which has been used extensively to explain business to business relational exchange. Seminal papers explaining the development of buyer-supplier relationships rely on SET (Anderson, Håkansson, & Johanson, 1994; Anderson, 1995; Dwyer, Schurr, Sejo, & Oh, 1987; Ford, 1993; Wilson, 1995). SET postulates that exchange interactions involve social and/or economic outcomes. Over time, each party in the exchange relationship compares the outcomes from these interactions to those from exchange alternatives (Lambe, Wittman, & Spekman, 2001). Thibaut and Kelly (1959) developed the concepts of comparison level (CL) and comparison level of alternatives (CL_{alt}) to offer a conceptualization of how one compares the rewards of an exchange relationship to that of alternative options. CL represents

Table 1
Advantages to be a preferred customer.

Source of value for the buyer	Supplier's contribution
Product quality and innovation	• Customize products according to the customer's specifications. • Deliver consistent quality levels. • Suggest or/and initiate quality improvements and innovations for the products required by the customer. • Increased technological capability applied to products sold to the customer
Support	• Provide the appropriate information on a timely basis: o Sharing information about products and markets. o Sharing of new solutions to solve problems at a lesser cost. • Be available and responsive: o Physical presence. o Speed of response. o Speed of adaptation to the customer's needs (ex.: customize processes). • Accept to perform steps that are not part of the customer's core business.
Delivery reliability	• Give priority to the customer when overall demand exceeds supply. • Adjust to changes in delivery schedules due to peaks in demand or changes in delivery requested. • Take particular care for the orders delivered to that customer. • Be ready to deliver missing components within reasonable time. • Keep safety stocks or locate warehouses close to the customer's facilities.
Price	• Offer one of the lowest prices on the market. • Be more receptive to further price negotiations with the customer.
Costs	• Contribute to the reduction of the costs incurred by the customer: o Acquisition costs (transportation costs, inventory management, order handling, product checking); o Operational costs (product costs, manufacturing process costs, tooling and warranty costs).

Source: Adapted from Christiansen and Maltz (2002), Hald et al. (2009), Schiele, Veldman, and Hüttinger (2011), Ulaga (2003), Ulaga and Eggert (2006). Also based on our own ideas.