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Supplier perceived value: Differences between business-to-business and business-to-government relationships

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ABSTRACT

This research investigates suppliers' perceptions of value and compares business-to-business (B2B) and business-to-government (B2G) relationships. This paper highlights that suppliers perceive greater value benefits from their business customers than their government customers. The volume of sales in both B2B and B2G relationships impacts perceived value. In B2G relationships, information exchange on how to do business had the largest significant influence on perceived value. The implication for suppliers is that they need to consider which relationships offer them better value and then allocate resources towards those relationships, which in this case are their business customers. The implication for government procurement managers is that their methods of dealing with suppliers is putting them at a disadvantage when compared with businesses which may be competing for supply.

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1. Introduction

There is a plethora of purchasing literature outlining strategies and best practice for companies within the private sector with little attention focusing on government or public sector purchasing (Wang and Bunn, 2004; Schiele and McCue, 2006). Therefore, a knowledge gap exists in our understanding of government procurement strategies (Bryntse, 1996; Murray, 1999, 2001; Wang and Bunn, 2004). It is recognized that the strategic goals of government are often quite different from those in the private sector and consequently purchasing goals in the public sector can be fundamentally different from those in the private sector (Knott, 1993; Murray, 2001; Furneaux et al., 2008; Van Der Wal et al., 2008). Strategic goals in the private sector are generally centered on profit maximization, while government goals include fairness, equality, democracy, public accountability, efficiency, competitiveness, balancing interests and political advocacy. The differences in goals develop from the obligation and hence necessity for government organizations to serve the public interest, while private enterprise is more focused on creating wealth for their stakeholders (Van Der Wal et al., 2008). These differences result in procurement approaches/processes and evaluation methods followed in the private sector often being quite different to those in the public sector (Murray, 1999, 2001; Wang and Bunn, 2004; Åström and Bröchner, 2007).

Research tends to focus on the difficulties in dealing with government (see Williams and Smellie, 1985; Martin et al., 1999) or the policy issues of improving the value obtained by using the public procurement function (see Åström and Bröchner, 2007; Loader, 2007; Murray, 2007). The difficulties in obtaining government contracts are often due to the requirement for transparency and accountability to ensure the process is conducted in an ethical and equitable manner (Erridge and Greer, 2002; Loader, 2007). Rainey and Bozeman (2000) highlight that government procurement processes have a greater degree of formalization and are therefore perceived to involve much more red tape. Consequently, there is a fundamental perception of complexity and tediousness related to conducting business with the government (Bryntse, 1996; Erridge and Greer, 2002). Yet, many businesses actively pursue government supply contracts claiming to understand government processes and receive 'value' from these contracts. This raises an interesting question: 'Are the value propositions they claim to receive from government contracts different and are they better or worse than those received from their private customers?'

Research into value is an increasing area of study that is seen as a priority by the marketing research institute (Lindgreen and Wynstra, 2005). This paper focuses on investigating the value of relationships, a research avenue proposed by Lindgreen and Wynstra (2005). Current research on value tends to focus on business-to-consumer (B2C) rather than business-to-business (B2B) or business-to-government (B2G) relationships and almost exclusively considers the customers perspective even though the requirement of suppliers to understand relationship value is a 'matter of survival' (Lindgreen and Wynstra, 2005, p. 739;

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Sweeney and Webb, 2007). There is still a lack of understanding about what value entails (Woodall, 2003; Mandjak and Simon, 2007), which is not surprising given the complexity surrounding the construct (Ismail and Khatibi, 2004). For this research, value is considered the benefits obtained from the relationship less the costs of maintaining the relationship (Lapierre, 2000).

Even though supplier and customer value propositions are going to be different (Sweeney and Webb, 2002; Lindgreen and Wynstra, 2005), there is little research on how suppliers receive value (Walter et al., 2001). Lamming et al. (1996) report that suppliers receive fewer benefits from their business relationships than customers, but a detailed analysis of the benefits received is lacking. This research considers value from the perspective of the supplier and focuses on how relationships offer value to suppliers, similar to the research of Walter et al. (2001) and Möller and Törören (2003). Overall, suppliers' perception of value is an under-researched area, when compared with customer value, and requires much more attention if the development of purchasing strategies are to benefit suppliers.

The paper begins with an examination of the differences between government and private sector purchasing strategies and a discussion on how value is conceptualized. Following this is the methodology and then outcomes of the data analysis. The paper concludes with an outline of the results and then implications for suppliers and government procurement departments.

2. Comparison of public and private sector procurement strategies

Goals within the public sector tend to be more complex and ambiguous when compared with those in the private sector (Rainey and Bozeman, 2000; Van Der Wal et al., 2008). Accountability and ensuring an absence of corruption have been found to be significantly more important in public organizations than the standard goals of efficiency and profit maximization (Williams and Smellie, 1985; Rainey and Bozeman, 2000; Murray 2001; Wang and Bunn, 2004; Van Der Wal et al., 2008). Others have noted the influence of the political process on shaping public sector practice (Knott, 1993; Murray, 2001, 2007). Goals such as equity and the development of small business are also important for public procurement (Wang and Bunn, 2004; Loader, 2007; Ram et al., 2007). Yet research has shown that even when policies have been implemented, changing public practice to emulate that of their private counterparts results in emerging conflict (Åström and Bröchner, 2007). Thus, procurement within the public sector has a different set of goals and approaches that suppliers need to take into account when developing their offerings. This section outlines some of the main differences between procurement practices in the public and private sectors.

To avoid corruption and to ensure probity and accountability the government sector has introduced strict regulatory requirements surrounding the procurement process (Erridge and Greer, 2002; Murray, 2007). These regulations result in a large degree of formalization and bureaucracy surrounding the procurement process (Rainey and Bozeman, 2000; Erridge and Greer, 2002; Wang and Bunn, 2004). Regulatory requirements on government spending are particularly prevalent in lower levels of government, where directives from higher levels of government are common (Bryntse, 1996). For example, in Europe there are EU directives on public procurement that impact at the local level (Martin et al., 1999). In Australia, public accountability boards make recommendations on how public funds should be spent. Such regulatory requirements ensure that 'due process' is achieved, but the result is difficulty in developing long-term relationships as the focus of the review is effectively on a single transaction (Wang and Bunn,

2004). Within the private sector such regulations do not apply thus allowing the procurement process to best match the organization's needs, increase flexibility, develop long-term relationships, adapt systems to suit long-term goals of efficiency and create an atmosphere of trust and commitment (Håkansson and Snehota, 2000; Wang and Bunn, 2004).

Transparency is an important requirement to ensure public funds are ethically spent and allow for scrutiny from political committees (Murray 2007) and public interest groups (Erridge and Greer, 2002). Such close scrutiny has been likened to 'buying in a fishbowl' (Bryntse, 1996, p. 194) and can result in procurement people avoiding personal involvement, giving less flexibility and freedom within the procurement decision process and possibly reducing efficiency (Wang and Bunn, 2004; Furneaux et al., 2008). This reduced efficiency has resulted in various reports such as Report 369: Australian Government Procurement and Report 379: Contract Management in the Australian Public Service, which are both aimed at ensuring the best outcome for the Australian public's interest (JCPAA, 1999, 2000). Private sector procurement people are not restrained by close disclosure rules, allowing them to implement close strategic supplier relationships across numerous transactions over an extended period of time (Wang and Bunn, 2004).

There are supplier benefits in pursuing government contracts. In particular these are the stability of government procurement and the volume of goods and services available. For example, 2007 figures show government expenditure of OECD countries topped US\$5,326,226 million accounting for 17% of the total GDP for all OECD countries (OECD, 2008). The Australian Government expenditure amounted to US\$113,969 million accounting for 17.8% of its total GDP in 2007. Another astounding fact is that the Australian Government has increased its spending by 34% over the 5 years from 2000–2006 to AUD\$334,456 million (ABS, 2006). The overall buying power of government is large and actively pursued by suppliers because of the volume of supply. Government buying in most developed countries is of the order of 30–40% of all supply contracts.

Government procurement is also relatively stable in that the government is unlikely to be declared bankrupt and government spending is generally consistent over time, even during a recession (Williams and Smellie, 1985; Loader, 2007). Thus, stability is often used as a risk mitigation strategy by suppliers to minimize variation in demand due to changes in the economic cycles (Loader, 2007). Suppliers count on the stability in government supply contracts to ensure their longer term survival. The consequences of the government practices outlined above is that government procurement is often considered risk adverse and not innovative (Murray, 2001).

2.1. Value

Woodall (2003) highlights 18 different names for constructs that encompass the value notion. Value is a trade-off between benefits obtained and sacrifices given (or costs paid) by the customer, a conceptualisation commonly outlined in the literature (Ravald and Grönroos, 1996; Flint et al., 1997; Zeithaml, 1988; Lapierre, 2000; Teas and Agarwal, 2000; Hogan, 2001; Woodall, 2003; Lin et al., 2005; Lindgreen and Wynstra, 2005; Cretu and Brodie, 2007). There is an underlying focus on achieving the product and service benefits required for the lowest possible cost without lowering quality (Flint et al., 1997; Fong et al., 2001). Value benefits obtained by customers are different from those obtained by suppliers, with differing levels of value obtained by customers versus suppliers (Lamming et al., 1996; Lindgreen and Wynstra, 2005; Sweeney and Webb, 2007). Value is an important

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