

# Customer approaches to product development with suppliers

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Received 9 December 2004; received in revised form 16 May 2005; accepted 27 September 2005

Available online 27 December 2005

## Abstract

It has long been accepted that a realistic view of what happens between customer companies and their suppliers cannot be achieved by examining single purchases alone. Instead, a single purchase can only be understood as part of a supplier–customer relationship which both affects and is affected by it. Also in business markets, a customer's purchase behaviour is not simply a passive response to the marketing actions of a supplier, but part of the interaction between an active customer and supplier. A major element in this interaction is likely to arise from the efforts of the customer to develop its own products *interactively* with a network of suppliers. This paper reports on a study into the ways in which customers employ the skills of their network of suppliers and attempt to direct that network in product development projects. The paper suggests that customers are likely to use either of two alternative strategies for product development, that we term “network delegation” and “network intervention”. The paper draws on four in-depth case studies to highlight the types of situation where customers are most likely to employ each of these strategies and draws conclusions for marketers about the implications of each approach.

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*Keywords:* Product development; Customer–supplier relationships; Network strategies; Case studies

## 1. Introduction

An increasing amount of research has indicated that some customers are adept at coordinating and exploiting the capabilities of their immediate suppliers and also of a wider network of indirect suppliers in their product development. In the 1980s and 1990s a number of studies reported how large, powerful companies in industries, such as automotive and computers, ‘organised’ their suppliers into structured tiered networks. For example, Takeuchi and Nonaka (1986) and Imai, Nonaka, and Takeuchi (1985) showed how lead manufacturers divided suppliers into ‘primary’ (or first tier) and ‘secondary’ (or second tier) subcontractors, thereby enabling the innovation process to gain more momentum. In a similar vein, Womack, Jones, and Roos (1990) described how ‘lean’ Japanese car assemblers assigned the design and development of whole modules to a group of first-tier suppliers, who in turn utilised a team of second-tier suppliers for the detailed development and

engineering. Lorenzoni and Baden-Fuller (1995) and Jarillo (1988) reported similar findings on a range of firms in different industries, including Apple, Benetton, Corning, McDonald's, Nike, Nintendo, Sun, and Toyota. More recently authors in industrial marketing literature have begun to discuss how powerful ‘hubs’ appear to have ‘orchestrated’ or even ‘managed’ networks (e.g. Möller & Svahn, 2002; Ritter, 1999).

Lamming (1996) and Lamming, Johnsen, Harland, and Zheng (2000) discuss the different strategies of customers in attempting to manage their supply networks. They describe the cascade strategy as the imposition of initiatives and performance requirements from the customer to the supplier, and thence to sub-suppliers. It offers a strategy for drawing on several layers of suppliers and sub-suppliers and is based on the assumption that customers have a simple supply chain logically divided into ‘tiers’. The customer firm, often a large OEM, perceives that its power may be cascaded throughout its supply base. At the basic level, cascading is a way for a customer to delegate responsibility to its suppliers. In practice, it has been contended that cascading more often takes the form of a more imposing style of leadership (Lamming et al., 2000). They describe the ‘intervention’ strategy as similar to the cascade strategy, but importantly that it also entails the

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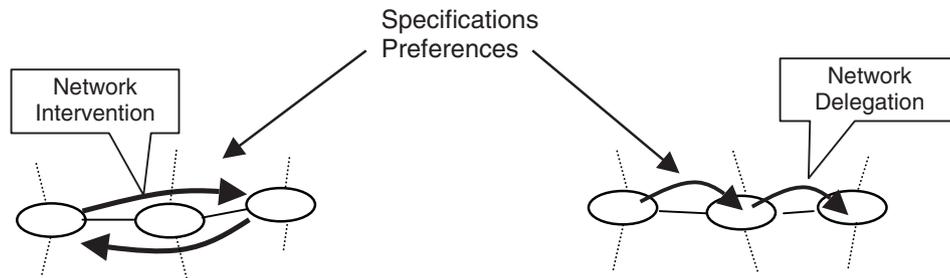


Fig. 1. Conceptualisation of delegation and intervention strategies.

customer becoming *directly* involved in its indirect supplier's activities (e.g. 'second-tier' suppliers) and thereby effectively converting an indirect relationship into a direct one. According to Lamming et al. (*ibid*) intervention may be applied in cases where the customer seeks to help out an ailing supplier by applying its management skills to its operational problems (Hines, 1996). They also argued, however, that intervention may be practiced because the customer does not trust the supplier to implement operational improvements itself. The customer therefore engages directly in the supplier's activities to ensure proper implementation.

Both of these suggested strategies (Lamming, 1996; Lamming et al., 2000) assume that it is the *customer* that holds the position of knowledge and operational superiority, and hence sovereign power (Lukes, 1974). However, it is equally possible that a supplier may have similar power over the development and use of its products by its customers. To allow for this possibly two-way effect, we have re-conceptualised the two strategies as 'network delegation' and 'network intervention'.

Following Fig. 1 'network intervention' entails a company actively involving itself in an otherwise 'indirect' relationship and thereby effectively disintermediating, or converting an indirect relationship with a supplier into a direct one. This may be for the purpose of providing, for example, design specifications or sub-supplier preferences (e.g. safety and environmental standards). 'Network delegation' entails a focal actor instructing another actor to disseminate or forward the focal actor's specifications and preferences. It is similar to the cascade strategy, although it does not rely on the arguably restricted interpretation of structured, vertical supply chains controlled by a customer. As the models illustrate, both the intervention and delegation strategies may work from supplier to customer as well as vice versa.

Analysis of the literature suggests that it is particularly large and powerful companies that are in a position to apply the strategies of delegation and intervention (e.g. Dyer & Nobeoka, 2000; Imai et al., 1985; Lamming et al., 2000; Womack et al., 1990). It is unclear, however, whether these companies operate in a particular set of circumstances, which propels them to seek to exercise such control of their network. From the perspective of business marketers this is an important question, as it may have a major impact on their ability to design and manage their own product development strategies, yet current marketing research appears to have paid little attention to the problems of customer network intervention. The research question explored

in this paper is therefore: In which situations are customers most likely to employ network intervention and delegation during product development?

## 2. Methodology

Managing product development in networks is a complex and dynamic process. Therefore, we followed the advice by Easton (1998) and Yin (1989) by examining the research question using a multiple case study research design.<sup>2</sup> The case studies were selected from two industries to ensure familiarisation and learning of industry-specific issues. The chosen industries both constitute two major global industries: the automotive industry as 'the industry of industries (Drucker, 1946), and telecommunications arguably as the new industry of industries. It was decided to focus on product development projects as the unit of analysis. A key criterion for selecting projects was that the projects had either been completed recently or were nearing the launch stage. This ensured that the projects were still fresh in the minds of respondents and that they had experienced the main critical project stages.

Each project was accessed through a focal company, although interviews were conducted with several companies involved in the product development project in each case in order to gain a variety of perspectives. The focal companies were all medium to large UK-based companies. In three of the four cases the focal companies acted as first-tier suppliers to final product integrators. In one case restricted access meant that the focal company was the final product integrator. Table 1 provides a brief overview of the four cases.

Information gathering techniques included in-depth interviews and review of company and project documentation. We carried out 46 semi-structured interviews with managers at different levels and from a variety of functions within the focal firms and with a selection of key suppliers and customers. This included follow-up interviews held with the main contact within each case to enquire about areas of ambiguity and validate interpretations and emerging conclusions (Eisenhardt, 1989; Reason & Rowan, 1981). Within each focal company several project participants were interviewed. In addition, we

<sup>2</sup> The study upon which this paper is based is a wider research project examining the process of customer-supplier collaboration during product development. As part of this investigation the project explores a number of situations in which customers are most likely to intervene and delegate within the wider network.

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