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Use of supplier-customer relationships by SMEs to enter foreign markets

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Abstract

Small and medium size enterprises (SMEs) that have gained experience in a supplier-customer relationship with multinational companies in the domestic market may be able to leverage that relationship to recruit new customers abroad. Is it possible to internationalize such supplier-customer relationships is the research question addressed in this paper. We tested five hypotheses, derived from the internationalization and interorganizational literature, using non-parametric tests and regression analysis with data provided by customers and suppliers in the computer industry. We discover that while customers initiate the first supplier-customer relationship, additional relationships, formed with the objective of internationalizing the firm are often initiated by SME itself, a new finding.

Keywords: Supplier-customer relationships; Internationalization; SME; International market entry; Inter-organizational linkages

1. Introduction

Is there an opportunity for smaller firms to skip stages in the organic internationalization process by piggybacking on their relationships with stronger more established local multinational firms? Many small and medium size enterprises (SMEs), especially high technology firms, are forced to internationalize early in their development due to a focus on niche markets, shorter product cycles and, frequently, the small size of their domestic markets relative to the potential that exists abroad. SMEs attempting to internationalize face a basic marketing dilemma—do they attempt to internationalize unaided or do they form a partnership with stronger firms in their business system that can help them. One such way is to internationalize as part of a supplier-customer network in partnership with established multinational firms.

Many firms have experimented with supplier-customer collaborative networks, linking numerous parties in the business system, to respond to customer product and service preferences in myriad international markets. For example, firms that wish to sell to original equipment manufacturers (OEMs), especially in the automotive and electronics industries, must be willing and have the capability to fulfill their customers' request for close supplier-customer relationships. Indeed, the long-term relationships that suppliers have with their customers is acknowledged as a key to their performance and has become a major source of competitive advantage for both parties (Flint, Woodruff, & Gardial, 1997). This paper examines the degree to which supplier-customer relationships between SMEs and large scale OEMs may be internationalized to avail of such competitive advantages. The broad research issue addressed is: are SMEs, with a favorable attitude toward collaboration and participation in supplier-customer relationships, more likely to win additional new customers abroad? To understand this research issue it is decomposed into the following four questions:

1. Who initiates the first supplier-customer relationship between industrial SMEs and multinational partners?
2. Is it possible to internationalize supplier-customer relationships i.e. is it possible to acquire customers abroad

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using existing domestic supplier-customer relationships established with multinational firms?
3. Are industrial SMEs more likely to initiate additional supplier-customer relationships after the first one has been implemented?
4. Does an SME's attitude toward a supplier-customer relationship have an influence on the survival of that relationship?

In this exploratory research we use these questions to develop a number of hypotheses, which are tested using data drawn from the computer sub-supply industry. We discover that, in general, customers initiate the first supplier-customer relationship, which confirms findings in the literature. Suppliers however, often initiate subsequent relationships. In many cases, suppliers actively seek to establish additional supplier-customer relationships with the objective of internationalizing their business. Suppliers with a more favorable attitude toward supplier-customer relationships may be more likely to win customers abroad.

2. Internationalization of the SME

For small high technology firms, growth and development is likely to involve an international dimension (Jones, 1999). Exporting is still the primary foreign market entry mode used by small businesses in their internationalization efforts (Leonidou & Katsikeas, 1996) presumably because it offers an effective means of internationalization (Oliver, 1999) without over-extending the capabilities or resources of the firm (Young, Hamill, Wheller, & Davies, 1989).

Some authors argue that small firms pursue internationalization through a series of progressive stages (Anderson, 1993; Bilkey & Tesar, 1977). The stages framework, however, provides limited understanding of the internationalization of small firms as many must be international from the outset (Oviatt & Philipps Mcdougall, 1994) and may not be able to wait for stages to evolve. This has intuitive appeal especially in smaller open economies of Europe and Asia. Furthermore, international expansion through the conventional, incremental export development route is not the sole mode of international development for small high technology firms (Jones, 1999). In the firms studied by Crick and Jones (2000) there is evidence of an international orientation from the date they were founded, a rapid planned internationalization through several modes of market entry and a concentration on major markets through committed forms of entry strategy, such as subsidiaries. The internationalization process in high technology firms is, therefore, much less deterministic than suggested by the conventional wisdom of the stages models.

3. Establishing the first supplier-customer relationship

For SMEs engaged in exporting it is not the quantity but the nature of the resources available that determines a firm's competitive action (Wolff & Pett, 2000). Internationally experienced management, whatever its source and contractual obligations, is a key ingredient in early internationalization of small firms (Reuber & Fischer, 1997). Firms use available managerial and organizational competencies to serve several markets rather than relying on a few key markets only (Crick & Jones, 2000). Hence, access to a key resource, internationally experienced managers, may allow small firms to compete effectively in international markets, a domain heretofore deemed better suited to larger firms (Wolff & Pett, 2000). Given the appropriate type of resource, which may be available in a supplier-customer relationship within a business system, a small firm can mimic the competitive patterns used by larger firms and may perform as effectively.

The literature, however, has ignored this possibility and has dealt primarily with the power large firms have over small firms in supplier-customer relationships (Leavy, 1990). It is relatively easy, moreover, for large-scale OEM customers to end the relationship with the supplier and switch to a competitor. This would weaken the supplier's position decisively because it jeopardizes not only a large share of its turnover but also, a prestigious customer is lost, which has adverse effects when tendering for new business. For this reason small firms attempt to ensure that supplier-customer relationships are reciprocal in nature, thus avoiding asymmetrical dependence upon the relationship (Anderson & Weitz, 1989), a dependence which allows the more powerful party to take advantage of the dependent one (Ganesan, 1994).

The literature on supplier-customer relationships deals almost exclusively with the customers' perspective (Fawcett & Birou, 1992; Holland, Locket, & Blackman, 1992; Monczka & Carter, 1988). Recognizing this limitation Macbeth (1994) calls for 'a more complete recognition of the two-way nature and responsibility of the partnering relationship'. In acknowledging this limitation Brennan (1997) shows that there are many costs and benefits from partnering for the customer and the supplier but only benefits have been examined extensively. For major OEMs, establishing a supplier-customer relationship provides a competitive advantage because it reduces the overall cost of the final product. Indeed, single sourcing may bring both higher quality and lower costs to the customer (Larson & Kulchitsky, 1998).

The benefits of closer customer relationships are unambiguous for the SME-reduced overheads and improve manufacturing efficiencies (Kalwani & Narayandas, 1995), higher sales volumes, longer-term business agreements, more accurate advance information on product requirements, and prompter payments (Giunipero & Brewer, 1993; Akacum & Dale, 1995) but of greatest value to suppliers is